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Science**

*Banking on the Divine: Everyday Islamic banking
practices in Malaysia*

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Declaration

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Abstract

Islamic banking, a niche financial sector that has captured the imagination of the financial elite and ordinary consumers alike, is unique in its regulation through the shariah. Primarily, it presents an added-value derived from its prohibition of *riba* (interest) in favour of profit from trade (*al Bay*) or leasing (*ijarah*).

This thesis aims to explain Malaysia's success in promoting Islamic banking products to a critical mass of consumers. More specifically, it seeks to explain the development and growth in everyday Islamic banking practices amongst the Malay community in Kuala Lumpur. The thesis is based on a sociological framework that does not aim to explain the development and growth of Islamic banking in terms that are principally about religion.

I argue that the development of Islamic banking in Malaysia is the result of a top-down strategy driven by the economic and political interests of Malaysia's ruling elites. Following the crisis of trust in the political-economic model of development deployed up to the crisis of 1997-1998, Islam's vast repertoire of ideas, language and symbols are a powerful and dexterous foundation of a strategy that simultaneously problematises 'conventional' banking and offers an alternative course through Islamic banking. Nevertheless, Islamic banking practices are not given and cannot be taken-for-granted. Thus, in seeking to understand why increasingly consumers trust Islamic banking's promise of economic advantage with the added value of religious compliance, the study seeks to interpret Islamic banking practices from the perspective of the 'ordinary' consumer. Everyday Islamic banking practices are viewed in this thesis, as embedded within broader, historically determined, closely intertwined, social, economic, cultural and political circumstances. This study views the aforementioned circumstances that consumers find themselves in, on the one hand, and the banking practices they participate in, on the other, as interacting elements of a socially determinate whole. Trust, I suggest, is the common thread underpinning the everyday banking practices within the interacting elements of a socially determinate whole.

Three ideal types that emerged from the data, the virtuoso, pragmatist and sceptic, are used as a heuristic device to characterise the various interests driving trust in Islamic banking, and illustrate the heterogeneity of Islamic banking practices. More specifically, based on an analysis of the consumers' account of their Islamic banking practices, the choice of Islamic over 'conventional' banking is based on two important factors. First, for those who perceive and are attracted to the added value of Islamic banking, trust in the shariah regulation and expertise, as underwritten by the state, is the first condition to their choice. Trust lubricates their choice by reducing complexity, mitigating risk and bridging the gap between knowledge and faith. Second, the personalised trust that characterises thick social ties bolsters confidence in Islamic banking. In rating Islamic banking as the most socially acceptable choice, family and peers are signalling confidence in the value and values of Islamic banking and are unwitting allies of the state and banks. Last, the study notes that shariah regulation has contradictory corollary effects: it is both functional and dysfunctional. Whilst it functions in enabling the growth of Islamic banking, it also contributes to social fragmentation within Malaysian society.

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Glossary

<i>Allah</i>	God.
<i>Bumiputera</i>	Literally Princes or sons of the earth is used to describe the indigenous Malays.
<i>Dakawah</i>	Missionary activities (literally, 'call').
<i>Fatwa</i>	legal opinion, ruling.
<i>Fiqh</i>	Islamic jurisprudence.
<i>Fiqh muamalat</i>	Islamic commercial and transaction jurisprudence.
<i>Gharar</i>	excessive uncertainty.
<i>Hadith</i>	prophetic traditions
<i>Haj</i>	pilgrimage.
<i>Halal</i>	lawful or permissible.
<i>Haram</i>	unlawful or forbidden.
<i>Hadiah/Hibah</i>	gift.
<i>Ijmaa</i>	consensus.
<i>Ijtihad</i>	decision in <i>fiqh</i> that comes about through personal <i>jihad</i> , independently of <i>fiqh</i> .
<i>Kampung</i>	village or hamlet.
<i>Madarah</i>	harm.
<i>Madhab</i>	Schools of juridical thought. The Sunni branch includes: <i>Hanbali</i> , <i>Hanafi</i> , <i>Maliki</i> , <i>Shafi'i</i> .
<i>Madrasa</i>	educational institute for religious teaching.
<i>Mafasid</i>	disutility.
<i>Manhaj</i>	methodologies used by jurists of <i>fiqh</i> .
<i>Masalih</i>	public interest as in public welfare.
<i>Masjid</i>	<i>Bahasa</i> Malay word for mosque.
<i>Maysur</i>	gambling.
<i>Qiyas</i>	reasoning by analogy or by logical inference.
<i>Qur'an</i>	Central holy book of Islam and considered to contain the word of Allah (literally 'recitation').
<i>Riba</i>	interest or usury (literally 'increase').
<i>Salafi</i>	Islamic practice revivalist movement modelled on the practices of the early 'pious ancestors'. Usually includes the Prophet Mohammed and the first four 'rightly guided' caliphs.
<i>Shariah</i>	Islamic (divine) jurisprudence
<i>Shariah Board</i>	Regulatory board predominantly composed of <i>ulema</i> . They oversee the halal regulatory process of Islamic commodities.
<i>Shia</i>	One of the two main branches of Islam. The Shia reject the first three Sunni caliphs and regards Ali, the fourth caliph, as the Prophet Muhammad's first true successor.
<i>Sunnah</i>	legally binding precedents established by the rulings of the <i>Qur'an</i> and the tradition of the Prophet Muhammad.

<i>Sunni</i>	Most widespread branch of Islam. Their adherence to the <i>Sunnah</i> gives rise Based on
<i>Surau</i>	Generally considered the orthodox b
<i>Tajjib</i>	Muslim prayer room or chapel.
<i>Takaful</i>	Wholesome and healthy.
<i>Ulama (ulema plural)</i>	<i>Shari'ah</i> compliant insurance.
<i>Ummah</i>	religious scholar (literally the knowledgeable or learned one).
<i>Usul al-fiqh</i>	Muslim community.
	legal reasoning.

ACRONYMS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BN	Bank Negara
GCC	Gulf Cooperation Council
IMF	International Monetary Fund
IPE	Islamic Political and Economy
IFSB	Islamic Financial Services Board
INCEIF	International Centre for Education in Islamic Finance
MENA	Middle East and North Africa
MIHAS	Malaysian International Halal Showcase
SAC	<i>Shariah</i> Scholar Council
SEA	South East Asia
KSA	Kingdom of Saudi Arabia
PAS	Islamic Party of Malaysia

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Chapter 1: Islamic banking: global and local

1.1 Preamble: relevance of the author's background

Growing up in Malta, a country that is at least as Roman Catholic as Ireland and Poland, I attended a Catholic school as well as effectively compulsory lessons in Catholic doctrine after school hours for a decade. Religious indoctrination in the second half of the 1980s and first half of the 1990s in the Catholic world was less internationally uniform than it is today. Work on a definitive Catechism of the Catholic Church (CCC) only began twenty-one years after the conclusion of the path-breaking Second Vatican Council, in 1986. The final and official edition was published in 1997. Even then, it was emphatically not intended to replace local national catechisms and left some margin of freedom to local churches.

I remember quite vividly that a recurring trope of Catechism lessons was the good Christian who diligently and industriously deposited the moral equivalent of money – obeying parents and teachers, doing good deeds, in short being and doing ‘good’ – in a virtual bank that would one day ensure her eternal salvation. The image of God that emerged from this narrative was that of an infinitely good banker – who cannot be cheated because he is omnipresent and omniscient – who rewards us in the afterlife to a measure that is infinitely munificent. In other words, or so we understood, if you obey and are good (whereby our goodness amounted essentially to obedience), God will pay you back in another life infinitely more than what you will have deposited in this life. The interest rate is, as it were, infinitely generous but it does require us to earn it in this life.

One critical occasion for teachers to elaborate on this leitmotif is the ‘Parable of the Talents’ in Matthew (25: 14–30). A master goes on a journey and before he does he entrusts a considerable sum of money (expressed in talents, the talent being an ancient eastern Mediterranean and Middle Eastern unit of mass with a corresponding value in terms of a mass of precious metal). When the master

returns he richly rewards the two enterprising servants who made profitable use of the funds and severely punishes the one that did nothing with it. This lesson, could appear to contradict, in the mind of the child, Jesus' warning that 'it is easier for a camel to go through the eye of a needle than for someone who is rich to enter the kingdom of God' (Matthew 19: 25, Mark 10: 25, Luke 18: 25). It therefore takes considerable rhetorical skill for the catechist to weave this negative image of wealth with the apparent praise of capital accumulation of the parable of the talents into a unified and coherent narrative fabric.

The CCC instructs the catechist to approach materials from the Scripture through 'spiritual exegesis' and the 'four senses' of Scholasticism. Whereas, on the one hand, Scripture should be interpreted (1) literally (as intended by the author, as the *Verstehen* of my intention, albeit in an historical context), on the other, it should also be read (2) allegorically, (3) morally, and (4) analogically. The CCC considers the allegorical dimension as foundational. The moral interpretation extends the allegorical reading to the field of action and the analogical reading seeks the meaning of the specific scriptural passage for the meaning of existence.

The narrative flexibility of this four-dimensional hermeneutic that enables the catechist to weave together elements that appear to contradict each other and convincingly present them as facets, or as different levels of the same interpretation. This narrative flexibility is evident in the utilisation of the 'talent'. In Part 3 of the CCC, Life in Christ¹, the concept of talent is precisely that, a natural aptitude or skill received as a gift from God: 'A society is a group of persons bound together organically by a principle of unity that goes beyond each one of them. As an assembly that is at once visible and spiritual, a society endures through time: it gathers up the past and prepares for the future. By means of society, each man is established as an 'heir' and receives certain 'talents' that enrich his identity and whose fruits he must develop. He rightly

¹ See: Section 1 Man's Vocation: Life in the Spirit, Chapter 2 The Human Communion, Article 1 The Person and Society: i. The Communal Character of the Human Vocation, Paragraph 1880.

owes loyalty to the communities of which he is part and respect to those in authority who have charge of the common good' (Vatican City 2003).² The 'Parable of the Talents' may also, however, be read in a contemporary 'economic' sense as a justification of profit. In Part 3 of the CCC³, we read that: 'Profits are necessary, however. They make possible the investments that ensure the future of a business and they guarantee employment' (Vatican City 2003).⁴

The margin of interpretation permitted by the CCC (not to be understood as a limitless free-for-all) authorises in practice the catechist to expound themes and to draw prescriptive conclusions therefrom that would be quite compatible with Weber's (2001) interpretation of the 'Parable of the Talents' in Chapter V 'Asceticism and the Spirit of Capitalism' of *The Protestant Ethic and the Spirit of Capitalism*: 'The parable of the servant who was rejected because he did not increase the talent which was entrusted to him seemed to say so directly. To wish to be poor was, it was often argued, the same as wishing to be unhealthy; it is objectionable as a glorification of works and derogatory to the glory of God' (108-109). As a matter of fact, at convent school we were taught by the nuns, that this parable emphasised the importance of hard work – at school and in our place of employment later on. They also emphasised that this was proof of the applicability of the Catholic doctrine to the modern world. Trade and commerce were a testament to God's glory and our superiority, compared to the starving developing world, was evidence of our hierarchy in the divine order.

More radical interpretations are also perfectly possible and easily accommodated within the broad range of 'meanings' of the 'parable of the talents'. During one catechism lesson, a host teacher, who was a Maltese priest

² See: www.vatican.va/archive/ENG0015/___P6G.HTM

³ Life in Christ, Section 2 The Ten Commandments, Chapter: You Shall Love Your Neighbour as Yourself, Article 7 The Seventh Commandment: iv. Economic Activity and Social Justice, Paragraph 2432

⁴ 2432 Catechism of the Catholic Church. See: www.vatican.va/archive/ENG0015/___P8D.HTM

who had recently returned from Latin America and advocated a variant of Liberation Theology, extracted a different moral story from this parable. According to him, the 'economistic' reading of the parable was not how the pre-modern Jew, to whom this parable was addressed, would understand it. Usury, as well as other forms of commercial activity, was frowned upon by Jesus and his followers. The talent symbolised the grace of God and the debt that man owes him. As servants of God, we were expected to share and double this grace, in order to continue enjoying its fruits. We were certainly not expected to engage in usurious behaviour and the only kind of productive work that God expected from us was charitable works that multiplied and shared the grace of God with others, particularly those who had less material wealth than us. He added that, in any case, we were all brothers and sisters as we worshiped the one true God. He emphasised that the same moral lessons were found in other religious texts too and not necessarily Christian ones.

This introductory excursus is intended to alert the reader to the my cultural sensitivities, especially in view of the significant ethnographic component of this study. Although I was brought up in a Catholic cultural environment, this very experience and my reflection on it- on the effectiveness of narratives that attempt to defuse contradictions between religion and economic life, contradictions that are potentially disruptive of political and social structures – has, firstly, sensitised me to the conditions of possibility and existence of such narratives in other cultures, in this case the narrative that justifies Islamic banking generally and in Malaysia in particular. Secondly, it has alerted me to the danger of seeing the dialectic between religious and economic rationality as being a peculiarly Islamic issue, and to reduce it simplistically according to Western ignorance and to Western stereotypes of Islam. As I argue in this study, the complex configurations that this dialectic takes, not less complex than those in other Abrahamic religions including Islam, vary according to specific historically determined circumstances.

1.2 The historical preconditions

Having revealed some of the themes that run throughout the thesis, the rest of the chapter will set the context for the rest of the chapters. This chapter consists of four sections. The next (second) section will illustrate the trajectory of Islamic banking: from a political reaction to Western Imperialist encroachment in 'Muslim' societies to its current form as a niche of global finance. More specifically, it will link the emergence of the Malaysian Islamic banking sector with crises in the political, social and economic spheres – particularly the 1997-1998 South East Asian financial crisis. The following (third) section offers a statement on the emergence of the research aims and questions that inform this project. In the fourth section, I show how the main theme of this project: the growth of the Islamic banking practices in Malaysia reflects the research agenda of economic sociology literature and particularly the scholarly body of literature concerned with financialisation (the ubiquity of finance in all aspects of modern society). I highlight how my project fits in with this literature concerned with financialisation – the literature as well as implications of financialisation for the political and social life of the non-elite.⁵ The final section offers chapter outlines for the thesis overall.

1.2.1 The historical prohibition of interest in Abrahamic religions

The *raison d'être* of Islamic banking⁶ is to conduct financial transactions that avoid interest. Islam, like all three Abrahamic religions, has throughout history pronounced itself on the proper conduct of economic practices, especially lending and borrowing. Historical evidence suggests that originally all three faiths shared similar views on debt and especially the evils of interest (Warde 2000; Kuran 2004; Tripp 2006; Lewis 2007; Graeber 2011). Historically, all

⁵ The term denotes people who are not part of elite groups. See Chapter 3 for a detailed explanation.

⁶ The term Islamic finance is used to denote all branches of Islamic financial activity, whilst the term Islamic banking is used to specifically denote retail Islamic banking.

three Abrahamic religions (Christianity, Judaism and Islam)⁷ raised philosophical and ethical objections to the growth of money from self-generation and for a long time, all interest was considered usurious (Lewis 2007; Kaleem and Lewis 2014).⁸

Nevertheless, economic historians inform us that even during times when guardians of the faith imposed this prohibition, economic historians inform us that there was often a gulf between orthodoxy and praxis. In Catholic Europe penalties for engaging in usury were harsher and dictated by the Lateran councils. At the very least, lenders and borrowers who engaged in usury, and their families were excommunicated. As a result, as economic activity grew, they were able to circumvent the prohibition through techniques borrowed from the Muslim world. Five techniques were available. These included *interesse*, using foreign exchange transfers to conceal loans during international trade transactions, legal fictions and partnerships, including instruments like *murabaha* which are used in contemporary Islamic banking (Lewis 2007 :72–76). Eventually, the Vatican would succumb to the pressures of the emergence of the money-economy and the challenges of Protestant Europe. Canon law was revised to match widespread praxis. On the contrary, in the Ottoman Empire, there were no strict penalties for those who contravened the prohibition.

⁷ That historically Catholicism espoused a harsh attitude towards usury and even commerce is a fact that is well known amongst theologians and lay Catholics alike. In 'Debt: A historical study of worldview on debt', Graeber makes this point emphatically. He states the following: 'Usury was seen above all as an assault on Christian charity, on Jesus's injunction to treat the poor as they would treat the Christ himself, giving without expectation of return and allowing the borrower to decide on recompense (Luke 6, p.34–35)' (Graeber 2011: 283). Judaism's opposition to interest might not be as renowned as that of the other two faiths. Since Jews believed that Gentiles fell outside the scope of the scriptural prohibitions, and they were banned from many trades, the Jewish community in Europe became associated with moneylending and usury. Nevertheless ambivalence with regard to interest is present in some of its sacred texts. Consider Ezekiel 18: 13: 'He who lends at interest, and takes profit; shall he then live? He shall not live. He has done all these abominations; he shall surely die; his blood shall be upon himself'.

⁸ Interestingly enough, these debates are derived from even more ancient Greek philosophical inquiries about interest and the meaning of money. Famously, Aristotle described interest (*tokos*) as the 'most hated' and 'unnatural' art of making a gain from money itself, whether from speculation or the creation of debt. For Aristotle, 'money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent' Aristotle, part X- <http://classics.mit.edu/Aristotle/politics.1.one.html>)

Indeed, enforcement ebbed and flowed according to the exigencies and expediencies of the situation and jurists or rulers were able to regulate according to the political temper of the times (Lewis 2007: 72). Therefore, what should interest sociologists is that it is only Islam, and only at a late particular historical juncture, in very specific and few (majority-Muslim) locations, that moralising about money, and specifically interest, would gain enough salience on an everyday basis to provide a foundation for a fully-fledged financial sector that claims extra value based on religious difference. In the next section, we will locate the intellectual origins of this turn.

1.2.2 European capitalist incursions of ‘Muslim societies’

The intellectual foundations of Islamic finance would only emerge as a reaction to Europe’s capitalist penetration of the Middle East in the 19th century. As economic historian Rogan notes, ‘The single greatest threat to the independence of the Middle East was not the armies of Europe but its banks’ (Rogan 2011: 130). Like falling dominoes, Ottoman rulers surrendered to European states or financial commissions controlled by them. The last, but perhaps most dramatic, crisis due to the upheaval it caused within its borders and around North Africa, was the Egyptian bankruptcy in 1876. Egypt contracted several foreign loans and a ‘debt of £68.5 million (\$376.75 million) but only £11 million (\$60.5 million) to invest in its economy’ (Rogan 2011: 132). Following several attempts to stem the haemorrhage, the viceroy tried to postpone the payments which was ‘tantamount to a declaration of bankruptcy, and the repo men of the international economy descended on Egypt like a plague’ (Rogan 2011: 132). The community of international economic experts imposed austerity measures on the Egyptian taxpayers in an effort to protect the foreign bondholder’s interests. Eventually, following failed attempts to secure payment and concerned about political turmoil, Britain felt compelled to invade Egypt in order to assure ‘the security of the Suez Canal and repayment of Egypt’s debts to British creditors’ (Rogan 2011: 161).

In turn, Muslim political activists and intellectuals attempted to formulate with a Muslim response based on a return to Islamic principle. Unlike the message of the Qur'an which is taken to be eternal, its interpretation, a science or an intellectual discipline developed by scholars, was not taken to be historically contingent. This response would later inspire various other reformers around the world including political activists in Pakistan.

What these movements had in common is that they rejected the alienation, humiliation, and domination of the capitalist system, which in the eyes of many was intrinsic to European dominance. They would turn to Islam to solve modern economic developmental problems and create a *homo Islamicus* based on a utopian Islamic political economy (Kuran 2004; Tripp 2006). Central to this Islamic political economy was the idea that *riba*, the self-growth of money, was the gravest sin of all and would lead to grave consequences such as the ones that they had witnessed.

It was the first serious attempt in modern history to develop an Islamic political economy that would serve as a basis for Islamic political and economic institutions that would enable Muslims to carve out an authentic space for political, economic, and social means of determination. Despite their best attempts, there was no momentum to create any substantial economic institutions from below, amongst the people. It would be left to the secular nationalist reformers that would capture the state institutions and the hearts and minds of people.

1.2.3 The establishment of Islamic finance

With the founding by Ahmed Al-Najjar of the Mit-Ghamr Savings Bank in 1963, an experimental credit provider to peasants in rural Egypt, the first modern Islamic financial institution was born.⁹ The aims of this profit-sharing institution were modest: to provide interest-free capital to locals who wanted to start a business. More robust Islamic financial institutions would appear in the late 1970s and 1980s. Aware of the Arab street's disillusion with Nasser's Pan-Arabist dream, the Gulf Monarchies hoped to swing the balance of power with their petrodollars.¹⁰

One of the ways in which Gulf rulers capitalised on their oil rents was through the dissemination of their conservative brand of Islamic politics through various Islamic business ventures and charities. However, these same ruling and business elites shied away from establishing Islamic banking at home. In the Kingdom of Saudi Arabia (KSA), Islamic finance is a recent development. Although the ruling elite were sensitive to the possibility that some would suggest that they were allowing conventional banks that were unIslamic.¹¹ Instead they established Islamic financial institutions outside their jurisdictions, in countries like Egypt. Aware of the appeal of Islamic revivalism, galvanised by the spectacle of the Iranian revolution, the Malaysian ruling elite also pledged to include the *shariah* as a guiding principle of the state. This was carried out with the help of the *shariah* scholars who were co-opted into state institutions and helped establish the first commercial Islamic bank. Malaysia had started to

⁹ This was later incorporated into the Nasir Social Bank in 1971, both institutions preferred not to emphasise their *shariah* principles for fear of attracting the displeasure of the Nasser and Sadat regimes respectively, with the country's first openly *shariah*-based institution, the Faisal Islamic Bank, only appearing in 1979.

¹⁰ The transfer of control of the Gulf oil fields from international firms to the native ruling families re-calibrated the global balance of power in terms that were more favourable to the oil-producing states of the region. The political strength of this shift was reflected by the Organisation of the Petroleum Exporting Countries (OPEC), five-month embargo that jolted the West and consequently generated lucrative rents. Between 1973 and 1974 alone, oil prices quintupled (Wilson 2004: 9; Tripp 2006: 139–40).

¹¹ The political sensitivity of the government to Islam is also evident in other countries like Turkey. For example, Islamic Banks in Turkey are called Special Finance Houses. For further reading, see Başkan (2004).

experiment with Islamic banking in the 1940s and would eventually create *Tabung Haji*, which was set up in 1963 to help Malaysians save for performing the Hajj (pilgrimage to Mecca and Medina). In 1969, this body evolved into the 'Pilgrims Management and Fund Board' (Lewis and Algaoud 2001: 6). This would provide the foundation for the Islamic Banking Act of 1983 and the *Bank Islam Malaysia Berhad*, a fully-fledged commercial operation.

Despite the effort to make Islamic finance viable, by shifting from a social purpose to a commercial one, the sector registered little interest from consumers and mainstream financial institutions. Interest in the sector did increase, as did its deposits and profits, however it was only amongst a devout minority buoyed by the euphoric wave of Islamist revivalist politics (Warde 2000). Nonconformity with global standards had positioned Islamic finance as an 'exotic' financial sector depending on a miniscule demand from a niche clientele. Islamic banking remained the choice of a handful of aficionados. Also, the FIRE (finance, insurance and real estate) sectors formed a minor part of the Malaysian economy, and finance was not part of the Muslim-Malay middle class way of life. On the other hand, consumption of *halal* commodities such as food and clothes was always increasing. Both state and consumer would continue to neglect Islamic finance, preferring instead to focus its *shariah* regulation and Islamic everyday practice on food and clothes. As my informants from the Malaysian Islamic financial sector confirmed, it was only after the 1997-1998 financial crisis that Islamic finance became a viable proposition for state, banks and ordinary people alike.

1.2.4 The 1997-1998 South East Asian financial crisis

The South East Asian financial crisis started in Thailand, and then tipped into

the rest of the region, including Malaysia.¹² Savers saw the Malaysian ringgit spiralling out of control. The effect on currency and stock markets was a 20–50% devaluation (Glassman 2003: 32) and borrowers' interest rates shot up to as much as 20%. Although financial activity was restricted to the politico-business spheres (Rethel 2011), the extensive cross-ownership between banks and companies and intensification of financial activities in the '80s and early '90s would make Malaysia vulnerable to global financial markets when the crisis erupted. So what caused the crisis? For the advocates of the Washington consensus, who did not yet enjoy the hindsight of the 2007/8 credit-crunch, the faults were two. First, they accused South East Asian countries, including Malaysia, of specific Asian immorality. They argued that the crisis was caused mainly by 'weak enforcement of bank regulations and government-directed lending' (Vithiatharan and Gomez 2014:603) that was a result of cronyism and corruption.¹³ Second, the problem, as far as they were concerned, was not liberalisation and deregulation of the financial markets, but the lack of it. Neo-Marxist interpretations did not agree. The crisis resulted from an inevitable systemic fault of the global financial system, and was triggered by a slowdown in global and regional demand underpinning the region's export-led growth. This was intensified by China's emergence and the rise in value of dollar, to which most currencies were pegged. (Glassman 2003: 53–54).

For Malaysians, 'the political crises of capitalism in the 1980s and the 1990s were shocking symptoms of a model of Malay modernization turned moral malaise' (Khoo and Hadiz 2010: 23), thus affecting the legitimacy of the ruling forces (Arrighi 2005). This crisis resulted in a breakdown of trust in institutions and a depletion of confidence in the political and economic governance of the country by the Mahathir administration. Even their most loyal of constituents,

¹² Many referred to this crisis as the 'East Asian crisis'. But in reality it was a crisis of South East Asian countries, with the exception of Singapore and the inclusion of South Korea (from the North East Asian area).

¹³ Thomas (2002: 603), for instance, supported this argument by noting that the links between the government and both the corporate and banking sectors facilitated political intervention.

the Malays would shift their allegiance elsewhere, thus increasing the popularity of Islamic politics (Khoo and Hadiz 2010: 22).

People lashed out against what they perceived to be a corrupt political and business class. Still, people's anger at the government's role in this catastrophe did not deflect their attention from foreign speculators. They joined Mahathir in his condemnation of Western capitalism. Several politicians also expressed this outrage on behalf of their citizens. In his autobiography, former Prime Minister Mahathir lamented the wanton destruction of the crisis. He described how 'trillions of dollars of hard-earned assets and economic capacities have been destroyed, lives have been lost, governments have fallen, and racial animosities have intensified' (Mitton 2000). Ordinary people agreed with their political leaders: the West and its gatekeepers (such as the International Monetary Fund) had allowed its greedy speculators to wreak havoc on their lives and livelihoods. The human and social devastation wrought by the crisis was immense. Many Malaysians lost their assets and businesses as well as their jobs. Many workers experienced the stagnation of their purchasing power as their real wages lagged behind inflation. Previous to the Asian financial crisis, during the high growth period of 90s, wages were increasing at 6.2% annually. Following the crisis, wages increases were at 1.6%. After accounting for inflation, real wages had declined even further (Abidin 2011: 70-80; Glassman 2003). As the respondents would reveal during fieldwork, many would literally pay with their lives as families broke down, and they frequently heard of suicides.

Echoing Polanyi's double movement, from this crisis a political force to counteract the devastation emerged. Led by a coalition of Islamists and secular non-Malay parties, the *reformasi* movement demanded an end to the ethnic distributive/welfare policies of the state. They agitated the people against the developmental trajectory followed by the government. More specifically, they demanded an end to the patronage networks, which dispensed with property and funds to people, and advocated a shift to a united Malaysia (Rethel 2011).

1.2.5 Response to the crisis: Islamic finance as a political and economic fix

Their hegemonic hold¹⁴ over the country having vanished overnight, the political and business elites equally had to formulate a political and economic response for self-preservation (Arrighi 2005). They would reject calls to completely open up their markets to the forces of global finance. Instead they would contain the damage by restricting capital flows (Glassman 2003).

Later, the state would embark on a structural transformation of its economy marked by liberalisation, privatisation, and mass financialisation (Gomez and Jomo 1999; Rethel 2011). These reforms were conceived as an economic and political solution to the decline in export-led growth and the battering received at the hands of the global financial markets, as well as the resulting political backlash. The ruling political and economic elite had recognised that the 'Malaysian capitalism of old was clearly politically increasingly more difficult to sustain' (Rethel 2011: 492) and had to find new strategies for survival.

The 2001 Bank Negara's 'Financial Sector Master Plan' encapsulated the state's strategy to carve out a niche for Malaysia in the global marketplace by prioritising knowledge-based sectors, including finance. Islamic Finance was the cornerstone of its 'Master Plan' to enable the necessary growth that would transform Malaysia as a 'high value-added high-income country'. The state, through its central bank and with Islamic scholars and financial industry would devise a top-down strategy to develop Islamic banking. The securitisation observed in the USA and the UK, 'allowing retail lenders to sell on their receivables' (Erturk and Solari 2007: 381) and spurring the expansion of lending for car and housing financing was also observed in Malaysia, both within the conventional and Islamic financial sectors. For instance, Cagamas Berhad, the National Mortgage Corporation, 'the single most important provider of

¹⁴ Very simply, hegemony is defined as domination without force.

securitisation products in Malaysia' (Rethel 2010: 500), is symbolic of the connection between innovations at the higher-end of the financial markets and consumption patterns in the retail market. Cagamas' market innovations have led it to become simultaneously the largest issuer of asset-backed securities in Malaysia and through the Islamic housing financing and Islamic hire purchase loans, the driver behind Malay homeownership and household debt (Rethel 2010: 498–500). They would develop a range of Islamic banking products that fulfilled similar economic functions to their conventional counterparts. The market would be liberalised to allow several Islamic banks, including foreign institutions and Islamic windows of conventional banks, to operate in Malaysia.

Malaysia's capital, Kuala Lumpur, has come a long way in terms of Islamic banking. It began with one solitary Islamic bank but it is now a global hub for Islamic banking, hosting 31 Islamic financial institutions and several global and national regulatory institutions including the Shariah Scholar Council (SAC), controlled through the Bank Negara. Islamic banking assets accounted for 25 per cent of the Malaysian banking system's assets in 2013, up from 19.6 per cent in 2009, while Islamic financing accounted for 27.5 per cent of total banking financing in 2013, up from 21.6 per cent in 2009. The Islamic banking system's total deposits also constituted 26.6 per cent of the Malaysian banking system's deposits in 2013, an increase from 20.7 per cent five years before (International banker.com 2014:92). Islamic banks controlled US\$120bn in assets in 2012, the period during which I conducted my fieldwork, and it is expected that they will increase to US\$390bn by 2018 (Ernst and Young 2014: 73). Islamic banking is expected to account for 40 per cent of total financing by 2020.

Islamic banking simultaneously accommodated the global financial markets and reached a compromise with its citizens on a domestic front. From a global economic perspective, the ascendancy of Islamic finance is part of the Malaysian state's two-pronged strategy to increase its competitive advantage. Firstly Malaysia wants to exploit its cultural difference in the global financial

markets. In a region dominated by hubs of global finance such as Hong Kong and the neighbouring Singapore, the state aimed to carve out a niche based on cultural difference.¹⁵ The aim was to bump up Malaysia from second tier Newly Industrialised Countries (NICs) to the first tier status of high-income economies, such as Singapore, that had largely avoided the crisis. In the aftermath of a crisis, business elites counter heightened international competition through a shift from production to finance (Arrighi 1994). One of my expert informants confirmed that the governing elite reasoned that through Islamic banking, Malaysia would be well positioned to tap lucrative funds of the global financial markets.

Their prime targets were the cash-rich Gulf Cooperation Council (GCC) states. In addition, this also complemented more traditional *halal* industries by providing a package of completely integrated *shariah* compliant commodities for the global *halal* economy. The indications are that, by providing ‘an end-to-end *shariah* compliance in the suppliers’ operations ... and funding options’, (MIFC 2014: 1) the state will seal Malaysia’s standing as the global home of the *halal* industries including Islamic finance. As the cover of a brochure advertising the Malaysian *halal* industries states: ‘The global *halal* economy and the Islamic finance industry are natural economic partners’. On the domestic front, they hoped that a consumer-led expansion of the financial markets, marked by a ‘new politics of debt’ (Rethel 2011: 494) would appease its constituency.

Another tool available to states and financial institutions is the capacity to generate credit (Arrighi 2005: 42–43). The purpose of unleashing an unprecedented flow of credit, through the liberalisation and the expansion of the Islamic Financial sector, was threefold. The first was to harness the consumption power of its emerging middle class. The extension of Islamic consumer credit to the middle classes would fix the tensions that arose from the

¹⁵ The 2001 Bank Negara’s ‘Financial Sector Master Plan’ was detailed during an interview with one of the practitioners who has connections to the Malaysian political and economic elite. See Chapters 4 and 5 for further detail.

suppression of wages and spur consumption-led growth. Similarly to the Anglo-Saxon world, Islamic banking practices in Malaysia are also dominated by borrowing, particularly those related to consumption and home ownership (Langley 2008). Credit would kick-start the economy and address people's grievances. Politically, this strategy renewed the state's commitment to its primary constituency, Muslim-Malays. It reaffirmed the *shariah* and Islam – the primary identity marker of the Malay community – as an authentic source of Malaysian state's developmental trajectory.

Reviews of the politics of Islam in the early 2000s are inseparable from the 9/11 attacks on the World Trade Centre. The global economy was affected, but Muslim majority countries also had to contend with the responses and reactions that these attacks would spur amongst their citizens and in the international community. Malaysia sought to overcome the economic downturn with a message of 'patriotic consumption of domestic goods' that is inseparable from the political reactions to 9/11. These attacks were understood in contradictory ways and Islamic finance became one of the ways that the state could express Malaysia's moderate Islam (Fischer 2008: xii; 35).

Islamic Finance harks back to an Islamic 'golden age' (Kuran 2004: 3; 94–97), by 'involving historical mythologies,' that emphasise a difference of identity (Zubaida 2011: 16), but also looks forward to a future where the Muslim world can teach the rest how to embrace economic modernisation without losing values that are intrinsic to a 'good' (Muslim) society.¹⁶ For many, this seems like a particularly poignant lesson at a time when the West seems to be plagued by economic and political decay. Despite the far-reaching reforms, the core political and economic power structures prevailed (Gomez and Jomo 1999; Rethel 2011). These shifts were endogenous to the 'centre of the power

¹⁶ The 'golden age' usually refers to the 39-year period, 622–61 CE, during the last ten years of the Prophet Muhammad's leadership and the later the tenure of the four rightly guided Caliphs, over the original *ummah*. It is suggested that the Islamic code of behaviour enjoyed widespread adherence and, as a result, led to great prosperity and spirit of brotherly cooperation (Kuran 2004: 3).

structure' and the political 'establishment' (Scott 2012: 35). In conclusion, Islamic banking helped restore hegemony by buoying people's confidence in the political economy and neutralising contestations from Islamist parties and movements who had been using Islam as their call to arms.

1.3 Explaining the growth of Islamic banking practices

So far, we have outlined the circumstances that led the state, ruling elite and banks in Malaysia to establish Islamic banking: it made developmental, political and economic sense. We have also emphasised that Islam alone cannot be invoked as the sole explanatory factor. Its salience needs to be understood in relation to the motor of global financial capitalism that is constitutive of and constitutes national political economies. Although I will be discussing a very specific local story, it is but a mere occurrence in a very specific juncture within the framework of the *longue durée* of financial capital expansion.

What remains unclear, and what this thesis aims to explain, is why Muslim-Malays are increasingly choosing Islamic banking. Muslims are not under legal duress by the Malaysian state to choose Islamic banking, and there are no obvious financial advantages in using Islamic banking products. The credit risk system used by Islamic Malaysian banks is based on the conventional model, and the borrowing terms offered to their clients depend on the same type of risk assessment as that of a conventional bank. Some scholars (see Kuran 2004 and El Gamal 2006) and a number of the respondents interviewed suggest that in some cases, costs to the consumer might actually be slightly higher. This raises the principal question of this thesis: *How can we explain the growth in everyday Islamic banking practices?*

1.3.1 Everyday Islamic banking practices

This project explores the Malaysian state's success in conveying the promise of economic advantage with added *halal* value to a critical mass of receptive consumers. More specifically, the aim of this research is to understand the growth of Islamic banking practices from the perspective of ordinary Muslim-Malay¹⁷ consumers.¹⁸ The approach taken by this project, a microanalysis in the vein of Weber's *verstehende Soziologie* (interpretive sociology), that prioritises the meaning that people give to their own actions, enables us to understand how culture and identity, trust and confidence, respectively embedded in shariah regulation and social ties, underpin the growth of everyday Islamic banking practices.

The aim of this dissertation is to develop a sociological framework with which to understand the growth and development of Islamic banking practices in Malaysia. As I explain at the end of Chapter 2, the theoretical framework of this dissertation seeks to follow sociological traditions that 'de-sacralise' social practices that have attached to them the adjective 'Islamic' (Zubaida 2003: 1). Invoking Islam as an all-explanatory factor to explain Islamic banking practices is tautological. 'It must, rather, involve a sociology of how religion interacts with other ethnic, cultural and political forces' (Halliday 1995: 75). This is not to deny the independent role of Islam in the growth of Islamic banking. But one must 'keep in mind that "culture" is a process intertwined with the dynamics of economy and power, and not a fixed essence working itself out through history' (Zubaida 2011: 6).

¹⁷ As I will explain in Chapter 4, in Malaysia the state identifies ethnic groups along religious lines. These ethno-religious categories are widely accepted and are prevalent in everyday life and on an institutional level. In particular, since Islam is one of the primary signifiers of the Malay ethnic, all Malays are expected to be Muslim. From a sociological perspective, this is problematic. For this reason, I use the term Muslim-Malays to illustrate that I reject the assumption that all Malays are automatically Muslim from birth.

¹⁸ In this project, the consumers whose everyday Islamic banking practices we will be investigating, will be referred to as laypeople or ordinary people or consumers. The aim is to emphasise that the aim of this project is priorities people who use Islamic banking products but who are not experts nor elite who can manage Islamic finance 'from above'. See chapter 3 for a more detailed explanation.

This means that although the banking practices under investigation are expressed through an Islamic ‘tag’, they must be understood in connection to ‘economic, political, cultural, ideological and historical’ forces (Warde 2000: 226). In particular, this project seeks to explain the economic actions of ordinary individuals from a sociological perspective that views culture, politics and history as endogenous. Consequently, the dissertation develops a framework that borrows from the ‘tool-kit of economic sociology’ (Swedberg 2004), particularly the Polanyian (2001) notion of embeddedness, bolstered by the longview of historical comparison.

The aim of my introductory excursus concerning the original shared hostility of all three Abrahamic religions towards interest was to alert the reader to the importance of the longview of history. It remains instrumental in warning us of the perils of ignoring unsound clichés about the inevitability of Islamic banking practices amongst the predominantly Muslim, Malay community. As I explain in Chapter 5, the development and growth of Islamic banking practices rests on a complex historical process of negotiation of cultural, political, economic interests between the Malay community and the state, governed by an elite that looks to Islam as a ‘fix’ for crises in the political economy. It’s within these preconditions that the research questions, as outlined below, must be contextualised.

1.4 Research Questions

The project, driven by the principles of grounded theory, is based on a combination of methodological tools, including four months of fieldwork in Kuala Lumpur. The Malaysian capital city is home to Muslim-Malay middle class families as well as to several Islamic financial and regulatory institutions. I conducted in-depth interviews with Islamic banking consumers and supplemented with participant observation at sites of economic activity such as Islamic banks, shopping malls, markets and leisure venues. Additionally, the

focus on the everyday is complemented by an investigation into the objective structures of the Islamic banking sector as defined by the Malaysian state, *shariah* regulation, and Islamic banks. This aim is achieved through archival work and the documentation of elite perspectives, including through interviews and participant observation with elite members of the Malaysian and global Islamic banking community such as CEOs, lawyers, journalists, *shariah* scholars, politicians, as well as with consumer-facing bank clerks. The purpose of this approach is to contextualise the everyday practices ‘from below’ within the broader objective parameters of the Islamic banking sector, as set ‘from above’. The research questions of this project were not suggested directly by the literature, instead they emerged from the data (the gathering of which was informed by the literature). For this reason, a discussion on how the research aims of this project tie-in within the agenda of economic sociology: ‘the application of the sociological perspective to economic phenomena’ (Swedberg 2004: 2), is detailed in the next chapter. This section will outline the emergence of the main research questions from the data.

This project was driven by a methodological approach sensitised by the principles of grounded theory. Developing both the research questions and the theoretical framework for this project required digging deep into the empirical and building analytical structures that reach up to the hypothetical (Charmaz 2008). As the initial data from the research process started to emerge, three sets of sub-questions were developed, with the aim of addressing the principal question of this thesis: *How can we explain the growth in everyday Islamic banking practices?*

1.4.1 The crystallisation of Islamic banking as an objective category.

The first set of questions examine how Islam is used as a cultural toolkit for the construction of Islamic Banking as an objective category of banking practices in Malaysia. The aims were threefold: establishing the cultural components on which Islamic banking was justified and spaces for contestation, the encoding

process within formal shariah regulation and the signalling and communication of its shariah added-value. Thus, the questions raised were:

- a. What are the core values and ethical principles, drawn from sacred Islamic sources, that characterise Islamic banking? How are the doctrinal and definitional controversies linked to the drive for efficiency and debt-based products, on one hand, and the pressures to retain authenticity, justice and equity-based products within the Islamic banking sector, on the other?
- b. How are these values interpreted and codified into the *shariah* regulatory system by experts?
- c. How do the boundaries of Islamic banks link to other Islamic commodities such as *halal* food and how are the standards that delineate the boundaries of permissible/forbidden communicated?

1.4.2 Generalised trust, *shariah* regulation and expertise

The next two sets of questions sought to understand how the symbolic boundaries set by the objective Islamic banking sector became material and regulated everyday banking practices. Since the fiduciary relationship between consumers and shariah regulation emerged as the crucial link between ‘supply’ and ‘demand’ the rest of the research questions focused on understanding how trust and confidence shape Islamic banking practices. The questions include:

- a. How does generalised trust underpin everyday Islamic banking practices, how is it different from personalised trust, what are its functions and how does it vary according to the ideal types?
- b. How does the expertise of *shariah* scholars shape everyday Islamic banking practices and how do they act as trust agencies? Why are they considered legitimate authorities on Islamic banking practices?

c. How is the state's underwriting of the Islamic banking sector viewed by Muslim-Malays? What are the implications of the boundaries set by *shariah* regulation - are they always functional?

1.4.3. The role of family and peer relations in creating confidence in Islamic banking

Although trust in shariah regulation emerged as the primary embedding mechanism, social ties also emerged as important means of shaping everyday Islamic banking practices. Family members and peers enable the growth of Islamic banking by signalling confidence in the sector. The questions asked included:

- a. Why and to what extent is familial and peer influence relevant to everyday Islamic banking practices? How is confidence in Islamic banking communicated?
- b. How do personal ties communicate confidence in Islamic banking and what are the instances, junctures or events in which they proved especially salient?
- c. Why and in what ways is the participation of family and peer considered of value to Muslim-Malays?

1.5 Islamic banking practices and the sociology of everyday finance

This section considers how the broader aims and questions raised by the project fit in within the wider scholarly literature dedicated to the increasing importance of finance in modern society. The financial industry's 'disproportionate role in allocating wealth around the world' is also being reflected in the 'special place' it occupies in anthropology and sociology (Hart and Oritz 2014). There is a burgeoning field of literature, commonly known as

financialisation studies, that addresses the shift from industrial to financial capitalism. There is no single research agenda and the interdisciplinary approaches cover all the various levels of analysis, from macro to mezo and micro. 'What unites these studies is a view of finance beyond its traditional role as provider of capital for the productive economy. Instead, "studies of financialization interrogate how an increasingly autonomous realm of global finance has altered the underlying logics of the industrial economy and the inner workings of democratic society' (van der Zvan 2014: 99–100).

The financialisation literature can be broadly carved between three main traditions. The classic tradition focuses on the broader macro processes related to the finance capital as a systemic cycle of accumulation. It views financial capital in epochal terms as it shifts across geo-political space in tandem with swings in the balance of hegemonic power and/or the monopolistic power of the rentier class. The second body of work falls under the umbrella the 'shareholder value', and stems from a concern with how shareholder profits have become the measure by which to gauge success or failure of a firm. Consequently, the pressure to increase shareholder value has also transformed the norms of industrial and trade operations. The last and most recent stream, and the main focus of this project, regards the financialisation of everyday life of the majority – the people located at the bottom of the hierarchy. Traditionally, this was not the ontological starting point of social scientists studying financialisation. Financial activity was once perceived as the exclusive domain of the elite such as the rentier class or expert communities.

The so-called democratisation of finance, which heralded the proliferation of financial products and services amongst the mass of the population, altered scholars to the myriad ways in which finance is constituted in everyday practice. Everyday finance attempts to provide a grounded alternative to perspectives that make 'modern finance look exceedingly abstract, impersonal and disembodied' (Carruthers and Chul-Kim 2011) and positioned 'above and beyond and differentiated from society in general, and the "real" economy in

particular' (Langley 2008: 6). In reality, as the respondents will attest in this project, financial markets, and practices are connected to the very concrete personal decisions of ordinary people and intimate facets of their everyday life.

The financialisation of 'everyday life', compounded by its 'culture of neoliberalism' (Comaroff and Comaroff 2001), describes the profound experiential and discursive transformations of finance in the everyday life of individuals (Martin 2002; Langley 2008). Martin describes this process as the following:

'Financialisation integrates markets that were separate, like banking for business and consumers, or markets for insurance and real estate. It asks people from all walks of life to accept risks into their homes that were hitherto the province of professionals. Without significant capital, people are being asked to think like capitalists' (Martin 2002: 12) In an unprecedented transformation, huge swathes of the population are buying into a new paradigm of property: the rethinking of their possessions as investment. This approach has been framed around the notion of the rise of the citizen as investor, generating a cluster of issues at the centre of which is the hub-issue of the extent to which the citizen's savings are mobilised by the financial system. This is linked to spoke-issues concerning the impact of finance on the daily life of the minute investor/debtor. With a few notable exceptions, such as Rethel (2010; 2011), this scholarly work is generally restricted to an Anglo-American core.¹⁹

In fact, many peripheral countries have followed in the economic trajectory set by core countries. Consumption has replaced production as the most important financing aim of retail banks. According to the Bank Negara, the Malaysian Central Bank, Malaysian households are among the most highly leveraged in Asia. In Malaysia, household debt now exceeds 80% of GDP (The Economist

¹⁹ In the face of speculation about the tipping of the balance of power from West to East and the unravelling of American hegemony (Arrighi 1994), this gap suggests an element of ethnocentrism.

2013c) and the debt-to-household-income ratio stands at 140%, which means that the amount owed stands at 1.4 times income. Mortgages, accounting for a quarter of bank lending assets, continue to drive growth in household debt. The bulk of this debt is for house financing, followed by car loans, 'personal use', and credit cards (Bank Negara Annual Report 2013).²⁰ Despite this obvious transformation, evident in our high streets, shopping malls and advertising, the implications of consumption of credit by ordinary consumers has been largely ignored by sociologists (Erturk and Solari 2007; Botterill 2010; Langley 2014).

In the face of the billions circulating through global financial markets, the focus on retail banking practices might appear exaggerated. However, although a separate focus on the everyday banking practices is necessary for analytical and in this case, practical methodological purposes, in reality the bifurcation of the two realms – global and local – is a false one. As I've demonstrated in the first section, even the specific localised counter-reactions, whether in colonial Egypt or independent Malaysia, based on the encroachment of financial capital in the everyday lives of people, are not separate from the circulation of global capitalism. Empirically speaking, the various levels of *analysis* and the distinct approaches are complementary.

Second, the interconnectivity of 'high' and 'low' finance is of special significance to Islamic banking. Its emergence as a commercially viable financial sector is the result of the deregulation or rather, reregulation of the financial markets. The removal of regulatory barriers between the two previously detached realms (investment and retail banking) benefitted Islamic banking and marked its renaissance as a niche market of the global economy. 'Whereas the traditional world of finance, dominated by commercial, interest-based banking, could raise potentially troublesome theological issues, the new world of finance characterised by the blurring of distinctions between commercial banking and other areas of finance, the downgrading of interest income, and financial

²⁰ See, The Bank Negara Malaysia Annual Report 2013

innovation, has been rife with opportunities for Islamic financial instruments' (Warde 2000: 1–2).

The boom of Islamic banking in Malaysia is also linked to the erosion of the clear distinctions between the respective traditional roles of retail banks and merchant banks. It was the birth of the 'new economy' with an emphasis on finance-driven accumulation that spurred linkages between global finance and Islamic banking. The connectivity of households to capital markets has been heightened due to deregulation and also because of the increasing dependency of households on financial income through the securitisation pool. In fact, for some, this shows that the financial products in retail markets are not only connected to but also constitutive of the global financial markets (Langley 2008: 10). Lastly, I believe that there are compelling political questions that can be raised and addressed by a study of everyday Islamic banking practices. They will be discussed in the next section.

1.6 The veiled politics of Islamic banking practices

For the financialisation literature, finance is not the neutral allocation of capital linked to the mechanisms of supply and demand. Its practice is as 'a political movement' (Montgomerie 2006: 306) charged with questions of power. More specifically, the politics of finance is perceived as 'an expression of class, a control mechanism, or even a rationality associated with late twentieth-century capitalism' (van der Zvan 2014: 102). Whilst these broader concerns are addressed in this project, for instance in the emphasis on the coalescence of the political and economic interests of political and business elites, a different set of concerns, grounded in the asymmetries of power of credit unique to Islamic banking are also addressed.

The first query regards the moral economy of debt versus credit. As many have noted, in the Anglo-US core the predominant moral narrative surrounding the

democratisation of finance has proved pernicious in its obfuscation of the unequal social relations underpinning credit. As Dodd notes, 'debt supports and is reinforced by a moral economy that is often used to justify the social, economic, and political asymmetries of power that exist between creditors and debtors' (Dodd 2014: 136). Put more simply, it avoids asking political questions about who controls credit and who has access to it and on what terms in a democratic society. Generally speaking, this is linked to the pervasive neo-liberal discourse that emphasises the 'unsustainability' of the welfare state and the responsibility of the individual to manage his way in life in a fiscally sound manner. On a more basic level, it harks back to the ascetic Protestant morality, illustrated in the parable of the talents that has become pervasive in everyday discourse. In a curious reversal of roles, the powerless and the poor, those most likely to be buried under mountains of unmanageable debt, are 'stigmatised' and condemned as individually responsible for their lax behaviour, with little attention paid to how the game is rigged against them. Conversely, creditors, once maligned as evil and subject to penalties that, according to Dante even fellow occupants of the seventh circle of hell - catamites and blasphemers - were allowed to partially avoid, are now the masters of the universe/paragons of virtue.

Special attention is dedicated to the moral discourse imbued in the construction of the Islamic banking sector and about the asymmetries of power and risk between debtors and creditors. First, such discourse assumes moral clarity by virtue of its superior ethical embeddedness in the Islamic value system. Second, it makes claims of alterity vis-à-vis the conventional system, insisting that unlike its conventional counterparts it is not constitutive of the logic of the global financial markets. Not all social scientists investigating Islamic finance delve into this issue. Maurer redirects the question to the debate about alterity within practitioner circles (Maurer 2005; 2006; 2012). Others, such as Pollard and Samers (2007), fear replicating Eurocentric knowledge.

The advocates of Islamic finance insist that its difference and advantage arises from its embeddedness in Islamic rules and mores. Unlike conventional finance, its *raison d'être* is derived from God's instructions for society, and as with any practices that are adherent to Islamic rules its results can only be just. In fact, for these advocates the sector's adherence to Islam makes it different and by default superior to the conventional.²¹ They argue that its regulation by Islam results in a technically superior system by embedding the financial system within the productive economy. They argue that by simultaneously furnishing goods and services with credit, Islamic finance prevents both the decoupling of the financial from the real economy and the execution of speculative transactions. As a result, bubbles associated with excessive credit are avoided.

On an everyday level, its advocates sustain that due to its prohibition of interest, Islamic finance alleviates the imposition of unfair risks and burdens of the debtor. Its banking products are underpinned by legal contracts that encourage mutuality of risk amongst all actors involved in the transaction. Also, due to its predilection for equity instead of debt (and thus its emphasis on the viability of the venture and not the credit-worthiness of the individual), it employs a system of equity allocation that is beneficial to entrepreneurial individuals and small and medium enterprises (SMEs) and, by extension, to the community-at-large.

However, not everyone is convinced of Islamic finance's claims of authenticity and alterity, are a constant thread in 'everyday', journalistic and scholarly discussions about the topic. Each milieu articulates its own questions, from the technical discussions about the form versus substance, *shariah*-compliant versus Islamic-based finance or *shariah*-based versus *shariah*-backed products within professional circles, to the savers and borrowers discussions about the 'purity' of the sector. There is an ambivalence directed at the turn taken by Islamic finance, in particular its accommodation of global finance. Many ordinary

²¹ Zubaida argues that the basic premise behind communal ideas that emphasise difference is based on the superiority of one's own religion and hence the inferiority of other religions (Zubaida 1993: 152–54).

Muslims, Islamic finance advocates and other observers are not pleased with the shift from its idealistic and experimental origins to its current pragmatic and corporatised form. There is a growing sense of unease amongst advocates of Islamic finance as an ethical-political project aimed at ensuring equal distribution of wealth and social justice, that they are losing ground to the more business minded pragmatists. The advocates of Islamic social justice perceive Western modernity as the ungodly 'other' to be resisted. The pragmatists, on the contrary, would agree with Wilson: 'it may be misleading, and indeed mistaken, to take the view that there is an inevitable conflict between western capitalism and an Islamic economic system and that the two represent competing alternatives' (Wilson 2004: 144). Alternatively, as one of my respondents who solicited my opinion on numerous occasions asked, 'is Islamic banking really Islamic, or is it all a scam?' Thus, since Islamic banking partly builds its ethical claim on the promotion of equity over debt, I investigate whether risk assessment is linked to the commercial viability of the venture or the creditworthiness of the individual. Chapter 5 is dedicated to the moral narrative in the construction of Islamic banking and the contrasting and comparison of theory against practice

1.7 Outline of the thesis

Chapter 2: Theorising Islamic banking

This chapter charts the intellectual methodology of this project. Despite the increasing interest in Islamic finance, there is as yet no distinct field such as the sociology or social studies of Islamic banking. The various literatures that are relevant to my line of enquiry are not usually in systematic dialogue with each other; too often they function independently. Thus, the framework incorporates theoretical tools from sociological, historical and anthropological approaches, to further the analysis of Islamic banking. This project will draw upon sociological perspectives that view economic action as constituted by social relations, as

opposed to the asocial and ahistorical individualist and utilitarian *homo economicus* of neo-classical economic theory. Economic sociology views social surroundings as being constitutive to economic action. In contrast, orthodox economic models conceive of economic action as being individualistic – detached from its social, political and cultural contexts. Consequently, orthodox economics gives rise to undersocialised conceptualisations of Islamic banking practices, focused on what is narrowly defined as demand, that cannot reflect the empirical reality of observed respondents in Kuala Lumpur, nor capture its nuance. This chapter is divided into three main sections. The first section positions the project within the broader debates of economic sociology and explains why the theoretical point of departure of this dissertation is Polanyi's notion of embeddedness – an analytical tool to explain how Islamic banking system is shaped 'from the inside' by Islamic normative frameworks. The second section turns towards the substantive aspects of Islamic banking and the theoretical tools that aid the analysis throughout this dissertation. I explain how Islamic banking is shaped by regulatory boundaries that communicate to its consumers its unique character or culture. I then go on to carve out a space for trust and confidence in this dissertation and explain their role in the growth of Islamic banking practices. In the third section I explain why, in the case of any phenomena accompanied by the adjective Islamic, a researcher has to invoke factors other than Islam. Despite post-9/11 efforts from both sides of the divide to present Islam as a culture based on a 'fixed essence working itself out through history', this project is based on the first belief that any study of social phenomena with the tag Islamic attached to it must examine how Islam as a culture, is 'intertwined with the dynamics of economy and power'. (Zubaida 2011: 6).

Chapter 3: Methodological orientations

This chapter sets out the methodological orientation of this project; it is divided into four sections. The first part explains the case site, outlining the suitability of the single case and explaining why Malaysia, particularly the urban domain of

Kuala Lumpur, was the ideal choice. The second part sets out the main characteristics of the methodological orientation of the research design. More specifically, it includes a justification for an interpretative investigation based on the grounded theory approach and the ontological perspectives that underpin the research. The third section focuses on the research techniques and methods used to extract and analyse data as well as a research biography that outlines the various steps undertaken during fieldwork in Malaysia. Critical reflections on my positioning as a researcher conclude the chapter.

Chapter 4: The preconditions of Islamic banking in Malaysia

The unique surge in Islamic banking practices cannot be isolated from the broader economic and political historical conditions that enabled this difference to emerge and become significant. Notably, these state-driven shifts shaped, and in turn were shaped by, the publics/constituencies that were potentially available to them. This chapter charts the emergence of Islamic banking through four historical vignettes. The aim is not to construct a linear history of Malaysia from the colonial to the contemporary era, but to contextualise the multidimensional categories analysed in this project: structure, agency and culture. The vignettes display the contingences that enabled the conditions for 'supply' as well as 'demand'.

The first concerns the colonial legacies of the ethnic division of labour which initiated the reification of Malay identity as fixed and eternally Muslim and instigated anxieties between the ethnic groups. The second examines the political economy of the postcolonial state. The state would initiate an affirmative policy that alleviates the Malay community out of poverty, based on an ethnic definition that would redeploy the aforementioned colonial 'knowledge'. This policy would be the basis of the social contract forged between UMNO and the Malay community. The state would protect their economic and political interests under a cultural banner and they would reciprocate with their loyalty and trust. The third vignette focuses on the

Islamisation of the state. It illustrates how the insitutionalisation of Islamic knowledge and expertise, as exemplified by the state's use of the *shariah* and ulema for its own ends is based on a legacy of bureaucratisation of Islam, spurred by the challenges raised from the Islamic opposition and movements. In the fourth vignette I suggest that political and social events, in particularly the *dakwah* Islamic revivalist movement(s) 'from below', also contribute to the salience of Islam as an expression of solidarity, identity and community amongst the Malays. Last, I explain the events leading up to the 1998-1998 financial crisis. In particular, how the state opened up the economy, restricted to the business sphere to the capital markets, and how it would invoke Islamic discourse to entice Malaysians to save and work like Protestants but consume like Catholics.

Chapter 5: The Crystallisation of the Islamic banking sector

The aim of this chapter is to establish how the states and banks have crafted Islamic banking as a 'tradition' (Hobsbawm 1983) that diverges from the original implications of the prohibition of *riba* and instead support neo-liberal practices that are part of the state's developmental strategy. The first section of the chapter includes a discussion of the core principles, drawn from sacred Islamic texts and *fiqh*, upon which Islamic banking is premised. Islamic finance is 'underpinned by a host of definitional, language and doctrinal debates' (Pollard and Samers 2007: 315) and translations' (Maurer 2005; 2012: 419). The aim in this chapter is to critically assess how components of the Islamic repertoire have been crystallised into a contemporary banking sector that through claims of Islamic distinctiveness can shape people's banking practices. Although it has been argued that Islamic banking is not about the implementation of Qur'anic prohibitions, but the debates surrounding *riba* (Maurer 2005; 2006), I contend that, on the contrary, the Islamic banking sector in Malaysia is driven by the state's attempt to frame one type of correct Islamic banking practices that are politically and economically expedient. For this reason, tracing the historical contours of the numerous controversial debates about *riba* and the concrete

endeavours that led to the creation of Islamic financial institutions, highlights the contestations surrounding the drive for efficiency, debt-based products, and standardisation versus the pressures to retain authenticity, social justice, and equity. The second half will focus on how the values and practices discussed in the first half of the chapter have institutionalised and codified the regulatory boundaries of Islamic banking. It is the Malaysia state that underwrites the Islamic banking sector. In, order to mediate questions of legitimacy, which arise from the state's dual management of conventional and Islamic finance and secular and Islamic law, *shariah* scholars are co-opted to regulate Islamic banking. *Shariah* scholars are integral to the 'shariahisation' of Islamic banking products which are submitted to a regulatory process to that of *halal* food – the first mass commodity to be produced under *shariah* regulations. Scholars filter undesirable elements and enact specific rituals and practices that create boundaries between *halal* and *haram* food – labelling one as permissible and clean and the other as forbidden and polluted (Douglas 1996).

Chapter 6: Trust, Shariah regulation and expertise

Islamic banking is unique in its reliance on formal regulation informed by religious norms and rules. The state-driven development of *shariah* regulation is central to its purported Islamic value and its position as an alternative financial sector. It is the generalised trust in the values underpinning *shariah* regulation, and the *shariah* experts who give it their 'blessing', that enables Muslim-Malay's affinity to Islamic banking. This chapter develops the analysis of *shariah* regulation and expertise by examining the relationship between generalized trust and ordinary people's Islamic banking practices. My findings, based on three ideal types that emerged during fieldwork in Kuala Lumpur, reveal that for those who perceive Islamic value, trust in the *shariah* regulation is the first condition to their choice of Islamic banking. Trust has a significant purpose: it is the 'glue' underpinning Malays' everyday Islamic banking practices. Thus, trust in *shariah* regulation and its experts is a primary embedding mechanism of everyday Islamic banking practices. I will then go on to show that the trust in

shariah regulation, depends on two main factors: trust in the workings and underlying values of the *shariah* regulatory regime, and trust in the ‘competence and cognitive intensions’ (Nooteboom 2007: 35) of the *shariah* scholars as ‘flesh-and blood’ expert intermediaries of *shariah* regulation (Giddens 1990). Last, I suggest that the flipside of religiously inspired regulation based on boundaries of *halal/haram* and pure/impure might have dysfunctional repercussions for the broader Malaysian society as the effort to maintain purity requires strategies of exclusion.

Chapter 7: Social ties, confidence in Islamic banking

This chapter is split into two main sections; the first half will focus on the relationship between social ties and Islamic banking. The discussion starts by examining the role of social ties vis-à-vis choice in modernity. In particular, how do new social forms contribute to the confidence that underpins the growth of Islamic banking practices? The second part of the chapter considers and presents the grounded theory that emerges from analysis of the data collected in the field, through three ideal types. The discussion then shifts to the characteristics of the personal social ties under discussion: family members and peers and how in encouraging the growth of Islamic banking practices they are inadvertent allies of the state and Islamic banks. Last, we examine how these strong social ties that promote confidence in *halal* consumption broadly and Islamic banking specifically, can also contribute to broader social dysfunction within Malaysian society. On one hand, close social ties function to enhance cohesion and coordination of Islamic banking practices amongst Muslim-Malays. The flipside of this outcome is that by encouraging group identity around the ideas of *halal/haram* as underpinned by *shariah* regulation discussed in the last chapter, it enforces a heightened sense of risk in the interaction with ‘others’ whose everyday practices fall outside the *halal* boundary as they are identified with impurity and ‘dirt’.

Chapter 2: Theorising Islamic banking practices

The main focus of this project is the development and growth of everyday Islamic transactional banking practices, with special attention to contemporary Malaysia. More specifically, the aim is to understand how the growth in everyday Islamic banking practices is embedded within broader, historically determined, closely intertwined, social, economic, cultural and political circumstances. These circumstances are not once-for-all givens but are themselves dynamic processes and operate both at the local as well as at the global level. This project is framed within a 'historiographical research programme'²² that views the broader social, economic, cultural and political circumstances that actors find themselves in, on the one hand, and the banking practices they participate in, on the other, as interacting elements of a socially determinate whole. Within this framework, all elements (circumstances and practices) are endogenous in relation to the whole, with the exception of external (exogenous) inputs, such as a global recession, that are not generally themselves impacted by events in any one particular national economy other than that of a global economic power. Furthermore, I suggest, that trust is the common thread underpinning the everyday banking practices within these broader interdependent processes.

In the first chapter, I positioned this project within the body of scholarly literature concerned with financialisation. I explained that this project is part of a recent shift of attention towards the effect of finance on the everyday lives of ordinary people – non-experts and non-elites. More specifically, this project follows the

²² I find Lakatos' alternative to Popperian falsificationism and Kuhn's paradigm's, namely of clusters of research programmes characterised by a core of ultimately revision-resistant theories buttressed by a wall of less revision-resistant theories, a better way of illustrating the epistemology of sociological theorising generally and the corpus of economic sociology. Economic sociology has shown itself to be more 'progressive' (Lakatos' own criterion) by extending sociology into a new domain, that of economic practices. Extending *economic* sociology into a new domain (economic practices in Islamic societies) and thus contributing to the theoretical reach of the research programme of economic sociology constitutes theoretical progress in Lakatos' terms.

lead of other scholars seeking to dedicate critical attention to the often-neglected 'consumption of credit' (Langley 2014). The shift in conceptualisation raises its own set of questions that differ from, yet complement, the ones raised by the established financialisation literature. This research agenda is characterised by a call to pay attention to 'the marketing and sale of consumer credit; the method in which debt is being repositioned as a consumption problem for institutions and individuals alike; the cultural economy of the consumption of credit' (Langley 2014: 418).

This chapter will review the theoretical approaches within the economic sociology literature and review the economic sociology theoretical frameworks and literatures that are referenced throughout the thesis in order to address the research aims. It should be noted that despite the increasing scholarly interest in Islamic Finance, there is as yet no such field as the sociology or social studies of Islamic banking. This project benefits from contributions from sociological, historical, and anthropological approaches. As Beckert suggests, the commensurability of all three disciplines means that a scholar's ability to find a common ground for the analysis can only be of benefit to the analysis of economic phenomena (2007: 15). The literatures that are relevant to my line of enquiry are not usually in systematic dialogue with each other; too often they function independently. Whenever it was deemed relevant, an effort was made to extract elements from various theoretically disparate sources and integrate them into my theoretical framework. This analytical framework led to the formulation of questions that were not directly given by the literature

2.1 Economic Sociology's toolbox and Islamic Banking

This chapter is divided into three main sections. The first section positions the project within the broader debates of economic sociology and explains why the theoretical point of departure of this dissertation is Polanyi's notion of embeddedness. His fundamental insistence that economic practice is

embedded in social institutions and that the defining distinction between different types of economies lies in *how* economic practices are socially embedded, is a powerful conceptual tool to explain how the Islamic banking system is shaped 'from the inside' by Islamic normative frameworks. On the other hand, I have heeded Granovetter's warning not to swing excessively away from the undersocialised neo-classical paradigm of economic practice thereby totally rejecting the role of rational choice. Although Muslim-Malays, in Granovetter's own words, 'do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them'; it is rather that their "attempts at purposive action are instead embedded in concrete, ongoing systems of social relations" (1985:487). I would, however, add that the very notion of what is a rational choice is itself not independent from the historically determined social and cultural context.

The second section turns towards the substantive aspects of Islamic banking and the theoretical tools that aid the analysis throughout this dissertation. I explain how Islamic banking is shaped by regulatory boundaries that communicate to its consumers its unique character or culture. I then go on to look at the role of trust and confidence in the development and growth of Islamic banking practices. In the third section, I explain why in the case of any phenomena accompanied by the adjective 'Islamic', a researcher has to invoke factors other than Islam. Despite post-9/11 efforts from both sides of the ideological divide to present Islam as a culture based on a 'fixed essence working itself out through history', this project is based on the belief that any study of social phenomena with the tag Islamic attached to it must examine how Islam as a culture, is 'intertwined with the dynamics of economy and power' (Zubaida 2011: 6).

2.2 Economic Sociology, consumption and culture

In the previous chapter, I explained that the consumption of credit has been neglected by social scientists. This inattention towards the role of consumption reflects the division of labour that has characterised economic sociology. 'There is a division of labour between students of culture and specialists of economic processes' (Zelizer 2001: 332), which since the interplay between culture and the economy is often studied vis-à-vis consumption, is further compounded by the neglect of consumption by economic sociologists. Reviewing the disregard towards consumption by economic sociologists, Zelizer remonstrates with the editors of economic sociology's most prominent reader *The Sociology of Economic Life* (2001) for paying scant attention to consumption. This blindspot is regrettable as 'in fact, all consumption (like all economic life) builds on culture in the sense of shared understandings and their representations. The secret to understanding consumption lies in careful observation of how culture, social relations, and economic processes interact' (Zelizer 2001: 332). In fact, as we shall discover, money and credit, particularly the consumption of Islamic credit through mass banking products is the perfect vehicle for observing how these forces interact. But first we will discuss why it is only through economic sociology that we can begin to capture the rich complexity of Islamic banking practices.

2.3 The limitations of orthodox economics

My use of the conceptual tool-box offered by economic sociology is based on the premise that orthodox economics²³ is theoretically inadequate as means

²³ What is considered mainstream, i.e. orthodox, in economics includes more than neo-classical paradigms. In fact, nowadays the mainstream includes strands of many economic schools, one of which is the neo-classical, that are not based on neo-classical assumptions. Nevertheless, it is the case that most of these schools are not reflected in undergraduate teaching of economics (Becker 2004), famously referred to as 'Econ 101' (principles of macro economics). For this reason, for the purposes of this dissertation, orthodox is used as shorthand for neo-classical.

towards a satisfactory understanding of the development and growth of Islamic banking practices and that conversely, 'sociology over the years has developed a series of theories and techniques that are well suited to the study of economics' (Swedberg et al.1990: 57).

Orthodox economics and economic sociology are based on fundamentally oppositional world-views of economic phenomena. The use and growth of Islamic banking products cannot be meaningfully explained by neo-classical economics as their models are based on unquestioned assumptions that are often problematic to sociologists. According to the orthodox economic paradigm, economic behaviour is asocial, ahistorical, individualistically utilitarian. For economic sociologists, these are models that do not stand up to empirical scrutiny. In fact, as I shall suggest in this thesis, Islamic banking practices are constitutive of contemporary cultural values that are mediated through the trust and confidence enabled by personal relations and the Malaysian state. In effect, the consumption of Islamic credit is not the result of spontaneous individualistic utility maximisation. It is a site, cause, and symbol of changes in Malaysian society and political economy. Therefore, orthodox economic models cannot interpret the empirical reality as narrated by Muslim-Malay respondents in Kuala Lumpur, nor capture its nuance.

Take for instance the conventional wisdom on money. It dictates that it has three functions: money is a means of exchange, a store of value, and a unit of account (Stiglitz 1993: 880–83). This wisdom is based on Menger's barter theory of money's origins (1982) which emphasises that money's origins are 'to be found in the market, not the polity' (Dodd 2014: 19). Quite simply, money overcomes the 'double wants' problem that is caused by the limitations of barter by enabling multilateral exchange. Money emerged as people's economic actions spontaneously sought the most stable and re-saleable commodity. Therefore, the orthodox position is that money emerged as a result of people realising their self-interested drive. The market spontaneously produced a 'transactions-cost-efficient medium of exchange that becomes the standard of

value and numerical money of account' (Ingham 2004: 24). Similarly, orthodox economics approaches consumption through an analogous lens. The 'social-use value' (Marx 1990)²⁴ or subjective meaning of the commodity, is solved through utility maximisation at the time of consumption. Ethical investments are treated as a personal choice alongside others, one which can be satisfied 'simply by purchasing products that are marked as ethical' (Aldridge 1998: 15). Similar money, consumption is viewed as autonomous of historical legacies, future repercussions or the behaviour of others.

Orthodox economic paradigms are inherently flawed since they 'deliberately avoid asking the right questions' (Hirsch et al. 1990: 47) because they are bereft of the appropriate analytical tools that are capable of 'unpacking' the social factors that can explain Islamic banking practices. This is evidenced in orthodox economists' attempts to account for the 'Islamic tag' of Islamic banking practices. The explicitly cultural vocabulary of Islamic banking poses a problem. As a result of its explicit expression of its substantive values, they can intuitively discern the Islamic value of the banking products and cannot deny its cultural distinction. Yet, 'unpacking' its meaning remains an impossible task. A review of research (see chapter 3 for a detailed discussion) based on neo-classical economic assumptions as well as my own interviews with practitioners reveals how 'variables' that cannot be deconstructed are swept under the carpet as exogenous or simply 'reified as an assumed and unquestioned practice' that is customary to Muslims (Hirsch et al. 1990).

Therefore, when orthodox economists adjust the model to account for Islamic preference, individual rational maximisation is nevertheless maintained. By their account, Islamic preference is not linked to Malaysia's colonial legacy of institutionalising Islam as the main symbol of the Malaysian ethnies. They also cannot account for the signalling of confidence through sociality, which promotes the use of Islamic banking amongst family and friends. Last, despite

²⁴ See Section 1: *The Measure of Values* of Chapter 3: *Money, or The Circulation of Commodities*, of Marx's *Capital*, Volume 1

the evidence, their assumption of dualism between state and markets cannot account for the market's embeddedness in the state through *shariah* regulation and expertise. The idea that western modern markets are autonomous 'is a utopian fantasy on the part of market liberals' (Krippner and Alvarez 2007: 229). All goods 'must not only fulfil a need but must also find legitimation as being tradable in market terms' (Aspers and Beckert 2011: 7) that depend on political exigencies as much as shared values of consumers. Although Islamic credit-money is 'dematerialised', and does not literally have the mark of the government on its 'head', as I explain in Chapter 5, it is still marked by its culture or durable qualities of 'character' (Hart 2000: 233–48), assigned to it by the Malaysian state.

In conclusion, the messy relationship between culture, i.e. Islam, as mediated through social and political forces, and Islamic banking practices that is outlined in this project cannot fit a parsimonious model that views historically determined, social, economic, cultural and political circumstances as exogenous. Orthodox economic theory glosses over social factors that constitute consumer choice in favour of models that might or might not explain the reality on the ground. On the contrary, 'sociologists (having minimal assumption to begin with) must investigate, empirically, the nature of preferences, values, behaviour, and motivation' (Hirsch et al. 1990: 45). In the next section, I will 'unpack' the toolbox of economic sociology and start by explaining why the theoretical point of departure is the concept of embeddedness.

2.4 Embeddedness

Orthodox Economics' domination of the study of all economic phenomena in modern market societies can be traced back to a historical paradigm shift. Classical economic sociology, as expounded by social theorists such as Durkheim and Weber as well as Marx, was characterised by an analysis on the

role of economy in society from an angle that was markedly different to that of economists, especially in its focus on the socio-political consequences of capitalism (Swedberg 2003: 6).²⁵ Whilst historical and social approaches were accepted as appropriate for the study of markets, for instance by political economists, sociology's concern with the market remained legitimate.

The resolution of the *Methodenstreit* in Germany and Austria delegitimated the market as an object of historic-sociological investigation. Henceforth the market was exclusively conceptualised as an abstract, universal principle and not as a product of social life, culture and politics (Swedberg 2003: 105--12).

Possibly to prevent further imperialist encroachment on an already ailing discipline, this division was also later given the blessing of sociologists. Both parties arrived to an implicit agreement that economists would claim the economy and sociologists would be satisfied with studying the social relations in which economies are embedded. Parsons sealed a pact that shaped a rarely transgressed heuristic divide, 'value on the economists' side, values on the sociological side' (Stark 2000: 2; Krippner and Alvarez 2007: 222). It was Granovetter's seminal paper *Economic Action and Social Structure: The Problem of Embeddedness* (1985) that broke this stalemate and encouraged sociologists to cover previously inaccessible territory.²⁶ He broke new ground by designing a paradigm which transcended the bifurcated debate on economic behaviour. He consolidated a critique of both the substantivists' oversocialisation claims and the formalist and mainstream economics' atomised utilitarianism,²⁷ and developed a revised notion of embeddedness. He re-

²⁵ The most important classical texts in this regard include Durkheim's *The Division of Labour in Society* (1893), Simmel's *The philosophy of Money* (1950), Weber's *Economy and Society* (written between 1908 and 1920), *Democracy in America* (1835-40) and *The Old Regime and the French Revolution* (1856) by de Tocqueville. See Swedberg (2003: 5-7)

²⁶ According to David Stark (For a Sociology of Worth October 2000), it was Harrison White's (1976), argument that markets are not simply embedded in social relations, but they are social relations, which first turned the table on the pact.

²⁷ The substantivist and formalist debate was a pivotal dispute that had its roots in an intradisciplinary debate within economic anthropology. The former focused on the social institutions as primary organisers of the economy, whilst the latter camp argued for the universal validity of the neo-classical model. The formalists were criticised for assuming that 'economising' behaviour was universal and the substantivists were criticised for assuming that non-maximising behaviour occurred only in pre-modern societies, and for essentialising and romanticising pre-modern economies. For instance, there is evidence that pre-market

introduced the idea that in modern economies, society and culture are integral to economic behaviour.

Granovetter, forged a new analytical trajectory in which debates about the role of social life in economic processes were no longer marked by the aforementioned bifurcation. There is general consensus that although there is no single paradigm underpinning economic sociology, the idea “‘that there exist complicated links between an economic actor and other actors as well as the social environment in general is something that all strands of economic sociology can agree on’ (Swedberg et al. 1990). The notion of embeddedness has come a long way since Polanyi’s introduced it as a broadly defined social anchoring of the economy, in his *The Great Transformation* (2001),²⁸¹.

Following its resurrection in a less one-sided incarnation as a golden mean between undersocialised and oversocialised concepts of economic practices in Granovetter’s above mentioned paper of 1985, the term has tended to become a cliché, becoming surrounded by ambiguity and confusion (Block 2003; Krippner et al. 2004; Beckert 2007; Krippner and Alvarez 2007). In a broader sense, Granovetter followed Polanyi by rejecting the instrumental depiction of the market and advocating the view that in modern economies, society and culture are also integral to economic behaviour. Both camps critique the assumption that the market is self-regulating or that social structure is exogenous to the market, but each intellectual project incorporates significant analytical differences.

The difference between the Granovetter’s and Polanyi’s concepts of embeddedness is often thought to be linked to the fact that each one is

economies also subjected certain groups such as women and ethnic minorities to exploitation and the rules were often subjected to systemic controls that reflected the values or the ruling elite (Hefner 1998: 8–12). Both parties arrived to an implicit agreement that economists would claim the economy and sociologists would be satisfied with studying the social relations in which economies are embedded.

²⁸ Polanyi himself did not use the term frequently and often used synonyms such as ‘intermeshed’. Nevertheless, what remained crucial were the theoretical implications rather than the word itself (Block 2003; Beckert 2007a; Krippner and Alvarez 2007).

concerned with different levels of the economy, Granovetter: micro and meso, Polanyi: macro (Beckert 2007a; Krippner and Alvarez 2007), but in actuality the differences are more profound. A succinct way of summing up the differences is that: 'Granovetter's notion of embeddedness is based on network embeddedness and Polanyi's could be defined as political economy embeddedness' (Mignione 2006: 234). Indeed, the former is concerned with developing a theory based on relational bases or networks of social action in the economy, and the latter is concerned with how the economy is enmeshed in the broader social systems. This points to a divergent conception of relationships between the social and economic. Network theory sees social relationships as shaping economic outcomes from the outside, whilst in the political economic sense of embeddedness the economy is anchored in social, cultural and political institutions, causing social and economic relations to be viewed as mutually constitutive (Krippner and Alvarez 2007).

In addition, embeddedness for the Granovetter camp represents different types of networks between different entities, whether individuals, firms, organisations or governments and whilst rejecting *homo economicus*, is compatible with rational choice theory. Self-interest is seen as variable, being informed by social relations and depending on social relational bases, often neglecting the political or cultural institutions. For Polanyi, people's market orientation is historicised and not considered universal, and embeddedness refers to the market's dependence on institutions (Block 2003; Beckert 2007a; Krippner and Alvarez 2007). In order to counter the most common complaint made against the use of its embeddedness, namely its 'theoretical vagueness', (Krippner and Alvarez 2007: 220),²⁹ I define it as 'the integration of the economy into broader social systems' (Krippner and Alvarez 2007: 222). This means that following the Polanyian tradition, instead of viewing the market as an epiphenomenon that

²⁹ Even Granovetter has disowned the use of the term, whilst maintaining the agenda associated with his 1985 resurgence of the term (Krippner and Alvarez 2007: 220). During an open conversation at a Polanyi Symposium, Granovetter said 'I rarely use embeddedness anymore, because it has become almost meaningless, stretched to mean almost nothing, so that it therefore means nothing' (Krippner et al. 2004: 113).

references itself, developments in the markets must be recontextualised within particular normative frameworks. It is a 'categorical instrument' (Beckert 2007a) that describes 'the connections between economic activity and the social, the political, the institutional, the historical, the cultural elements that economic activity mixes up with' (Granovetter cited in Krippner et al. 2004: 133). For the reasons outlined above, the Polanyian perspective allows for a broader approach towards embeddedness by looking at different types of embeddedness and their mutual interdependencies, that are enmeshed in politics, culture and ideology (Beckert 2007a; Krippner and Alvarez 2007). Having said this, I accept Granovetter's warning against an oversocialised concept of embeddedness whereby individuals are merely actors following a practically predetermined script.

2.5 Embedding Islamic banking

Money exhibits a fluidity and malleability that circumvents any attempts to 'fix it' theoretically or practically (Dodd 2014). As Hart explains, 'money is not one static thing or idea' (Hart 2001: 233). The absence of theoretical or empirical fixity leads many to use statements on money's function, that it is a medium of exchange, a unit of account, a store of value, as a statement on the nature of money. In doing so, they exclude its defining feature: its social life.

There is no agreement amongst sociologists as to what money is. Not surprisingly therefore, there are competing sociological theories of money (Dodd 1994; 2014; Hart 2001; Zelizer 1994). Many confuse money's function as a statement on the nature of money. Besides its ordinary economic functions, money is a symbol that conveys social information (Hart 2000: 17) and social meaning (Zelizer 1994). Classical sociological conceptualisations of money stripped it of its human imprint (Dodd 2014; Zelizer 1997; Hart 2001; Carruthers 2005). Marx, Simmel and, later, Polanyi's pessimism, echoed Jesus's distaste

of money during the 'Cleansing of Temple'.³⁰ As Dodd points out, their view of money was 'malevolent... alien and alienating force that ... corrupts social relations' (Dodd 2014: 273) and strips money of its social imprint. The negative attitude towards money was partly coloured by its quantifying ability, which seems able to overcome and erode cultural and social barriers.

However, as contemporary sociologists suggest, people have never lost the ability to counter money's allegedly unlimited ability to flatten and abstract society and 'in demonising money, they come close to endowing the institution with an evil power all of its own' (Hart 2005). As a more recent body of research suggests, 'the use of money is highly uneven and differentiated. The perfect fungibility that modern money possesses in principle becomes in practice domesticated and restrained' (Carruthers 2005). For instance, Zelizer's work (1978; 1985; 1994; 2005; 2010), which demonstrates money's multiple characters and diversity, runs counter to claims that market-money flattens social relations through its impersonal, abstract, neutral and homogenous nature. Her empirical research suggests that people's cultural values restrain money through social processes from within. People earmark it, restrict its unseemly origins and allocation, demonstrating that market-money is just as embedded in its social surroundings as pre-modern money.

In *The Great Transformation: The Political and Economic Origins of Our Time* (2001: 79-80 & 136-139), Polanyi also identified processes, albeit macro and from 'outside', through which society will resist and restrain attempts to break society's social interdependence. He described how, similar to the movements of an oscillating pendulum, the economic policy would swing back from the extremes of a market-driven swing to a second civil society-driven reverse swing. This 'double movement' would keep tensions in check by restricting the market through an anchoring in its socio-political surroundings. More to the point, what matters for our discussion is that for Polanyi, despite the violence of

³⁰ This parable illustrates one of the most renowned moral lessons on money and Christianity's (original) distaste of money. In a show of force and anger, Jesus and his disciples accuse the moneylenders of turning God's house into a den for thieves, before violently ejecting them from the temple.

market-money's swing, it can never be completely disembedded.³¹ What all these perspectives have in common is the belief that ultimately, each society will be able to shape money through its own socio-political restrictions. What they don't emphasise though, is that these restrictions can be co-opted by market forces to further promote its interests. As I shall explain in the next section, in an interesting twist, it is the *shariah*-based boundaries, earmarking it as Islamic, that make Islamic banking an attractive commodity to Muslim-Malay consumers. The construction of boundaries, earmarking its provenance or restricting its use, particularly explicit in Islamic banking, shows how money, even in its most invisible forms such as credit, is constituted by social and political relations and culture attitudes and values.

2.6 The unique cultural character of Islamic banking

Culture's shared and public aspect makes it one of the most powerful means to imprint what Hart (2001) calls 'character' on money. 'Culture is a strong way to standardise values in a community and it is impossible for anyone not to receive this influence' (Douglas 1996: 40).³² In particular, these restrictions are useful in times of crisis when society's established sense of order starts fraying at the seams. Boundaries that separate impure from pure, clean from polluted (or, in our case, *halal* from *haram*) can provide moral clarity in a situation characterised by confusion, by making sense of order and providing a source of recourse (Douglas 1996: 134). The 1997-1998 financial crisis, which created 'intense mass-level mistrust' (Case 2005: 96) was one of the catalysts of the

³¹ As mentioned earlier, intense debates surround his works. This ambiguity was partly due to his later works being at odds with *The Great Transformation* by suggesting that modern money is disembedded from its social surroundings and could be accounted for by orthodox economic views. In Polanyi (1968), he would distinguish between earlier non-market special purpose money and later market general purpose money.

³² Although Polanyi rejected classification as a Weberian, he drew great inspiration from Weber's work. Although Polanyi was the first to coin the term 'embeddedness', it encapsulates an approach that is compatible with the perspectives of classical economic sociologists like Weber (1978), in his analysis of the economy vis-à-vis its social surroundings including culture, institutions, and other economic actors (Mingione 2006; Dale 2011).

spread of Islamic banking practices. A crisis can create a space for new practices to emerge. Organised meaning systems can enable new 'strategies of action' (Hays 2000: 278) that re-organise taken for granted habits and common sense. As I shall go on to illustrate in Chapters 5 and 7, Islam, through the boundaries of *shariah* regulation, provided a means to make sense of the violence inflicted on society and a way for the social and political to reconcile with the financial market.

The ability of culture, as shared ideas, values and beliefs, to mediate and resist the hegemony of markets and money is well established - it is a force driving Polanyi's double movement. Less commonplace is the study of how culture can be of instrumental use from 'above' to capitalise and give direction to, favourable extant cultural conditions from below. The state and banks assembled an Islamic 'cultural tool-kit' based on Islam's boundaries with the aim of exploiting the salience of these shared values amongst the public, which values had gained prominence after the crisis, and thus create the impetus for demand. 'In fact, the theoretical misstep of separating "structure" and "culture" is one of the principal conceptual problems that keeps sociologists from recognizing the power and centrality of culture' (Hays 2000: 597)) The structure/culture dichotomy neglects the messiness of culture and the possibility of a shared culture from below and from above.

In discussions about culture and the economy, the focus is often on how ordinary people give meaning to their economic practices. As I explained earlier, contemporary research has rectified this perception by illustrating the various methods in which culture constitutes money. However, most of the examples tend to showcase how culture constitutes money 'from below' through the actions of ordinary people, especially those excluded from consumer society. As Hays (2000: 598) argues, culture is valorised as a means to 'resistance to hegemony'. She notes that this approach ignores the power of culture and how it can be used as a means of co-optation and not always as a

means of resistance and nonconformity.³³ We often tend to expect money to be marked from below as a form of resistance. Here I will discuss how the cultural marking found in Islamic banking originates from above. Certainly, this does not imply that people accept these markings with no reservations. As I shall go on to argue throughout the rest of the dissertation, the three ideal types: the virtuoso, pragmatist and sceptic, represent the predominant ways in which people negotiate these boundaries. These symbolic boundaries are potentially imbued with multivariate meanings contingent to how Islamic banking consumers fully accept, partially contest, ambiguously consent or reject its cultural significance.

The point is to shed light on how the standardisation of culture through boundaries can be used as a tool to capitalise on shared values and create a financial niche. As Weber famously said ‘it is interests (material and ideal) and not ideas which have directly governed the actions of human beings. But the “worldviews” that have been created by ideas have very often, like switches, directed the lines on which the dynamics of interests have propelled behaviour’ (2003:69).

2.7 Consuming Islamic banking products

The cultural character of Islamic banking facilitate its commodification and consumption. Although Islamic banking is no more nor less embedded than the conventional, its anchoring in social surroundings becomes even more visible due to its demarcation at the production and supply point: Islamic banks. The boundaries constituting Islamic banking are somewhat unusual because they are explicitly articulated and promoted as a ‘selling point’. Second, unlike most of the boundaries that economic sociologists usually research, these were

³³ These glib assumptions were often made during discussions about my research. Due to the obvious cultural marking of Islamic banking, some assume that somehow it is a manifestation of the subaltern.

constructed from the 'top-down' and not 'bottom-up'. Third, the commodification of Islamic banking is based on the *shariah* boundaries. It serves as a means to create social-use value and communicate it to consumers.

According to Marx, a commodity is 'an external object, a thing which through its qualities satisfies human needs of whatever kind' (Marx, *Capital* 1990:125) and is then exchanged for something else. When Marx speaks of commodities, he is particularly concerned with the 'physical properties of the commodity' (Marx 1990:126), which he associates closely with the use-value of an object. However, use-value does not automatically lead to a commodity: 'He who satisfies his own need with the product of his own labour admittedly creates use-values, but not commodities. This does not mean that credit is only defined by its use value. Indeed, in order to produce the latter, he must not only produce use-values, but use-values for others, social use-values' (Marx 1990:131). Commodities, therefore, 'possess a double form, i.e. natural form and value form' (Marx 1990:138). It fundamentally remains a social relation whilst also reinventing itself in different states based on different conditions of existence,³⁴ which in this case is credit that is distinctly Islamic.

In addition, for credit to be commoditised/commodified for mass retail consumption, it has to be 'common, saleable and widely exchangeable' (Kopytoff 1986: 69). Commoditized credit's unique quality, fast conversion from one state to another, makes it the 'perfect' commodity 'exchangeable with anything and everything else' (Kopytoff 1986: 69). The differentiation and branding based on the symbolic Islamic social-use value is communicated by the Arabic names of banking products, images and terminology such as *sukuk* (bonds) *takaful* (insurance) *hibah* (literally, a gift, used to describe interest payment); the names of banks such as Bank *Muamalat* (which literally means transaction as in life transactions according to Islamic norms), CIMB/Hong

³⁴ Including, but not restricted to,: gold, silver and other metals, food, tokens, credit cards, commodity money, cheques (Ingham 1996: 526; Dodd 2014).

Leong Islamic, HSBC *Amanah* (the trust or upholding of trust); the state-endorsed *halal* logo found in banks and brochures. The commodification/commoditisation process of Islamic banking products – understood as ‘branding....de-differentiation...the setting of fixed terms which are paid for through regular payments....and legal guarantees’ (Aldridge 1998: 12-14) – is detailed in Chapter 5. In the next section, I will discuss in further detail the social function and significance of boundaries that constitute the character of Islamic banking.

2.8 Constructing regulatory boundaries

The boundaries constituting Islamic credit unfold along restrictions that are similar to other *halal* commodities and ethical finance. Islamic banking is riddled with complexities that are unique to its financial character and specific to debates about money and finance. A debate about Islamic banking cannot ignore its linkages to *halal* industries, particularly food (as I go on to explain in greater detail in Chapter 4). There is a strong institutional link between the expansion and growth of the *halal* industries and the growth and proliferation of Islamic banking, which also emerged from the data collected during fieldwork. As I shall go on to discuss in further detail in Chapter 5, Islamic banking is regulated, marketed and presented similarly to other *halal* commodities. *Halal* food is intermediated by the state through *shariah* regulation and expertise.

Regulation is based on a process of boundary creation used by Islamic banks and is very similar to those employed by other forms of ethical finance and other *halal* industries, particularly food. Ethical finance includes a diverse array of financial sectors, with each sector setting its own unique ethical criteria or set of agreed references (Lamont 2012). Despite their diversity in standards, they share various aspects that are of mutual interest. Ethical financial products mainly rely on negative screening techniques to eliminate ethically undesirable elements; are concerned with risks and returns; place funds in firms with similar

characteristics (Wilson 1997). Food is another classic and common site of boundary marking (see Douglas 1996; Fischer 2008). But, these boundaries are also prevalent in modern everyday life. There are myriads of commodities that leverage their higher worth purely based on a production process according to declared moral, ethical or political values that resonate with the consumer. Food that is grown locally or nationally, organically, according to religious standards (*kosher*, *halal*, vegan, vegetarian), or under fair labour conditions (fair trade)³⁵ is one of the most commonplace examples. By their very nature, 'symbolic boundaries are the lines that include and define some people, groups and things while excluding others' (Epstein 1992: 232). These distinctions are expressed through rituals based on interdictions for example taboos like *halal* and *kosher*, vaguely defined cultural attitudes or even institutionalized through cultural orders (Lamont and Molnar 2002).

As I shall suggest in Chapter 5, the prohibition of *riba* can be interpreted as a taboo (mortals daring to do what is a divine privilege). Just like money, its production is based on a social process that involves others who are unknown and thus increases the risk of becoming tainted and polluted at any stage. What Douglas says about food also applies to money: 'One cannot share the food prepared by people without sharing in their nature' (Douglas 1996: 127). When people are suspicious or perceive risk in the nature of others, they employ boundaries to define what is pure/impure; permissible and forbidden as demanded by the binary of *halal* and *haram*. In this respect, *shariah* is a modern way of standardising symbolic boundaries based on a widely accepted moral order. It is this wide acceptance, the mechanisms of which are described in the next section, which makes them effective. The main function of symbolic

³⁵ There is no doubt that in countries where there is a history of a food culture, including countries such as France and Italy, for many locals certain products that are produced in their country are of a higher worth than for an identical product that is produced elsewhere. In addition certain labels are legally protected and also considered of higher value internationally. Some examples include *denominazione d'origine controllata* (DOC), its French equivalent, *Appellation d'Origine Contrôlée* (AOC) or *terroir* – a geo-cultural definition that denotes a unique way in which people of the area harvest produce from a specific area which is known for its geological, hydrological, soil and climate characteristics.

boundaries is to divide people into different groups and create the social solidarity that results from membership in the group (Epstein 1992; Lamont and Molnar 2002).

Whilst boundaries can be functional in allowing people to counter uncertainty, increase intra-group solidarity and trust, and make a moral 'marking' on their economic life, boundaries can also be dysfunctional. By their very nature, boundaries divide. Whoever is not within the realm of the permissible and the pure is the other in the forbidden and 'pollution' (Douglas 1996) or 'dirt' (Hacking 2003). In this context, symbolic pollution or dirt, concepts that I will use in Chapters 6 and 7, refers to anything that 'transmits danger by contact' according to pre-defined symbolic demarcations found in society (Douglas 1996: 99). The concepts of social pollution and dirt are especially salient as they coincide with the Islamic metaphysical concept *najis*. Although in essence, in 'Sunni Islam no human being is unclean', scholars refer to substances and things that are fundamentally impure such as excrement, urine, vomit, carrion, dogs, pig and semen' (Guvain 2005 :342), as I discovered during fieldwork, the anxiety of coming into contact with these impurities spurs people to engage in collective rituals of exclusion from others who fall within these boundaries.

As I explain in Chapter 4, the state's essentialisation of Malay identity as Muslim is performative, and thus as we shall discover in Chapters 6 and 7, in Malaysia, the boundaries set by the *shariah* take a particularly pronounced position in relation to ethnic divisions. As I explain in Chapter 4, the colonial legacies of the ethnicisation of work – only the Chinese were able to participate in the local economy – became a source of anxiety during the decolonisation process. These tensions underpinned the pro-Malay affirmative action in postcolonial Malaysia, based on religious boundaries as ethnic identifiers that were created by the colonial authorities. As a result, the symbolic boundaries are institutionalised and have become social boundaries (Lamont and Molnar 2002: 168) that denote Malay privilege and domination vis-à-vis the other ethnic groups. This division is exacerbated by a contemporary politics in Malaysia that

is still characterised by a political discourse of anxiety that emphasises the risks of transgressing these ethnic boundaries. The expansion of these boundaries across various social realms, like food and banking, serves to further entrench these boundaries and contribute to the fragmentation of Malaysian society.

2.9 Trust and Islamic banking

In the previous section we discussed how boundaries communicate familiar value and enhance intra-group solidarity. However the social nature of boundaries directs our attention to the social mechanisms and processes that enable this functionality. The lack of coercion in the adoption of these boundaries and the ensuing use of Islamic banking suggest that they are subject to acceptance and trust of people in their credibility and legitimacy. This section seeks to understand how boundaries operate by delving into aspects of trust and expertise.

‘Trust’ is an elastic concept that has been stretched and manipulated across a number of disciplines. The flimsiness of trust is heightened by the extensive scholarship on the topic, which includes various diverging definitions of the concept³⁶ and confusion with its everyday use.³⁷ Moreover, the notion of trust is often used in a self-referential way. CIA agent Pyle, the antihero of Graham Greene’s story *The Quiet American*, unwittingly emphasises the danger of referring to trust in a self-referential way when he declares: ‘a man becomes trustworthy when you trust him’ (1955: 84). Therefore, instead of embarking on a Sisyphean task, I will carve out a space for the concept in this project and explain which research questions can only be answered in reference to it.

³⁶ It is widely recognized, within and outside sociology, that in modern economies trust, and its close relative confidence, ‘carry ‘economic value’. For instance, Putnam (1995) even goes as far as to state that desirable economic and political outcomes are preconditioned by a satisfactory level of generalised trust (and its outcome: social capital) in society.

³⁷ Popular sayings include, ‘the circle of trust’, ‘trust is a two-way street’ and ‘trust is a gamble’.

Although there is no working definition or sole paradigm for trust (Swedberg 2012; Mitzal 2006), the discussion of trust in modern and contemporary sociology tends to be split into two currents: the interactionist school (why and how individuals trust each other) and the functionalist (how trust keeps society together). These two currents are often fused into a single position, as two poles of a 'dialectical relationship'. This division is emphasised in most theories of trust. For instance, Luhmann (1979) suggests that trust is a solution to complexity found in systems. Simmel teases out the difference between 'metaphysical an existential trust' (Lewis and Weigert 1985). The former is the faith in the faith of man, whilst the latter is faith in others we interact with - trust happens through reciprocal association. Giddens (1990), influenced by Simmel's work on trust, also distinguishes between generalised trust and personalised trust. Simply summed up, the former deals with micro and individual action – personalised trust found in personal encounters. Personal trust and its relevance to Islamic banking will be discussed in further detail in the next section. The latter, which we will be focusing on here, is concerned with the macro function of trust – predominantly the functioning of society and systems. The dynamics of this type of trust can be summed up as the following:

'The purposive actions of individual actors deciding to place or withdraw trust or to break or keep trust; the micro-to-macro transition through which these actions combine to bring about behaviour of the system; and the macro-to-micro transition through which some state of the system modifies decisions of the individual actors to place trust and be trustworthy' (Coleman 1990: 175).

2.10 Trust, modernity and Islamic banking

Modern society is characterised by the prevalence of trust. The inextricability of trust and modern society is best summed-up by Simmel, who said that 'Without the general trust that people have in each other, society itself would disintegrate' (2005: 177–178). This generalised trust is more complex than

personalised trust between different actors. It denotes trust in a system that operates independently from the relationship between two individuals and carries a generalised meaning accepted by society (Giddens 1990; Simmel 2005).

Credit functions on the premise of such a system of trust as people expect others to pay their debts not on the basis of a personal relationship but due to the 'impersonal trust' underlying the transaction (Ingham 1996: 524). Simmel, from whom Ingham takes cue, describes the process as, 'the pivotal point in the interaction of the two parties recedes from the direct line of contact between them, and moves to the relationship which each of them, through his interest in money, has with the economic community that accepts money ... This is the core of truth in the theory that money is only a claim upon society' (Simmel 2005: 176). According to Dodd (2014: 4), this statement captures 'the sense in which the monetary system must be underpinned by *trust*, not merely between particular individuals, but also across society as a whole'.

For Giddens, generalised trust in institutions became a fundamental feature of modernity as a consequence of the increasing complexity of society as 'trust relations are basic to the extended time-space distancing' (Giddens 1990: 87). In a model that runs parallel to that of Giddens, Beck (1992) describes the replacement of '*traditional* ties and social forms (social class, nuclear family)' that would have formed the basis of social action in pre-modern times, by 'secondary agencies and institutions' (1992: 131). Modern society is characterised by institutions grounded on abstract principles that are not within the realm of laypeople.

To grapple with the complexity of modernity, people must rely on experts possessing this technical knowledge. Besides their trust in institutions and expertise, another outcome of modernity is people's shedding of their reliance on traditional, coordinated and integrated social frameworks, recasting their existence as highly individualised and reflexive. Whilst this shift creates space

for trust, reflexivity and individual choice, it also produce uncertainty and risk. In this study, Giddens' comprehensive definition serves as a useful starting point to explore relevant conceptual perspectives.

Trust may be defined as confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence express a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge) (Giddens 1990: 34).

This definition is relevant to the analysis of trust in laypeople's everyday use of Islamic banking for the following reasons. First, it is in impersonality, the absence of direct encounter with people, that the trust discussed in this chapter must be understood (Giddens 1990; Beck 1992; Layder 2006). Although it is hard to conceptualise a trust that is bereft of a physical presence, as people's confidence in *shariah* regulation shows, it would be wrong to assume that the lack of human connection makes these ties weak (Layder 2006). Islamic banking is a contemporary phenomenon that is underpinned by *shariah* regulation – an institution that is thoroughly the product of modernity, combining customs as invented traditions and formalising them into a legal body (see Chapter 5).

Second, this 'faceless commitment' is contingent on faith in the 'truth' of the epistemological foundations of the institution (Giddens 1990: 88). People's trust in *shariah* regulation encompasses more than positive expectations of its operations. Their trust is tied to the technical knowledge that underpins the *shariah* value of Islamic banking: the principles of *shariah* law as interpreted by experts. The shift from 'total' reliance on structuration phenomena and dependence on reflexive modern institutions requires a reliance on experts that can mediate our ignorance of the technical workings of these systems (Giddens 1990: 83). Third, it is important to draw our attention to faith, a term that some believe to denote the 'unique explanatory power of trust' (Giddens 1990; Mollering 2001; 2006: 105–10; Simmel 2005). The presence of faith denotes

what Simmel (2005: 178) calls ‘an additional element which is hard to describe’. As Giddens points out, ‘trust is only demanded where there is ignorance’ (Giddens 1990: 89). The existence of full knowledge would eliminate the need for trust because there would be no unknowns. However, incomplete knowledge flags up the risk of failure and the possibility that expectations are not met. People do not know whether the Islamic difference will pay dividends in the afterlife. Nor do they know whether during times of crises, the promise of Islamic banking products as low-risk financial instruments will hold. As typically happens when trust is bestowed, they have to believe that in the future, their expectations will be rewarded. This process is facilitated by a reflexive self-monitoring of behaviour which, although it is not unique to modernity, takes on a different meaning in post-traditional societies. The difference lies specifically in its contribution to the erosion of traditional social forms. The implications of reflexivity for Islamic banking practices are discussed in greater detail in Chapter 6.

2.11 The state, co-optation of religious experts and Islamic banking

For Giddens and Beck, the modern individual’s choice process is bound up with trust in expert knowledge underpinning modern institutions – both of which are omnipresent and ineluctable. The *shariah* scholars, experts who have the technical knowledge to establish the meaning and value of Islamic banking, are the ‘access points’ between laypeople and *shariah* regulation. Through their ‘facework commitments’ (Giddens 1990: 88) with laypeople, they generate trust that sustains the *shariah* regulatory system.

Shariah scholars, like other religious experts, have always been involved in the regulation of social life. Their influence can be informal and self-regulatory as in the case of most Muslim minorities such as the Ahong of the Hui community in China (Gillette 2000) or formal and integrated within centralised laws of the state as in the case of Saudi Arabia, Iran, Brunei and Malaysia (see Chapter 5).

Shariah scholars in Malaysia are co-opted by the state to prevent any political contradictions that arise from the state's creation and management of both conventional and Islamic money. As experts representative of an abstract system, *shariah* scholars also bridge the divide between interpersonal and generalised trust. As Lin (2006: 611) points out, 'generalised is the foundation for collective action and interpersonal trust is the basis of generalised trust' yet it is often difficult to point out how they intersect. Experts are a strong example of this intersection. Their authority as experts is based on their role as translators, conduits of information, and boundary enforcers. Inevitably, their position of power creates an asymmetrical relationship that, as I note in later chapters, leaves some respondents feeling ambivalent. The role of the *shariah* scholars is to create the boundaries and also ensure that they are widely agreed upon. As I explain in Chapter 6, according to ordinary Muslim-Malays, the scholars are religious experts who possess the legitimacy to create the boundaries of *halal* and *haram*. They have the institutional authority and societal legitimacy to define the boundaries of what is permissible and what is not. Consequently, they have the regulatory power to create a strong enough pattern of social interaction and therefore the mass consumption that makes the sector viable.

In Malaysia, the state underpins people's trust in Islamic banking. Although not all forms of money depend on the state for legitimacy, my data clearly suggests that people's use of Islamic credit is predicated on the state's regulation of it. People trust Islamic banking because it is underwritten by the state, an institution they believe to be an expression of their power and interests. In fact, this relationship between money and the state can also be viewed in its imagery. Hart explains how the state's role in the creation of money is depicted through the head and tail duality found on coins: 'One emphasizes that it is issued by society in the form of the state, here symbolized by a person; it is a *token* of relations between people. The other stresses that money is itself a commodity, lending precision to trade in an infinite range of commodities; it is a real thing with an objective existence that is independent of the persons who use it' (Hart 2001: 250). The coin therefore symbolises how the state constitutes

markets as an intermediary of society. Consumption is another site that illustrates the interplay between society, states and markets. Cohen (2003) argues that consumption became symbolic of the 'promise of America', imbued with patriotic and political significance. The state encouraged 'citizens to simultaneously fulfilled personal desires and civic obligation by consuming' (2003: 119). Writing about Malaysia, Fischer also argues that the state promotes consumption as the patriotic duty of its citizens. The state's management of the *halal* boundaries of *shariah* commodities cannot be divorced from the politics of ethnicity, identity, and nationalism. In his own words, what he terms 'halalisation' is an 'avenue for manufacturing and sustaining modern forms of state power' (Fischer 2008: 44). Therefore, in both cases the state constitutes the political and social parameters of the market. It is impossible to analyse consumption without raising questions about the alleged dualism between state and market. Furthermore, notions of boundaries that shape markets emerge. In the case of Malaysia, the state's mediation of these boundaries, on behalf of the Malay national community, is synonymous with Malay nationalism and capitalist development. Although Fischer's monograph neglects the role of *shariah* scholars in securing these boundaries, they are the lynchpin simultaneously creating 'supply' and 'demand'.

2.12 Personal ties, confidence and Islamic banking

In the previous section, we looked at aspects of trust and its role in enacting boundaries that are the foundation of *shariah* regulation. We examined how boundaries are enacted from 'above', the backing of authority and the role of expertise. In this section, we will look at the interplay between boundaries, personal ties and confidence. More specifically, we will discuss the role that close family and friends play in the internalisation and communication of the norms associated with Islamic banking; thus signalling confidence in the sector and promoting its growth. Confidence plays a special role in the banking

system. Its long-term loans and short-term deposits make it a confidence intensive system (Swedberg 2010; 2014).

Earlier I emphasised the dangers of assuming that cultural restrictions of money were necessarily a form of resistance. Equally important is the reminder that the emergence of boundaries from above should not lead us to assume that people accept them unquestioningly, that people are dupes. The consumption of credit is constituted by complex dynamics of meaning that are underpinned by the sociality of human association. In this section, we shall examine the interplay between personalised trust, confidence and social ties. More specifically, how Islamic banking is embedded in social relations. As mentioned earlier, the negative attitude that classical social theorists reserved for modern society, particularly as a result of the rise of the modern market-money is partly derived from their fears that people would be mired in an individualistic way of life, alienated and isolated. Orthodox economics is equally entrenched in its methodological individualism, if not the negative attitude towards modern money. As discussed in the first section, economic action serves to maximise the utility of the individual.

Recent work on the consumption patterns and money management of ordinary people suggests that, on the contrary, both actions are constituted by social relations. Writing about the earmarking process, Zelizer suggests that the moral earmarking distinguishing the honest dollar from dirty money were determined by broader cultural and social norms. 'Money used for rational instrumental exchanges is not "free" from social constraints but is another type of socially created currency, subject to particular networks of social relations and its own set of values and norms' (Zelizer 1994: 19). The starting point is the conceptualisation of actors and their economic action as social. Islamic banking practices are shaped by the influence of other actors who are part of the respondents' social surroundings. The social ties of familial and peer relations, mobilise the individual into responding to the call of Islamic banking and thus turning trust and confidence into financial capital for the bank and state.

Miller (1998: 35), describing his observations of the shopping practices of London households, explains that consumption is 'an expression of kinship and other relationships'. In a discovery that parallels my own findings, he reflects that the participation of close family and friends is viewed as positive in economic decisions of others and that this participation is viewed as part of a meaningful social experience characteristic of thick ties. Thus, rather than taking place in isolation, economic action takes place as part of a greater collective whether a dyad, triad, or a larger group. Furthermore, instead of impeding economic action, social relations serve to enhance and lubricate them. Indeed, the embedding of economic action in social relations does not impede economic rationality. 'Shared meanings – their expression in social practices and their representation in symbols – actively shape money as a tool of calculation, as a material form, and as a means of creating and sustaining differences in social hierarchy and rank' (Dodd 2014: 294–95).

These characteristics were also evident in the sociality of Islamic banking practices. Whereas conventional banking requires its clients to trust the banks' integrity, in the case of Islamic banking, Muslim-Malays need more than the 'secular' trust in the financial system. They not only trust the banks to be financially sound, they also have to trust them to comply with the cultural boundaries set by *shariah* regulation, i.e. to be truly Islamically compliant. Additionally, there is also the question of directing their choice towards Islamic banking. They have to be instigated into opting for Islamic banking over the conventional.

This profound participation depends on trust – specifically the trust located in the face-to-face encounters with others with whom they are bound via thick social ties. Familiarity is a characteristic of this trust. People often interact and trust others on the basis of familiarity whether through shared space, shared 'blood-ties' or ethnicity or religion (Cook and Gerbasi 2005). In this project we see that there is a degree of homophily and circularity. People trust each other

because they are similar and then they also trust boundaries that serve to affirm and coalesce their similarity and insularity (more on this subject in the next section). This systemic approach can be contrasted with studies on social actors and their decision-making process, in anticipation that understanding of such a process will explain (and allow to model) the emergence of trust. I will elaborate more on this subject in the next section.

Confidence, which denotes habitual expectation (Dodd 1994: 138), is another aspect of the fiduciary dimension of Islamic banking. 'Confidence is an actor's readiness to base his or her own decisions to act, not on the best available information about some state of affairs (because this is not available to the actor), but on proxy signs that signal what this state of affairs is' (Swedberg 2010: 74).

As a social construct, confidence is not expected to denote 'reality' but people's perceptions, based on socially constructed signs. Swedberg's use of proxy signals was mainly employed for third party institutions such as credit rating agencies. As I noted during fieldwork, ordinary people, also 'look-around' to discern signs of confidence when they're at a crossroads. Third parties who are intertwined with their everyday social life and have strong reputations and authority, are looked at as 'stand-ins' (Swedberg 2010: 74) for information when they need direction.

Confidence is linked to trust but it functions through a different process. For instance, it is not direct as trust. In the case of the latter, the actor deliberates on the information and reflexively compares and contrasts it. When respondents see their close social friends and family choosing Islamic banking, they take it as a sign of confidence. The banks' message works because respondents, who have neither the knowhow nor the ability to collect all the related information, rely on the trust and opinion and experience of the people they know. Rather than impeding economic action, sociality facilitates Islamic banking practices and aids the growth of Islamic banking by inspiring confidence. In this respect,

close family and friends are unwitting allies of the banks and state as the latter literally capitalize on this confidence that they demonstrate in the sector.

The influence of other actors operates on various levels. First, if others did not recognise Islamic banking as Islamic, they would not use it. People look to third parties for reassurance. Personalized trust is key to understanding the influence of other social actors. The respondents trust the intentions of these close family and friends, denoting the emotional aspect of confidence (Swedberg 2010; 2013). As one respondent exclaimed ‘they want the best for me!’ People believe that the proxy has no self-interest and they are only ‘objectively’ interested in the interests of their family or close friends. This emotional attachment is what makes it even more powerful as a symbol.

The empirical evidence contradicts the asocial model of orthodox economic models through the evident sociality of economic action. Islamic banking practices depend on respondents’ personalised trust in others because quite simply, as Weber insisted, ‘social action ... takes account of the behaviour of others and is thereby oriented in its course’ (Weber 1947: 88). Social ties constitute Islamic banking practices through the respondents’ reliance on them to authenticate Islamic best practice and for information. Trusted kin and peers direct other people’s practices by offering advice, knowledge and information about Islamic banking. The main function of such advice and knowledge is less about equipping the other person with the required information. Instead, it serves to enhance the proxy as a reputable source of confidence. The more knowledge and information the proxy possesses, the greater the authority and the stronger the aura of confidence. It is the generalised acceptance of the Islamic value that enables the mass momentum or collective acceptance of its value. Households, the communal space which most respondents shared with close family members, are central sites of economic activity: consumption, discussions about theories of money, and valuation of different economic goods. In addition, as I discovered during fieldwork, the purchase of a home is constituted by an intense social process within the family, resonating with

Bourdieu's (2005) experience about the French housing market. The purchase of a home is an almost universal rite of passage in modern society. Although it is a consumer good, as Bourdieu (2005: 33) explains, its high cost makes it 'difficult' and 'consequential', making this purchase a significant moment in people's lives. Not only do some parents act as guarantors, they also advise them about the soundness of their purchase and the type of financing. For many of the respondents, this rite of passage was characterised by direct participation of close family and friends.

Another consequential experience discussed in this study is the experience of the financial crisis. Confidence can be both positive and negative. The family signalled both negative and positive signs during the crisis. It simultaneously signalled negative confidence in the conventional and positive in the financial. Since financial burdens are often borne by the whole household, especially when the children are financially dependent, calamities are also experienced together. In fact, even those respondents who were too young to fully appreciate the severity of the crisis absorbed their parents' memories and feelings of it – supporting Hart's description of money as 'collective memory' (Hart 2000). As I explained earlier and will illustrate in Chapter 7, the trauma of the crisis increased the salience of the boundaries provided by *shariah* regulation. These boundaries reduce uncertainty. Therefore it is not unusual that they became pronounced after a financial crisis. They provided a new way this new universe made sense as discredited debauched order was articulated as taboo and offering ones that were the divine approved of. Crucially, this salience, which would go on to condition their choice of banking, was communicated and received as a family not individually.

Friends also shaped the Islamic banking practices of respondents. Although there was no major crisis happening at the time, their participation was especially sought during times of uncertainty. Respondents experiencing a rite of passage, such as living away from home for the first time or seeking to finance a mortgage would ask their friends for advice. Besides the symbolic

communication, by encouraging the use of Islamic banking, or professing belief in the boundaries of *shariah* regulation, in some cases, the consumption of Islamic was also literally facilitated through the introduction of other friends. DiMaggio and Louch (1998) and Lai (2001) in America and Taiwan respectively explain how social ties enabled economic transactions to take place as people preferred to conduct business with friends and family over stranger - especially in times of uncertainty.

2.13. Islam, the west and sociological analysis

It's been thirty-nine years since Turner observed, 'sociologists are either not interested in Islam or have nothing to contribute to Islamic scholarship' (Turner 1974: 1–2). The high demand for experts on Islam shows that this is no longer the case. Geopolitical tensions have sparked an increase in demand for sociological analyses of Islamic issues. As a result, although the sheer probability that Islamic finance will get the quality attention it deserves has proportionately increased, there is always demand for research that helps deconstruct the essentialist paradigm that is a favourite of journalistic discourse and Islamic banking practitioners alike.

The West's gaze on Islam has always been coloured by a mixture of apprehension and fascination. If, as Rodinson argues, the 'Western image of the Muslim world came into sharper focus in the eleventh century' (2007: 6), it would not be hyperbolic to claim that, in essence, the attitude of the West has not changed since then. The cognitive bastion erected by the West between itself and Islam, a bastion whose foundations go back ten centuries, explains the ease with which contemporary financial discourse has embraced the idea that Muslims have a totally 'other' understanding of economic life, such as to require 'other' and fundamentally distinct institutions of its own (Lochman 2004). This project was first inspired by the work of brilliant economic historians and specialists of the culture, politics and society of the Middle East, including

Maxime Rodinson, Roger Owen, Fred Halliday and Sami Zubaida. They sought to correct popular misconceptions about the Middle East, in particular the role of Islam vis-à-vis capitalist development and politics that reduce all happenings in Muslim-majority societies to a timeless and homogenous Islam, by analysing how these societies were subject to universal historical processes, including colonial rule, the motor of capitalism and political monopolies that are typical of the Global South (Owen 2004. As Halliday (1995: 75) insists, research on Muslim societies has to 'invoke other factors outside of Islam' in order to contribute to social scientific scholarship.

The invocation of political and economic processes to explain the growth of Islamic banking practices moves the reader away from the idea that they require a special explanation that does not have an equivalent in a non-Muslim 'elsewhere' (Zubaida 2011). As Zubaida points out, 'modern capitalism may have originated in England, but it has had distinct effects in France, Germany and Italy, not relating specifically to a difference in "cultures", but to historical totalities of economy, class structure, government and patterns of power; as well as to cultural processes' (2011: 5–6). As all four scholars concur, the caricature of these societies is aggravated by a view of these societies as being eternally fixed and fundamentally unchanging. This perspective tends to be advocated by actors, on both sides of the ideological divide, that have an interest in emphasising the difference in identity and values of Malaysians versus the West. Banking practices that purport an Islamic difference are intertwined with identity politics. It is difficult to study the former whilst ignoring how the latter have been constructed and contested through history.

It is for this reason that a sociological study that wants to explain any kind of change must include a historical analysis. This dissertation therefore operates at different speeds and is not straightjacketed by linear concepts of history. This approach is strongly evident in Chapter 4, which deals with the construction of Muslim-Malay identity, including its institutionalisation in legal codes by both the colonial and postcolonial state in an attempt to instil loyalty in the Malay

population. The long view of history contextualises the salience of a Muslim identity, amongst Malays, within political dynamics from above and below. The perils of ignoring the historical *longue durée*, is evident in the proliferation of clichés that embrace ‘Islamic banking’ as an eternal, fixed and exceptional characteristic of Muslims that can only be explained through Islam. Even when well meaning, journalistic accounts of Islamic banking and many of the sector’s advocates (including some social scientists) tend to depict an idealised view of Islamic banking practices that inadvertently commit a disservice by depicting ‘Muslims’ as being fundamentally distinct from everyone else. Their arguments imply that, almost mechanically, the presence of Muslims indicates a demand for Islamic banking. Take, for instance, *Foreign Policy* magazine, which erroneously states that, ‘today, Islamic finance schemes like *murabaha* remain the only legal way to charge interest in much of the Muslim world’ (Keating 2011).³⁸ A closer look at the evidence would reveal that in most of the Muslim world, banking and finance is carried out through ‘conventional means’ (Zubaida 2011: 16) and in several Muslim countries such as Morocco and Libya, Islamic banking is virtually non-existent. In Egypt, Tunisia, Algeria and Mauritania it represents less than 5 per cent of the total assets. The reason for such an absence is due to the lack of social, economic and political conditions for the emergence of a successful Islamic banking sector.

Essentialism, the belief that Muslims can be mainly understood through a uniquely and fixed Islamic impulse that cannot be understood through concepts and modes of social sciences, treats Islam as *sui generis* and representative of totalising cultural zeal that is an ‘adequate reading of the past, a diagnosis of the present, and a blueprint for the future of all Muslims’ (Al-Azmeh 2010:26). Since the events of 9/11, discussions about Islam have been dominated by the Huntingtonian ‘clash of civilisations’ discourse (Huntington 1996) and the notion of Muslim exceptionalism.³⁹ The simplistic idea that an imagined Islamic

³⁸ See www.foreignpolicy.com/articles/2011/10/11/money_market

³⁹ Political scientist Samuel Huntington’s (1996) ‘Clash of Civilisations’ theory proposes that culture and religion will be the main source of conflict in a post-Cold War era.

civilisation is battling for supremacy with its Western counterpart is based on an assumption of homogeneity and fixity of an Islamic tradition that is renewed through an atavistic impulse. The ascendancy of the Huntingtonian paradigm amongst American policy circles to explain the proliferation of Islamic terrorist cells across the four continents, from London, Indonesia and Kenya to Bali, fuelled the theory of Muslim exceptionalism: 'the view that concepts and modes of social sciences do not apply to Muslims, as they do the rest of the world' (Dalacoura 2011: 2), and that their actions can be mainly understood through a uniquely Islamic impulse. Although these discursive tendencies were mainly contained within the security circles, policymakers' concerns about the connection between *shariah* resurgence, terrorism and anti-Western feelings began to spill over to other aspects of the social life of Muslims. Overt symbols pertaining to the Islamic faith, and any activities by Muslims, were viewed with increasingly excitable suspicion. Islamic Banking was not an exception to the rule (Warde 2004).⁴⁰

Wikileaks reported that Condoleeza Rice singled out Islamic financial institutions as a channel of terrorist funding.⁴¹ The Americans had profound concerns about the British government's efforts to establish London as a hub for Islamic Finance. It requested information on 'Islamic financial institutions' vulnerability to exploitation for illicit or terrorist purposes, such as structuring accounts to mask illicit activity or money laundering' in the UK and 20 other countries to which the cable was sent are Muslim-majority nations in North Africa, the Middle East, and Asia (Moore 2011). In the USA, Dar al-Maal al-Islami Trust (DMI) – a Bahamas-incorporated holding company with a portfolio of Islamic banks in Bahrain, Niger, Egypt and Pakistan – was investigated for links with terrorist groups. For the Justice Department's counterterrorism division, and lawyers for 9/11 relatives, DMI's founder Prince Faisal Al-Saud's links with conservative Islamic political figures who were declared terrorists after

⁴⁰ For an example of alarmist security reports about Islamic finance see Rammell (2003).

⁴¹ As de Goede argues, the US government's linking of Islamic finance as terrorist funds suggests that the political priorities underpinning anti-terrorist financing 'are about governing practices of social affiliation and mediation' (2008: 291).

9/11, was proof of the bank's involvement in terrorism (Landon 2007).

Complementing this alarmist security-oriented discourse is another type of exceptionalist discourse. The mirror image of the Huntingtonians, Islamist revivalists, also promote an essentialist culture by 'elevating an obscurantist discourse on the present, past and future of Muslims to the status of indisputable knowledge' (Al-Azmeh 2010: 26). Very often, these myths of Muslim otherness are symptomatic of the creation of tradition through 'the folklorisation of classicism, in which elements from the remote past are presumed to constitute the lived present, which often results in a more or less Disneyfied self-parody' (Al-Azmeh, 2010: 37) and a static conception of Islam.

During fieldwork I was exposed to several instances of the 'folklorisation' of Islam that has no basis in history. Many practitioners insist that the natural course of Islamic banking's history was only interrupted by the corrupting influence of colonisation. In a nutshell, according to this folkloristic vision, Islamic banking is not a modern construct, but a return to the authentic and traditional method of Malay banking that was only interrupted by British colonialism. 'Western colonisation destroyed Islamic methods of finance, like *waqf*, in order to undermine Islam. During the golden years of the Caliphate, Islamic banking like the *waqf* was standard practice and people did not pay interest' insisted one senior banker during an Islamic finance workshop in Kuala Lumpur. It is typical of Islamic reformers to insist that previous to Western domination, Muslims had 'historically, avoided the sin of *riba*' (Zubaida 2003 :17). These are myths that the Malaysian state and practitioners are happy to propagate. These foundational myths are meant to highlight the authenticity of Islamic banking and consequently reinforce the state's position as legitimate guardian of Malays and their cultural rights. Despite the sector's claim to continue a pre-modern authentic tradition, as I shall go on to emphasise in Chapter 4, Islamic banking is a product of modernity and ironically, the state's appeal for Muslim-Malays to bank Islamically, has its origins in the colonial state's codification and essentialisation of Malay identity as eternally Muslim for its political expediency. Historical records show that interest contracts were

common and enforceable in the Ottoman Empire and *riba* was confined to classifying excessive interest above some notional rate (Rodinson 2007; Zubaida 2011)

Al-Azmeh suggests that relativist postmodernists mirror Islamic obscurantism. He declares that 'such advocacy of singularity invariably results in essentialising identity through declaring the irreducibility of difference, and consequently in being limited to uttering unassailable clichés' (Al-Azmeh 2010: 26).

Unfortunately, one of the by-products of Said's Orientalism paradigm is a 'reverse Orientalism'. The developments in the Muslim world are framed within ahistorical and unscientific vignettes that emphasise the particular. It exerts its relativist focus on the meaning of values concealing the very universal and modern forces, like power-manipulation and capitalism that underpin Islamic banking (Halliday 2008).

2.14 Conclusion

The aim of this chapter was to outline the theoretical frameworks used to explain why Islamic banking is predicated on (a) generalised trust in the the social added-value of the sector, as represented by the shariah regulatory system (b) the community of experts who have the authority to regulate and represent it (c) the personalised trust of close social ties, family and peers whose confidence help shape the choices of respondents. I explained how this project rests on the agenda of economic sociology, which seeks to interpret economic action in relation to its social context as opposed to the asocial and ahistorical individualist and utilitarian homo economicus of neo-classical economic theory. This perspective challenges the neo-classical conceptions of an economic actor who maximizes utility according to goals that are detached from the social environment. The point of departure is Polanyi's notion of embeddedness (Polanyi 2001), which serves as a useful analytical tool that captures the anchoring of the Islamic banking system in normative frameworks.

The shared values of a culture as understood, both 'from below' through people's association with each other, and 'from above', as institutionalised traditions, can explain how one choice was selected over another.

In the discussion about trust, I use Giddens' definition of 'generalised trust' (1990) to explain why people's trust in the abstract values represented by shariah regulation and the shariah experts who simultaneously regulate supply and demand is the 'glue' underpinning the system and creating a mutually accepted order. This community of experts have the technical knowledge and authority to determine what is Islamic and what is not. People trust their qualification of an Islamic banking product as halal (allowed), thus reducing uncertainty about the authenticity of the product and creating the order necessary for the mobilisation of demand and the creation of a market. The blessing of shariah scholars imbues Islamic bankings product with a symbolic value that is trusted and also legitimises the sector as a mutually accepted order. Next, the discussion shifted to the role of social ties in shaping economic practices. Islamic banking practices, like other types of economic action, are constituted by social ties. Contrary to orthodox economic perceptions, social relations serve to enhance and lubricate consumption. In particular, family and friends stand in for the state and banks as proxies, by signaling confidence in Islamic banking. Last we discussed how due to efforts from both sides of the ideological divide to present Islam as a culture based on a 'fixed essence working itself out through history', this project is based on the first belief that any study of social phenomena with the tag Islamic attached to it must examine how Islam as a culture, is 'intertwined with the dynamics of economy and power'. (Zubaida 2011: 6).

Chapter 3: Methodological Orientations

3.1 Introduction

In *Laws*, Plato's lesser-known dialogues, the three main protagonists, an Athenian, a Spartan, and a Cretan, discuss an ancient Spartan social institution known as Krypteia (Plato, *Laws*, I: 633).⁴² Historians disagree about the precise nature of this institution, but it essentially involved a select group of young men who endured a type of military training that was meant to weed out the men from the boys. Allegedly, part of this training included an initiatory period in which these city boys would roam the wilderness with no support and no tools bar a knife, which was the only tool they had to achieve their aim; kill as many state-owned slaves as possible. The end goal for these boys was to make it back to the Krypteia alive, at which point they would be reintroduced to society as men and warriors (Kennell 2013: 387).

Thankfully, PhD students are neither expected nor encouraged, to engage in any acts of violence, but there are useful parallels to be made between Krypteia and fieldwork. Whilst it might sound dramatic, even for the most worldly of us, the idea of venturing into the field, solo, was experienced with the same trepidation that I imagine even the bravest of Spartan boys experienced when they set off into the wilderness. They had no protection and could only rely on their survival skills. Armed with little more than the knowledge acquired from texts we've studied, we are also expected to undergo this unstructured experience and emerge intact. Our end goal is to return to our institution with

⁴² One of the protagonists describes Krypteia in the following manner: 'The fourth also I may attempt to state: it is the training, widely prevalent amongst us, in hardy endurance of pain, by means both of manual contests and of robberies carried out every time at the risk of a sound drubbing; moreover, the "Crypteia," as it is called, affords a wonderfully severe training in hardihood, as the men go bare-foot in winter and sleep without coverlets and have no attendants, but wait on themselves and rove through the whole countryside both by night and by day. Moreover in our games, we have severe tests of endurance, when men unclad do battle with the violence of the heat,—and there are other instances so numerous that the recital of them would be well-nigh endless' (Plato, *Laws*, Book I: section 633 b-c).

enough data which, once processed, will allow us to be reintroduced to society as adults - not students, and bona fide scholars.

Just like this ancient right of passage, no amount of methodological training or following of the ethical rules of conduct or pilot interviews can prepare the uninitiated researcher for what is ultimately 'a practical activity' that requires 'the exercise of judgement in context' and constant reflexivity (Hammersley and Atkinson 2007: 20–21). The fluid nature of research cannot be predetermined. Its unpredictable nature is what makes it simultaneously so exhilarating for some and potentially disastrous for others. Luckily, my travel experiences around Western Africa and South East Asia, often undertaken solo, in risky environments which I was unfamiliar with, equipped me with the necessary survival skills to emerge from the field more or less unscathed, with reams of data and most importantly, to enable me to enjoy fieldwork, which turned out to be the most fulfilling aspect of the doctoral process.

What follows in this chapter is an account of the broader methodological approach used in this project and the various methods employed to achieve my goals. The spontaneous nature of research, whilst requiring 'reflexivity at every stage of a project' does not remove 'the need for pre-fieldwork preparation nor means that the researcher's behaviour in the field can be haphazard, merely adjusting to events by taking the line of least resistance' (Hammersley and Atkinson 2007: 20–21). Consequently this chapter will include a report of preliminary desk work, data collection, and processing techniques set against a reflexive tone.

This chapter is divided into four sections. The first part explains the case site which first outlines the suitability of the single case and then explains why Malaysia, particularly the urban domain of Kuala Lumpur, was the ideal choice. The second part sets out the main characteristics of the methodological orientation of the research design. More specifically, it includes a justification for an interpretative investigation based on the grounded theory approach and the

ontological perspectives that underpin the research. We then move on to the third section, which focuses on the research techniques and methods used to extract and analyse data as well as a research biography that outlines the various steps undertaken during fieldwork in Malaysia. Last, I conclude with some critical reflections on my positioning as a researcher.

3.2 Single case: Malaysia

The empirical focus of this PhD is Malaysia. Countries with clear, identifiable boundaries are archetypal units for case studies. 'A case study is a method for learning about a complex instance, based on a comprehensive understanding of that instance obtained by extensive description and analysis of that instance taken as a whole and in its context' (US GAO 1990: 16). As this definition implies, the single case is rich in description and its in-depth knowledge and requires the researcher's committed involvement to each minute detail.

Although the use of a single case is used in both quantitative and qualitative research, its detailed examination of a unique example, using a multitude of sources creates a natural affinity to the rich style of examination associated with the latter method (Baxter and Jack 2008).

This project's interpretative framework, where the focus is on understanding the motivations of the consumer and analysing them in relation to structural conditions set by the state and financial institutions, contextualising conditions, and recognising a hazy boundary between phenomena is best served by a case study (Yin 2003). This research aims to understand the development of Islamic finance in Malaysia through the everyday practices of Islamic banking consumers. The consumers' narratives will be contextualised within a detailed examination of broader developments and thread links from the micro (consumer) to the macro (banks and state). The focus on detail with the aim of revealing the 'essence of the phenomenon' is central to a case study (Baxter and Jack 2008: 545). The multidimensional perspectives, from structure and

agency, serves to emphasise the contingent nature of the development of IB, as opposed to the universality in behaviour presumed by essentialist perspectives on Muslim societies.

The choice of the theme, Islamic banking, was the result of a long-standing interest in Islamic finance: my MSc dissertation explained why the sector never took off in Egypt and looked into the 2007/2008 American and European financial crisis. The disillusion with the 'Western' financial system and breakdown in trust roused everyone's interest in this sector and served as an affirmation of Islamic banking practices and allowing the sector to expand and mature (Hammersley and Atkinson 2007).

The Western mainstream media was at the forefront of this reflexive exercise. Media outlets, from the *Financial Times* (FT) to the British Broadcasting Corporation (BBC) and the *International Herald Tribune* (IHT), started to investigate the propositions of these ethical sectors. Out of all the ethical sectors, and possibly due to an Orientalist stance that pitted Islam as the supreme 'other', Islamic Banking was scrutinized as a potential contender to 'Western' capitalism. 'Is Islamic Finance the answer?' (Brant 2009) and 'How would religion regulate financial markets?', (El-Diwany 2009) asked the BBC. Press Agencies reported that: 'Vatican Says Islamic Finance May Help Western banks in Crisis' (Totaro 2009) and in a similar vein The Guardian (Imaduddin 2011) queried, 'What if the world had been following Islamic financial practices?' Middle East experts such as Charles Tripp (2011) were invited onto radio programmes to explain the connection between capitalism and Islam. BBC Radio 4 (2009) discussed how a religion-regulated market would follow and even the Vatican opined that religiously regulated finance, irrespective of religious creed, would benefit communities and banks. This view was expressed in the Vatican's official newspaper *Osservatore Romano*: 'The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service' (Totaro 2009)

This surge in interest did not go unnoticed by the advocates of the sector. At all the Islamic finance conferences I attended after September 2008, many practitioners, especially *shariah* scholars resolutely insisted that a financial system modelled on Islamic principles would bring an end to these debt-induced volatile capitalist crises. The advocates of these ethical forms of finance viewed the effects of the financial crisis as a clear vindication of their practices and they did not hesitate to point this out. According to the General Secretary of the Indian Muslim Community, ‘the main cause of this world financial crisis has been usury and interest. The Holy Qur’an guides us to avoid *riba*, an evil that is sufficient to put in danger national and international peace and economic stability’ (AIN 2011).

Conducting research for my MSc dissertation, I would discover that even this would also consolidate the standing of Islamic banking in countries where it was established, thereby increasing demand. To an extent, this opportunity foreshadowed the type of case I would select. Investigating why Islamic banking practices were growing required finding a case where such a growth was evident and where the Islamic banking sector was thriving. Following typical procedures, I identified the various locations that would be suitable and feasible and then investigated potential case studies including Bahrain, Tunisia, United Arab Emirates (UAE), Saudi Arabia (KSA), Kuwait, Indonesia and Malaysia. Countries like Morocco, Syria and Egypt were immediately excluded due to the negligible presence of Islamic banking. Others like Pakistan were immediately considered unsafe and, later on, the Arab Spring also eliminated Tunisia from eligibility.

Following the advice of Hammersley and Atkinson (2007: 28–30), I gathered any available evidence about each possible site, interviewed people who had experience conducting research in these countries and also started following leads in order to determine which countries would be easiest to access. Limitations related to access, risk, and expense were also considered.

Initially, KSA was emerging as an exciting case study, partly due to its status of 'virgin territory' the limited research on its Islamic banking sector. Mainly this is due to the difficulties in acquiring a visa, obstacles which thanks to my gatekeepers I would have been able to overcome. Ultimately I had to concede that even if I was able to overcome barriers of entry into the country, overcoming gender related restrictions would have turned out to be very expensive and limited my parameters. For instance, I would have required expensive accommodation in an expat community, foreigners have to live in compounds and I would have required a driver and a car. The law requires that a male companion, my father or brother, would have to accompany me and interviews with laypeople would have been limited to female locals only.

Gender risk was less acute in Malaysia and a gendered reflection on my experience there is discussed in the last section of this chapter. It is an open and multicultural society that enjoys a thriving tourism industry, which is always a strong sign of its openness towards, foreigners. Having previously spent over three months travelling around the country, it was a location that I was familiar with and I had started to establish connections with the Islamic finance community there.

Having considered the various options, suitability and access as detailed above, across the Middle East, North Africa and South East Asia, Malaysia emerged as the most appropriate case study. Although Malaysia was ultimately selected as a case through painstaking research and data collection, it is expected that as a researcher I also heed my 'hunches' (Hammersley and Atkinson 2007). As Flyvbjerg (2006: 16-17) explains, although intuition often plays a part in picking a case that 'shines', researchers' choices must be justified to their scholarly community.⁴³ In the next section I will justify my choice of case study.

⁴³ Flyvbjerg (2006:16) explains that during an interview with Hubert Dreyfus about what makes a paradigmatic case, the philosopher, replied, 'Heidegger says, you recognize a paradigm case because it shines'.

First, Malaysia, along with Gulf Cooperation Countries (GCC), is one of the locations which hosts a concentration of Islamic banking assets, capital and expertise. Its capital, Kuala Lumpur, is currently one of the global hubs of Islamic finance (Warde 2000; Wilson 2004). There is general agreement that, 'no other country in the world, especially among the Muslim countries, has reached the same level of systemic development of its Islamic banking system and architecture' (Parker 2012).

The Islamic finance sector in Malaysia benefits from a large share of the foreign capital flows that the liberalisation and financialisation of the Malaysian economy made possible. The South East Asian country's ability to attract Islamic funds is evidence that the growth of Islamic finance sector depends on more than cultural capital – usually associated with the traditional seats of the Islamic world, such as KSA and Egypt. A country's ability to operate within the norms of global finance is crucial for attracting capital, whether conventional or Islamic (Warde 2000).

This qualifies Malaysia as a 'paradigmatic case' that operates as a reference point which later can be used as a benchmark for other cases (Flyvbjerg 2006: 15–17). There is no standard for such a case: the researcher must build it up into a standard. In this respect, all the evidence points to Malaysia satisfying the conditions of a case that is unique, shines, and is a useful reference point for the development of further research exploring different cases. Malaysia was a pioneer in developing the first successful dual banking systems.⁴⁴ The growth rate of Islamic finance is outpacing the conventional and the regulatory structure is sound. Similar to other globalised⁴⁵ countries like Bahrain and UAE, KSA and Malaysia remain the only major markets where Islamic banking has a higher return on assets (ROA) ratio than its conventional peers (DiVanna and Hancock

⁴⁴ Bahrain and Pakistan are the only other countries to operate an Islamic banking system in parallel with the conventional, and in Pakistan's case it has been unsuccessful in developing both the Islamic and conventional sectors.

⁴⁵ The term 'globalised' is shorthand for countries that encourage and accommodate global capital flows and foreign direct investment.

2013). Bank Negara, Malaysia's central bank's jurisdiction lies over both conventional and Islamic financial systems: retail banking, investment banking, and *takaful*.

Malaysia's Islamic financial sector was established in 1983 with the passing of the Islamic Banking Act. Since the establishment of Bank Islam Malaysia Berhad, the country's first Islamic bank, the sector has been liberalised and now totals 21 local and foreign-owned Islamic banks.⁴⁶ The sector was gradually liberalised and deregulated to allow a diverse array of retail banks to operate. The 1993 pilot scheme, which involved the largest three commercial banks, introduced 'Islamic windows': all commercial banks, merchant banks, and finance companies were given the opportunity to introduce Islamic Banking products and services (Kazarian 2008). 'Having yielded successful results, the pilot scheme expanded to gradually include more than thirty-one financial institutions. The sector continued gaining momentum as the second Islamic bank, Bank Muamalat, was established in 1999, and Islamic subsidiaries and foreign Islamic banks 2003 and 2005 respectively' (Dusuki et al. 2011: 118).

There are three types of financial intermediaries operating within the Islamic financial sector: consumer institutions (deriving their funds from deposits), non-depository, which tend to collect funds through sources such as insurance premiums and investment intermediaries. The financial institutions studied in this research are the commercial banks that belong to the depository category. Along with savings and loan associations, mutual savings banks, and credit unions, their main basic function is to channel the surplus funds to deficit areas in the economy, whether to firms or individuals. In a sense they can be thought of as the arterial system of the economy.

⁴⁶ See the website of Bank Negara for the full list of banks www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0 and www.bnm.gov.my/index.php?ch=li&cat=iib&type=IIB&fund=0&cu=0

The sector can be divided into three further categories: fully Islamic banks that were either granted new licenses or were converted from conventional banks, fully Islamic subsidiaries (of conventional banks), and Islamic windows of conventional banks. Given concerns of the mixing of funds, 'windows' have to comply with firewall requirements that include separate capitals (Dusuki et al. 2011: 119). The subsidiary option is usually facilitated by the option to leverage on operating infrastructure, whether property (branches), human or financial capital. The decision to license the Islamic banks was accompanied by Islamic money schemes in banks and the proliferation of money market instruments and insurance schemes. Thus, the Islamic banking market in Malaysia is attractive for the researcher as it is rich and multifaceted: made up of different types of banks offering a variety of products.

Malaysia, unlike most other Muslim-majority countries has a sophisticated and functioning regulatory dual framework: secular and *shariah*. Besides having to adhere to conventional regulation as outlined by Basel III, Islamic Financial Services Board (IFSB) and Bank Negara, the sector has an added *shariah* regulatory framework. This includes the Fiqh Academy of Mecca, the international agency Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the national Shariah Advisory Council within the remit of the Bank Negara. The number of regulatory organisations and the organised *shariah* regulatory framework add another fascinating analytical category. The interaction between regulation, expertise, and laypeople is a common theme of study for economic sociologists.

International Islamic finance regulatory agencies like AAOIFI work on harmonising and standardising the sector in an attempt to construct a global comprehensive and consistent regulatory regime. Many jurisdictions, including Malaysia, have voluntarily adopted these basic standards, and there is general agreement amongst practitioners on the fundamental features of the Islamic finance sector. Despite the basic commonality amongst the various national Islamic finance regulatory regimes, there is leeway for considerable

discrepancies between members of the same organisation. AAOIFI's standards and regulations work on the principles of 'the recognition of the different Islamic financial practices in different jurisdictions, the recognition of the diversity of *shari'ah* opinions which result in a dual set of standards recognized globally, and the possibilities for double standards to co-exist and be practiced globally' (Choudhury 2007: 35).

In practice, this means that liberal regulatory regimes like Malaysia can accommodate 'conservative' foreign Islamic banks that follow more restrictive GCC standards, as well as banks that follow the more 'liberal' interpretations. There is a number of contracts and products that are permissible and available in the Malaysian but not the GCC market. The flexibility of Malaysian regulators allows GCC banks operating in Malaysia to follow the stricter alternatives permitted by their scholars. The implication for my research is that Malaysia allows the widest range of Islamic banking products in the world, making for a more nuanced and insightful study of banking practices.

It is due to Malaysia's uniqueness in sustaining a retail Islamic banking sector that parallels the conventional, and is accompanied by a thriving Islamic investment insurance sector as well as an Islamic money market, which stimulates the sector, that it will be studied as a single case.

The single case study has been challenged for its unscientific approach. Positivist quantitative researchers that suspect the single case to be symptomatic of lazy research design mainly drive the opposition (Gerring 2006). This bias can be the result of a misunderstanding of the single case study's aim and approach. 'It is the very fuzziness of case studies that grants them an advantage in research at the exploratory stage, for the single-case study allows one to test a multitude of hypotheses in a rough-and-ready way' (Gerring 2006: 41).

The testing of hypotheses with a great degree of confidence is not the aim of the single case. Its uniqueness is better suited for the generation of several theoretical statements or hypotheses about regularities of social life and to falsify sweeping theories that attempt to make universal claims (Becker 1970; Gerring 2006). Put simply, the difference between the two can be described as a 'trade-off between hypothesis generating and hypothesis testing' (Gerring 2006: 41). This problem does not apply to this particular research, as this study does not set out to test hypotheses about the economic behaviour of Muslim consumers of Islamic banks or to make universal claims about Muslims. On the contrary, it seeks to illustrate a holistic and detailed picture of the sector in Malaysia. Neither does it suffer from subjective bias towards verification (Flyvbjerg 2006: 17–20) that arises from a single case study when researchers set out with preconceived notions. As explained earlier, the *raison d'être* of grounded theory is not compatible with preconceived hypotheses. If there were ever any danger of my entering the field with preconceived notions, the hard evidence that emerged with an immersion in the social world being investigated, would immediately have forced me to reconsider my ideas.

When taking into consideration the aims and carefully crafted methodology of my research, there is no reason to believe that multiple cases would provide an advantage. Building Malaysia as a paradigmatic case requires intense observation that can only be the result of a singular focus on constructing knowledge revealed in the interaction between participant and researcher. 'The proximity to reality, which the case study entails, and the learning process which it generates for the researcher will often constitutes a prerequisite for advanced understanding' (Flyvbjerg 2006: 21). At worst, given the very limited resources and time allocated to doctoral researchers, the use of a larger sample could have resulted in a superficial account of several cases omitting the 'rich ambiguities' (Nietzsche 1974, quoted in Flyvbjerg 2006: 21) and nuances of the Islamic finance sector. Despite the singular focus on Malaysia, reference will be made to other Muslim countries especially GCC states. The use of a single case does not exclude the addition of 'other cases that are often brought into

the analysis in a peripheral way' (Gerring 2006: 22). The global nature of the Islamic finance sector makes it difficult and counterproductive to exclude references to other similarly successful examples like the GCC. The common sense perspective that underpins a lot of the Islamic financial literature and seeks to depict Muslims with a broad brush stroke, increases the importance of including references to other Muslim societies that unlike Malaysia, are unsuccessful in developing Islamic finance

3.2.1 Fieldwork site

The fieldwork site was located in Kuala Lumpur, the home of the iconic Twin Towers, named after the state-owned oil and gas company and designed by the world famous architect Cesar Pelli. The towers, at one point the tallest globally, are architectural symbols of Malaysia's modernity: the gargantuan landmark enshrines Malaysia's status as an emerging economic and political power in the region, whilst the sophisticated steel and glass façade allude to Malaysia's Islamic heritage by suggesting Islamic geometrical motifs. With the exception of Penang, a predominantly Chinese location, Kuala Lumpur is Malaysia's most urbanised area. When discussing sampling, Glaser and Strauss (1967) suggested that grounded theory rests on the generation and elaboration of theory is created from a site that is able to 'produce as many categories and properties of categories as possible, and to facilitate the emergence of relations among categories' (Hammersley and Atkinson 2007: 32).

As the host of the headquarters of the conventional and Islamic banks and the regulatory bodies and financial educational sectors, it is the centre of the Malaysian financial sector. The largest conglomerates operating in the country and state-run companies like Petroliaam Nasional Berhad (PETRONAS) are also based there. Geographically, the urban Malay middle class is concentrated in Kuala Lumpur and its satellite, Petaling Jaya (PJ) in the Klang Valley (Talib 2002). The indicators of middle class wealth, contrasting the upper class and

expat lavishness and the deprivation of rural areas are plentiful. An overview of the middle-class Kuala Lumpur landscape would reveal lower end foreign cars and the locally manufactured Proton parked outside terraced houses, bungalows, and condos. By wandering around the malls speckled around the city one would observe locals, 'mallng', shopping, playing arcade games or queuing for the cinema. The wet markets and traditional stalls are always packed. Malaysians love to eat out: the consumption of food is a social occasion.⁴⁷ More upmarket restaurants, especially those located in hotels are reserved for special events, from holidays to weddings or religious festivals like Ramadan. Increasingly, families can afford to employ maids from neighbouring Indonesia or the Philippines. They can be observed shopping at wet markets or caring for the children during leisurely events.

Besides the diversity and dynamism of the city, the socio-economic status of the inhabitants was a main factor for choosing Kuala Lumpur as a site. Given that the research focuses on the mass financialisation of Islamic finance through the everyday practices of people who consume Islamic banking products, people 'without significant capital', such as middle-class homeowners (Martin 2002: 12), the fieldwork site had to include a large concentration of individuals who fit this description. It is individuals in urban areas who predominantly tap into the financial system. The slower development of the financial system in rural areas is also reflected in the relatively weak reach of Islamic banking.

Research shows that residents in rural areas tend to be less likely to be tapped into the financial sector. When compared to urban counterparts, they are not as familiar with banking terms and concepts. There is also a greater resistance by rural consumers to adopt Islamic banking practices. They are less aware of its existence, perceive the products to be too complex and are ambivalent concerning its Islamic claims (Thambiah et al. 2011: 189–93).

⁴⁷ Wet markets are traditional food markets, typical of South East Asia, providing both fresh produce and cooked food.

3.3 Research design for an interpretative investigation

Studying the daily conduct of everyday Islamic finance practices which predominantly consist of ‘the prosaic practices of saving and borrowing’ (Langley 2008: 11) rests on an investigation of the participant’s perspective. It is by exploring the layperson’s worldview that we can grasp how they understand the Islamic value of the sector, as well as their trust of *shariah* regulation and the *halal* brand.⁴⁸

Investigations into the ‘pluralisation of life worlds’ (Flick 2009: 2) are particularly associated with qualitative methods, and in particular, an interpretative methodology, which ‘takes note of the manner in which actors, reasons and intentions are centrally involved in the creation and recreation of social life’ (Layder 2006: 164). This method means that assumptions about the worlds studied are tested and not unwittingly reproduced. On a basic level it means documenting what research participants say and discovering what they take for granted or omit to mention.

The interpretative approach is characterised by its ‘orientation to questions of meaning’, on problems relating to the how and why of things (Yanov and Schwartz-Shea 2006: 17). The endeavour to ‘see research participants’ lives from the inside’ allows the researcher to ‘enter the settings’ and ‘gives a researcher otherwise unobtainable views’ (Charmaz 2006: 14). The interpretative method is driven by a particular set of ontological assumptions. The world is viewed as messy, complex, and ripe with meaning and characterised by interaction effects that are knowable only after the fact, (Bennett and Elman 2006: 456–58). Accordingly, this assumption drives the method used to contribute to a particular form of knowledge about Islamic banking. The distinct ontology and epistemology are what mark this research as

⁴⁸ It is crucial to point out that the aim of interviewing consumers is not to test the validity of their knowledge about the sector, or measure their behaviour against authentic Islamic practices. As I go on to explain in Chapter 4, the dogmas and practices found in Muslim societies vary.

a sociological study of an economic phenomenon, as opposed to an economic study. The research is focused on 'economic norms and institutions that are created for economic ends and are significant because of their economic aspect' (Swedberg 2003: 13) as well as patterns of economic behaviour, yet the methods used to study the phenomenon are distinct from what is expected from an orthodox economics research project. Indeed, 'research methods can't be regarded independently of the research process and the issue under study. They are specifically embedded in the research process' (Flick 2009 1). The methods employed must be shaped by the research problem and driving the overarching processual framework. They aid the researcher to locate, collect and analyse the data required to address the research question.

Qualitative research is sometimes critiqued as a second best strategy for quantitatively challenged researchers or a slapdash means of collecting data for 'journalists without a deadline' (Bennett and Elman 2006: 458). This unfair critique stems from an inability to grasp the advantages of qualitative methods, which are anyway often complementary to the quantitative approach. Other doubts have been raised about qualitative method's rigour in generating theory about 'systematic social patterns' or those that can be extended to other contexts (Hammersley 1992). This study makes no attempt to make sweeping statements that hold over long periods of time or over a variety of countries or axiomatic generalisations about Muslims or Islamic bank consumers. The research aims for the more modest goal of 'bringing a semblance of order and consistency to the social interaction' within the consumers' microcosm, with the aim of drawing 'modest, pragmatic generalizations from these personal experiences' (Payne and Williams 2005: 296).

Most research on Islamic banking consumer behaviour uses quantitative methods. These methods were used in surveys carried out by Abdullah and Dusuki (2006), Haque (2010), Thambiah et al. (2011) on consumer perception of Islamic banking in Malaysia. Researching the same question, Gerrard and Cunningham (1997) in the case of Singapore used quantitative methods, as did

Pepinsky (2010) in his study of Indonesia. These studies were useful for the preliminary deskwork and also for the potential mapping out of grand generalisations. A notable exception is Maurer's (2005) provocative ethnography of Islamic banking in Indonesia and his research on Islamic mortgages in the United States of America (2006). In addition, there are ethnographies that investigate consumption of a wide variety of Islamic commodities and industries. These include Starrett's (1995) article on the political economy of religious commodities in Cairo, Fischer's work on the *halal* industry amongst the Malaysian diaspora in the UK and in Malaysia (2008; 2011) and Gillette's (2000) investigation on Muslim piety and modernity in China.

Amongst the reasons why research on Islamic banking uses quantitative methods is that they allow researchers to make extensive generalisations about a population. This helps map out the general trends, but due to their restrictive nature they neither expose nor explore the context or complexities involved. For instance, Pepinsky's (2010) attempt to define and quantify piety, discussed below. Crucially, the methods used in this research permit 'an in-depth exploration of a particular topic with a person who has had the relevant experience' (Charmaz 2006: 25). Tools like in-depth interviews or participant observation enable researchers to access views and narratives that are unobtainable through surveys. Qualitative methods give the researcher the right data to 'construct meaning of their reality'. They also allow for spontaneity as unplanned follow-up questions to unanticipated answers are encouraged. In my case, this has often led to the emergence of unforeseen data. For instance, it transpired that respondents spent a huge chunk of their leisure time 'mallng' – wandering around shopping malls without purchasing anything. This denotes a predilection for consumption that would not have emerged had I simply focused on quantifiable spending habits. It's also unlikely that I would have been made aware of the term 'mallng'.

The other problem associated with surveys is that they use categories that are narrow and based on assumptions that can seem inadequate to a sociologist. The danger is that they could depict participants within a pre-defined theoretical construct that might be based on stereotypical popular ideas. For instance, surveys that attempt to correlate piety with the use of IB, like Pepinsky (2010) could be exposed to critique for their definition and quantification of piety. Sociologists' knowledge of the numerous Islamic practices can encumber the effort to standardise one notion of piety. In his study on Islamic mortgages, Maurer (2006: 68) noted the problematic nature of using all-encompassing descriptive categories such as conservative or liberal Muslim. They reify the very constructs that researchers set out to dismantle in the first place. For instance, it was only through qualitative research that I was able to grasp the nuances of trust and confidence. The interconnections between different systems of trust require the researcher to consider 'how a particular trust relationship under investigation is related to the individual respondent's other relationships' (Mollering 2006: 153). Discovering that one of the respondents was gay was pertinent to his scepticism of Islamic banking. His attitude cannot be divorced from his experience of the Malaysian state's treatment of homosexuals and Islam's stance towards homosexuality. It is unlikely that this fact would have emerged from a survey. For this reason, time was spent trying to understand the respondents, their world-views and their histories and relationships. Enjoying leisure activities, participating in their mundane everyday activities was integral to gaining their trust.

3.3.2 A note on 'ordinary' people and everyday practices

Historically, ethnographic research privileges participant's voices, especially from the point of view of communities who are disenfranchised or peripheral. Whilst, my respondents are neither, my project also reiterates a commitment towards a more inclusive and 'human' sociology. To this end, I quote Braudel, one of the leading exponents of the Annales School, who was committed to

understanding the social life of people from past epochs; although my main focus is the contemporary era, like Braudel (1992: 31), I believe that 'clearly, our starting point must be the people of the world. Only afterwards can we talk about things'. Indeed, the starting point of this project is not merely people, but 'ordinary people' who individually make up the masses propping up the private consumption sustaining the Malaysian economy.

The social studies of finance, a relatively novel research field that took its lead from 'new' economic sociology, has both localized the broader global processes within financial hubs (Langley 2008) and 'provide[d] rich descriptions of everyday life in the financial industry and insights into the conceptual frameworks professionals bring to distributing credit around the globe' (Hart 2013). Yet, as their critics have pointed out, the very nature of their studies sterilises any political questions in their research agenda. Their limited scope generally neglects the experience of the ordinary person in favour of a restricted study on a small homogenous social group of experts and the economic elite as well as 'things' or the technical dimensions of financial mechanics (Ross 2011; Hart and Oritz 2014). As Langley (2008: 7) points out, bar some notable exceptions⁴⁹, 'very little is done to explicitly re-orientate enquiry beyond global finance, beyond professional, expert, and elite networks of knowledge and technology ... and the social studies of finance has, with some irony, tended to continue to divorce finance from society at large'. According to Hart (2013), this is notable in their disregard of money. In a review about contemporary research on money and finance, He writes: 'as a result, financial practitioners' preoccupation with money is somehow by-passed. It is as if finance were not a branch of the economy. And how world society is constituted through monetary relations never enters the intellectual agenda'.

Other scholars, determinedly less diplomatic in their assessment of the sociology of finance's deep-rooted interest in the elite and experts of global

⁴⁹ Langley (2008) singles out Alex Preda's (2001, 2005) works on 'popular investment' as the exception to the rule.

finance, accuse the mainstream exponents of the social science of finance of being complicit with elite epistemic communities. For instance, Miller writes that Callon (1988), a leading figure of Actor Network Theory (ANT) produces a 'defence of the economists' view of the world and a rejection of the evidence of how actual economies operate as available to anthropologists and sociologists' (Miller 2002: 219).

The aim of my focus on the everyday practices of ordinary people who possess neither the power nor the expertise to constitute Islamic banking 'from above' is not to dismiss the study of experts, but to demonstrate a commitment to depict a nuanced portrayal of the diversity of social practices and to raise questions about a social group that tends to be marginalised in the study of finance. This text's focus on ordinary people and their everyday and endotic practices stems from an ontological commitment to the everyday and a corollary epistemological perspective that, on one hand seeks to assess banking practices on the terms of the people who engage in them, and on the other, seeks to discover the hidden political undercurrents that shape these practices.

Sociological research focused on experts and elites that does not critically assess the hidden politics behind the authority of expert epistemological communities does raise ethical issues regarding complicity. This categorisation can also reinforce a dualism between the knowledge of experts and 'ignorance' of non-experts – a distinction that I view with a degree of scepticism. For our purposes, the term 'ordinary' or 'lay' people is used to draw conceptual boundaries around a category of people which is often ignored in studies of finance and to juxtapose its social status with that of experts who rank higher in the social hierarchy due to their leveraging of institutional power. Accordingly, I define an expert as an actor who possesses technical expertise and education, and authority that is backed by institutions including, but not limited to, the state. These experts have the power to manage the 'supply' of Islamic banking products, whether it is through regulation, creation, institutionalisation, or governance. My respondents are not experts precisely because they do not

have this power within the realms of finance/banking and Islam. This definition stems from my previously stated commitment to understanding how questions of power and institutions shape the unfolding of Islamic banking practices. As we shall read in Chapter 6, the institutional backing reinforces the authority of these experts to mediate Islamic banking practices, thus enabling a hierarchy of knowledge that sets ordinary people up for trust in and reliance on experts.

The lacunae of social studies of finance is also linked to another factor, namely the unglamorous and endotic quality of everyday practices that ordinary people engage. Perec (2008:204) uses the word 'endotic' to describe an everyday that is neither ordinary nor extraordinary, neither banal nor exotic. Retail banking is so familiar and intertwined with every aspect of our daily life, even that of sociologists, that unlike spectacular forms of finance or consumption, it fails to register significant interest in academia (Botterill 2010). Conducting research in the trading floors of Wall Street or the City of London exudes more exotic glamour and power than strolling around supermarkets or hanging out in suburban banks to discuss the cost of living with middle-class people.

3.4 Grounded theory

As I mentioned in the previous chapter, not having a directly given research question lent itself well to the nature of grounded theory. Instead of testing a given set of hypotheses or just engaging in description, research questions and theory had to be developed throughout the fieldwork as part of the on-going research process. The aim of this approach, which is to 'dig deep into the empirical and build analytical structures that reach up to the hypothetical', (Charmaz 2006: 151) firmly locates the project within grounded theory. The main characteristic of grounded theory is precisely its 'grounding' of theory, in empirically rich data.

My review of literature on Islamic banking and economic sociology enabled 'theoretical sensitivity' but stopped short of being a literature review (Glaser and Strauss 1967: 226). During the preliminary stages of grounded theory, various literatures are explored, but the literature review is usually delayed to a later stage. As often is the case in ethnographic research, 'the absence of detailed knowledge of a phenomenon or process itself represents a useful starting point' (Hammersley and Atkinson 2007: 22). Familiarising visits to Malaysia, and on-going meetings with Malaysian Islamic banking practitioners and the studying of IB products ensured a reasonable familiarity with the setting without 'seeing the context 'through the lens of extant ideas' (Charmaz 2006: 6). Even proponents of grounded theory suggest considerable progress can sometimes be made in clarifying and developing research problems before fieldwork begins (Hammersley and Atkinson 2007: 21).

There is more than one approach towards grounded theory. The Strauss and Corbin approach is known for being rigorous and systematic and has been criticised for restricting the approach based on a set of protocols (Charmaz 2006). The use of grounded theory, or, as Hammersley and Atkinson (2007) term it, 'grounded theorising', as grounded theory is technically the final outcome, is in this project conceived as 'a general stance toward the development of fruitful ideas, concepts and theories that were generated through a close exploration of data' (2007: 166)

Given Bryant and Charmaz (2007) and Glaser's use of grounded theorising as a flexible and useful heuristic, their approach was the one that I heeded. Instead of a formulaic approach, their method is associated with a broadminded commitment to all forms of data and its emphasis on the development of abstract concepts that can be applied to other contexts. Diverse kinds of data were employed to 'theorise how meanings, action, and social structure are constructed' (Charmaz 2006: 151). The main sources used included collections of personal accounts and compilations of detailed narratives from transcribed tapes of interviews conducted with Islamic banking consumers , bankers,

regulators, journalists, and other practitioners. Field notes of observation and casual conversation were collected through episodes of participant observation at *halal* trade fairs (MIHAS), Islamic banks, Islamic banking conferences, Islamic finance educational institutes and with Islamic banking consumers at restaurants, coffee shops, and shopping malls.

The initial points of departure – bank preference, saving and spending patterns, Islamic doctrine and practices, and morality of finance – enabled me to form the initial interview questions. Grounded theory shares some of its basic characteristics with ethnographic fieldwork since most types of analysis include an interactive process (Hammersley and Atkinson 2007: 158). Given that its aim is to generate concepts that fit within the empirical reality, rather than formulating a detailed portrayal, the description is not as what Geertz (1973: 5-6, 9-10) would deem as ‘thick’. Yet, the two approaches share a holistic interpretative approach involving the mining of unstructured data, the on-going development of the analytical categories and the small sample (Glaser and Strauss 1967; Hammersley and Atkinson 2007).

The in-depth, empirically rich techniques of grounded theory suit the requirements of the sample size of this research project, a single case study. The success of the individual case is reliant on in-depth knowledge and evidence associated with grounded theory. Its definite strength lies in the necessity of its ‘interpretations to have a stronger evidential base’ (Payne and Williams 2005: 299).

A main feature of grounded theory is that hypotheses are not formulated *a priori* to data collection. Rather it is developed in a cyclical manner simultaneously with the data collection process (Glaser and Strauss 1967; Charmaz 2006). Abductive reasoning aims to generate theory that would be most likely to explain the facts – rather than trying to prove the salience of one theory over another. Therefore, the aim is to choose the hypothesis that best explains the evidence on the ground. This evidence, coded data, shapes theory which in turn

shapes the collection of data, like a feedback loop, allowing the researcher to switch from data to theory, via theoretical memos which capture 'meaning and ideas for one's growing theory at the moment they occur' (Glaser 1998: 178). Thus, the exigencies of this method dictate that theory and data mutually shape and inform each other. Theory is used instrumentally in order to conceptualise and explain the substantive area of focus, in this case: everyday Islamic banking practices in Malaysia.

With this in mind, throughout the fieldwork I was collecting and interpreting data from which to construct theory. After a number of interviews and significant amount of participant observation, certain patterns started emerging. For instance, the issue of trust in the *shariah* system became increasingly evident. These issues were reflected upon and used immediately or later as categories or patterns to explore. The very nature of grounded theory sets the research trajectory into a dialectic and deviating loop. The process is not linear. Ideas are explored and return to later, at various stages (Glaser and Strauss 1967; Charmaz 2006). And in these ways, to one degree or another, the analysis of data feeds into research design and data collection. 'It ought to involve an iterative process in which ideas are used to make sense of data, and data are used to change our ideas' write (Hammersley and Atkinson 1995: 205). In other words, there should be movement back and forth between ideas and data. Accordingly, the method involved more than just analysing the data and recording the findings. The researcher is expected to continuously mine the data until theoretical patterns emerge. 'We must be prepared to go beyond the data to develop ideas that will illuminate them, and this will allow us to link our ideas with those of others; and we must then bring those ideas back to test their fit with further data, and so on' (Hammersley and Atkinson 2007: 158).

This research meets other criteria that Charmaz (2006) outlines as fundamental to grounded theory studies. These are based around credibility, originality, resonance, and usefulness. They include intimate familiarity with the setting and topic; a sufficient range of data covering a wide range of empirical observations;

systematic comparisons between observations and categories; fresh categories that offer new insights; theory that challenges and refines current ideas; revealing unstable taken-for-granted meanings; drawing links between institutions and individual lives; contributing with knowledge that can spark further research in other substantive areas (Charmaz 2006: 182–83). The discussion below will illustrate how this research complies to these criteria with practical examples.

Throughout the fieldwork, systematic comparisons, often in email discussions with my supervisor were also being made. Only a few weeks into the fieldwork, it became apparent that a considerable section of Islamic banks were subsidiaries of conventional banks. The research was adjusted accordingly, and effort was made to meet representatives of these banks. With regards to consumers, categories brought up by respondents, like Muslim and Islam, were unravelled and not taken for granted. Respondents were probed to elaborate and part of the analysis tried to review this category and understand how it was linked to other categories inherent to Malaysian identity. Links were made between consumers and institutions through the abstract idea of trust. It was not immediately obvious as to how consumers' preference formation developed. It was a result of the grounded theorising, which allowed the concepts of trust and confidence to emerge and generate a nuanced picture of the choice formation.

The data reaped from these initial interviews allowed me to take draw on patterns and link them with construct abstractions, which I then continued to investigate at more advanced phases of the fieldwork. This non-linear method of investigation, looping back and forth from empirical 'reality' to abstracted conceptualisation was the perfect fit for the development of novel frameworks of theory. The acknowledgement of variations amongst Islamic banking practices, as opposed to one homogenous framework, particularly suits research focusing on social phenomena that fall under the Islamic umbrella, such as Islamic banking. Given the propensity of journalistic perspectives on Islamic banking to 'black box' Muslims or Islam, this method is particularly suited for presenting

substantive findings that are unequivocally particular to subsection of Kuala Lumpur, occur at a unique juncture, and do not claim to be representative of all Muslim communities. Despite making no attempts to construct a grand theory of all Muslims, or even Malaysians, this research project generates a number of insights that can raise comparative questions with other communities of Islamic banking consumers, within and outside of Malaysia. In particular, my findings on how Islamic banking consumers actively construct their Islamic banking practices, trust, *shariah* regulation and expertise, and rely on social capital found in personalised trust relations, sets a successful standard against which absence (of Islamic banking practices) can be examined.

3.5 Ideal types

The grounded theory that emerged from the grounded theorising includes ideal types. Weber first introduced these typologies to sociology in his own interpretative studies of economic action. As heuristic tools they are perfect for delineating the stark differences between types of action, which can only be captured through interpretative methods. Weber used them as tools to show that, although on the surface people's economic action appeared identical, the meaning underpinning this action was different. Similarly, the use of this tool allows me to capture the differences in meaning between three rational types of Islamic banking actors: the idealist Virtuoso, the routine-bound Pragmatist and the mistrustful Sceptic.

These concepts are 'observer-identified' (Lofland et al. 2006) in that they were not identified by the respondents, but by myself – the researcher. As is expected of typologies, the three types are not precise renditions of empirical reality. 'The ideality of such a type lies in its simplification and aloofness from detail: it will be free from the detailed complexity of the actuality to be analysed with its aid' (Watkins 1952: 23–24). Consumer choice is often messy and not monolithic or singular – even within the same individual (Warde 1994). Also,

real people do not conform to these types. Ideal types serve as useful heuristic tools that stress and interpret commonalities in people that display similar behavioural patterns.

Their main value is in providing a 'bird's eye view' (Watkins 1952: 24) of the respondents and crystallising their most salient characteristics. Capturing the varying emphasis of different arrangements enables a systematic analysis (Hart 1988: 191). The ideal types will evolve throughout the empirical chapters, but the next section will introduce us to the main characteristics of each archetype. A striking feature of these types is that they each show evidence of a hierarchy of interests, with the order of ideal and material interests shifting across each type. They also showed different combinations of reflexivity and routine, with reflexivity becoming heightened amongst all three types during times of personal or macro economic crises

3.6 Historical analysis

Fieldwork was only a part of the overall project. Historical and documentation analysis as well as preliminary desk work, are an integral aspect of this project. The perspectives of Islamic banking consumers in Chapters 7 and 8 are accompanied by a historical and data analysis of the global and Malaysian Islamic banking sector and of the relationship between Islam and capitalism in Malaysia and in the Middle East and North Africa (MENA), aspects of which are mainly located in Chapters 1, 4, and 5. Thus, the analysis of the micro issues are framed within a broader macro perspective that incorporates the contemporary and the historical.

Although he was addressing historians, E. H. Carr's maxim about history that 'to master and understand it as the key to the understanding of the present' is a useful reminder for sociologists seeking to understand current phenomena (1987: 26). Unfortunately, most research on finance excludes an analysis of

phenomena that are outside the limits of the observation of ethnographic fieldwork. Whilst this approach generates nuanced observations of everyday life, it limits the analysis of the researcher to what is immediately discernable. This is problematic because ‘not only do social interactions proliferate beyond our gaze, but so too do the concepts and narratives that people use to make sense of them ... [therefore] The first step in linking everyday practices to the global contexts that make them understandable is historical comparison’ (Hart and Oritz 2014: 475–76). The historical long view serves a second purpose. The documentation of social change can impede the researcher from reproducing people’s vision of the sector. In the case of Islamic banking, this caveat is especially important. Islamic banking is a top-down phenomenon with propagates its unique set of ‘origin myths’ that are aligned with the powerful interests of the state, banks, and co-opted *shariah* scholars.

Thus, historical analysis aided me to locate the origins of these myths and perceive the social and power relations that exist beyond our immediate gaze and prevented me from reproducing ‘the industry’s own vision of itself’ (Hart and Oritz 2014: 476). This is especially the case with the Islamic revivalism that constructs historical facts and traditions that suit its interests, and which collide with the interests of the Islamic banking industry. As I explain in Chapter 5, the most obvious example is the mythology that accompanies Islamic finance and which Maurer’s otherwise excellent work failed to spot. In Chapter 2, I argue that the repercussion of excluding a historical analysis is that the idea of Muslim exceptionalism found on both sides of the ideological divide and on a scholarly levelis reinforced⁵⁰.

Second, studies of Islamic banking that forgo a historical analysis exclude the centrality of colonial relations in the production and reproduction of this knowledge. The origins of modern Islamic moralising as a reaction to Western imperialism was highlighted in the first chapter. In the Chapter 4, I explain how

⁵⁰ It is interesting that parallels exist with the ‘more extreme products of Soviet and anti-Soviet schools of historiography’ noted by historian Edward Hallett Carr (1987).

the colonial domination of Malays also shaped the role of Islam in politics and society and help explain its intense contestation in contemporary Malaysia, and therefore its salience with regards to the identity formation of Muslim-Malays and its Islamic banking practices. It was thanks to primary sources – recollections from people involved in the Islamic banking movement from the 1970s to recent times, and others around them – that I was able to corroborate firsthand how the Islamic Banking Act of 1983 emerged as a result of United Malays National Organisation's (UMNO – the leading party within the Barisan National coalition) strategy to out-Islamise the Islamic opposition.

3.7 Document analysis

Modern day research is increasingly incorporating documents. Researchers realised that documents 'can provide information about the settings being studied, or about their wider contexts, and particularly about key figures or organizations. Sometimes this information will be of a kind that is not available from other sources. On other occasions they may provide important corroboration, or may challenge, information received from informants or from observation' (Hammersley and Atkinson 2007: 122).

Although oral testimonies, through interviews, are given priority in this project, material resources such as documentation and imagery were also collected and analysed. 'In many instances, therefore, ethnographers need to take account of documents as part of the social setting under investigation' (Hammersley and Atkinson 2007: 122).

The written word is important for this project for a number of reasons. First, my respondents were all literate and documents are an essential feature of their everyday life. Second, banking practices are especially dependent on documentation as they are contract and promotional documentation heavy.

Documentation and imagery are an integral aspect of Islamic banking practices as respondents read promotional material, analyse the figures provided by banks and read and sign contracts. Third, the written word is crucial for Islamic banking because Islam relies heavily on the written words of the holy texts, the most important of which is thought to record the word of God (discussed in further detail in Chapter 5).

Certainly, documentation should not be taken as given and 'official documents and enumerations should be treated as social products: they must be examined, not relied on uncritically as a research resource' (Hammersley and Atkinson 2007: 130). This caveat was heeded when, for instance, analysing the images and symbols and logos used by the Islamic banking sector and the wider *halal* industry. As we shall read in Chapter 5, the selection of images and calligraphy used in the branding of the banks and their promotional literature is socially significant. As Hammersley and Atkinson point out, if we want to make sense of many social worlds, we ought to take account of how they are physically constituted (2007: 134). 'Documents of all types can help the researcher uncover meaning, develop understanding, and discover insights relevant to the research problem' (Merriam 1988: 118). Documentation analysis is mainly located in Chapter 5. The main focus of this type of analysis was the production of knowledge and narratives that inform the sector's construction by state and banks and complement the interviews and participant observation conducted with experts.

The advantages of document analysis is that it's 'efficient, available cost-effective, unobtrusive stable exact' important when dealing with experts who are short of time (Bowen 2009: 31). The process included 'skimming, reading interpretation' (Bowen 2009: 32). Identification process is important. Over the three years I collected an immense archive of magazines, leaflets, adverts, articles. One of the tasks was to sift through the information and decide what was relevant, before proceeding to the analysis section (Strauss and Corbin 1998; Corbin and Strauss 2008).

The document analysis was predominantly based on thematic analysis. The method is complementary to the principles of grounded theorising as the researchers analyse the data in an effort to recognise emerging themes that can become theoretical categories (Fereday and Muir-Cochrane 2006). 'The process involves a careful, more focused re-reading and review of the data. The reviewer takes a closer look at the selected data and performs coding and category construction, based on the data's characteristics, to uncover themes pertinent to a phenomenon' (Bowen 2009: 32). In this case, predefined codes that had emerged from the interviews and participant observation were used. It helped to integrate the data collected from the other methods and also emphasise certain arguments that would not have been as easy to extract. For instance, being able to compare and contrast theory versus practice in bank practices with consumers allowed me to analyse the veiled social relations behind with credit risk – which in theory banks were not supposed to engage in. Also since I could not be present during the actual meeting during which Islamic banking consumers acquire a product or a service, I could get a better sense of the discourse that banks use when selling products.

3.8 Preliminary desk work

The historical and document analysis did not only take place during or after fieldwork. Due to my longstanding research interests, I had already engaged in serious research into the subject matter. As an undergraduate, I developed a strong interest in the MENA region, which resulted in a dissertation that analysed the discourse of foreign direct investment (FDI) in Libya following Qaddafi's rapprochement with the 'West'. Having decided that I wanted to continue focusing on the region, I was intrigued by a series of articles about Islamic finance in *The Financial Times (FT)* published right after the 2007–08 credit crunch. As I researched the sector, it became increasingly obvious that there was very little research about the topic and that, very often, the narrative being spun by the interested actors camouflaged a web of contradictions.

My research on Islamic banking started with my 2009 MSc dissertation ('Why the Camel is Tied. Towards a Political Sociology of Islamic Finance in the MENA Region: The Egyptian Case'). It was through this dissertation, which discussed the conflicting political and societal pressures underpinning the Islamic finance sector in Egypt, that I started to develop an understanding of the sector. This included exploring the scholarly debates, analysing the internal tensions through the practitioners' literature and by attending Islamic finance conferences and seminars, as well as by analysing Islamic finance through the theoretical framework provided by political and economic sociology.

Following my MSc dissertation, I continued to attend Islamic finance events and develop my network, whilst shifting my attention away from the MENA region towards the global hub of Islamic finance, Malaysia. Before returning to the London School of Economics (LSE) in 2010, I spent four months exploring Malaysia and another three learning Arabic in Tunisia. Both served as preparation for this PhD.

In the months before I embarked on fieldwork, desk work was undertaken to familiarise myself with the socio-economic landscape of Kuala Lumpur in order to determine how to select respondents for interview, how to approach interviews about financial matters, and also to prepare a list of questions and themes. The main method for data collection on population characteristics was through a comprehensive review of a broad range of secondary data sources. This included the review of household income surveys and surveys on Muslim communities, such as the 'Communities and Local Government Summary Report on Understanding Muslim Ethnic Communities in England' (2009).

Another source of secondary literature provided the context and sensitised the approach towards the themes and controversies linked to Islamic finance. This included a review of research on the behaviour of Islamic finance consumers (Dusuki and Abdullah 2007; Haque 2010; Thambiah et al. 2011) and other

South East Asian countries (Gerrard and Cunningham 1997 and Pepinsky 2010). I also reviewed anthropological and sociological accounts of Islamic finance and other *halal* industries amongst Muslim communities in South East Asia and the Middle East (Gillette 2000; Kuran 2004; Maurer 2005; 2006; Tripp 2006; Fischer 2008; 2011).

3.9 Pilot Interviews

Pilot interviews were held with a number of Malaysian citizens and other Muslims of different nationalities in London during January and February 2012. The aim was less to analyse respondents' answers and more to refine approaches and reframe any questions that might have been too leading, misleading or inappropriate.

The pilot interviews gave me a practical insight into the type of obstacles I'd have to negotiate during further interviews in Malaysia. Interviews with Malaysians living in London gave me an insight into Malaysian attitudes towards subjects such as Islam, finance, money, consumption and wealth. This information informed the set-up of the interviews and the composition of the questions and also helped minimise social gaffes. In Malaysia, 'saving face' is integral to the continuation of relations. When asking questions about sensitive subjects like consumption or even status, it is crucial to prevent the respondent from 'losing face'. It was also helpful to know what type of gifts would be acceptable and how to navigate questions regarding my personal marital status and religious adherence. Admitting to being agnostic or atheist is rarely acceptable in Muslim communities. The presence of a single unmarried female eager to establish friendships could also elicit unwanted responses. Developing strategies to mitigate these potential pitfalls was part of the preparatory process. Following the pilot interviews, a detailed discussion was held with my supervisor, and a strategy was devised to counteract the shortcomings. Some questions were rewritten in order to indicate knowledge of the subject to the

respondent. For example, when asking about *zakat*, the exact percentage required under *shariah* was included.

3.10 'Getting in'

'Getting in' – gaining access to people you want to study is a problem that afflicts researchers doing empirical work (Becker 1970: 15). A researcher studying the consumption patterns of the Hui, a minority Muslim community in Xi'an China, wrote, 'almost three months into my fieldwork, I wondered if any Hui were ever going to talk to me for more than five minutes' (Gillette 2000: 20). Keeping in mind the guardedness of certain communities towards foreigners, I used key informants to scope interviews with actors from the supply and demand side.

The credibility of informants depends on the researcher's ability to assess critically the informant's role, actions, and statements in the context being researched. They are instrumental to the collection of data and yet can also be a source of data in themselves (Becker 1970: 29–30). A researcher must reflect on the informant's possible bias and interest in the project. My informants' interest in aiding my research was evaluated. It was obvious that they believed that an LSE researcher added credibility and value to the sector. Throughout the research process, the LSE name was often used as leverage to gain access with experts and into elite circles. Being aware of their motivation alerted me towards their tendency to gloss over controversial aspects of Islamic finance or their tendency to ignore individuals or organisations, such as the Malaysian Islamic Consumer Association, which is very critical of Islamic finance.

The time constraints imposed on PhD students at British universities means that fieldwork can no longer take place over a leisurely two- or three-year period. Whereas Fischer and Gillette spent a considerable amount of time developing their knowledge of the field and relationships with informants, I had to improvise

and use methods that could provide a short-cut to the establishment of connections and instant access to informants. Most importantly, I had to locate a base through which to start establishing connections instantly.

3.11 Sampling: the snowball technique

Scoping interviews with laypeople proved to be more difficult than finding experts who were willing to share information. I resorted to a strategy used by researchers when finding informants who are willing to talk becomes challenging: 'snowballing'. This type of sampling has been defined as a sample gathering technique 'created through a series of referrals that are made within a circle of people who know each other' (Biernacki and Waldorf 1981: 151). It is a technique that depends on identifying primary respondents who can then make introductions to other people who fit the criteria required by the researcher within his or her social networks.

It is a special technique that is generally used by researchers to access hard to reach or hidden populations that are often marginalised and/or involved in deviant behaviour (Faugier and Sargeant 1997). This technique lubricates contacts because of its 'security features' (Lee 1993: 67) that reassure informants. Since the introductions are made by intermediaries that are part of their networks of trust, they trust my intentions and drop their guard. This technique was valuable for acquiring lay and expert informants and establish myself as a person of trust and an insider within their network. With the former it helped create a bond of trust required when asking people to hang out with their friends and family and to discuss intimate matters like money. People often view discussions about their experiences and beliefs of the crisis, Islam, and money to be sensitive and not topics of chats with strangers.

It is most commonly used to study sexualities as they are 'often considered "private" and outside the "public" realm of research' (Browne 2005: 48). Lay discussions about money may be subject to taboos, especially when practices

reveal hierarchies of power (Aldridge 1998). In the case of practitioners, they tend to be protective over the data (Guseva 2008). Some mid-level practitioners were concerned about corporate espionage and wanted to view my questions before the interview and also requested an official letter of introduction and reassurance from my supervisor about my ethics.

During fieldwork Guseva (2008) found it difficult to establish contacts with banks and card networks. Attempts to contact managerial staff were always blocked or detoured to the media relations department. While I was able to overcome this problem through my network of contacts, I was aware that establishing relationships with consumers would be more difficult. As it turns out, with consumers, the snowball technique was even more invaluable. Whilst the high social and economic standing of my informants from the industry allowed me to access elite practitioners and request interviews with people who would otherwise be too busy for doctoral researchers, they were of little use with the ordinary consumer. So, although similarly to Guseva (2008), I decided that the snowball-sampling technique would be the best strategy. However, besides asking for introductions from all my contacts at home and abroad, I also used social media websites.

Consequently, I resorted to my diverse groups of contacts, including people in finance, academia, civil activism, and engineering, were used so as to create a number of different social webs from which to tap respondents. Personal friends, family friends, former colleagues, and the online fora of the Commonwealth Scholarship recipients and LSE alumni, were mobilised for my purposes. I emailed and called friends to put me in touch with anyone who had any contact with Malaysia and Islamic banking. I sent email requests on chat rooms and fora on social networking sites such as Facebook, LinkedIn, and Couchsurf. Being a member of groups like LSE Malaysia and Commonwealth Scholars also allowed me to establish contact with a diverse number of Malaysians and to locate an 'adequate sample' that would allow for the discovery of potential themes and types or categories (Glaser and Strauss

1967: 230), by directing me to friends and acquaintances that fitted my respondent profile. Contacts were asked to participate when they fitted the fluid criteria. Many went out of their way, organising dinners, driving, and accompanying me to meetings, and even organising parties at home.

By spreading my net as widely as possible, I was also able to overcome one of the main problems of this technique. Due to the shared trait between people, resulting from homophily, this technique can result in homogeneous samples (Lazarsfeld and Merton 1954) as the snowball technique often relies on participants sharing the same traits or characteristic under study Faugier and Sargeant (1997). In my case it was people who worked in or used Islamic banking or were Muslim-Malay. In an attempt to mediate this effect, I resorted to basic methods; gyms and regular coffee shops proved to be the unlikely solution to my dilemma. Loitering, as other researchers have noted, can produce mixed results. For some they do not lead to feasible research conditions, but for others, persistence and a 'lucky break' can prove productive (Atkinson and Hammersley 2007: 44–46). 'Loitering' around two different gyms and circulating around the same food stalls and coffee shops helped me hone a friendship with people with whom I'm still friends to this day.⁵¹ Attending the same classes on a regular basis, and spending time with them in the sauna, allowed me to gain their trust. Soon I was joining them on shopping trips, outings to restaurants and the cinema, and meeting their families. As I will explain in a later section, this was one of the instances in which my gender actually eased access.

Throughout the whole process I was 'actively sampling' data: continually analysing the data to see where the next theoretical question would take me, or to reroute the research to locate respondents or events that were of theoretical relevance (Glaser and Strauss 1967: 228). The use of social media has its limits. I was fully aware that these contacts belonged to a cosmopolitan and

⁵¹ Two of the informants have invited me to their weddings. As the only foreigner, I felt that this was an honour and symbolic of their trust in our friendship.

sociable community that mainly consisted of males and non-Muslims and regularly mingled with expats and foreigners. It was necessary to make contact with a more traditional and somewhat conservative type of Malaysian. I planned some of my social activities to establish contact with interviewees including single and married females who are more likely to belong to impenetrable tight-knit groups. By attending classes at the local gym, I diversified my network and met young Muslim female professionals. They were employed across a various range of industries, from the oil and petrochemical sector, third sector, financial and legal sector, as well as medicine.

Affiliation with an education institute is a common and useful way of establishing credentials with the local community. Two similar examples are Fischer (2008) in Malaysia and Gillette (2000) in the People's Republic of China. Therefore, my starting point was accreditation with a local institution.

One of my key informants passed on the details of the International Centre for Education in Islamic Finance (INCEIF) CEO. I requested access to the building and the students and I was welcomed as a visiting researcher and allowed to spend time at the university and to use the facilities. During my time there I interviewed students and was also able to attend industry events to which otherwise I would not have been able to gain entry. Getting to know the staff and students helped me broaden my network of contacts. Staff and students were helpful in introducing me to their contacts outside the Islamic Finance sphere.

3.12 Semi-structured interviews with consumers

An in-depth interview is sometimes described as a directed conversation (Lofland et al. 2006) that requires the social skills necessary for meaningful social interaction. In-depth interviews are loosely structured, take heed of crucial nonverbal data, and use probing questions to extract elaborate personal narratives, not narrow answers (Jones 2004: 259–60).

Having decided to opt for the inventiveness of grounded theory and wanting to allow unexpected themes or issues to emerge, interviews were semi-structured. Semi-structured interviews are best for research that requires a depth of scope, specificity and personal context that allows for the deeper dwelling on a specific problem and/or situation (Merton et al. 1956: 110–17). Adopting this interviewing technique gives the freedom to the interviewees to speak freely (Flick 2009: 203–13), allows for reflexivity (Hammersley and Atkinson 2007: 117), and gives the researcher enough manoeuvring space to use follow-up questions to clarify ambiguous responses. Introductory meetings, during which both the respondent and myself could negotiate the boundaries of the interview and also establish rapport, were held whenever possible. It emerged that disclosure about my personal and professional background, such as my basic knowledge of Arabic and extensive travel in Asia and the Middle East and North Africa - the traditional seats of Islam – as well as my motivation in researching Islamic banking in Malaysia, helped. Once a rapport was established, several of the respondents viewed my work as a positive engagement by a westerner in Muslim community. My status changed from that of a disengaged outsider into an involved intermediary.

Following the advice of Charmaz (2006), the interview was initiated with a few broad, open-ended questions to encourage unanticipated statements and stories to emerge. The questions were framed in a way that they would allow disclosure. Respondents were directed towards a theme – their trust of regulatory boards, for example – but allowed to direct the course of the conversation. Simultaneously, the goal was to create the atmosphere of a conversation to leave room for the interviewees to open themselves up and leave space for the ‘unanticipated’ (Hammersley and Atkinson 2007). Although the interviews were loosely structured, it was in my interest and that of the respondent to reduce unnecessary anxiety. The respondents were informed that the conversation would revolve around a specific theme, Islamic banking and that this was one of the ways in which I was collecting data for my doctoral

research. They were also informed of my ethical obligations and of their right to ask me to stop at any moment. The presence of the recorder was sometimes a cause of anxiety, but they were always reassured by my guarantee that all the information would be kept confidential.

All consumers were residents of Kuala Lumpur and its satellites and all were eligible to use financial services. I ensured that the complete range of products was represented, from house to car financing, simple deposits, credit cards and miscellaneous loans. The participants were part of the wider middle class. They were students or white-collar professionals who owned property. This meant that they had enough disposable income to participate in the consumer-based economy and to be eligible for retail financial products.

The research involved in-depth interviews with 20 laypeople. The number of participants fits Mason's (1996) typology of sampling. The number of the sample is acknowledged to be part of wider universes but not chosen primarily to represent them directly (Mason 1996: 92–93). The research design did not include a predetermined number of respondents. The interviewing process ended when 'theoretical saturation' was researched. Unlike statistical sampling, this sampling technique is not concerned with an accurate evidence of distributions of people. The correct sample is reached when additional data fails to add substantially new information that could add to the theory building or category construction (Glaser and Strauss 1967: 229–30).

Interviews with consumers were held between March and June 2012 in Kuala Lumpur. Sporadically, they were also held in other locations. A few respondents visited London on holiday in March 2013 and the time spent together served as participant observation, and also allowed for interviews. The interviews were held at a variety of locations, reflecting the interests of the respondents and the social context. It was acceptable to conduct interviews at their homes when I was introduced and accompanied by a close acquaintance, or when their home was located at a university dorm.

When interviewing men, in keeping up with local standards of propriety and for my own security, meetings were held in public places such as their workplace or malls. Sometimes the respondents expressed a wish to meet at cafés, restaurants, and my apartment in central Kuala Lumpur. The respondents were never paid. Small customary gifts like chocolates or cakes were presented to the host when interviews took place in their home. In the other instances, I treated them to coffee or snacks. Some respondents were ambivalent about edible gifts that I had brought from abroad and were not from a known brand. I soon realised that I had made the wrong assumption that they, like me, would have seen mass-branded gifts as impersonal and brash. I was wrong and, when I changed strategy, they responded very positively to small edible gifts from famous local or international brands – especially Harrods.

Initially, a number of topics were selected with the aim to use these themes to lead interviews into an in-depth discussion spanning a number of sensitising concepts within a sociological perspective. People's motives underlying the choice of bank and financial products; attitudes towards saving/spending; financial 'education', socialisation within Islamic teachings and practices – school, university, religious teaching, family and friends; lifestyles; ethics of conventional and Islamic banking; and the link between Islamic banking and cultural identity, were some of the leading themes used. The data thus generated enabled successive levels of analysis linked to my main research questions.

A list of questions was available for reference. Questions were not mechanically read out. They served as a guideline for the themes that I wanted to explore, and were seamlessly integrated within the conversation. During the first few interviews, knowing that I had a list of questions to fall back on was reassuring, even if I rarely resorted to them. This method is not always considered appropriate for semi-structured interviews. According to Jones (2004), if in-depth interviews follow the format of questionnaires, constantly restricting the flow of the conversation through a rigid questioning method, then they cannot

be considered intensive interviews. I was aware of this limitation and endeavoured not to use the written questions, merely to have them with me as an emergency crutch. In practice, the flexibility of the interview meant that it was not a linear process, permitting me to follow leads that emerged, and sometimes to follow up points that had been raised earlier.

3.13 Expert interviews

In contrast to consumers interviews, the respondent is of less interest as a person than is his or her capacity of being an expert in Islamic banking. The interviews were more rigidly structured and focused on their area of expertise (Meuser and Nagel 2009: 17–42). All were asked about the general development of Islamise banking in Malaysia and the challenges being faced by the sector. Furthermore, they were asked to elaborate on their views on the tension found in Islamic banking and the critique coming from within the sector – particularly with regards to *shariah* scholars and the move from equity to debt. Later, the interviews evolved around thematic units tied to the expertise of the person being interviewed. For instance, practitioners focused on retail product were asked to explain the development process in relation to the *shariah* scholars and consultancy boards. Focusing is crucial to avoid wasting time discussing unrelated topics, and also to prevent appearing amateur. For an expert interview to proceed successfully, it is important for the researcher to show the respondent familiarity with the topic. From experience, establishing one's authority, perhaps through a short introductory email, prevents experts from giving 'rhetoric' interviews – lectures on their knowledge (Flick 2009: 89–90). For instance, CEOs were asked about their consumers; *shariah* scholars about their regulatory role; head of divisions about product development and trends; branch managers and cashiers about consumers behaviour; Islamic banking movement leaders about their role in the drafting of legislation.

Three key gatekeepers, an editor of one of the most prestigious Islamic banking publications and regular contributor to the *FT* and other publications on Islamic finance the head of the Islamic division of a major private equity fund, and a banker from one of the larger Islamic banks who also had ties to the political elite and diplomatic ranks, also helped me to broaden my network. They were instrumental in making key introductions to CEOs of Islamic banks and various regulators, and in this respect they were also gatekeepers upon whom I relied for access. As is often the case, they were the 'initial point of contact with such research settings' (Hammersley and Atkinson 2007: 49) and allowed me access to formal settings that usually require professional membership in order to gain access.

They also regularly invited me to conferences and would point out the key people at the meetings and also brief me on the latest developments. The IB sector is based on a relatively small network. Very often the same people would appear at key events, both in London and in Malaysia. Once I started attending events regularly, my presence became accepted and often expected. The majority of interviews took place in Kuala Lumpur and occasionally in London, Malta, and via Skype between 2009 and 2013. Even when focusing on one case, it is possible for the data collection to take outside the specified boundaries of the location (Hammersley and Atkinson 2007). The 16 expert interviews were held with key Islamic banking practitioners across a wide spectrum of roles, from cashiers who worked in local branches spread around Kuala Lumpur and its suburbs, to the managers of these branches, the heads of the Islamic products divisions and CEOs. The nature of their jobs and the small Islamic finance community meant that I often participated in events with these practitioners. Informal chats took place during conferences and seminars. Interviews always took place at their office and usually lasted 45–90 minutes.

The people interviewed included the following:

- CEOs of three prominent banks: one Islamic and two Islamic divisions of conventional banks;
- Heads of retail banking division from four banks: one Islamic and three Islamic divisions;
- Head of Islamic finance division – Central Bank (Bank Negara);
- Leading exponents of the Islamic banking movement, who drafted the 1983 legislation;
- Regulatory experts including *shariah* scholars and lawyers;
- CEO of INCEIF;
- Islamic investment bankers;
- Journalists who specialise in Islamic Finance;
- Branch managers;

3.14 Reflexivity and ethical considerations

Interpretative social scientists depart from an epistemological stance that characterises the production of knowledge, as it always involves a certain degree of interpretation and judgement, influenced by a wider historical and perhaps personal context. Every qualitative researcher is aware that ‘neutral questions do not mean a neutral interview’ (Charmaz 2006: 27). Our data collection process is a construct of experiences and assumptions brought into the interview by the interviewer and interviewee. Naturally, our adherence to the stance that knowledge is to a certain extent socially constructed, requires self-examination of the knowledge we’re producing. Without a doubt, reflexivity is an essential requirement of any research exploring a subject, Islam, which has borne the brunt of crude prejudices over the centuries (Said 1995; Al-Azmeh 2010; Lockman 2004; Halliday 1995; 2006; Rodinson 2007; Zubaida 2011).

This section considers my presence in the research in terms of how it might have conditioned the situation, and the respondents in particular, as an integral

aspect of qualitative research. As Charmaz suggests, 'research participants appraise the interviewer assess the situation, and act on their present assessments and prior knowledge, often in taken-for granted ways' (Charmaz 2006: 27). The in-depth nature of an intensive interview fosters an act of reciprocity similar to a conversation. Just like a conversation, it is 'contextual and negotiated,' and is not always a straightforward process (Charmaz 2006: 27). So is the language used as a tool to express the researcher's thoughts: 'language, in such a perspective, is never simply descriptive, but persuasive also' (Hart 2009). Most would agree that, 'qualitative research of all sorts relies on those who conduct it. We are not passive receptacles into which data are poured' (Charmaz 2006: 15).

Questions also have to be raised about my involvement in the production of knowledge. Any sound researcher, wanting to avoid the pitfalls that result from a lack of reflexivity, should ask 'who are the monographs for?' (Hart 2009), and 'how is my status reflective of broader inequalities?'. Equally relevant is my outsider status. It created a power imbalance with some of the respondents as they raised both silent and overt questions about my knowledge of Islam and proceeded to teach me about Islam's basic doctrines instead of engaging with my questions. The resolution to this problem was to communicate snippets of my knowledge of the subject during the preliminary orientation chats. In some other instances, my status as a doctoral student shifted me into the dominant position, albeit to my detriment as respondents were telling me what they thought that I wanted to hear instead of their authentic viewpoint. Respondents were scared of 'losing face' by not being able to answer my technical queries about the products or about specific elements of Islamic doctrine. In this type of interaction, I could sense they felt that they were acting as ambassadors of their faith and country. They felt that it was their responsibility to show their knowledge of Islam and the 'best side' to the foreigner making queries about their culture. It was eventually possible to overcome this obstacle by organising several casual meetings and building a rapport.

It was not enough to ensure that my questions were not misleading or inappropriate. As it turned out, cultural and ethnic differences did pose a minor dilemma at times. As other researchers have pointed out, not being a follower of the same religion, or even belonging to the same nationality, 'was somewhat puzzling' for respondents (Gillette 2000: 20). Upon meeting, the respondents could easily identify me as non-Malaysian and non-Muslim, and they almost always asked me why I was interested in Islamic banking and Malaysia. As explained earlier, my interest in 'Muslim' societies evolved from my undergraduate interest in understanding developments in the MENA region on socio-scientific terms. In order to demystify a vague-sounding reply, I usually explained that, coming from a Mediterranean country that had won its sovereignty fewer than four decades ago and, due to our cultural, linguistic, and historical proximity to North Africa, I felt that I was not white or Western in the strictest sense. To facilitate the research process I could have covered my hair and, thanks to my knowledge of Islam, plausibly passed myself off as a European Muslim, but I wanted to act in good faith and decided that it would not only have been unethical, but possibly caused other unanticipated problems.

3.15 'Face' in a Malaysian context

The understanding and adaptation of researchers is crucial for repeated access to participants and their milieu. This is more so crucial in locations where adherence to rigid etiquette is obligatory. Foreigners are usually excused up to a point. In order to cushion direct questions that could make me come across as brash and enable my respondent to save face, it was sometimes necessary to devise roundabout ways for people to answer questions that could cause embarrassment. Direct and frank speech is usually seen as confrontational and ill-mannered. I was able to observe the consequences of the clash of culture at an Islamic finance trade show. An American banker who, as a guest speaker, was invited to assess the obstacles and opportunities of Islamic Finance, declared that he was going to give a frank assessment of the sector: the panel

started to look queasy. He then launched into a speech that condemned the 'hypocrisy of Gulf bankers'. As the audience grew increasingly agitated and drew horrified gasps, I heard one of the organisers order the technicians to switch off his microphone. During the networking coffee, everyone agreed that he had made himself *persona non grata* at all Malaysian Islamic finance events.

Another unavoidable question regarded my religious beliefs. From my travel experience in Muslim societies, the question of religion always crops up. Atheism or agnosticism is rarely acceptable in Muslim countries. It is generally accepted that Muslims are born into a religion and must take their parents' or father's (when the mother is a non-Muslim) religion.⁵² Those Muslims who profess to be either agnostic or atheist can face criminal retribution for apostasy in all Muslim countries, with the exceptions of Turkey and Lebanon. Although as a child of non-Muslims I would not be strictly considered an apostate, declaring that I was agnostic or atheist would have caused considerable unease and friction. When questioned, I simply replied that, just like them, I was one of the 'People of the Book'. This is how the Qur'an refers to non-Muslim adherents to the Abrahamic religions.

In addition, it is hard to develop genuine empathy and understanding in such a relatively short fieldwork period if the respondents, customs and environment being studied are new. Historically, researchers doing fieldwork outside their customary habitat spent years learning the language and acclimatising *in situ*.⁵³ The current PhD format, in which researchers are expected to produce a thesis within four years, does not allow for intense immersion. If they are to bypass the traditional initiation, contemporary researchers must possess traits of cosmopolitanism. When time is of the essence, the ability to relate to 'others' outside your regular social, cultural, political and economic environment is

⁵² Female Muslims are discouraged from marrying non-Muslims; one explanation is that the transmittance of Islam is patrilineal. For instance, the non-Muslim husbands of Muslim Malaysian females are not granted citizenship.

⁵³ In what is perhaps an extreme example, Fred Halliday completed his doctorate on Yemen over the span of two decades.

necessary and can only be borne out of *a priori* experience. The months spent in Malaysia and other South East Asian countries, totalling over 18 months, before the commencement of fieldwork, were instructive in the cultural subtleties of everyday interaction.

Navigating the labyrinth of social customs in non-northern European contexts requires patience and often an appreciation for the art of negotiating difficult requests. Observing the dynamics of 'building face' enabled me to learn how to prevent 'losing face'. Causing others shame or feelings of embarrassment can generate feelings of anger that could result in a researcher being purged from a social circle. The rules surrounding 'face' are abstract and elusive yet it is one of the main filters through which social interaction is regulated. Showing gratitude helps establish relationships and gifts are an easy symbolic way to say thanks. However, this could also be a minefield. Buying a gift that the recipient cannot afford could cause feelings of shame if the relationship is not one of patronage, in which a social and economic hierarchy has already been established and *de facto* accepted by all parties. As a foreigner, buying very expensive gifts or refusing gifts from my obviously poor respondents could cement the perceived racial and economic inequalities between my respondents and me, and lead to awkwardness. One of the students at the Islamic University was the daughter of a street vendor who struggled to make ends meet. It was very awkward to acquiesce in her insistence on paying for lunch and, later on, water and snacks. Simultaneously, I understood that she wanted to establish an equal relationship and, had I continued resisting, she would have been insulted. Offering inappropriate gifts that are *haram* would also cause them to lose face because they would have to shame me by rejecting it. I would discover that, when making difficult demands, it was important to give an honourable way out for the other party, and this included ensuring that they did not come across as ineffectual. Deciphering when a 'yes' meant a 'yes' or a 'no' also came in handy.

My Maltese heritage and having lived in Tunisia, as well as having worked with Italians and Arabs, exposed me to the understanding of *wasta* and *guanxi*. They

can be roughly approximated to the ideas of 'clout' and 'who you know'. Like social capital, it is relational and collective resources that require more than just economic capital. Having been exposed to, and sometimes used, clout myself, it enabled me to understand the dynamics of certain relationships and was also operationally useful for furthering my research. Name-dropping, establishing desired connections and tapping into the resources of my personal social network helped me to get ahead.

Having described the methodology used to extract data, the next chapter will develop the thesis by outlining the research aims and embedding them within a sociological framework. In addition, it will explain my research's original contribution to knowledge and why, despite sociology's apparent unsuitability for the analysis of a financial sector, sociology's conceptual toolbox offers the right concepts with which to unpack Islamic banking practices.

'Without use of history and without a historical sense of psychological matters, the social scientist cannot adequately state the kind of problems that ought now to be the orienting points of his studies!'

C. Wright Mills, *The Sociological Imagination* (2000: 143–64).

Chapter Four: The preconditions of Islamic banking in Malaysia

4.1 Setting the Scene

Although the main focus of this research project is on everyday Islamic banking practices of Muslim-Malays, it is important for the reader to understand that the respondents' social-economic experiences are not self-referential. They need to be contextualised within a historical context. As C. Wright Mills explained, the analysis of everyday social experiences cannot be detached from discussions of the wider historical conjuncture and social structure within which they occur (2000: 143–64).

The long view of history, which widens our observation to appreciate decisive far-reaching events, is particularly relevant for the study of money. The growth of Islamic banking is intertwined in the collective historical memories of the Malay national community. As Hart suggests, we will start looking for the meaning of Islamic credit by looking 'in the myriad of acts of remembering that link individuals to their communities' (Hart 2001: 318–19).

With this in mind, this chapter provides a historical analysis of the events that created the right conditions for the development and growth of Islamic banking in Malaysia. Thus, the focus of the chapter is on the political, cultural and economic dynamics: challenges and responses that led to the creation of the Islamic banking sector on the one hand, and for Islamic banking practices to gain salience amongst the Muslim-Malay community on the other.

4.1.1 Expediencies and exigencies

One of the arguments made in this dissertation is that the growth and development of Islamic banking is a result of a concerted effort by the state and banks to create a mass Islamic financial market. As I explained in the introduction, this niche market was the ideal solution to assuage the Malaysian state's political and economic pressures at a unique conjuncture. From an economic perspective, Islamic banking provided a niche sector and consequently a competitive advantage, accommodated global finance by opening access to its increasingly affluent middle class – spurred by the mass financialisation of the economy post the 1997-1998 financial crisis. Politically, it renewed the political elite's commitment to its Muslim-Malay constituency by acknowledging Islam as an authentic source of Malaysia's vision. In short, it worked as a fix to the breakdown of trust and wage suppression following the South East Asian crisis.

It will become evident in this chapter that although the two realities are intertwined and mould each other, it is the actors that are part of the dominant power structures in the Malaysian political economy that drive Islamic banking. Islamic banking is the result of a top-down strategy driven by the economic and political interests of Malaysia's ruling group (the state and the political elite on the one hand, and finance capital and specifically the banking elite on the other). As will be explained, the Malaysian political economy is characterised by a nexus of political and business interests typical of crony capitalism. Islamic banking furthers the ethno-nationalist capitalist trajectory advocated by the ruling elite by invoking political legitimacy through the cultural and economic spheres. Islamic banking accommodates the 'cultural rights' programme and affirmative action that confirms the trust and the loyalty of the Malay community towards the state. Malays will consent to the state's developmental plan as long as it assumes and fulfils its responsibility for their interests, which for many translates into political and economic dominance over other ethnic groups.

Crucially, it also fuels the economic growth that validates ethnonationalism⁵⁴ and maintains the economic and political privileges of the political and banking elite (Tajuddin 2012). It sustains patronage and generates private consumption driven economic growth, by dispensing consumer credit. The contemporary Islamic banking sector is thus a logical conclusion for a state that wants to maintain hegemony by satisfying people's economic demands.

Certainly, there are caveats to this argument. First, the interests of the ruling class are not homogenous. Their interests were often expressed in a variety of conflicting views, particularly between the UMNO-led state and Parti Islam Sa-Malaysia, (the All-Malaysia Islamic Party - PAS) the Islamist opposition. Yet, it was precisely these contestations, counter-adjustments, compromises and strategic responses to the existential threats posed by PAS and crises in the political economy that created the conditions for the state's development of the Islamic banking sector. The paradox of the United Malays Nationalist Organisation's (UMNO) political economic trajectory is that they are not totally in control of their developmental trajectory. Retaining power requires playing a balancing act between the domestic and international pressures (Khoo and Hadiz 2010). The paradox is that their long-term survival requires the state to prioritise the advancement of Malays at the expense of the immediate interests of the Chinese and global capitalism. At the same time, affirmative action depends on economic growth, which in turn requires an economy that runs a high output. Excluding the economically powerful majority can at times prevent the full utilisation of capital, whether human capital or other resources (Tajuddin 2012: 11).

Second, although laypeople experiencing these practices from an everyday perspective were not the primary catalysts of Islamic banking, their stimulus of Islamic banking was indirectly exercised through political and social events, that

⁵⁴ A nationalist ideology based on the advancement and protection of ethnic interests.

subsequently created the demand for Islamic banking ‘from below’. Hence it is the micro social that compounds the salience of Islamic banking.

These events include, but are not limited to, the *dakwah* Islamic revivalist movement, the post 1997-1998 crisis, and antagonism towards conventional finance and the government, culminating in the *Reformasi* mass social movement. All of these happenings, which actors ensconced in the dominant power structure could not ignore, generated a greater ethno-political consciousness amongst the Muslim-Malay community and thus engendered people’s elective affinity for Islamic banking products.

This chapter is not a linear history of Malaysia from the colonial to the contemporary era. It’s a historical narrative that provides context for the analytical categories discussed in this project: trust and confidence in the state and *shariah* expertise, the symbolic boundaries of *shariah* regulation, and the salience of Islam in the everyday life of the Malay community. Before analysing the historical events that set the preconditions for the emergence of the Islamic banking sector in Malaysia, this section will start by introducing the Kingdom of Malaysia, the country.

4.2 The Kingdom of Malaysia

The Federation of Malaya,⁵⁵ won its independence from the United Kingdom in 1957.⁵⁶ A federal constitutional Monarchy, it is made up of 13 states, and has a population of approximately 29 million people.⁵⁷ Malaysia’s strategic location in South East Asia sealed its fate as a global hub for trade and commerce since the times of the ‘oceanic silk road’ (Tajuddin 2012: 25)⁵⁸. It shares land and/or

⁵⁵ This was the name of Malaysia at the time of independence. The federation included all Malay states in the Malay peninsula, Borneo (Sabah and Sarawak), and Singapore until it was expelled in 1965 (Tajuddin 2012: 20).

⁵⁶ The Federation of Malaya got independence on 31 Aug 1957; the Federation of Malaysia got independence in 16 Sep 1963. Singapore was expelled in 1965.

⁵⁷ See: <https://data.un.org/CountryProfile.aspx?crName=MALAYSIA>

⁵⁸ See, also: Braudel (1992: 484.).

maritime borders with Thailand, Indonesia, Vietnam, Singapore, Brunei, and the Philippines.⁵⁹ Malaysian society is officially multiethnic and multicultural. The main ethnic groups include: *bumiputras* or *bumis*⁶⁰ in everyday parlance, Malay and other indigenous people, as well as Chinese and Indians.⁶¹ In Malaysia, ethnic cleavages tend to run along religious lines. Indians and Chinese are usually Hindu and Buddhist respectively, with a small minority from each community following Christianity.⁶²

The Constitution defines Malay individuals, as Muslim and thus all Malays are forcibly Muslim. According to Article 160 of the Malaysian constitutions Malays According to Article 160 of the Malaysian Constitution, a Malay is ‘a person who professes the religion of Islam, habitually speaks the Malay language, conforms to Malay custom’.⁶³ Malaysia has been described as a ‘hard multicultural’ state (Eriksen and Stjernfelt 2012). This term is not a description of a society that includes a diversity of ethnic groups coexisting side-by-side. ‘Hard multiculturalism’ is a normative condition which underlines collective rights over individual rights. Eriksen and Stjernfelt’s description fits the Malaysian case perfectly. It is ‘a community [that] may legally and socially enforce its own mores and traditions, whatever it holds sacred. In the most extreme force of this version of multiculturalism, the community may even mobilise its own police force and legal system in order to demand, to some extent or another, the conformity of individuals’ (Eriksen and Stjernfelt 2012: 2). Since the political ideology of *shariah* regulation is presented under the guise of culture which is sacred and therefore untouchable, the state can justify and create any new traditions like Islamic banking a propos the official culture of the state.

⁵⁹ Borneo (Sabah) borders the Philippines, but both Sabah and Sarawak border Brunei.

⁶⁰ The term means ‘princes of the earth’. It can translate more prosaically as “sons of the soil”

⁶¹ The Bumiputera population stands at 3,572 Chinese 6,584.7 Indian 1,972.6 (‘000). Source: Population quick info, Department of Statistic Malaysia retrieved: 20th December 2014.

⁶² There are communities of Indian and Chinese Muslims (apart from converts, that is) – the Indians come largely from Kerala, and many of the Chinese came as refugees after 1949.

⁶³ See: www1.umn.edu/humanrts/research/malaysia-constitution.pdf

This political ideology encourages the racialisation of people through segregation of communities based on *shariah* regulated symbolic boundaries. This allows the state to regulate the behaviour of the individual through a collectively constituted process. In everyday life, Muslim-Malays can choose the extent (if at all) to which they practice Islam, although due to Islam's sacred status, should run foul of the religious police, they run the risk of being shamed and formally penalised – including jail time or fines.⁶⁴ The ethnic identity of the other two main communities is not restricted by legally enforceable religious affiliations.

4.3 The essentialisation of Malayness

Islamic banking consumers' affinity to Islamic banking, needs to be contextualised within the role that Islam plays as an ethnic signifier of Malayness within a political climate that advocates the Islamic particularism of Malays and enshrines it in the Constitution. This political ideology that masquerades as an eternal and fixed cultural particularity of Malays, has origins in the repressive governance of the colonial state. This section is fundamental to the development of the arguments of this project as it outlines the historical origins of the process through which the state crystallised Malay identity as synonymous to Islam. Therefore we can understand how the state came to be trusted by Malays as the guardian of the social and symbolic boundaries of its community. Last, this section sheds light on the origins of Malay anxieties about

⁶⁴ Malays cannot marry non-Muslims (they have to convert). The National Islamic Council has its religious police who have the power to carry out supervision in public and private if they suspect unIslamic behaviour like premarital sex or if they believe that non-Muslims are proselytising. Malays are also not allowed to leave Islam. Malays who have attempted to convert or renounce Islam are sent to a re-education camp and a few were made stateless. The recent legal case of 'Jane' that has gained international notoriety illustrates the extent to which freedom of religion for Malays is non-existent: religious affiliation is legally enforceable in Malaysia. Jane, a Muslim-Malay who converted to Christianity, has unsuccessfully petitioned the law courts for permission to change her name and religious affiliation. The state and the law courts insist that as a Malay she can only be a Muslim. In certain instances, Malays had to undergo corrective action at a re-education camp.

the Chinese and the state's reward for simultaneously intensifying Malay distrust of the Chinese community, and taking the responsibility for pacifying them.

The colonial's state creation of an objective Malay ethnic category partly relied on Islam as a symbol of Malay ethnicity. Malayness, as categorised by the state, was central to British policies that controlled, pacified, and managed the Malay population. Later, the postcolonial state would continue to utilise colonial categories of Malay identity, and particularly the alleged consonance of Islam and Malayness, as a foundation for invented traditions and practices, such as Islamic banking, that served its political and economic ends. Grappling with the interplay of politics and identity formation is crucial for the comprehension of the arguments made in this thesis.

The indivisibility of Malayness from Islam, although criticised as sociologically problematic (Embong 2001; Shamsul 2001; Eriksen and Stjernfelt 2012) are widely accepted by the local population, Malay and non-Malay alike, and prevail in everyday life. It is accurate to state that, despite being problematic and sometimes contested, the conflation of Malay and Muslim identity are 'performative' (Mackenzie 2006) in the everyday life of Malaysians. Last, the colonial origins of the crystallisation of Malay identity and its origins in a multi-ethnic society helps to explain the fraught anxieties and complexities surrounding ethnicity in modern-day Malaysia and the need for a banking system that symbolically bound and kept pure from the 'dirt' (Hacking 2003) of others. The relationship between the different ethnic groups or races, the term that most Malaysians insist on using, both in everyday parlance and official state terminology, is messy and has historically oscillated between administered tolerance to violent hostility. It is only by pedalling back to the British colonial creation and administration of multi-ethnic society that we can understand why these anxieties about the 'other' are still echoed nowadays as is evident from some of the respondents' ruminations about non-Malays and the use of Islamic

banking as avoiding the risks associated to transgressing the boundaries set by *shariah* regulation.

4.3.1 Colonial legacies and Islam

The 'objective' categories and practices, related to identity and mostly unquestioned by Malaysians, originate in colonial technologies of knowledge – predicated upon the growing requirements of an expanding capitalist empire (Shamsul 2001). Deconstructing these racialised categories and their associations to occupations and socio-economic status is fundamental to the comprehension of the theses of this dissertation. Reference to a Malay identity is constant throughout the respondents' responses. This category is the foundational knowledge upon which the reification of Islamic and Malay traditions, like Islamic banking, is based. Malay identity, and state practices that purport to promote it, are constructed with ideological materials, knowledge of 'facts' and canonical categories based on such knowledge, as well as the 'conquest of the native "epistemological space"' (Shamsul 2001: 357) that contrary to popular myth, are of pre-colonial origin.

Modern multicultural society in Malaysia, as in other former colonies, was the primarily the result of colonial policy (Hirschman 1986).⁶⁵ These multi-ethnic but rigidly stratified societies of the British Empire,⁶⁶ famously documented by George Orwell in *Burmese Days*, were a visible feature of colonial rule and the expanding global capitalist economy. Various territories within the Empire, including Rangoon and Penang, would become modern hubs of the globalised

⁶⁵ The Chinese diaspora had established a presence in Malaysia prior to British colonisation. Historical records show that the Chinese were already settling in the Malay Peninsula during the epoch of the Malacca Sultanate of the 15th century. Even nowadays, this community is still distinguished from the more recent waves of Chinese migrants, and its members are referred to as the Straits Chinese. The critical flow of Chinese migrants that poured into Malaysia did so at the turn of the 20th century, when capitalist development picked a rapid tempo (Tajuddin 2012: 56–57).

⁶⁶ Orwell describe the cosmopolitan feel of the 'Eastern territories' of the British Empire.

economy. The British administrators encouraged the migration of the Chinese, and Southern Indians to their South East Asian territories. However, the immigrants' occupation was decided according to colonial imperatives. Global demand for tin attracted the large wave of Chinese workers to mining, whilst British colonial ethnic labour policy stipulated that Indians worked in the rubber plantations (and were banned from the mines) (Tajuddin 2012: 59). A limited number of Malays, sons of the elite, would eventually be educated for posts within the colonial administration. The majority of Malays were peasants confined to the rural areas, occupied with subsistence farming or fishing (Mokhzani 1973). A multiethnic society provided cheap labour in mines and rubber plantations whilst preventing the formation of a unified underclass. A racialised division of labour enabled the colonial rulers to employ a strategy of *divide et impera* and thus pre-empt any indigenous collective action against British rule. This stratification system would be justified through racist perceptions and discourse that would resonate with people's ethnic grievances and thus trickle to the streets. As I write in Chapters 6 and 7, the 'natural traits' of ethnic groups as identified by the British, are still present in contemporary Malaysia: Chinese are greedy yet hard working, the Malays lazy and deceitful, and the Indians argumentative drunks (Hirschman 1986; Tajuddin 2012: 76).

Constrained by the poverty of the countryside, the marginalised Malays were excluded from the economic opportunities that economic growth made available to the other ethnic groups, especially the Chinese, as colonial policy aimed to divide and rule. Chinese immigrants were released from their contracts and they exploited the opportunities of a burgeoning economy. Chinese businesses were emerging and dominating various sector including banking, light industry, and retail (Tajuddin 2012: 57). Malays also endured financial exclusion. Commercial banks did not extend credit to smallholders. Their largest flows of credit went to predominantly foreign owned rubber and timber estates (Mokhzani 1973) and they were also excluded from ethnic moneylending networks. The Chinese, backed by clans, established ethnic networks that allowed other Chinese to access a Chinese owned network of banks and loan companies at reasonable

rates (Tajuddin 2012: 56–59). This credit market would simultaneously feed the growth of small enterprises and (private consumption) of retail goods in Chinese-owned stores.

Whilst members of the Chinese community became upwardly mobile and amassed capital, the Malays largely remained impoverished peasants in the peripheral rural areas. Due to the restrictive and exclusionary nature of ethnic networks, the rural Malays did not have access to the capital that was allowing the Chinese to flourish commercially and improve their standard of living. They depended on informal means of obtaining small amounts of credit, most often from Chinese shopkeepers. This made them vulnerable to loan sharks and the punitive terms of usury, as well as ethnicising acutely asymmetrical debt-relations (Mokhzani 1973: 25–27).

4.3.2 The origins of cultural rights for Malays

The Malays resented their social, political, and economic marginalisation and exclusion from the commercial and banking networks of the predominantly urban Chinese – people they considered as temporary guests. In an attempt to allay the resentment of the indigenous groups at what they perceived to be the increasing wealth of the immigrants at their own expense, the British would eventually award Malaysians special cultural and subsistence rice farming rights, in the shape of The Malay Reservation Act of 1913, (Shamsul 2001: 360–1) and Rice Lands Enactment 1917 (Tajuddin 2012: 61). The special rights turned out to be a ruse that only helped cement the Sultans' rule over the Malays and further British encroachment over of Malay socio-economic life. The Sultans had served as a useful proxy for British policing and pacification (Lee 1990: 487). Now, through their control of Malay special rights, they would also prove instrumental in accessing lands and resources that would later be allocated to European capital (Tajuddin 2012: 60–2). The lands were controlled and managed by their own overlords for the British. The special rights would

also confine Malays to their small plots, which could only be used for rice farming⁶⁷ and were never awarded any type of investment by the British, were away from the centres of commerce. Effectively, these policies only served to further institutionalise their marginalisation and prevent any meaningful participation in the economy.

These colonial policies would lay the foundations for the incremental economic disparity between ethnic groups, create Malay anxiety about the Chinese 'other', and also ferment Malay suspicion of foreign capital that enriched itself at the expense of the Malays. As we shall read later on, this suspicion would be echoed several decades later during moments of crises and would also serve as legitimisation for affirmative policies and ethno-nationalism.

Crucially, it would also create an imperative for the institutionalisation of Malay ethnicity. If privilege, allocated to mitigate grievances and pacify Malays (Lee 1990), depended on ethnicity, then ethnicity had to be formally defined and governed (Shamsul 2001; Rudnyckyji 2013). Managing colonial subjects, primarily to mitigate inter-ethnic grievances, created an imperative for the use of technologies to create subject populations.⁶⁸ An inevitable consequence of these technologies was the creation of epistemological frameworks of ethnicity (Shamsul 2001). As Lochman (2004: 90) points out, 'there is a close relationship between "knowledge" *about* the Orient and colonial power *over* the Orient'. Allocating 'privilege' according to race required a clear definition of who was a true Malay. The classification was primarily based on the three pillars of language, king, and religion (Shamsul 2001). As mentioned earlier, colonialism was only possible due to the agency of Malay rulers. This classification served colonial rule by further sanctifying the ruler (Tajuddin 2012: 32). Language was essential, but not a strong enough discriminator. Many immigrants were fluent in

⁶⁷ Rice farming was regulated via punitive measures. Any Malay caught growing other crops would be heavily fined or have his crops confiscated.

⁶⁸ Initially, the British use of technologies of knowledge such as the census, created subject populations according to ethnicity, for the expediency of governance (Hirschman 1987; Rudnyckyji 2013).

Malay, but most would not convert to Islam. Thus, Islam was the strongest discriminating factor and the common denominator: all Malays had to be Muslim. The other elements defining the classification were less equivocal and the margins were arbitrary as they diverged from one region to another, according to locally specific political aims. For instance, 'a person of Arab descent was Malay in Kedah but not in Johor. A Siamese or Kampuchean could be Malay in Kelantan but not in Negeri Sembilan' (Shamsul 2001: 361). In other regions, it was only those who could prove 'blood' descent from a Malaysian (not Indonesian)⁶⁹ qualified as Malay.

Colonialism's ethnicised labour structure would have other repercussions. It prevented the emergence of a unified civil society or civic nationalism (Tajuddin 2012: 7). Instead, ethnicity would become the centrifugal force for cooperation and the primary signifier of social and symbolic boundaries. Malaysian society would remain divided along ethnic lines and sentiments and would organise itself accordingly. These latent inter-ethnic divisions and intra-ethnic allegiances, would surface after the end of Japanese occupation, and violently erupt after *Merdeka* (independence).

The shared experience of World War II hardship by all Malaysians would not prove to be enough for the different ethnic groups to overcome their differences. The role of the Chinese in leading the communist party resistance against the Japanese, following the hasty British retreat, led to the expectation amongst the non-Malays that following independence, the Constitution would afford all of the diverse communities equal rights (Eriksen and Stjernfelt 2012: 79). The Labour-led UK government would indeed advocate a liberal approach to citizenship. Based on the Canadian and Indian experience, they aimed to engender a broad civic notion of 'Malayanhood' based on equal political participation, not ethnic hierarchies (Tajuddin 2012: 102).

⁶⁹ Many Malays in Malacca, Johore, NS, Selangor, Kedah, and Penang are of Minangkabau and Acehnese origin – some relatively recently.

This plan did not please the Malay political echelons. The conservative wing of the Malay elite perceived this plan as an outright denial of their birthright and reacted with hostility to the plan. Most Malays always viewed the Chinese and Indians as temporary guests and were hostile at the idea of sharing citizenship with them (Lee 1990; Tajuddin 2012). Using a nationalist rhetoric, they would agitate the Malay community against the Constitution that gave equal rights to the Chinese and Indian community (Lee 1990).⁷⁰

The run-up to the 1969 elections would continue to be marked by tense bargaining over the balance of power on issues of economy, education, and language between ethnic groups. The Malays perceived the political economy as being rigged against their interests. The rest felt that Malay demands were discriminatory and unmeritocratic (Tajuddin 2012: 150–51). The outcome of the elections, followed by a celebration of the predominantly Chinese Democratic Action Party (DAP) and Labour Party, in Malay neighbourhoods in Kuala Lumpur, would prove incendiary. Racist taunting on both sides would worsen into unprecedented rioting and ethnic violence. Hundreds, mainly Chinese, would be left dead and badly injured.

4.3.3 The state of emergency and deepening of inter-ethnic cleavages

The state of emergency that followed, between 1969–71, would mark the beginning of a new era of the Malay-led UMNO legitimacy. These riots would remain engrained in the collective memory of all Malaysians as the ‘symbol of the “sanctity” of Malay nationalism’ (Lee 1990:491). The Malays would rally behind the United Malay Nationalist Organisation (UMNO), which insisted on the pre-Merdeka recognition by the British of the special position of the Malays. Aware of the fate that indigenous people in former colonies endured, they

⁷⁰ Legacy of the Emergency 1948-1960, and the “Kerajaan Cina Empat-Belas Hari” (14 Days’ of Chinese Rule) in Muar-Batu Pahat in 1945 was still very alive among Malays and Indians in 1969

demanded policies that would not jeopardise Malay special rights to land, Islam, and the civil service (Shamsul 2001; Tajuddin 2012).⁷¹

The new elites, wanting to reassert Malay and UMNO dominance, assured Malays that economic equality and political control would be a precondition of their rule. In this new social contract, the Malays were guaranteed a continuation of their special position, whilst others were granted citizenship rights and cultural and linguistic protection (Shad 2003: 33). Second, it made the ruling elite aware of the destabilising effects of racial tensions thus terminating all attempts at meaningful dialogue about interethnic relations.

This would signal the beginning of the postcolonial state's control of Malay identity and 'special rights' for its own political and economic expediencies and exigencies. Colonial knowledge and categories would again prove to be instrumental in tempering Malay discontent and governing populations. Cultural symbols, including Islam and the Malay language, would be used as discriminators to define the Malay identity (of the majority) against that of the Chinese and Indian (minorities). Again, religion as an ethnic identifier would become a gateway to special privileges. Except that this time they would lead to concrete significant economic and political benefits for the Malay masses. Fourth, the political class realised that the risks (instability and turmoil) associated to racial tension could be harnessed for population management and escalated accordingly. Debates about identity, religion, or the balance of power would be securitised.⁷² Questions of Islam, Malay identity or state power would be constructed as threats to the security of Malays and the nation as a whole. The defence of the Malay position in society depended on maintaining the status quo, thus enabling a discourse of Malay 'us' against 'them' non-

⁷¹ The division of labour from colonial times bequeathed an uneven balance of economic wealth between the predominantly rural Malays and the Chinese who were concentrated in urban areas

⁷² The Copenhagen school defines security as a practice: a specific way of framing and dramatizing an issue as having absolute priority due to its presentation as a threat. (Wæver 1996: 108).

Malays. The underlying message of the ruling elites was that any disruption of the status quo, particularly Malay dominance – equating to UMNO – would recreate the ethnic tensions and violence of the 1969 riots (Tajuddin 2012: 154) and in response, the state could and would invoke its right to use violence (Lee 1990: 493).

In one shot they could foster consent within the Malay community as well as neutralise political demands or debate of non-Malays. This pattern would remain the leitmotif of Malaysian politics. As Tajuddin points out, ‘ethnic suspicions and hostilities have in fact become the basis for the kind of politics that have thus far kept the ruling elites in power in Malaysia’ (2012: xiii). The reverberations of these events are still manifested today, whether in the docile citizens and uncritical media or the impunity with which the ruling elite uses authoritarian laws to imprison anyone who questions Islam or Malay privilege under the guise of ‘public order’ (Eriksen and Stjernfelt 2012: 30).⁷³ Furthermore, they are also echoed in the symbolic boundaries underpinning *halal* consumption, included Islamic banking.

4.3.4 Post-Merdeka (Independence) Malaysia

As I argue in Chapter 6, respondents trust Islamic banking because it is underwritten by the state. This section will explain how the affirmative policies that successfully emancipated millions of Malays from rural poverty would cement their collective loyalty and trust in the state. Just like the Malay kings in colonial times, the political elite would use the technique of cultural privilege for Malays as identified by Islamic membership in order to instil loyalty. Malay privilege in independent Malaysia would also be discerned through adherence to Islam.

⁷³ For instance, the lawyer representing leader of the opposition, Anwar Ibrahim, on sodomy charges was charged with sedition for suggesting that his client’s conviction was the result of a political conspiracy. See: www.abc.net.au/news/2014-08-19/an-anwar-lawyer-charged-with-sedition/5682126

Second, this affirmative action would engender a social pact between the UMNO government and the Malay community. The state would protect their cultural, political, and economic interests and they would reciprocate with trust in the government. Last, the *embourgeoisement* that followed would lay the groundwork for the mass financialisation that would occur three decades later and allow Islamic banking practices to grow. The assets accumulated, mainly property, would allow ordinary people to tap into the Islamic credit market.

The state of emergency declared after the riots strengthened Malay politicians and bolstered UMNO. The Barisan Nasional (BN – historically the National Front) coalition⁷⁴, led by the Malay-based UMNO, embarked on policies aimed at correcting the economic imbalance between the ethnic groups and finally ‘eliminate identification of ethnicity with economic function’ (Gomez and Jomo 1997: 238). *Bumiputras* would benefit from several forms of political and economic affirmative action. ‘The social and political inequalities moulded by colonial racial ideologies were replicated and elaborated after independence because the structural blueprint of colonial Malaya was not radically transformed upon the departure of the British’ (Lee 1990: 485). In 1968, 65.8 per cent of Malays would still be working in low-wage agricultural and plantation work, compared to 64 per cent of Chinese, who were employed in the more lucrative commercial, manufacturing, mining and services sectors (Tajuddin 2012: 148). Independence, did not automatically correct the pernicious legacy of colonial policy. The Malay community would remain disenfranchised, highly impoverished, and bereft of educational and employment opportunities (Tajuddin 2012: 63).

⁷⁴ It is a confederation of political parties, which has been Malaysia's federal ruling political force, under the name *Perikatan*, since independence in 1957. Currently, it is made up of 13 parties: Malaysian Chinese Association (MCA); Malaysian Indian Congress (MIC); Malaysian; People's Movement Party (GERAKAN); People's Progressive Party (PPP); Parti Pesaka Bumiputera Bersatu (PBB); Sarawak United People's Party (SUPP); Parti Bersatu Sabah (PBS); Liberal Democratic Party (LDP); Parti Bersatu Rakyat Sabah (PBRS); United Pasokmomogun Kadazandusun Murut Organisation (UPKO); Sarawak Progressive Democratic Party (SPDP); Sarawak People's Party (PRS).

Ironically, the foundation of these affirmative policies would be based on colonial knowledge and categories. The same ethnic categories discussed in the previous section are used to distinguish Malay ethnicity and in fact can even be found on identity cards. (Shamsul 2001: 364). Thus, the value and prestige of being Malay increased. History repeating itself, categorisation of identity would be central to state policy. Islam would also remain central to Malay identity. The same categories used by the colonial state to manage and dominate a population, would later be used to emancipate them.

4.4 Affirmative action: The New Economic Policy

Two of the most important policies implemented included The New Economic Policy (NEP) launched in 1970 and its offshoot the New Education Policy (NEDP) (Jomo 1997). The NEP's directive was state-led re-distribution of job opportunities and economic resources (Tajuddin 2012: 153). Since then, Malays have been given, among other privileges, housing discounts, employment preferences, 'priority for government contracts, increased access to capital and opportunities to buy assets that are privatized' (Johnson and Mitton 2002: 6; Tajuddin 2012). The NEDP allowed sizeable numbers of Malay youths and students being given the opportunity to study locally and internationally, up to the tertiary level. This included special quotas in local college admissions and scholarships (Lee 1990: 488). The evidence shows that it remains one of the most successful examples of state-led socio-economic engineering (Tajuddin 2012). The NDP would not have been possible had the economy not been sustained through economic growth. The oil boom during the early 1970s provided sufficient foreign exchange to cash-starved countries such Malaysia to fuel their huge national development budgets and import-substitution industrialisation strategies. The programmes aimed at assisting the Malays, as an ethnic community, would mark the beginning of ethnic welfarist/distributionist policies as one of the cornerstones of Malaysian modern economic development, gave Malays a stake in the political order. Millions were lifted out

of poverty. Rural and urban poverty was reduced by more than 30 per cent and 'the ratio of mean income differentials between Chinese and Malays narrowed from 2.23 in 1970 to about 1.9 in 1989' (Tajuddin 2012: 153).

Certainly, these policies served an ideological purpose (Fischer 2008; Tajuddin 2012). The redressing of the poverty endured by Malays was inextricably linked with the benevolence of a state that for the first time, protected their interests. That the NEP would serve to cement Malay loyalty towards the ruling party was clear throughout the interviews. All Malays, no matter how critical of the current administration, equated the modernisation of the country and the advancement of the Malay community with a Malay controlled state. There was no doubt that their general wellbeing was contingent to Malay hegemony. The interests of the expanding middle class would continue to be served by the United Malays National Organisation (UMNO) and in return they would continue to receive political and financial support from the middle class (Embong 1998).

Yet, through its instrumental role in connecting the grass-roots with the UMNO leadership via a complex network of patron–client relationship, also fostered garnering Malay loyalty towards the party, leading middle-class Malays to see themselves as indebted and dependent on an UMNO-led state (Lee 1990; Tajuddin 2012). 'The NEP transformed Malay dominance into Malay hegemony within the notion of a plural society so that Malay culture became synonymous with national culture and in the eyes of the Malays, the state became synonymous with Malay interests' (Fischer 2008: 34). This remains the case in contemporary Malaysia. For Fischer (2008:19) this loyalty is based on UMNO's insistence 'on the inescapable bonds between nation, state, Islam, and Malayness on the one hand and an ideology built on Malay privileges and domination on the other.'

4.5 Islamisation from above: The bureaucratisation of Islam

This section will explore how the state resorted to the *shariah* as a means to mediate political contestations from the Islamic opposition and reaffirm its authority as the sole guardian of Malay interests. Inadvertently, this strategy would institutionalise Islam and *shariah* scholars within the state bureaucracy. This would lay the foundations for the legitimacy of Islamic expertise in spheres traditionally considered secular, such as banking. It would also mark the establishment of the first Islamic bank and the Islamic banking act as well as other public Islamic institutions: mosques, universities, and radio stations. This turn towards Islam, the Malay ethnic signifier *par excellence*, was a means for the state to continue furthering Malay interests. Thus, Islam was instrumental in fostering an Islamic ethic that is tied to trust in the state and ‘evoked as cultural kinship’ (Fischer 2008: 25).

If, as mentioned earlier, historically BN’s strategy had been to neutralise the opposition by reducing the salience of class, by the late 1970s and early 1980s it had developed a new strategy to crowd out a second ideological alternative: political Islam. The Islamic Party of Malaysia (PAS), supported by the Islamic social grassroots movements and student organisations, including the Muslim Youth Movement (ABIM) and the Sufi Darul Arqam were perceived as a political threat by the ruling political elites (Lee 1990). Riding the wave of Islamic revivalism, discussed in the next section, PAS, was rapidly gaining inroads with rural Malays and capturing the imagination of the middle class. Some question the extent to which PAS was a real threat to UMNO hegemony (Abbott and Gregorios-Pippas 2010). Unlike in Arab countries, where independence failed to deliver the promised socio-economic development (Hourani 1990), the NEP and affirmative policy led to the embourgeoisement of millions (Khoo and Hadiz 2010). Indeed, it is more possible that the state wanted to bolster its legitimacy and all epistemological spaces by driving its own Islamisation programme. It is also likely that the colonial precedent of institutionalising Islam (Khoo and Hadiz 2010:18) had its effect on the institutional memory of the state.

Irrespective of the genuineness of the 'Islamic threat' the new strategy allowed the government to outbid any real or perceived Islamist competition to its hegemony on the Malays (Khoo and Hadiz 2010) and use Islam as a site for political intervention (Motalib 1994: 152).

UMNO used its considerable power of incumbency to embark on an Islamic programme meant to 'out-Islamise' their opponents (Hoffstaedter 2009; Khoo and Hadiz 2010; Saat 2011).⁷⁵ To silence dissent, leaders of the student Islamist movements like Anwar Ibrahim⁷⁶ (then President of ABIM) were coopted into the government.

Even the first Islamic Banking Act was the result of political competition. According to one of the founders of the Islamic Banking movement, Islamic banking was also originally the result of a tactical measure by the government to outmanoeuvre the Islamist opposition. During an interview, this Islamic banking activist revealed that his fellow group of activists used the political threat posed by the Islamist movement as leverage to fulfil their aims. In his own words:

'We went to convince PAS first, and they were immediately on board and this put us at an advantage when negotiating with the government. We knew that the government wouldn't want to put itself at a disadvantage by coming across as unIslamic or as being against freedom of choice for Muslims. We were right, the government agreed to launch the Islamic Banking Act'.

⁷⁵ Sufis are followers of a mystical Islam. Sufi orders are found in both the Sunni and Shia traditions, and followers are often but not always ascetic. These orders were often successful in extending Islam outside its original territories. Well-known Sufi mystics include the poets Rumi and Omar Khayyam and the whirling dervish movement of Turkey, who have become a famous tourist attraction.

⁷⁶ He is currently the main opposition leader who was humiliated and jailed on charges of sodomy.

The co-optation would eventually give them agency within the state to pursue an Islamic agenda and institutionalise Islam within the state (Abbott and Gregorios-Pippas 2010). The inadvertent result of the political competition over Islam was the intensification of the reification of the Malay community as singularly Muslim (Musalib 1994: 152) and the Islamisation of the state machinery. As Khoo and Hadiz (2012: 20) surmise: 'the state having infiltrated religion... religion rebounded by percolating through the state'.

4.5.1 Islamising the State

The state extended and strengthened its control over Islam by formally Islamising the government machinery. This was followed by the introduction of Islamic related programmes and policy directives: aspects of the legal system were revised to make it in line with Islamic law; religious knowledge became an examination subject; Islamic economic institutions were established. In 1988 Mahathir announced that Islam was the national and official religion and every citizen should learn its values. Since Sunni Islam was reiterated the official branch of Malaysian Islam, nonconforming 'sects' were shut down with the leaders imprisoned under the Internal Security Act⁷⁷ (ISA) with no time limits. This change was observed in all spheres of political and public life. Newsreaders greeted listeners with *salaam aleikum* and the *azan* (prayer call) was aired on the national television station (RTM). The government announced that the Organisation of Islamic Countries (OIC) and not the Nonaligned or Commonwealth countries would be the most important (Musalib 1994: 152). Massive mosques were planned and the setting up of Islamic Universities was accompanied by the Islamic Economic Foundation (Saat 2011: 140).⁷⁸

⁷⁷ The ISA allows for detention without trial or criminal charges under limited, legally defined circumstances. This was replaced by the *Akta Kesalahan Keselamatan (Langkah-Langkah Khas) 2012* (Security Offences (Special Measures) Act 2012, "to provide for special measures relating to security offences for the purpose of maintaining public order and security and for connected matters' (Act 747 Security Offences).

⁷⁸ It was Mahathir who first embarked on the Islamisation of state institutions and political discourse when he became Prime Minister in 1981.

4.5.2 Islamocrats: The bureaucratisation of Islamic expertise

The institutionalisation of Islam was sealed by the inclusion of *ulama* (religious scholars) within the bureaucratic ranks. Despite the political divergences of the religious scholars, they have always supported the view that Islam remains the supreme marker of Malay identity (Saat 2011). In this respect, they are a lynchpin in the regulation of Malay generalised identity and customs. Malaysian society is hierarchical and respect for formal authority such as bureaucrats or *shariah* scholars has always been a part of Malaysian social custom (Nagata 1980: 434) and is still important now. As we shall see in Chapters 6 and 7, this is reflected in the majority of the respondents' emphasis on the role of religious experts in regulating their socio-economic life and other domains of their social life.

The state would rely on the community of scholars who operated as a seemingly independent authority, and thus the government could capitalise from appearing to be regulated by experts who are 'the legitimate authority to speak on behalf of the community on matters pertaining to Islam' (Saat 2011: 13) and thus part of the social fabric of Malay life and perceived as answerable to a divine and not political order. The government responded to the joint threat of PAS and Islamic revivalism (discussed in the next section) by co-opting religious scholars and capitalising on their authority and legitimacy.

Fischer (2008: 43) writes: 'The growing centrality of Islam in Malaysian society is also reflected in the materialisation of an Islamic bureaucracy or the bureaucratization of Malay ethnicity. The Islamic clergy and bureaucrats hold a central position within this political and bureaucratic establishment'. The co-optation of religious experts within the bureaucratic structure of the state had the corollary effect of de facto establishing Islam as a legitimate source of political knowledge whilst eroding its secular foundation.

The state's co-optation of the scholars was aimed at maximising the social capital and legitimacy of the scholars. In turn, the scholars claimed greater

prestige and power in setting the agenda of the state, permeating aspects of economic and financial policy that were previously considered off bounds for religious experts. The rise of this select community of experts was linked to a wider change in the political fortunes of Islamocrats 'whose interests and power lay in de-secularising public institutions and regulating social life' (Khoo and Hadiz 2010: 19). They saw this moment as a window of opportunity to expand their political influence and authority outside the religious realm (Nagata 1980; Saat 2011: 136). A consequence of the bureaucratisation of the *ulama* was their legitimisation of their expansion of power in the public sphere. They expanded their remit of expertise to include '... "economics, politics, language, culture, and medicine" – all the ills of which could be cured through their Islamic prescription' (Saat 2011: 140). Arguably, the impact of Islamisation was strongest in pedagogical institutions. Whereas modernisation had led Islamic education to decline, the Islamocrats' priority was to gestate Malays within a pure form of Islam (Abbott and Gregorios-Pippas 2010) when people were at their most receptive.

This policy culminated in the establishment of an Islamic Consultative Body, the Institute for Islamic Understanding, the IIUM, Islamic economic institutions including the Islamic Development Foundation and the beginning of Islamic financial institutions including Insurance and finally a bank (Abbott and Gregorios-Pippas 2010; Khoo and Hadiz 2010). As their authority was bolstered through a renewed religious consciousness amongst the public the Government, wanting to mute and co-opt any challengers, carved out a more critical role for many *ulama* in the public administration of the state. It was against this backdrop that Malaysia's Islamic finance sector was established in 1983 with the passing of the Islamic Banking Act. The government developed the sector from the Pilgrims' Management and Fund Board or *Tabung Haji*, an Islamic fund initiated to aid Malay pilgrims fund their *haji*, into a fully-fledged financial sector. By the end of this period, Islam had become a visible symbol and feature of social, political, and economic life (Abbott and Gregorios-Pippas 2010:135).

4.6 The increasing salience of Islam in everyday life

In the previous section, I discussed how political competition took place through the contestation of Islam between the government and the opposition. In this section I will explain how these dynamics were primarily motivated by a bottom-up Islamic revivalism. The intensification of Islam in social life during this period marks the consolidation of Islam as the primary identifier of the Malay community. It was during this period that the dichotomy of Malays versus non-Malays was transposed with a Muslim versus non-Muslim discourse which however served to denote who was Malay and who was an outsider (Nagata 1980; Fischer 2008). Islam became an increasingly salient aspect of everyday social life and a means of communicating one's identity and belonging to the Malay community. The salience of Muslim identity, values, and practices are still evident today and thus the social capital attached to following the right Islamic practices is valuable. It also creates the context for the evaluation of the value of Islamic banking products and the importance of familial and peer social ties in generating confidence in Islamic banking and thus mobilising the individual 'horizontally' into responding to the call of Islamic banking.

As mentioned earlier, UMNO's NEP aided the repression of all ideological alternatives. Dissatisfaction could not be expressed through secular political means. Islam was the only vehicle that could convey people's disillusionment and dissatisfaction (Nagata 1980). Islam as a metaphor: a political ideology using an Islamic discourse through which political actors can enchant and mobilise people, would emerge by the mid-1970s and make Malaysia a nucleus for Islamic civil society and social movements (Nagata 1980; Abbott and Gregorios-Pippas 2010; Saat 2011). Despite the diversity in ideology and form of the surge in Islamic consciousness, as Zubaida explains, what they all have in common is the use of 'Islam as an idiom in terms of which many social groups and political interests express their aspirations and frustrations' (Zubaida 2011: 106). The Islamic revivalist movement known as *Dakwah* (which means

invitation or call), would along with the Islamisation of the state, intensify Islam as an ethnic identifier.⁷⁹

Although people's turn towards a more authentic Islamic self was the result of local happenings, they were also inspired by international events (Motalib 1994: 152). The backlash against Western economic and political domination and distaste towards internationally non-aligned nationalist socialisms such as Qaddafi's Libya and Bouteflika's Algeria placed Islam as an authentic and liberating third way. In this respect, Muslim-Malays were synchronised to other Muslim communities who were captivated by the spectacle of self-determination and triumphalism that was the Iranian Revolution (Saat 2011). The Islamic revival had an international and a local dimension that carried 'specific implications for individual Muslim countries with different meanings in local situations' (Nagata 1980: 405).

The modernisation of post-Independence Malaysia, carried out through the social engineering of the NEP, was characterised by rapid economic development and tremendous upheaval. The demographic, economic and social change was unprecedented with urbanisation was one of the most visible outcomes of modernisation. By 1979, 30 per cent of Malays – who have always been rural people – moved to the cities (Motalib 1993: 29). Millions of Malay peasants moved away from the kampong to the cities in search of better jobs and university education. Unequipped and overawed, many experienced a sense of anomie and alienation. A sense of disillusionment and revulsion with Western values and lifestyle began to set in with many middle class Malays (Lee 1990: 494; Nagata 1980). For many, the improved standard of living is accompanied by a sense of dislocation of identity. In the complex urban setting that is Kuala Lumpur or during their exposure to Western cultures in British universities, they could no longer rely on the localised relations that are

⁷⁹ Dakwah was not a homogenous movement with clear goals, it had various heads. The Muslim Students Associations (MSA) and Islamic Representative Councils (IRC), Darul Arqam (Sufi millenarianism) were guided by members of the new middle class, including Anwar Ibrahim.

organised in terms of place as in the *kampung* (village). The educated 'new' middle class, feeling alienated and apprehensive, decried the secularising and 'unIslamic' trends they saw developing within Malay society (Khoo and Hadiz 2010: 15). This anomie 'made them susceptible to an alternative lifestyle' offered by other students from similar Muslim origins (Nagata 1980: 438). Active Muslim students, whom they met studying locally or abroad, from the Indian subcontinent, Iran, and the Arab Middle East, provided them with an idealistic political grammar to articulate their frustrations and disapproval (Khoo and Hadiz 2010; Tajuddin 2012). Universities, the domain of the new Malay middle class would become hubs for the Dakwah movement. The movement derived most of its membership from the academic and civil service ranks (Nagata 1980; Fischer 2008).

The turn to a 'purer' Islam, the application of Islam to everyday life, became conspicuous in everyday social life, particularly with the emergence of the veil (Nagata 1980; Abbott and Gregorios-Pippas 2010). In combatting this isolation, rather than concealing it as an individual private matter, it has become more of a public representation – a collective self, grounded in Islamic symbols and practices. Broadly accepted norms of conduct are transmitted through sociality. The social influence of Islamic identity on Malays is captured by Mead's idea of the 'generalised other'. He wrote 'it is in the form of the generalised other that the social process influences the behaviour of the individuals involved in it and carrying it on, that is, that the community exercised control over the conduct of its individual members; for it is in this form that the social process or community enters as a determining factor into the individual's thinking' (1934: 155). Thus, the Islamic turn of the Malay self was created and moulded by social responses that enhanced the solidarity of the community. These responses were not just responses to direct interaction with other individuals. Rather, the self is interpreting and responding to a collective understanding of broadly accepted norms of how to be Malay, which in this instance was symbolised by an intensification of Islamic belief and ritual.

Malays were faced with social pressure to demonstrate a commitment to Islam and thus there was added caché for those who could perform Islam correctly. This transformed Malay customs that had always contained an element of folk and syncretism due to Hindu influence. It became untoward to hold the typical Malay wedding as it was inspired by Hindu custom (Nagata 1980). As I explain in Chapter 6, respondents described how their aunts and cousins started to wear veils and looser clothes. Much to their dismay, there was a backlash against Chinese food, even if it was pork-free, and shadow-puppets as they became unIslamic. Knowing how to conform to Islamic practice in order to maintain a pure social sphere required knowledge on how to perform them correctly or one would not fit in (Nagata 1980). This had the effect of institutionalising *halal* as a practice amongst many Muslim households and the opening up of *halal* businesses. Unfortunately, it also made more prominent the boundaries between those who conformed to the *halal* practices and were pure and the others who did not and were 'symbolic pollution' (Douglas 1996).

4.7 Ethno-nationalist development

This section focuses on the post NEP period, during which political and financial interests, across the ethnic divide, became aligned. It was during this juncture that the state was fully set for the emergence of Islamic banking. First, the new developmental trajectory would gear the country towards export-driven growth that would make the country vulnerable to the shocks of the crisis. Second, Bumiputera capitalism would spur the financialisation of the business sphere. This would foreshadow the mass financialisation that followed the 1997-1998 financial crisis. Last, the state would attempt to shape economic practices – consumption on the one hand and saving on the other – to people's sense of moral duty: nationalist and Islamic.

It was around the 1980s that the Malaysian political economy coalesced the state-led development and Malay aspiration to exploit their stake in the

economic order (Tajuddin 2012: 179). The state had to navigate between its Malay constituency and the non-Malay business elite, on whose economic growth the government's continued stability depended. Even if BN, the ruling coalition in Malaysia, has been dominated by UMNO since its inception and had as its main focus Malay affirmative policy, it has always been backed by leaders of the Chinese elite networks⁸⁰ who had pragmatically integrated within the networks of the Malay political elite.⁸¹ This developmental trajectory was driven by ethno-nationalist politics that sought to be ethnically inclusive for the 'greater good' of Malaysian economic growth, yet would inevitable produce and promote *halal* consumption, including Islamic banking.

4.7.1 Bumiputera Capitalism

The NEP in the 1970s had set the stage for the intensifying of the relationships between politically connected firms and business people with politicians (Gomez and Jomo 1997; Yeung 2009). Increasingly, business people in the private sector, whether Malay or Chinese, had to develop close connections with UMNO politicians in order to stay in business (Yeung 2009). Yeung sums up the situation succinctly:

'This new business class would be heavily dependent on political elites for access to government resources, such as infrastructure projects, licenses and privatized rents, a practice common in a number of countries in Southeast Asia, including in Malaysia and Indonesia. Political elites, on the flip side,

⁸⁰ Yeoh 2012 explains: 'The MCA bore the bulk of the election expenses for the MCA-UMNO coalition up to the federal elections of 1955. Consequently, MCA funds also helped to secure the Alliance's electoral victory in the first elections for a fully elected assembly in August 1959'.

⁸¹ This was primarily the result of a mutually beneficial relationship that commenced during the early beginnings of UMNO (Lee 1990; Yeung 2009; Tajuddin 2012). The financing of UMNO by the Chinese tycoons of the day ensured a few key governmental (economic policy) posts for Chinese politicians and commercial favours such as banking licences (Gomez and Jomo 1997; Yeung 2009; Tajuddin 2012).

required campaign funding from the business class during party and general elections to enable them to get re-elected as representatives in government, a situation seen in most East Asian economies. These two groups tended to defend and mutually support each other, especially against competitive intrusions’.

Writing about this period, scholars explain that despite the far-reaching reforms, the core political and economic power structures prevailed (Gomez and Jomo 1999; Rethel 2011). It would be more accurate to explain that the prevalence of power structures did not prevail despite the reforms but as a result of. It was the aim of UMNO to radically re-engineer Malaysian society whilst remaining at the core of its power structure. As often is the case, the state’s strategy to relinquish direct control of the markets and allow them to operate ‘autonomously’ according to market forces was a necessary condition for the effective reinstatement within the global economic order (Scott 2012).

It is important to mention the broader regional context of these developments. ‘The nexus between state and business in East Asia emerged as a major phenomenon when the developmental state model, involving active state intervention to rapidly industrialise economies, was adopted by governments in the region’ (Vithiatharan and Gomez 2014: 602). Similarly the Malaysian state wanted to ‘incubate’ the domestic capitalist class. Therefore, the ‘economic policy has been variously shaped by statist-nationalist impulses and pro-global market interests’ (Khoo and Hadiz 2010: 6). The developmental state helped accelerate the industrialisation and economic growth of low value-added countries like South Korea and Taiwan (Tajuddin 2012: 155–6) which had recently become cheap industrial labour centres and markets for foreign, especially Japanese industrial products and services. The import-substitution strategy enabled acquisition of technology from American companies and successful transfer of and knowhow from Japan, allowing them to join the consumer-driven commodity chain for retail goods (Tajmuddin 2012: 156–8). Malaysia wanted to follow the trajectory of its neighbours in order to appease

the middle and capitalist class through industry protection, economic growth, job creation and higher income.

Reflecting on this period during an interview, an established banker who is close to the Malaysian political elite, explains that Islamic banking was one of many industries that were meant to be by Malays and for Malays. Thus accelerating economic growth by instigating patriotic consumption:

Understand that Islamic banking was part of the change in infrastructure of the country: political economy, industrial, legal and legislative. The visionary leaders of Malaysia had already been working on an economic plan that would allow the country to pull itself by the bootstraps. National industry like Proton [car manufacturers] allowed people to attach an identity to certain goods. People can be proud of these goods and focus on them and this reaps economic benefits.

Included in the broader incubating of the capitalist class was an effort to create an indigenous Malay/Bumiputera capitalist class through the privatisation of state assets to close political associates (Gomez and Jomo 1997; Yeung 2009; Tajuddin 2012). Having empowered indigenous labour with the NEP, UMNO also wanted to increase the presence of Malays at the top layer of the economic strata by indigenising the means of production. Mahathir would exert pressure on banks to provide credit to Malays for business projects. He would then proceed to sell state assets and companies to the same Malays. State-controlled banks became a major vehicle by which individuals who were closely connected to the government obtained loans to purchase privatised state assets (Doraisami 2005: 255).

According to researchers on corruption in Malaysia, 'government policy forcing state and private banks to meet Malay lending quotas enabled politically connected Malay entrepreneurs to buy privatized companies' (Doraisami

2005: 255). Former state managers and senior bureaucrats with ties to UMNO politicians were encouraged to move to the private sector in order to form a Bumiputera business class. The state embarked on a structural transformation of its economy marked by liberalisation, privatisation, and the financialisation of the politic-business sphere (Gomez and Jomo 2003; Rethel 2011) by inspiring Malay entrepreneurialism through Islamic values and using Islam to instil a disciplined work ethic with workers (Khoo and Hadiz 2010). At the same time Malaysia's political gaze shifted east. The government announced that its Look East foreign policy and modeled Malaysia Incorporated on the Japanese model. Unsurprisingly, these shifts would also take an Islamic slant (Khoo and Hadiz 2010: 19). The Islamisation of the state and political sphere was taken to its logical conclusion with the state's harnessing of Islam to its developmental narrative.

4.7.2 Homo Islamicus

Once again Islam became a site for political intervention, albeit for economic ends (Embong 2001; Fischer 2008; Khoo and Hadiz 2010). The state turned to Islam to appeal to people's duty to consume lavishly and yet work and save sensibly. This project rested on the amalgamation of two distinct domains: religion and the economy, with the aim of enabling prescriptive Islamic values that enhanced the reach of capitalist dispositions in the everyday life of ordinary borrowers and savers. Mahathir articulated the need for Malays to find in themselves *homo Islamicus*: an Islamically inspired ethical orientation towards one's self, economic practices, and *ummah*. In an attempt to ground their developmental vision in authentic terms that resonated with the temper of the people, political elites also started to articulate a Muslim version of the Protestant Ethic (Khoo 2006) as the basis to *Melayu Baru* (the New Malay)⁸²:

⁸² Essentially, the *Melayu Baru* is a project directed to the transformation and modernisation of the Malay society, with its emphasis currently on the creation and expansion of the Malay capitalist and the new middle classes, and the development of a work culture and ethics in

an ideal man who is entrepreneurial and modern and looks to Muslim values for inspiration (Embong 2001).⁸³ It would be compatible with his 'Look East policy' Malaysia's straying from its alleged Islamic roots was identified as the cause of 'Malay Backwardness'. Given that 'the 'lack of Islam' has often been used to explain 'Malay backwardness,' a return to Malaysia's authentic and Islamic golden past was the obvious antidote (Hoffstaedter 2009).

Entrepreneurialism, self-restraint, and accountability are some of the characteristics highlighted as Islamic virtues that should form the foundation of one's economic practices. Malays were encouraged to spend, save and work Islamically, 'in keeping with the demands of the work regime of a rapidly industrializing society' (Embong 2001: 169). The state was moulding its citizens into subjects that practised a version of Islamic piety that was in tune with the political and economic requirements of its modernisation project. This state's turn towards Islam, including the co-optation of religious scholars, was part of an effort to ignite an Islamic equivalent of the Protestant work ethic, and conveniently also rebutted the accusations of secularism from PAS, the increasingly popular Islamist party (Nagata 1980).

These events stimulated a resurgence of interest and reassessment of the identity of Muslims, as individuals and a collective. This same audience became more attentive to the state's appeal for Malaysians to discover 'their Islamic roots and drag the country out of its backward state' (Mahathir). As students of Weber and sociology of Islam would know, Mahathir belongs to a school of Muslim reformers who ironically use Weberian arguments, not structural disadvantages, to account for the developmental failures of their society, especially 'theories of individual ascetic motivation' (Turner and 2010: 157).

keeping with the demands of the work regime of a rapidly industrializing society' (Embong 2001: 169). For further reading see Embong 2001; Hoffstaedter 2009; Saat 2011.

⁸³ As many have pointed out, whether it ever had a basis in reality, remains another matter.

Paradoxically, whilst Protestantism was invoked to encourage Malays to work and save, it was a Catholic ethic that the state was promoting in the sphere of consumption. Accompanying the incubation of local industries with protectionist policies and a political discourse based on Islamic ethic, was an ethno-nationalist drive that was underpinned by a rhetoric that shifted the burden of its success on its citizens. Malaysians were told that as consumers they were equally responsible for the success of the economic trajectory. The ethno-nationalist political discourse framed consumption as a patriotic act of a dutiful citizen (Pietrykowski 2009). This marked the state of the state's call to its citizens to consume and save for the state. Citizens reciprocate the privileges that accompany 'economic egalitarianism', brought about by the proliferations of means of credit, through the 'duty' of consumption (Cohen 2003; Fischer 2008).

Malays were encouraged to spend, save and work Islamically, 'in keeping with the demands of the work regime of a rapidly industrialising society' (Embong 2001: 169). *Halal* industries, particularly banks, would cater for the financial needs of this ideal type of Malay who schizophrenically would save and work like a protestant and consume like a catholic even if these products had to be Islamically compliant. Economic egalitarianism for Malays was not only repaid through the duty of consumption, but especially through Islamic consumption, the only authentic method of consumption.

4.8 Conclusion

To paraphrase C. Wright Mills, the aim of this chapter was to emphasise the historical junctions that will orientate the reader towards the vital themes that will be discussed in the remaining chapters. This chapter emphasised how the emergence, development, and growth of Islamic banking practices are embedded within broader, historically determined, closely intertwined, social, economic, cultural, and political circumstances. More specifically, this chapter contextualises how the 'culturally constructed complexities' (Valsiner 2008: xii),

of trust and confidence in the state, can enable the acceptance of the *halal/haram* boundaries as common knowledge within the Muslim-Malay community. I chart the emergence of Islamic banking through five historical vignettes. They display the contingences that enabled the conditions for 'supply' as well as 'demand'. These are understood not as irreducible 'givens' but as the results of political, economic and discursive strategies:

- Crystallisation of Muslim-Malay identity

The premise of Islamic banking is based on political notions that reify Malay identity as Muslim. Without denying that the Malay community has historically been affiliated to Islamic practice, the emphasis in this section is on the colonial origins of the ethnicisation of religion and the institutionalisation of Islamo-Malay identity. Ironically, these practices were originally formulated by the colonial state to manage ethnicised labour hierarchies for its political and economic ends. Post independence, they would be redeployed by the postcolonial state and continue to perpetuate a performative role in everyday Malay life.

- The Malaysian postcolonial state: capitalist dirigisme

The emphasis of this section is on how the state's affirmative action alleviated millions out of poverty and also created a cycle of Malay dependency and loyalty towards an UMNO-led state. The policy to alleviate the Malay community out of poverty forged a social contract between UMNO and the Malay community. The government furthered their interests and they would reciprocate with their trust and support. Therefore, for the majority within the Malay community, social mobility, and prosperity is inevitably associated with a Malay controlled state.

- Islamisation from above: The bureaucratisation of Islam

The irony of UMNO's bid to out-Islamicise their Islamist rivals, is the resultant intensification of the Islamic metaphor in the political sphere. By co-opting the leaders of the Islamist party and the Islamist revival movement, they gave them agency within the state apparatus to implement their Islamic agenda. This shift

would validate Islam, and its representatives: *shariah* scholars, as a legitimate source of authority for political power. They would also establish various Islamic institutions including an Islamic bank and insurance. Thus, as I go on to explain in Chapter 5, *shariah* regulation is based on a legacy of bureaucratisation of Islam, compounded by the institutionalisation of Malay identity.

- Islamic Revivalism from below

The revivalism, shaped by political and social forces, would be the ‘fertile’ soil that would allow the seed sowed by the state to germinate. The values and ethics engendered in people would create an elective affinity for the values that would attract Muslim-Malay consumers to Islamic banking. These values are not homogenous and practices are justified according to various interests. As we shall discover in the rest of the dissertation, a variety of hierarchies of values are embodied by the ideal types: pragmatist, virtuoso and sceptic.

- Ethno-nationalist development and Islamic consumption

This section focuses on the post-NEP economic development. First, I consider the convergence of interests of the political and economic elite. The creation of Islamic banking is the ideal example of the accommodation between domestic and international pressures, as well as political and business interests. This meeting of interests became heightened during Mahathir’s attempt to create ‘Bumicapitalism’ based on a Bumiputera class. Second I explain how paradoxically, the state would invoke Islamic discourse to entice Malaysians to save and work like Protestants but consume like Catholics albeit *halal* products.

'Trust in Allah, but tie your camel first' (an Arab saying also found in Hadith At-Tirmidhi: 2517).

Chapter 5: The Crystallisation of the Islamic banking sector

5.1 Introduction

The first four chapters of this dissertation have served to introduce the main themes of this project, set the theoretical framework and research methodology and contextualise the project within the historical long view. The next three chapters, starting from this one, will deliver a substantive analysis of Islamic banking based on observations from the field. Whilst the next two chapters will concentrate on data collected from participant observation and interviews with ordinary people, this chapter will concentrate on the structural parameters of the Islamic banking sector, or 'supply'. For this reason, the data used in this chapter emerged from two sources: participant observation and interviews conducted with experts and a content analysis of a variety of Islamic banking texts from the Qur'an to Islamic banking textbooks and promotional literature for consumers.

In the previous chapters I explained how Islam in Malaysia is a site for political contestations between the government and opposition and between the political elite and civil society. Consequently, Islam is a powerful tool-kit of symbols whose resonance can be used for the mobilisation of people. It is this political and social salience that informs the state's use of the *shariah* and the *halal/haram* boundaries in its developmental trajectory.

As I explained in the previous chapter, the creation of the Islamic banking sector rests on two factors: the state's use of it to mediate political contestations and reaffirm its authority as the sole representative and guardian of Malays, and to

legitimate its developmental trajectory. Creating Islamic credit would provide a political and economic fix. Islamic banking products would underpin the consumption required to temper the political discontent that followed the crisis and create a competitive niche for Malaysia in the global economy – within a regulatory context that Muslim-Malays, the main constituency of UMNO, trusted. This chapter examines how the cultural components of the ‘ideology of the shariah’ (Zubaida 2003; 2011) is deployed ‘from above’ to capitalise on the salience of shared Islamic values ‘from below’ in order to create a niche financial sector in Malaysia.

Following in the footsteps of other reformist and modernist Islamists, Prime Minister Mahathir proclaimed that the state would re-embed the political economy, including part of its financial system within Islamic values. Mahathir calculated that this ideological turn would legitimise and bolster the state’s capitalist trajectory as well as engender a tangible shift in economic action amongst Malays. The state’s rhetoric encouraged Malays to unleash their entrepreneurial zeal and work ethic according to state’s interpretation of Islamic values. Following the breakdown of trust caused by the 1997-1998 financial crisis, the state would again scale up its efforts to promote Malaysia’s Islamic development by boosting the Islamic banking sector. It would build on ideas of Islamic development from the 1980s by embracing the technological innovations (Warde 2000: 125) and ‘epistemic legitimation’ (Rethel 2011) from global finance. Islamic banking was advocated as ‘individually profitable and nationally beneficial’ (Tripp 2006: 117).

For the first time since the inception of Islamic finance, the state managed to create a profitable market within which Islamic financial institutions would not operate simply as ethical or charitable enterprises but as market-oriented institutions that would generate profits within a distinctly Islamic value framework. The state’s promise was that unlike previous Islamic banking products, these would be as efficient as the conventional. But unlike their conventional counterparts, their outcome would have financial and spiritual

benefits. Islamic banking consumers would be guarded against speculative risk found in conventional finance and they would also avoid Islam's greatest sin: *riba*. Unlike the experiments of previous decades, the unprecedented growth suggest that this new paradigm appealed to consumers. Ironically, the sector's convergence with global finance would legitimise the sector in their eyes. Islamic banking would resonate with Muslim-Malays who no longer trusted the conventional financial system but still needed credit: they appreciate its Islamic blessing and yet feel assured with the nod given by global finance.

Culture, in the shape of the *shariah* was deployed by the state as a tool to spur Muslim-Malays into action. The construction of Islamic banking based on 'cultural components' that were intertwined with the social and cultural life of ordinary people offered new possibilities to recreate new strategies of action (Swidler 1986). Islam's vast repertoire of symbols, language and ideas would become the basis of an alternative 'cultural tool-kit' that could provide a 'world-view' which simultaneously problematised conventional banking and also offered a solution (Swidler 1986). Through Islamic banking, the state and banks offered a new 'justification' (Weber 2005) based on an ideology, 'a system of cultural meaning' that felt authentic to ordinary people's moral universe (Swidler 1986:279). In times of crisis, 'ideologies – explicit, articulated, highly organised meaning systems' (Swidler 1986:278; Weber 2005) forge new practices. In this case, *shariah* regulation based on the boundary creations of *halal/haram* helped provide moral clarity in times of uncertainty and also provide a path of salvation: financial, spiritual, social, and political (Douglas 1996).

The perspective of culture as 'a repertoire of strategies' has been used to explain how action is mobilised when shared values are unfavourable to a market (see Chan 2009). My findings demonstrate that this perspective is also salient for the growth of markets where the shared values are favourable. As I argue, the growth of Islamic banking practices is not only due to a coalescence of generalised values from below. These values found an opportunity, means of expression and ideological direction in the Islamic banking sector. Therefore,

my argument put equal emphasis on the ability of actors to create action from meaning and also on structural parameters of culture, in this case the Islamic banking sector. This approach also puts into perspective, the tensions present in the Islamic banking sector as a result of the extensiveness of Islam's tool-kit and its malleability to any ideological project.

The aim of this chapter is to establish how the states and banks have crafted Islamic banking as a 'tradition' (Hobsbawm 1983) that diverges from the original implications of the prohibition of *riba* and instead support neo-liberal practices that are part of the state's developmental strategy. For this reason, the first section of the chapter will include a discussion of the core principles, drawn from sacred Islamic texts and *fiqh* (Islamic jurisprudence), upon which Islamic banking is premised. Islamic finance is 'underpinned by a host of definitional, language and doctrinal debates' (Pollard and Samers 2007: 315) and translations' (Maurer 2005; 2012: 419). The aim is to critically assess how components of the Islamic repertoire of 'tools' have been crystallised into a contemporary banking sector that through claims of Islamic distinctiveness can shape people's banking practices. Although it has been argued that Islamic banking is not about the implementation of Qur'anic prohibitions, but the debates surrounding *riba* (Maurer 2005; 2006), I contend that on the contrary, the Islamic banking sector in Malaysia is driven by the state's attempt to frame one type of correct Islamic banking practices that is politically and economically expedient.

For this reason, tracing the historical contours of the numerous controversial debates about *riba* and the concrete endeavours that led to the creation of Islamic financial institutions adds a layer of nuance to the practitioners' debates about contemporary applications of the *shariah* to banking and the tensions that ensue as a result. It allows the researcher to compare and contrast the Islamic moral vocabulary with the realities of the Islamic banking sector and highlights the contestations surrounding the drive for efficiency, debt-based products and

standardisation versus the pressures to retain authenticity, social justice and equity. The second half will focus on how the values and practices discussed in the first half of the chapter are institutionalised and codified within the regulatory boundaries of Islamic banking. Although it is the Malaysian state that underwrites the Islamic banking sector, in order to prevent tensions arising from the state's dual management of conventional and Islamic finance and secular and Islamic law, *shariah* scholars are co-opted to regulate Islamic banking. *Shariah* scholars are integral to the 'shariaisation' of Islamic banking products. The regulatory process, which draws boundaries around what is permissible and what is not, resembles that of *halal* food – the first mass commodity to be produced under *shariah* regulations. Scholars filter undesirable elements and enact specific rituals and practices that create boundaries between *halal* and *haram* food – labelling one as permissible and clean and the other as forbidden and polluted (Douglas 1996).

The aim of this chapter is not to straitjacket Islamic banking as either authentic, or inauthentic.⁸⁴ It is to establish how the states and banks have crafted Islamic banking as a 'tradition' (Hobsbawm 1983), that diverges from the original implications of the prohibition of *riba*, and instead support neo-liberal practices that are part of the state's developmental strategy. It traces the theological roots of Islamic value and walks the reader through the state's adoption of this value into Islamic credit that can be mass-consumed by Muslim-Malays. Since advocates of the sector, state and banks, often 'folklorise' (Al-Azmeh 2010), 'whilst shunning confrontation with historical evidence' (Kuran 2004:159) the 'longview' of the historical approach is necessary (Hobsbawm 1983:1–20). An analysis of Islamic banking theory and practice, as endorsed by the interested actors, enables the researcher to distinguish points of continuity and of transformation as well as tension, ambiguity, and ambivalence. Invariably, an

⁸⁴ There are various ways of approaching Islam in sociological and anthropological research. This thesis follows Asad in conceptualising Islam as a discursive tradition that includes and relates to itself to the fundamental texts of the Qur'an and the Hadith (Asad 1986). For an insightful overview to the debate, refer to Talal Asad's *The Idea of an Anthropology of Islam* (1986).

analysis of the adaptation of these ancient texts into modern, standardised and codified practices throws considerable light on the direction being taken by Islamic banking, and more generally, on the creation of the ‘working myths’ that legitimise the dominant form and value of Islamic credit.

5.2 The main pillars of Islamic banking

Islamic banking differentiates itself as Allah-sanctioned finance through additional regulation based on an interpretation of the *shariah*. For proponents of this system, the regulation of financial products, services, and behaviour according to an Islamic code of conduct, results in a financial system that maximises *maslaha*, (which means public interest as in public good) and minimizes *madarah* or harm (Zubaida 2003: 15; Warde 2000: 42).

In the words of Islamic banking practitioner Tarek El-Diwany, ‘Religion gives us a set of objectives and a set of rules to help us achieve these objectives. The purpose of corporate activity is to maximise shareholder value. The objective of all religions is very different. The purpose of life is to worship god. If you believe that you’ll stand in front of your creator, on the day of judgment, and have to justify what you did in this life then that’s a very *powerful regulator of all activity*, including *financial activity*. And I would argue that it’s more powerful than a set of regulations handed down to you by a financial regulator. We really have to look at a *system of human governance* where *financial organisations* are *governed by the people*, and their *own values, internal moral drivers* rather than *external set of rules* which they get around with’ (El-Diwany 2009)^{85 86} (my italics/emphasis).

⁸⁵ El-Diwany was discussing the role of religion in finance on BBC Radio 4.

⁸⁶ Echoing early Polanyi, Islamic Political Economy creates a ‘false dichotomy’ (Hart 2001; Dodd 2014) between special purpose and general purpose money. They argue that unlike Islamic banking, the market-economy is disembedded (from society) and any value system and has thus become self-referential and a threat to society.

As a rule of thumb, a valid Islamic financial transaction must include all the vital aspects of a (secular) legal contract, and is certified by a board of *shariah* scholars as being free of any *haram* (forbidden) elements according to their interpretation of the school of *fiqh* (roughly an Islamic version of jurisprudence) they practice. 'An important precept of Islam is *al aslu fil ashya' al ibadah*, or that the norm with regards to things is permissibility' (Dusuki 2011: 3). Put simply, all transactions are *halal* (permissible) as long as they exclude anything that is strictly prohibited. This includes *riba* (usury), *gharar* (excessive uncertainty), *maysur* (gambling), and the production or trade of impure, i.e. *haram* (forbidden) commodities. Islamic banking derives its legitimacy from Islamic sources like the Qur'an, Hadith and Sunnah, and from *fatwas* (legal opinions) issued by *shariah* scholars who are experts in *fiqh* (Islamic jurisprudence). Islamic texts are mined for sayings and guidelines concerning economic and financial activity.

Conforming to the reformist tradition then, the Islamic banking sector, does not perceive the 'shari'ah as set of fixed rules, but a *Weltanschauung*, a worldview, from which men have to deduce rules in relation to their conditions and understanding' (Zubaida 2003: 145). They adopt a 'historical relativism' (Zubaida 2003) that accepts the Quran and the traditions of the prophet whilst adapting them to the exigencies and spirit of the time. The *shariah* is derived from 'the sacred sources of Islam: "the Qur'an as the word of God", "the habitual behaviour or sunna" of the Prophet as it was recorded in "traditions of hadiths"' (Hourani 1990: 66).⁸⁷ A division between *mu'amalat* (transactions) and men's worship of God exist but these are artificial as 'acts of worship have a social aspect', and any dictates of the Qur'an including those regarding economic practices are 'also directed towards God' (Hourani 1990: 65).

⁸⁷ The 'hierarchy' of the shariah is: Quran, Sunnah, Ijma', Qiyas, Ijtihad, and (in some Schools such as the Shafiite) al 'adah wa-l 'urf (local 'custom and usage').

The *shariah* is sometimes mistakenly assumed to be a fixed and discernable body of laws similar to a modern constitution (Zubaida 2003), which reveals precise rules about conduct. A more accurate representation of the *shariah* is that of a broad body of religious precepts. For the most part the Qur'an expresses God's will in terms of general principles with few exceptions regarding specific commands related to private matters such as marriage and inheritance (Hourani 1990: 65; Zubaida 2003: 12). 'Except by implication, the Qur'an does not contain within itself a system of doctrines, but it does tell men what God wishes them to do' (Hourani 1990: 65). Therefore, the *shariah* is predominantly man-made' i.e. 'transmitted and developed through human agency' (Zubaida 2003: 10), reflecting the historical legacies and specific institutional anchoring of each jurisdiction (Warde 2000).

Indeed, the tradition of the *shariah* is based on a 'hybrid formation' resulting from its absorption of customary practices, and local cultural and legal traditions from (Arab to Roman law). The mosaic of Islamic practices across different regions makes it impossible to establish one standard set of economic mores or practices that are constant for all adherents to Islam. The everyday banking practices of the *ummah* (community of believers) are not uniform. Even amongst the pious – a minority inclined to dogmatically follow Islamic precepts there is no consensus on what constitutes authentically Islamic economic behaviour. Islam allows for discrepancy in interpretation and implementation, which varies according to the different schools of *fiqh* (jurisprudence, body of laws and moral precepts) (Hourani 1990: 69).⁸⁸

Indeed its amenability to the various exigencies of the diverse 'Muslim' world is what makes it such a powerful and 'flexible vocabulary of a moral economy' (Zubaida 2003: 11) that provide the building blocs for a cultural strategy that shapes people's action. This variation of practices can also be observed

⁸⁸ The complexity of interpretation in Islam does not stop at the fault lines between Sunni and Shia. Each branch developed several *fiqh* schools, each with its own interpretation of mores and codes of conduct.

amongst the countries where Islamic Banking is established. Iran, a theocracy, opts for rigid, dogmatic, and all encompassing practices. *De jure*, if not *de facto*, all state-regulated activity is Islamic. The Wahhabi Kingdom of Saudi Arabia has a concentration of Hanbali *fiqh* and a literal interpretation of the *shariah*. Regimes and states that are not religion driven (irrespective of their formal adherence to Islam) but that are broadly orientated towards secularisation and modernisation opt for more flexible interpretations. These encourage (in the case of Sunnism, as the Shia have their own schools) a plurality of *fiqh* corresponding to *madhhab* - 'schools' of juridical thought.

The *madhhab* differ 'from each other on certain substantive points of law, and also on the principles of legal reasoning (*usul al-fiqh*), and in particular on the place of Hadith and the legitimacy, limits, and methods of *ijtihad* (Hourani 1990: 69). Egypt follows a mix of Hanafi and Maliki, which allows for a wider interpretation of religious texts, although, just like Malaysia all four - Hanafi, Maliki, Hanbali, Shafii - are allowed for the purposes of Islamic banking (Warde 2000: 32–4). Some argue that the variety of interpretations is motivated by political expediency. Kuran says that 'regimes in desperate need of political legitimacy have funded, and are continuing to fund, movements rich in religious symbolism in order to cultivate an image of piety' (2001: 24–25). Others, like Warde (2000) point to Islam's dynamic adaptation to local environments that has driven the development of distinct traditions in different countries, all of which have evolved over the 14 centuries of Islam's existence as a religious and political reality.

5.2.1 *Riba*

Islamic banking is primarily defined and understood as *riba*-free banking. Whereas nowadays it is used to denote the charge incurred upon incurring a financial debt, *riba* refers to any growth, financial or otherwise, that is singularly induced. *Riba*, the root meaning of which is 'increase', (Tripp 2006: 126) or

‘growth’ (Subhani 2006) is the imperative ethical cornerstone of Islamic banking (Kuran 2004). *Riba* is usually translated into English as usury, an illegal and immoral rate of interest, but for the purposes of Islamic banking, all interest is usury. Consequently, the Islamic banking system is built around ‘the elimination of the payment and receipts of interest in all forms’ (Lewis 2009).

Whether *riba* was meant to encompass all forms of interest, or solely usurious (socially unacceptable) interest is not clear. As we shall read in the next section, debates surrounding the authentic meaning of *riba* have always been controversial and as mentioned in Chapter 1. To this day, its meaning remains enigmatic, heterogeneous, and subject to controversy (Warde 2000: 55; Kuran 2004: 39–41; Subhani 2006; Tripp 2006: 103–33). Several verses of the Qur’an and the hadith clearly prohibit *riba* but do not define it precisely: the term is imbued with ambiguity.

Some of the most renowned verses in the Qur’an prohibiting *riba* that stand out include:

‘Those who devour riba will not stand except as stands one whom the Evil One by his touch has driven to madness. That is because they say, “bay’ is like riba”. But God had permitted bay’ and forbidden riba.’ (Al-Baqarah, Q 2: 275–81)

‘You who believe! Devour not Usury, doubled and multiplied; but fear Allah; that you may (really) prosper.’ (Al ‘Imran, Q 3: 130)

‘That they took Usury, thought they were forbidden; and that they devoured men’s substance wrongfully – We have prepared for those among them who reject Faith a grievous punishment.’ (Al-Nisa’, Q 4: 161)

‘The riba that is practiced to increase some people’s wealth, does not gain anything with God. But if people give to charity, seeking God’s pleasure, these are the ones who receive their reward many fold.’ (Ar-Rum 30: 39)

The verses in the Qur'an are unequivocal in their condemnation of *riba*, stating that those who are true believers would fear Allah and give up their demand for *riba* or it would result in the destruction of a Muslim's honour.⁸⁹

Riba is singled out as the gravest sin. It is worse than any crime, including theft, adultery, or murder, which any believer could ever commit.

For some, the ban on interest is another mark of Islam's exotic appeal. Certainly, due to historical contingency, it is only in Islam that the question of *riba* remains salient to scholars and believers, however Islam is not the only religion that espouses doctrinal hostility to *riba*. Historically, all three Abrahamic religions – Christianity, Judaism and Islam –⁹⁰ raised philosophical and ethical objections to the unnatural growth from self-generation for money and other acts (including incest). Although this commonality has been disputed by Maurer, who asserted that Islamic banking's prohibition of *riba* cannot be equated with 'early Christian injunctions against usury', the etymological roots of *riba* in Arabic are identical to other Semitic languages including Hebrew *ribbit* (*marbit* or *tarbit*) and the same connotations of 'increase', as in Leviticus 25: 36–37' (Benthall 2001). There is a consensus across a variety of disciplines that all three religions posed doctrinal objections to interest⁹¹ (Subhani 2006; Warde 2000; Tripp 2006; Graeber 2011; Kaleem and Lewis 2014).

⁸⁹ Hadith ibn Majah and Al-Hakim on the authority of Ibn Mas'ud.

⁹⁰ That historically Catholicism espoused a harsh attitude towards usury and even commerce is a fact that is well known amongst theologians and lay Catholics alike. In 'Debt: a historical study of worldview on debt', Graeber makes this point emphatically. He states the following: 'Usury was seen above all as an assault on Christian charity, on Jesus's injunction to treat the poor as they would treat the Christ himself, giving without expectation of return and allowing the borrower to decide on recompense (Luke 6, p.34-35)' (Graeber 2011: 283). Judaism's opposition to interest might not be as renowned as that of the other two faiths, in fact the Jewish community in Europe became associated to moneylending and usury. Nevertheless ambivalence with regards to interest is present in some of its sacred texts. Consider Ezekiel 18, p.13: 'He who lends at interest, and takes profit; shall he then live? He shall not live. He has done all these abominations; he shall surely die; his blood shall be upon himself.'

⁹¹ Although Judaism permitted profit from interest in dealings with 'strangers' i.e. non-Jews (Kaleem and Lewis 2014).

The ethical and philosophical objections to interest stem from a variety of understandings of the problematic of *riba*. An aversion towards *riba*, based on the principle of natural law, is also evident ancient Greek philosophical inquiries about interest and the meaning of money. Aristotle described interest (*tokos*) as the ‘most hated’ and ‘unnatural’ art of making a gain from money itself, whether from speculation or the creation of debt. For Aristotle, ‘money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent.’⁹² It is from this notion of *riba* as growth that we launch into an investigation of the original meaning of *riba*.

5.2.2 *Riba* as divine debt

One of the (heterodox) perspectives that lends itself particularly well to sociological theories of money, conceptualises *riba* as a transgression of the divine. Similar to Aristotelian abhorrence of *riba*, the Qur’an’s prohibition is based on natural law: money begetting money is unnatural and against the will of nature and God.

The most intriguing perspectives of this argument is Subhani’s (2006) hermeneutical analysis of *riba*. For Subhani, the original prohibition of *riba* does not stem from its unjust outcome as modern reformers proclaim. Subhani is interested in the original meaning of *riba* and suggests that it is only by looking at the broader meaning of *riba* in reference to the other individual parts and in reference to the whole of the Qur’an which details the various types of *riba*, the majority of which are non economic transgressions, can its genesis be understood.⁹³ The emphasis on the unnatural act of singular growth is accentuated by the Qur’an’s adjunct rule regarding exchange. The Qur’an

⁹² (Aristotle, *Politics*, Part X – <http://classics.mit.edu/Aristotle/politics.1.one.html>).

⁹³ Out of the 72 chapters detailing the sin of *riba*, only one is interest (Q 2: 275).

states that whilst singular growth is forbidden, growth through process of duality is not. Take the widely quoted Quranic verse 275 from *Surah 2 – Al-Baqarah*. It presents *riba* as part of a duality forbidding *riba* but allowing *bay'*, which is trade or exchange instead:

'Those who devour riba will not stand except as stands one whom the Evil One by his touch has driven to madness. That is because they say, "bay is like riba." But God had permitted bay' and forbidden riba.' (*The Meaning of the Holy Qur'an* 2006: 59).

He then refers us to the Qur'an's sanctions for *riba* and compares it to other economic crimes. The act of *riba* is punished by the worst sanctions mentioned in the Qur'an: madness of the devil and hellfire (Subhani 2006: 62). Similar economic crimes like theft, which unlike *riba* are not consensual and often involves coercion, are not subjected to the harsh punishment of *riba*. Subhani reasons that if, as the reformist school argued, *riba* was banned on account of the exploitation of the poor by the wealthy, wouldn't similar exploitation through theft or fraud be worse? At the very least, interest was consensual and did not involve deception. The conclusion is that *riba* is not prohibited due to its economic nature, there are more profound implications. Subhani asks: 'why is *riba* singled out and what are the characteristics of *riba* that make this the worst crime imaginable?'

He concludes that the act of *riba* and its applications in the holy texts indicate that *riba* means means growth from a process of self-generation (Subhani 2008: 10), which even without the intervention of another actor, can theoretically endure for eternity. He singles out this characteristic as the distinguishing feature of *riba* when places it in the most precarious category of transgressions.

What this perspective underlies is that any value that is created singularly from a debt to another human, with no exchange taking place, is transgressing the divine order of God. Therefore, according to Islamic thought, money cannot be

created from itself through interest generated from debt. Value and money, can only be the result of sale, barter, trade, or any other kind of exchange that is consistent with Divine intentions. Echoing Adam Smith's metaphor, Maurer notes that in Islamic banking, 'it is the hand of God that is supposed to stabilize a real value' (Maurer 2012: 420).⁹⁴ It is not a stretch therefore, to conclude that any value is connected to the divine realm. Any loans can only be 'good loans' as in loans that are inherently made good because the borrower never incurs any debt (except for the principle). The rules of *Qard Hasan*, a type of permitted loan, stipulates that no interest can be charged and until the borrower has means to so s/he is under no duress to repay it. Human beings can only owe the original debt to Allah.

The Qur'an's connection between the binaries in the Qur'an – divine/human, sacred/earthly and singular/plural – means that for Allah, singularity is the prerogative of the divine.⁹⁵ The notion of original debt that humans owe their existence to God is also echoed in a number of Qur'anic injunctions, including one which emphatically 'declares *riba* to be "harrama" (2: 275). The Arabic verb "harrama" in its emphatic form means, to prohibit something because it is out of bounds for you, or because it is sacred' (Subhani 2008: 11).

Whilst this perspective still does not confirm with any certainty what the original prohibition means and why it enacted in the first place, the notion of *riba* as the transgression of the divine resonates with the primordial debt theories.

According to Ingham (2004: 90), 'The primordial debt is that owed by the living

⁹⁴ Some Islamic political economists claim that Adam Smith was influenced by Islamic thought, and others believe that he echoes it. Both groups view the invisible hand as the restatement of divine regulation. Abbas Mirakhor writes the following, 'Smith makes clear in his Theory of Moral Sentiments that compliance with the rules prescribed by the Creator and with the rules of the market was essential to his vision ... Smith succinctly and clearly shares some of the fundamental institutional scaffolding of Islam: belief in the necessity of compliance with the rules prescribed by the Creator' (*ISFIRE: Islamic Finance Review*, Vol. 1, Issue 1, November 2011).

⁹⁵ Crucially for Subhani, any growth or increase linked to human activity must take place through an activity underpinned by a plurality such as exchange – whether this is a sexual act between an unrelated male and female or an act of trade. Any increase or growth that occurs outside of these parameters, is a transgression of the divinely ordained duality of nature. Procreation between a man and a woman, as well as trade and commerce are an act of *bay'* whilst incest and interest are not.

to the continuity and durability of the society that secures their individual existence'. In essence, this theory suggests that the living are in fundamental debt to a higher divine being. The use of the word '*abeed* or '*ibadi*', translated as 'slave' to refer to members of the *ummah* (the imagined Muslim community of believers), also suggest that perhaps it is not a stretch to suggest that a unilateral debt, was one that could only be owed to the divine and not other mere mortals.⁹⁶ If believers are slaves of Allah, then it is to him that they can be eternally indebted to – not another human being. This theory is often associated to the emergence of authority whose legitimacy resides in its ability to represent the divine (Theret 1999: 61). This debt would 'evolve as a debt to rulers and states which are essentially surrogates for the idea of society' (Dodd 2014: 23). Aptly, one of my sceptical respondents quipped about Islamic banking, 'they want to touch God ... they want to play God'. He criticises the sector for this transgression, arguing that politicians and bankers aim to assume the indebtedness that Malays feel to Allah, whilst inverting its central premise. Unlike the other perspective of *riba* that we'll be discussing next, which as I will argue is amenable to the logic of global finance, this perspective raises awkward questions for the Islamic banking sector. By suggesting that the origins of debt and therefore money lie in religious hierarchy, it challenges the Menger's proposition, discussed in Chapter 2, that the roots of money originated in commercial life.

5.2.3 The prohibition of *riba* for a just society

This section explores the idea of prohibition of *riba* for the protection of the public interest and justice. *Maslaha* is translated as utility or interest as in public interest or welfare. The main premise of this perspective is that, 'riba is unfair, it is exploitative, and it is unproductive' (Warde 2000: 63). The premise is that

⁹⁶ Many popular Muslim names such as Abdullah or Abd are variations of the word slave as in 'Abdullah is the slave of Allah'.

maslaha 'is known to prohibit what is harmful and to institute what is beneficial for Muslims, in this life and the next' (Zubaida 2003: 15).

The notion of justice stems back to the early Islamic Political Economy whose claim was based on the argument that 'an Islamic system ... would be free, on one hand, of the exploitation and severe inequalities that characterize capitalism and, on the other, of the class struggles and intolerable restrictions that are hallmarks of socialism' (Kuran 2004: 103). In its early years, Islamic economics was the political project of idealists and Islamic ideologues, mainly from the Indian Sub-continent, who aimed to develop a society that was free of Western influence. Appealing to the Muslim identity of his community, in the hope of gaining enough momentum to obtain cultural autonomy, seemed like the best form of political recourse for the emancipation of Muslims and the development of the economy. Activists like Mawdudi⁹⁷ resented the colonisation of Muslims' minds by Western (British) influence and argued that the economic and political development of Muslim societies depended on their ability to return to an Islamic way of life (Kuran 2004). For these Islamic revivalists Islam was a solution to the social, political, and economic injustices suffered by Muslims. They invoked *maslaha* to 'justify the recasting of the law in accordance with the exigencies of modern life' (Zubaida 2003: 16). The application of Islam to the political economy and the prohibition of *riba* was viewed as a primary tool of equalisation.

Certainly, the notion of justice in Islam did not materialise in recent times. Medieval Islamic scholarship, for instance, the work of Al Ghazali, who introduced Aristotelian objections to *riba* in Islamic philosophy (Ghazanfar 2000;

⁹⁷ According to Kuran (2004), the intellectual forefather of the Islamic economics or Islamic Political Economy (IPE), was Sayyid Abul-Ala Mawdudi, who was born in British-ruled India. Mawdudi was the founder of a political party (the Jamaat-e-Islami) that fought for the emancipation of Indian Muslims. Mawdudi initially resisted the idea of political autonomy, which would later culminate in the creation of Pakistan. However, with the impending prospect of India's Independence, Mawdudi became concerned by the Hindus' increasing political power, at the detriment to the minority and often-poor Muslims.

Kuran 2004), was focused on notions of justice.⁹⁸ Al Ghazali made an emphasis on the social welfare aspects of economic practices that increase utility (*musalih*) instead of disutilities (*mafasid*). For example, Al Ghazali (d.1127 CE) rejected lending because ‘whoever uses money in *riba* practices becomes ungrateful and unjust’, since money is ‘not created to be sought for itself but for other objects’. And since ‘hoarding money is injustice, it is meaningless to sell money for money except to take money as an end in itself which is injustice’ (Lewis 2009: 10). The principle of this tradition is a pragmatic one. Based on inductive reasoning, it starts with certainties of certain legal premises and proceeds to derive legal reasoning made in reference to them (Zubaida 2003: 15–16). Its pragmatic flexibility also allows for reasoned not arbitrary exception to the rules that are overtly harsh and result in disutility.

Zubaida cites the Araya contract, a classic example of this pragmatism. The Qur’an prohibits speculative contracts so unripe dates cannot be bartered against edible ones, as the dates might ultimately not be fit to eat. ‘Yet jurists have allowed this exception in order to avoid hardship for growers’ (Zubaida 2003: 16).

Although it is widely accepted that all three religions objected to interest, as far as Islam is concerned honest profit gained from productive work is a different matter – neither profit nor private ownership is considered unjust.

Within the constraints of the divine laws and limits that don’t lead to greed or the pursuit of personal whims, the medieval Islamic philosopher, ‘Al-Ghazali sees nothing condemnable or sinful about people being “maximisers” and acquisitive. “Man loves to accumulate wealth and possessions of all kinds of property. If he has two valleys of gold, he wants a third” [Ihya 2, p.280]’ (Ghazanfar 2000: 879). The Qur’an has no qualms with profit generated from trade and

⁹⁸ Some historians believe that it was Al Ghazali who introduced or reintroduced Aristotelian philosophy to medieval European philosophers, the Scholastics (Ghazanfar 2000).

commerce, private property, or with inheritance (Kuran 2004; Rodinson 2007).⁹⁹ A famous verse from the Hadith captures the priority of private property in Islam: ‘a man’s property is as sacred as his blood’. Even if in the original sense, man owes all debt, time and the earth’s resources to God, there is acknowledgement that ‘man is the owner of the fruits of his own labour’ (Ghazanfar 2000: 879). As Rodinson points out, not only does Islam not discourage economic activity and profit, many of its verses glorify commerce. He writes that, ‘it does not merely say that one must not forget one’s portion of this world.., it also says that it is proper to combine the practice of religion and material life, carrying on trade even during pilgrimages, and goes so far as to mention commercial profit under the name of “God’s Bounty” (Rodinson 2007: 42).¹⁰⁰

In some respects, this conceptualisation of Islam’s role in the economy is similar to Keynesian interventions to temper the excesses of the market (Warde 2000: 46). This stance serves as a firm intellectual foundation for a sector that is compatible with neo-liberal ideology. Unlike the perspective which suggests that *riba* is a transgression of the divine, which is categorical in all dealings related to interest (whether they are defined as such or referred to through other terminologies), this view justifies and opens the realm of possibilities for debt-based products using stratagems that on paper avoid interest.

⁹⁹ There is an Islamic law of inheritance that stipulates that it must be shared according to the principles of fairness. One example is that equal shares for full siblings of the same sex rules out primogeniture (Kuran 2004: 105–6).

¹⁰⁰ It also often mentioned and widely known amongst the *ummah*, that the Prophet Muhammad belonged to a tribe (Quraysh) that included caravan traders (Warde 2000: 38; Hourani 2002: 15). Whenever practitioners at conferences are introducing Islamic finance to a nonMuslim audience and want to emphasise Islam’s compatibility with profit, it is common for them to mention the Prophet’s reputation as an honest and skilful merchant who managed the commercial affairs of his wealthy first wife – the widow Khadija. In terms of symbolism this is significant. Besides following the readings of the Qur’an and Hadith, Muslims are also encouraged to emulate the Prophet’s way of life.

5.2.4 Contemporary consensus

The perspective discussed in the previous section, prohibition of *riba* in the name of justice, informs the contemporary consensus in the Islamic banking world. 'In 1986, the Fiqh (jurisprudence) Academy of the Islamic Conference supported the restrictive interpretation of early jurists, condemning all interest-bearing transactions as void' (Warde 2000: 57; Tripp 2006).

Based on this decision, all *riba* is interest and Islamic banking practitioners are expected to believe in this 'truth' unconditionally (Kuran 2004: 39–40; 58). The majority of *shariah* scholars and boards, including the SAC in Malaysia, agree that *riba* as interest. It is the profit that is accrued from *riba* that is viewed as distinct to that collected from an economic transaction (Tripp 2006: 126). This is clearly stated in Islam's unwavering prohibition of profit generated through *riba* as mentioned in the Qur'an and the Hadith. It is a result of the inference of these verses that they decide which profit is permissible and which is not. Any Islamic banking service charge cannot resemble compounding interest. Consequently they object to the fixed pre-determined element in interest based lending and it is problematic because the lender eschews all the risk that is usually associated with making profit from trade and the possibility of growth of interest has no ceiling.

Although the prohibition of *riba* is specifically mentioned in the Qur'an, Islamic banking uses the Hadith as the principal source for the delineation of current practices. The main quote is the following: 'Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal and hand to hand, if the commodities differ, then you may sell as you wish provided that the exchange is hand to hand' (*Sahih al-Muslim*) (Dusuki 2011: 178). According to the common interpretation of these verses,

conventional financial transactions commit *riba* on three counts commonly from two types of transactions a: loan-type transaction, or an exchange contract.¹⁰¹

It is this narrative that the Malaysian state and banks disseminate and emphasise amongst Muslim Malay consumers. Their reading material for consumers, for instance, their leaflets leave no space for ambiguities. A leaflet from one of the banks states the following: ‘The prohibition of usury in Islam is very clear-cut, so much so that there is no conflict of opinion amongst the scholars’.

They continue to equate usury with the interest charged by conventional banks, using the example of conventional car loans to illustrate their point.¹⁰² They also highlight the dichotomy between the usurious practices of conventional banks, and the principled – and their Islamically stringent – products. This point of view was one that I came across frequently during Islamic finance conferences. As the head of retail products division of a prominent Saudi bank, with branches in Malaysia remarked, ‘as far as I’m concerned, if we’re *halal*, then conventional banks should just be called *haram* banks’.

It is the dichotomy of *halal/haram* that underpins the industry’s message. A juxtaposition of the permissible Islamic banking products versus the forbidden conventional is meant to contrast the superior value of the former against the latter. Malays are taught that one type of banking practices will be rewarded and the other punished. The industry, remind consumers that it is their responsibility to police their practices and prevent transgression. In order to maintain this discipline, Malays are encouraged to take an active role as informed Muslim

¹⁰¹ *Riba* can take place on three different counts:

- Charging excess due to delay in payment (*riba al-nasiah*) in lending and borrowing contracts (*riba al-duyun*).
- The delay of delivery of one of the commodities.
- The exchange for the same commodity in unequal amount (*riba al-fadl*) in exchange contracts (*riba al-buyu*) (Dusuki 2011: 177–80).

¹⁰² Notes provided by the CEO of Bank Muamalat. The notes provided were his own as yet unpublished drafts of the leaflet: *Riba, Usury and its prohibition*.

citizens. As one CEO complained, 'most Muslims don't understand the severity of *riba*. They don't see it as an obligation to use Islamic Banking. Islamic banking is compulsory and they don't know it. There is one small miserable chapter in the Islamic Studies class, which is compulsory for all school children from the age of 6. The way it is explained also doesn't relate to real life. My daughter had to stand up in class and say, this is banking that they're talking about lah!' (it is a common emphatic in Malay and Malaysian English).

The conversation with this practitioner and with others highlights the industry's policy of encouraging socialisation - or what they call 'indoctrination' into self-management - into conforming with the expanded boundaries of the *halal* dichotomy. As many practitioners complained, people's acceptance of these new *halal* boundaries, previously concerned with very specific and limited rituals related to food and hygiene, was a complex and tortured process.

Writing about the 'cultural reconstruction' that takes place in the commodification of finance, Aldridge writes that it, 'requires people to take active responsibility ... The key implication is that people must be made aware that this is a field in which they will need to participate as informed citizens' (1998: 7). She continued to explain that as far as the industry was concerned it was 'all about indoctrination – or lack of it'. For this reason, there was an industry wide strategy to signal correct type of banking for Malays, the sacred texts that highlighted this prohibition and comparison to similar rituals of avoidance like alcohol and pork that they were already following. Crucially, they wanted to emphasise that they were signalling important aspects of a Muslim way of life that consumers had missed out on. They are responsible for their own spiritual and financial welfare. As Jackson explains, 'government policies and practices send important signals to consumers about institutional goals and national priorities. They indicate in sometimes subtle but very powerful ways the kinds of behaviours that are rewarded in society, the kinds of attitudes that are valued, the goals and aspirations that are regarded as appropriate, what

success means and the worldview under which consumers are expected to act' (Jackson 2006: 120).

It was for this reason that the banks whose main consumer base consists solely of Muslim-Malays, organised or sponsored community events. These banks sponsored religious festivals and information sessions with their own *shariah* scholars in predominantly Malay enclaves. Their representative participated in neighborhood groups, prayer meetings, or mosques to educate people about the prohibition of *riba* and the Islamic banking sector.

Fully aware of the necessity of socialising people into these practices, my insider informants disclosed that every couple of months, off the books informal industry-wide meetings are held. The most influential actors in the sector meet to discuss the developments in the sector and to formulate what they term an educational strategy. This strategy is most visible in the advertising material aimed at consumers. The rewards and penalties of using Islamic banking are clearly underlined in leaflets. For instance, one booklet emphasises the severity of *riba* by comparing it to other sins. It states that whoever engages in usurious practices is committing a sin that is 36 times worse than adultery.

According to one informant who used to attend these meetings, the main objective was to 'educate' Malays about Islamic banking and instil in them the habit of Islamic banking. They believe that the self-regulation that Malays demonstrate in their other consumption habits can be extended to banking practices. For some of the CEOs, schools are the obvious institution from which to start creating consciousness of Islamic banking and laying the groundwork for later habits. The use of schools to structure dispositions and preferences in lieu of future actions is also evident in European countries with regards to conventional banking. Policy recommendations include courses on financial literacy and management for school children (Aldridge 1998). For this reason explanations found in pamphlets or other forms of advertising contextualise Islamic banking within the parameters of *halal* and *haram* – a binary that

consumers are already accustomed to. As we'll discover in Chapters 6 and 7, the familiarity of *halal* commodities helps newcomers ease into Islamic banking.

This 'educational' strategy was also confirmed during interviews with other practitioners. *Shariah* scholars explained how they were trying to recalibrate Muslim-Malay attitudes towards Islamic banking by encouraging them to incorporate this practice as a part of their range of rituals, thus emphasising spirituality. He said, 'Malaysians are very concerned with ritual. They're obsessed with what they eat and with escaping dogs. They will generally avoid alcohol. But they don't understand the severity and gravity of *riba*. The problem is indoctrination. We don't indoctrinate people about *riba*. We must put the fear of God in people. *Riba* is worse than adultery or eating pork or drinking. It is an act of war against God'.

A female CEO described the signalling of goals related to financial rewards. According to her, following the financial crisis the industry also strategised to market the financial welfare message: 'After the crisis, there was a huge surge in interest in Islamic Banking, including by non-Muslim consumers. We met with our clients and explained to them that they had a choice to make a smart move. In volatile times, the fixed rate of Islamic banking is a smart move. Rates moved by a 1,000 – business became unsustainable'.

The problematisation of debt that emerged from the crisis also allows the sector to tie in financial self-discipline to the use of Islamic banking. Ironically, although as mentioned in Chapter 1, Malaysians rejected the troika's argument that the crisis was due to excessive debt (and corruption), this moral self-flagellation resonates with many respondents. A number of them cautioned about the use of credit cards and the dangers of excessive debt which was the result of too much greed and no regard for real 'musts' or 'needs'. A number mentioned suicides caused by excessive debt as a cautionary tale for all Malaysians. The pamphlet selects choice quotes that emphasise how debt must be settled swiftly and people are not to borrow capriciously.

‘If he is forced to take a loan, he must vow to repay it and strive to settle the debt’. It is the responsibility of consumers to ensure that their debt will be incurred for a necessity and that they can repay it.

The responsabilisation of debt was one of the new concepts that the sector was trying to ingrain as part of the banking practices. Financial loans under Islam are generally associated with debt forgiveness for debtors who are under duress. Indeed, the forgiven loans earn the creditor more blessings than charity. But, the practitioners explain, this is a business and we are trying to teach them about debt repayment. No one would undertake the risks associated with lending if debt repayment was not compulsory. Islamic banking is not charity and everyone needs to understand that the *shariah* states that debtors must pay back their dues.

The CEO said that despite their efforts, they are often ‘criticised for not being really Islamic’. She said that the critics say, ‘it’s expensive and priced against BLR. The reality is that we do our best, but reality is that we do live in a secular society. Our system is engrained in conventional finance. For example, a benchmark must be provided in order to be competitive. But you can’t guarantee the return – only the principle’.

Not all Malays are in agreement with these practices. Some civil society groups condemn Islamic banking as western banking with an Islamic veneer. These organisations, which I was unable to interview due to their reluctance, lead the attack on the sector. For instance, their website explains that Islamic banking is *shariah*-compliant on paper but not in spirit because it does not cater for the holistic wellbeing required of all Islamic activities.¹⁰³

¹⁰³ It is not unusual for Islamic movements to either ignore economic issues or to object to the Islamic banking sector. In most cases, expedience ‘prevails over “Islamic correctness”’ (Warde 2000:12). As the Ayatollah Khomeini famously stated: ‘the revolution is not about the price of melons’ (www.iar-gwu.org/node/291). Similarly, recent developments from the movement du

She concludes by explaining that she often has incursions with the groups who actively campaign against Islamic banking. The most prominent is the Islamic consumer association. The attacks often become personal. She recalls one incident in which they barged into her office with the Qur'an and started to recite parts of it. In her own words: 'My scholars and I were reciting back at them. As I always say, one can recite any parts of the Qur'an to back an argument, especially when it is taken out of context. These same zealots also hate me personally, especially because of *tawaruk*, and call me *infidel* and the "Devil in Prada" – literally'.

5.2.5 Contestations

Outside the coordinated consensus, there are voices of dissent about *riba* and the Islamic banking system. An unlikely alliance of religious scholars of Islam, and (secular) social scientists dispute the definition of *riba* as interest, citing historical conditionality. One of the most famous examples comes from the former Sheikh at one of the most prestigious seats of Islamic learning, Al-Azhar University in Egypt, state-appointed Mohammed Sayed Tantawi stated that there was no difference between Islamic and conventional finance, inasmuch as the predetermined profits earned by depositing money in conventional banks was not interest, but acceptable profit and therefore religiously lawful. In 1997, Tantawi doubled the blow by adding that 'conventional banks were closer to Islam than Islamic banks' (Soliman 2004: 272; Tripp 2006).

The most vocal secular exponent of this argument is Kuran (2004) who argues that the prohibition of *riba* must be understood in the context of possible physical enslavement of the debtors (and the family) who fail to honour their debts. Accordingly, what was explicitly prohibited was a pre-Islamic practice

jour, ISIL, also serve to confirm that whilst, quite unusually, monetary policy is on the agenda, Islamic finance is definitely not.

amongst the Prophet Mohammad's tribe, the Quraysh, which often resulted in the borrower's enslavement due to his inability to pay back the debt, which would double if he failed to pay on time (Subhani 2006; Kuran 2004; Warde 2000). The Prophet Mohammad's aim of banning *riba* was to prevent enslavement for debt. Thus, Kuran argues that the rules governing *riba* are irrelevant to contemporary financial practices because people do not risk actual enslavement.

Economic historians and sociologists of the Middle East find issue with two aspects of the historical narrative presented by Islamic banking in its prohibition of interest. They argue that contemporary prohibition is based on an assumption the *shariah* as a fixed and dominant body of canonical law in historical Muslim societies (Halliday 2008; Zubaida 2011). They also contest the historicisation of the *shariah* as a kind of constitution that bound its rulers to 'the modern notion of "the rule of law"'. They argue that this conceptualisation is the product of Islamic reformists who resorted to adaptation instead of annihilation in the face of growing secularism (Zubaida 2011: 13–15). The use of *riba* is depicted as one such colonial intrusion that changed the course of an interest-free society. However, some economic historians suggest that purely *riba*-free transactions were the exception, not the norm. Writing about pious Muslims who lent money without interest, Rodinson (2007) tartly states, 'their relative rarity is clearly apparent from the inability of modern apologists of Islam, who are very anxious to offer historical examples of the phenomenon, to find more than a few cases to exhibit'.

The most damning evidence, for those who mythologise the Golden Age (Kuran 2004) comes from the religious *waqf* – held up by many in the Islamic banking sector as another gold standard. According to Pamuk, from as early as the 15th century up until the 18th century, these cash endowments were lending funds at 10 per cent or more interest per annum (Pamuk 2000: 81). Interest rates or lack thereof were adjusted by the ruler according to political contingency (Lewis 2007). Various sources indicate that in many Muslim

contexts, *riba* referred to ‘only exorbitant and exploitative rates and arrangements’ such as usurious practices that exceeded a moral or legal limit and ‘dealing in interest was taken for granted’ by the majority of Muslims (Zubaida 2011: 16–17). Even during the rare occasions that interest-based money lending was questioned; they were outmanoeuvred by leading jurists and authorities. In one famous case, the highest body of Ottoman scholars ruled in favour of interest (Rodinson). Furthermore, religious people who wanted to live by the book would ask scholars to give their blessing to *hiyal* – stratagems similar to the most popular banking products explained in Chapter One (Kuran 2004; Rodinson 2007: 80; Zubaida 2011) which were later introduced in Europe.

5.2.6 *Maysir* and *Gharar*: Gambling, Hazard, or Chance

Also central to Islamic moral economy is the condemnation of *maysir* (gambling) and *gharar* (uncertainty). Unlike *riba*, the meaning of which remains obscure, the Qur’an is unambiguous about the prohibition of *maysir* and *gharar*. This injunction includes all forms of gambling, stating ‘O Believers, wine and gambling, idols and divination by arrows are but abominations devised by Satan, avoid them so that you may prosper’ and extends to commercial dealings that involve unrequired risk and uncertainty [Al Maidah 5] (Dusuki 2011: 90; 183). One of the most famous Hadith (Ahmad) states, ‘do not buy fish that is still in the water because there are elements of *gharar*.’ Other pertinent examples found in the Hadith include the sale of grain and grapes until ripe, the advance sale of objects collected during a diver’s dive, runaway slaves, and unborn livestock.

In all cases, these sayings point to aleatory contracts, whose outcome depends on luck or chance. In contemporary terms this would include a ‘sale by auction, since the seller does not know what price he will get for the object being sold, or any sale in which the merchandise is not precisely, numerically defined (e.g. the

fruits growing on a palm-tree) although the price is expressed in definite terms etc.’ (Rodinson 2007: 45).¹⁰⁴ It is through the condemnation of *maysir* and *riba* that the concept of *gharar*, often translated as risk, uncertainty, and hazard was deduced (Dusuki 2011: 181). There is no direct mention of the word in the Qur’an (Warde 2000: 59; Dusuki 2011: 181). Since there is no prohibition in the Qur’an, the Hadith are used as the next best source to deduce the norm with regards *gharar*. The roots of the word *gharar* are linked to deception and deceit and is thought to allude to the necessity of a sense of fairness in all contracts, whether through the insistence on transparency, mutual consent, access to material information, and the banning of all practices that include exposure to unnecessary risk. Certain legal concepts found in English Law, such as malfeasance and good faith can be useful to explain other aspects of this concept such as *Al-Tanajush* (silent collusion to create high demand); *Tadlis Al-Aib* (deliberate hiding of flaws); *Al-Khilabah* (devious actions used to clinch the contract); and *Al-Khiyanah* (dishonest claims about the actual capital ratio used for the purchase of goods and services).

This concept is seen as being particularly relevant to weaker parties with limited bargaining power, who are more likely to shoulder an unfair burden of risk. Indeed the verses stress the protection of the weakest and least privileged in society, whether through the banning of speculation over basic commodities or the prevention of ‘avoidable ignorance’ what would be termed avoidable information asymmetry, such as deliberately misconstruing the quality of the

¹⁰⁴ Mohammed Hashim Kamali writes that, ‘in futures trading, both of the counter values, that is, the payment of price, and delivery of the subject matter are postponed to a future date, whereas this is not the case in either *salam* or *bay’ al-mu’ajjal*. The former involves deferment only of the delivery of the subject matter of sale but the price is paid at the time of contract, whereas the latter involves deferment only of the price, with the delivery being completed as of the time of contract. Moreover, futures trading are much more complex and several other aspects of the operational features of futures, such as the fact that most of the sales and purchases are off-set through reverse transactions prior to delivery and payment – present problems which cannot be addressed within the rubric of *salam* and *bay’ al-mu’ajjal* but need separate analysis and *ijtihad* beyond all these’ (Kamali 1999: 66).

product or terms of the agreement, that would lead to unearned profit for one and undeserved loss for the other party (Kuran 2004: 175).¹⁰⁵

There can be three instances of *gharar*. These are: settlement risk, non-disclosure of material information on the subject matter, and the undue complexity that arises from the combining of two sales in one interdependent contract (Dusuki 2011: 182). Although *gharar* is sometimes wrongly translated as risk, it's closer in meaning to unnecessary risk linked to the 'game of chance' in speculative activities like gambling. As Warde (2000: 59) points out, '*gharar* should not be used interchangeably with the broad concept of risk. Islam does not advocate the avoidance of risk. Indeed incurring commercial risk is approved, even encouraged, provided it is equitably shared'.¹⁰⁶ The banning of contracts bearing excessive risk and uncertainty, especially those with an aleatory element makes it difficult to justify financial instruments such as derivatives that rely on unknown future outcomes, involve overtly complex risk management and, unlike trade or commerce, is not viewed as a productive effort or provide any value-adding economic activities to society. Islam encourages the type of risk-taking activity that is part-and-parcel of any commercial endeavour. This type of 'entrepreneurial risk', associated to the risk of loss tied to the right to return, is accepted by practitioners as unavoidable and 'part of the normal course of business in every economy activity.' In other words, the calculable and foreseen risk of any productive effort that though its profit and loss nexus, adds value to society is viewed as part of the natural order of life; nothing ventured; nothing gained. As Al-Ghazali explains in *Ihya* (4: 118), 'they [traders and businesses] bear a lot of trouble in seeking profits and take risks and endanger lives on voyages' (Ghazanfar 2000: 878).¹⁰⁷ The

¹⁰⁵ Stricter interpretations also exclude speculation of non-basic commodities and luxuries.

¹⁰⁶ Risk in this case is linked to pre modern notions of luck and fortune. In western scholarship it has many contested definitions, it is sometimes conflated with and sometimes distinguished from uncertainty. In sociology, the concept is generally discussed in relation to the outlook of a modern future-oriented society, in which hazards are assessed in relation to future possibilities.

¹⁰⁷ Another type of risk identified is the type related to natural disasters. The sector accepts that 'people seek to protect themselves from the effect of these calamities by taking insurance.'

unforeseen events or ‘unknown unknowns’ have to be left to the mercy of God (*tawakkul*). The famous Hadith quote captures this attitude perfectly: ‘Tie your camel first, and put your trust in Allah’ (*‘aqil wa tawakka*). In other words, as long as all sensible precaution is undertaken, there is no need to fear what the future might bring.

The injunctions against the activities of speculators, or certain middlemen such as stockbrokers are based on an objection to gain that is unearned because there was a fixed return and no risk involved. For instance, renting to farmers is morally unjustifiable because the quality and quantity of the harvest are not forgone conclusions. Whilst the landowner can lead a comfortable life of leisure with no risk to his income, the labourer will struggle for his subsistence (Kuran 2004: 175–76). It is from these concepts that the idea of mutuality of risk is derived. According to theoretical principles, Islamic banking practices must ensure that the burden of risk is fairly shared amongst all parties. If part of the rationale of the public welfare justifications behind the banning of interest lies in the belief that the creation of money with no risk-burden is unfair, then fairness in risk and return should be an integral component of any compliant contract. Having discussed the main principles of Islamic banking and respondents’ perceptions, we will now shift our attention to how Islamic banking operates in principle. The hallmark of an alternative banking sector is not just in its principles but also in the legitimacy of its outcome.

5.3 Questions of outcome: The Islamisation of finance or the financialisation of Islam?

Having discussed the controversies surrounding meaning and the theoretical boundaries of Islamic banking, we now turn to practice. Is output consistent with its theoretical standards and how does it compare to conventional banking?

Takaful has been developed as a *shariah*-compliant insurance, thus avoiding all ‘forbidden elements’ (Dusuki 2011: 183–84).

Here we'll look at Islamic banking's claims of alterity on its own terms, as the 'output' of Islamic banking partly determines its legitimacy (Rethel 2011). The point is not to dismiss Islamic banking for living up to idealised heights that especially not even conventional banking manages to live up to. 'Often alternatives are "the same" as the dominant, just different in scale, meaning, or institutional location or authority of the actors involved'. (Maurer 2012: 415). Rather, it is to find out how Islamic banking 'oscillates in and out of phase with the central tendency' (Maurer 2012: 415). As one of the *shariah* scholars noted, 'technical compliance is neither here, nor there. We should take a more holistic approach and work to fulfil our moral obligations to clients'.

First, we need to understand the primary operations of Islamic financial institutions. 'Islamic banks collect deposit funds from investors, both by means of *mudaraba* investment accounts and other deposit accounts, on one side of the balance sheet, and then invest these funds in a variety of Islamically acceptable forms, on the other side'. (Lewis 2014: 11). Traditionally, banks engage in activities that can broadly be divided into two: risk sharing, and monitoring and enforcement. This distinction is of great importance for grasping the differences between Islamic and conventional banking (Lewis 2014). In particular, this is related to the type of financial intermediation specific to Islamic banking. Unlike their conventional counterparts, Islamic banks engage in, 'profit-and-loss modes of finance and investment in trade and commodities via sales-based and leasing contracts feature extensively in their activities' (Lewis 2014: 11).

The arrangements means that in the lender must share in the borrower's risk (Warde 2000; Lewis 2014). This raises the thorny issue of borrowers' behaviour, or what economists call moral hazard (Warde 2000: 154–55; Lewis 2014: 23). A financial system whose *raison d'être* was originally to challenge *homo economicus* by replacing him with *homo Islamicus* – a virtuous being who strives for the Glory of God – cannot *a priori* model its operations on the notion of an unscrupulous being. As Kuran explains, Islamic economics is based on

the notion that Islamic norms will 'transform selfish and acquisitive homo economicus into a paragon of virtue, homo Islamicus. Homo Islamicus acquires property freely, but never through speculation, gambling, hoarding, or destructive competition' (Kuran 2004: 42). According to one of the CFOs interviewed, Islamic banks had to 'learn the hard way' that *homo Islamicus* was as privy to temptation as his atomised and individualistic brother. He continues, 'when we first started operating we didn't carry out thorough credit checks. People used to buy car financing and then drive the car across the border to Thailand, sell it, and claim that it was stolen and stop payments. We soon had to change our operations'.

Another problem concerned risk sharing. With pure profit-and-loss instruments, people are engaging in riskier activities. Many want the benefits of the system without the risk (Warde 2000: 154). As a number of practitioners complained, especially upon the introduction of Islamic banks, people expect them to operate like charities and have to be taught that banks are businesses and regular payments are mandatory. It is for this reason that many Islamic banks have switched to debt and follow risk management models leveraged on conventional knowledge.

5.3.1 Debt versus equity

The industry's capitulation to debt, instead of adhering to equity, is located at the heart of Islamic banking's tensions between the norms of Islam and finance. The premise of *masalih* is based on the 'real-life' financing not profit from finance activities. Primarily because as Islamic political economists insist, 'unlike the financial capitalism or financialisation, Islamic financing is purely a real-life, real goods financing. No financing can find its way to the Islamic system without passing through the production and/or exchange of real goods and services' (El Ghalfy and Khiyar 2012).

A common yardstick used to measure Islamic finance's shift towards financialisation and away from its original principles, is the proliferation of debt-enhancing financial products. The data is unequivocal in this regard. Figures show that it is debt-based financial contracts, mostly *murabaha*, or extensions of *murabaha*, and not equity-based PLS instruments like *mudarabah* and *musharakah*, the gold standard of Islamic banking that dominate global and Malaysian Islamic Banking. 'The percentage share of *musharakah* declined from 1.4% in 2000 to 0.5% in 2003. Evidently, it seems that major modes of Islamic financing are in the form of *bay bi thaman al-ajil* and *ijarah thumma al-bay* with 47.4% and 27.9% respectively in 2003' (Mehmet 2007: 5). By the end of 2012, financing by *murabaha* or its extensions eclipsed other financing methods such as *ijarah* (leasing finance) and its extensions, making them almost negligible. One of the leading dissenting voices is the Islamic political economist Mehmet Asutay, from the Durham [University] Centre for Islamic Economics and Finance. He is vociferous about the gulf between the priorities of the ideals outlined in the Islamic moral economy and the current state of the sector. He argues that there is a stark shift in priorities from the original aim of 'financing in the real economy' to bringing 'debt-enhancing financial products to the market'. The original aim of 'financing in the real economy' through equity has been sacrificed to achieve efficiency in the shape of 'debt-enhancing financial products to the market' (2007: 5).

Others object to this characterisation of Islamic banking. They argue that debt-based instruments are permissible, subject to certain restrictions. Kaleem and Lewis (2014), cite rulings by jurists which allow premium profit on debt, through methods such as deferred payment sale, bill of exchange. These include the so-called *hiyal* mentioned earlier, which brings us full circle to the earlier discussion about Islamic banking. Are critics right to view these methods as ruses to trick unsuspecting people into buying Islamic banking products, or is there a substantive difference? Therefore, we will turn to the social relations underpinning Islamic credit from the perspective of the ordinary borrower. More specifically, we will try to understand whether the social relations between the

two parties are conducted as equals or whether they are subject to an asymmetry of power.

5.3.2 Credit risk

This point is crucial on two counts. First it contains debt within the limits of the real economy. Second, it preserves the social welfare of the consumer by preventing people from being burdened with debt that they cannot sustain. Also, since equity financing requires a focus on the viability and profitability of the venture, the creditworthiness of the individual is not questioned

For Islamic banking, one of the implications of using equity instead of debt regards risk. The problem with debt-based instruments is twofold. Since it is debt and not equity based it doesn't bear mutuality of risk and relies on credit-risk profiling of the individual. In this section we will discuss credit risk, before moving onto the mutuality of risk.

The use of equity in Islamic banking is expected to follow the same criteria as any other type of equity financing. The only measures that the bank should take into account is the moral permissibility of the project and economic viability. The banks are expected to measure entrepreneurial risk which, as I mentioned earlier, is allowed and even encouraged by Islam. Instead, since Islamic banks want to avoid the moral hazards of profit-and-loss, it is the norm for Islamic banks to take into account credit risk. My discussions with practitioners from Islamic banks revealed that all banks use the conventional credit risk assessment model. As one banker explained in an apologetic tone: 'Credit underwriting is the DNA of each bank. The system is a universal one. We are obliged by the regulators to have a strict underwriting policy – Islamic and conventional. There is no difference'.

Critics of the turn towards pragmatism see the failure to address this core issue as a major socio-economic failure of Islamic finance. The calculation of the credit risk of households and individuals as opposed to the equity risk posed by

their proposed venture is central in facilitating the shift from the financing objectives (of the real economy) towards financialisation and the proliferation of debt-enhancing financial products within the market.¹⁰⁸ Those that believe that Islamic finance has deviated from the Islamic moral economy express an unease about the emphasis on credit risk profiling that inevitably accompanies the shift towards debt-based instruments. In theory, Islamic banks should not evaluate the credit risk of an individual or enterprise because it would place all the risk on one party. It is the equity risk associated with profit/loss prospects of the entrepreneurial proposition that should be appraised.

5.3.3 Mutuality of risk

A classic example of a problematic vehicle that is banned in the Gulf is the *bai' bi thaman ajil* (BBA) sales contract. The BBA sales contract with immediate repurchase agreement has been criticised for being 'insufficiently different' from conventional products (Shaharuddin 2012), and the scholars in the Gulf are adamant that these products are based on a legal contrivance that defeats the spirit of the prohibition of *riba*. In the GCC, the product would be structured on a *murabaha* instead and this stricter interpretation is also carried into the Malaysian market by GCC banks. They offer the BBA based on the mark-up sale. Islamic bank's shift from its gold standards have been particularly problematic in a commonly used long-term extension of *murabaha* called – *bai' bi thaman ajil* (BBA).

With BBA, payment is carried out for a longer period because it is generally used for home financing. In theory the bank is responsible for hundred per cent of the risk as it technically owns the asset for which credit is forwarded till all the payments are settled (Wilson 2004).

¹⁰⁸ See:

www.newhorizonislamicbanking.com/index.cfm?section=lectures&id=11252&action=view

In practice, risks associated to ownership are only assumed by the bank for a couple of minutes. This has social implications when the sale involves a property that has not as yet been developed. In the case that the developer abandons the project, as has happened in the past, borrowers are forced to pay the full price for a house that was never finished by the developers. In Malaysia there were several cases where the consumer buying house-financing was ordered by the court to pay back the full price of the house costing RM492,000 to a bank although the bank only paid RM39,000 to the developer.¹⁰⁹

Since there is no agreement between the developer of the property and the bank, but an agreement between the bank and the consumer, when developers abandon housing projects, consumers face bankruptcy through loss of investment, property and outstanding debt with banks, as well as a ruined credit history which would leave them unable to access credit for the unforeseeable future. As these cases show, despite the ideals of mutuality of risk, there is no space for collective control or spread of risk between all parties involved.

To the credit of the smaller and solely Islamic banks, according to an informant, consumers who were cheated by their developers, were forgiven the remained of their debt. When the developer absconded his responsibilities and stopped building the housing that the consumers had already partly paid for through house financing, the bank decided that as it was a genuine case of hardship and the only one who had acted in bad faith was the developer, they would absorb the losses – despite not being legally obliged to do so.

How do practitioners who are actively creating the sector perceive the critique levelled against Islamic banking? This was the question posed during my interviews with them. Were they of the opinion that the criticism that Islamic Finance is mimicking the conventional at the expense of its core Islamic values is justified?

¹⁰⁹ See: <http://www.propertyguru.com.my/property-news/2012/10/6326/help-buyers-of-abandoned-housing-projects-ppim>

They all agreed that ultimately Islamic Finance is a niche sector intermeshed within the larger conventional financial system and that it also faces fierce challenges typical of any financial market in a capitalist system. In the words of one CEO, 'The reality is that we live in a secular society. Our system is engrained in conventional finance. For example, a benchmark must be provided in order to be competitive. But you can't guarantee the return – only the principle'.

However their experiences are particular, reflecting their political and social realities and also the diversity of Islamic banking. The majority were dismissive of the critique. One cites the example of Enron to explain that there is a substantial difference that matters when things go wrong. He tells me, 'imagine that you have a situation like Enron again. The Islamic investor would be able to collect a substantial return even if the company goes bust because investments are based on real tangible assets that can be bought and sold again.'¹¹⁰ In the Islamic system there is a sale of real assets or usufruct that results in ownership. For example, the power plants and machinery can be sold and the investor will collect at least some of those funds'.

A minority believes that although there is a distinction between the two sectors, the next stage of Islamic Finance should be about enforcing the ethical side of the sector. They are convinced that this is a strategic move that would put pressure on the *shariah* windows and also allow the banks to fulfil their *masalah* obligation. The head of a retail banking division explains: 'I am aware that I tend to lean towards the financialisation of the sector, because I am in a position where to bring profit for the bank, now we are almost a lending bank, instead of leaning towards equity. But, I agree with the need to stick to the true Islamic principles. We, as Islamic banks have to start thinking about things that help the society and this should be a move towards equity. We should go into big

¹¹⁰ Usufruct is a legal term that refers to the right of one individual to use and enjoy the property of another, provided its substance is neither impaired nor altered.

projects where people will benefit but it all depends on the market. It will be very difficult to move into the next phase because there are all sorts of competitive pressures that we need to face'. As a *shariah* scholar admitted the sector was not fulfilling its duties towards SMEs and especially *halal* business. Accordingly he says, 'one of the problems, post crisis, is that all banks have become more risk averse. But we should do more to support *halal* business. These type of projects speak to our aspirations'.

As they all confirm, the conventional moved in when they realised that ethical products are a lucrative innovation within the financial sector and in Malaysia it made sense to offer Islamic rather than generic ethical products. They view Islamic banking as another step in the innovation and developments of products. They remark that the competition really increased due to the conventional banks opening Islamic windows, rightly reasoning that for them there was a small risk and potential for a massive profit.

Although passionate about a career that comes across as more of a cause than just a job, there is a lingering feeling that for the practitioners, the legitimization of Islamic banking by the conventional sector was a pyrrhic victory. The use of debt-based products, similar to that of the conventional enhanced Islamic finance's ability to attract conventional banks and increase its supply of capital, expertise and operations. This expansion and development brought about with it critique that the sector is mimicking the financial engineering of the conventional sector, what some call 'banking in Islamic garb' instead of finding ethical solutions for socio-economic problems.

They concur with each other's assessment that very few banks are willing to use the purest forms – *musharakah* or *mudarabah* – because of the huge risk involved: 'to use the purest products, one must be willing to take 100 per cent risk and responsibility and very few banks are willing to do that', one banker concedes. In this first two-thirds of the chapter we have established that Islamic finance is marked by heterogeneous views. Despite the standardisation of the

sector, there is a dissonance amongst practitioners. They are aware that the value of Islamic Finance depends on its religious legitimacy. Yet, its survival requires maintaining market validity.

5.4 The standardisation of Islamic banking

This section focuses on the process of codification of the Islamic banking sector through the standardisation of the regulatory process and its production of social use-value of Islamic banking. Both processes aim to build consumers' trust in Islamic banking through standardisation and branding of *halal*. The standardisation process, standard creation and adherence rests on the legitimacy of *shariah* scholars. All financial systems are guided by regulations and standards. The Islamic banking sector has gained global legitimacy by acquiescing in their standards. However, its added value stems from its additional *shariah* regulation. These standards, despite being religious in origin also have to be perceived as legitimate. As Rethel points out, the legitimacy of any financial system rests on outcomes or meeting expectations, but also on its input or adherence to standards.

Since tensions between theory and practice were already discussed in the previous section, the rest of the chapter examines how 'procedural legitimacy' (Rethel 2011:77) is created. We will first focus on the role of *shariah* scholars and the regulation of Islamic banking standards. Then we will turn our attention to the process involved in moulding Islamic banking into a distinct sector. As the reader shall discover, the branding process enhances the juxtaposition of Islamic banking with the conventional. The sector's appropriation of signs linked to the Middle East also increases its desirability and sense of authentic familiarity with Muslim-Malays. However, first we'll examine the broader political opportunities and risks of *shariah* regulation from the perspective of the state.

5.4.1 State monopoly and centralisation

In the previous chapter, I argued that Islamic banking has an economic function as well as a social use value, both of which serve as a political and economic fix to the crisis which has hit Malaysia. Consequently, although Islamic banking created an opportunity out of a crisis, it also poses its own risks.

As Wilson (2009) notes, in societies where the regime is associated with the state and both suffer from a deficiency in legitimacy, or can create the opportunity for the emergence of political contradictions, it is logical to detach regulatory systems from the state completely.¹¹¹ Fortunately for the Malaysian elite, its heterogeneous ethnicity and official multicultural status, makes it able to negotiate these tensions better than other countries that are almost homogeneously Muslim (albeit of different sects). The Chinese are begrudgingly seen as a powerful force of the economic and social fabric and most acknowledge that they can be catered for. This need to mediate between the various ethnic groups buys the state some leeway. Nevertheless, the state as a secular institution deriving its legitimacy from non-religious sources is better off outsourcing the regulation to *shariah* scholars. Although as explained in the previous chapter, they are co-opted and operate within the parameters of the state, they derive their authority from divine sources and are viewed by society to be legitimate. As Fischer (2008: 221) argues, the state regards Islamic banking by imposing categories of thought leveraged through its symbolic and physical power. I illustrate this argument by examining how these categories are applied through regulation.

In Malaysia, the *shariah* boards are controlled by the state through the Bank Negara (central bank). Since 1997, legal opinions related to Islamic Banking have been centralised and stringently regulated through the SAC. According to

¹¹¹ KSA exemplifies this dilemma. If the state derives its legitimacy from a religious (Islamic) source, then by default, all its institutions and policies are derived from Islam i.e. Islamic. Singling out one sector as Islamic implies that the other spheres of society are not.

the Central Bank of Malaysia Act 2009, the members are appointed by the *Yang di-Pertuan Agong* (King), on the recommendation of the finance minister (Dusuki 2011: 715). The SAC of Bank Negara 'is responsible to advise on matters in relation to Islamic banking and *takaful* businesses or any other Islamic finance area that is supervised and regulated by BNM'.¹¹²

As a result, products in Malaysia develop as an industry, through a top-down approach, not through individual banks. As a practitioner confirmed: 'each individual bank has to operate through the central bank. Products are commoditised, there isn't one particular product that one bank offers that the other one doesn't. Everyone is selling the same thing'. The few rare instances in which innovative products are introduced, such as the diminishing *musharakah*, it is usually the result of innovation from a Gulf bank. The practitioners believe that the sector benefits from developing products collectively and then pushing them through the central bank. As one informant confided during a conference coffee break, 'the centralisation of *shariah* regulation is pragmatic. It ensures that everyone follows the same rules and everyone agrees that it benefits the industry as a whole as it decreases conflicts between financial institutions in the public arena.'

5.4.2 Co-optation of non-state actors

The distinguishing feature of Islamic finance is its *shariah* value, derived from its adherence to a set of *shariah* inspired rules. The *shariah* advisory boards consult state and/or private institutions on the *shariah* regulation of Islamic products and services. The most vital members of these boards are the religious *shariah* scholars who manage the *shariah* or *halal* standards.¹¹³ As the

¹¹² http://www.mifc.com/index.php?ch=menu_law&pg=menu_law_sac

¹¹³ The translation of *shariah* scholars or *shariah* advisors is an imprecise translation of specialists of *fiqh al muamalat*, known as *ulama*. For the purpose of this thesis, *shariah* scholars will specifically refer to those *ulama* who use their knowledge of *fiqh* to approve or develop Islamic financial products.

supreme experts of Islamic orthodoxy, they are bestowed with the religious authority to issue *fatwas* (legal opinions) related to Islamic orthopraxy, according to their interpretation of the *shariah*. It is through their blessing that a product or service can be branded *halal*.

In Malaysia, the regulatory framework is on the centralised side of the continuum; in contrast to the fragmented *shariah* regulatory system found in the GCC is at the opposite end. Therefore it operates according to a two tier system. The central bank is the main entity that controls the *shariah* board which is the sole authority that can issue supreme edicts about Islamic banking products. 'In order to avoid bickering among rival schools of Islamic thought, Mahathir established in 1997 a National Syariah (Shariah) board (SAC) designed to harmonize financial practices and review the compatibility of new financial products with religion' (Warde 2000: 125).

The second tier *shariah* scholars simply ensure the institution's compliance to directives issued by the SAC. Just like legal departments in conventional banks, they have to make sure that their institution complies with the SAC's edicts. Unlike the private *shariah* boards in the GCC, they are not involved in innovating and creating products for the bank. The *shariah* boards can include experts from diverse fields including accountancy, law, and conventional finance, to ensure the board's ability to understand all aspects of finance. However, these members must be kept to a minimum and it's the *shariah* scholars that are indispensable.

5.4.3 *Halal* industries: certification

Shariah regulation is based on a dichotomous principle: *halal/haram*. A strict interpretation of *halal* is all that which is lawful and permitted. This contrasts with *haram*, all that which is unlawful and prohibited by Allah. This binary definition of permissible/forbidden was historically used for the management of the dietary practices of Muslims (see Douglas 1996; Fischer 2008; Nasir and Pereira 2008). Just like Islamic banking, everything clean and pure is permitted, except what is not (see Nasir and Pereira 2008 for a comprehensive list). It is important to stress that this dichotomy stresses not just what is permitted, but what must be avoided. Muslims look to scholars, who delineate the boundaries of permissible/forbidden according to orthodoxy, to learn about the right form of orthopraxy, following the right practice.¹¹⁴ The role of the *shariah* scholars is to interpret the complex Islamic orthodoxy of their legal school. Given that practice is derived from doctrine, establishing orthodoxy is integral to orthopraxy. In contrast, religions like Christianity, which stress orthodoxy, do not necessarily incorporate a high degree of practice.¹¹⁵

The certification and regulation of Islamic finance is an offshoot of the standardisation of *halal* commodities, mainly food. *Halal* was a common domestic practice in Malaysian households. However, 'within the last 50 years, there has been a formalization of the halal food and drink process. More specifically, unlike the past, where food processing and production has been a traditional and local practice, there are now many international, national and regional organizations that issue halal certificates' (Nasik and Pereira 2008: 63).

¹¹⁴ The centrality of practice in Islam is apparent in the five pillars of Islam, especially Sunni Islam. A dutiful Muslim is one who follows the *shahada* (Islamic creed), *salah* (daily prayers) *zakat* (almsgiving), *sawm* (fasting) and *hajj* (pilgrimage to Mecca once in a lifetime). Given that orthopraxy is fundamental to Islam, the emphasis on the right practices within all spheres of life is not illogical.

¹¹⁵ Compared to 'active' Muslims, the practice of 'active' Catholics can come across as anaemic. Compulsion is only limited to frequent confession and mass on Sundays and special occasions like religious holidays. Fasting during lent is rarely the norm and not stringently followed.

In the case of state involvement in the regulation of *halal*, such as Malaysia, *halal* becomes 'associated with the state and contributes to the fusing of myths of the historical Islamic nation with more modern imagining' (Fischer 2008: 83). In Malaysia, whilst producers are involved in the differentiation process between the various *halal* goods, just as in the conventional, it is the state that underwrites the *halal* brand. People expect the state to monitor and maintain standards. Whilst differentiation between Islamic and conventional is promoted and highlighted, intra-sector differentiation is kept to the minimum, echoing the trends of retail banking products in the Anglo-Saxon world (Aldridge 1998:12). The centralised *shariah* regulation underpins all of the banking products, reducing the *shariah* distinction between each bank and enabling consumer accessibility. This reduces the amount of cultural capital required to shop around between the Islamic distinctions between the banks and products. Centralised *shariah* regulation allows for the opening and closing the conversation about alterity and difference at a tempo that suits the state whilst it creates competition between conventional and Islamic. Moreover, it keeps to a minimum any discrepancies between products in order to limit *shariah* competition between banks, as this could lead to inflammatory debates about correct or improper Islamic banking practices.

Although Islamic banking banks also compete with each other, the starkest differentiation process takes place at a market level because it is coordinated and centralised by the state. Therefore, the state positioned this market as a niche and in doing so created an identity for the sector (Aspers 2011).

The shift of *halal*, from a localised practice where communities would prepare their own food in accordance to *halal* rules, into a state regulated industry, is associated with the commoditisation of goods. As Fischer (2008) suggests, it is crucial to distinguish between the 'strictly religious practices based on *halal/haram* dichotomies and *halal*'s certification', conceptualising the latter as part of a strategy that includes the marketing, pluralisation and promotion of halalisation as a brand or logo of state capitalism: Halal tm' (Fischer 2008: 39).

For the Malaysian state, *halal* banking was the logical extension of the *halal* industries. As consumers increasingly demanded *halal* commodities, many felt that it would be preferable to match their *halal* consumption with *halal* credit that is generated through means that adhere to *shariah* standards. To a large extent, Islamic finance's growth provides the backdrop to the expansion and increasing expert-led standardisation of these industries. In order to understand the *shariah* regulation of finance, it would be helpful to understand how food became *halalised*, a certification process that is as complex and ambiguous as finance. Food was the first commodity to be *halalised* and the good that is most commonly associated with this standard. In fact, at *halal* fairs, Islamic retail banks showcase their products alongside other mass-oriented commodities. Attending the Malaysian International Halal showcase (MIHAS) – the premier *halal* trade fair,¹¹⁶ which is held annually in Kuala Lumpur, I observed a platform for hundreds of *halal* products and services that are stamped with the *halal* brand. Thousands of consumers and trade-buyers (over 69 per cent of the visiting population) browse the stands offering all sorts of consumer goods. Gourmet and junk food (from *produits du terroir* to chicken nuggets), make-up, clothing, perfume, pharmaceuticals, natural remedies, fine bone china, and travel agencies, and of course financial products and services are some of the commodities on display.

From a secular European perspective, where explicitly religious regulation is increasingly rare, *halal* regulation might seem like an intrusive and additional layer of regulation. As *halal* regulators are keen to point out, both institutionalised regulation of food products for religious (Jewish *kosher* and Jain veganism are merely two examples) and/or health and safety or ethical reasons is commonplace across a variety of regions. The European Union (EU) has issued legislation that ensures a basic standard of health and safety, and for the additional certification of organic and genetically modified organisms (GMOs).

¹¹⁶ <http://www.mihhas.com.my/about-us/about-mihhas.php>

The United States of America's (USA) Food Standards Authority (FSA) also follows a similar if somewhat less stringent regulatory process. Unlike the EU, the USA refuses to regulate kosher products, deeming standards that are 'intrinsically religious in nature' to fall under the first amendment, and thus outside the remit of the state. 'In Israel, by contrast, the state is closely involved, promoting the Chief Rabbinate's kosher label as the only acceptable one' (*The Economist*, 9 February 2013: 53).

Islamic banking is also part of a larger niche of ethical financial sector. The origins of ethical finance can also be located in servicing the needs of religious consumers and preceded the modern industry for ethical commodities. Ethical investment is defined as 'the use of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares' Wilson (1997: 1326). In 1928, a fund was opened to cater for the needs of American Christian investors. The ethical industry was buoyed by the emergence of new social movements and a realignment of political priorities amongst citizens of post-industrial countries to accommodate so-called postmaterialist values (Inglehart 1990, 1997). Besides basic economic and security needs, ecology and later nuclear disarmament and divestment from Rhodesia and South Africa, gained prominence as a result of the direct action taken by vocal new social movements (Wilson 1997).

An awareness amongst Islamic finance practitioners that by drawing parallels between ethical and Islamic finance, it reduces the exoticness of Islamic finance and makes it more appealing to non-Muslim consumers, is inspiring an emphasis of the *halal* brand as being part of the ethical movement. As Wilson (1997: 1325) notes, even if the ethical criteria differ, 'there is arguably much that both parties can learn from one another, especially with respect to investment techniques'. By 1950, sin stock screening, which excluded unethical investments like tobacco and alcohol, had been developed (Langley 2008: 129).

5.4.4 Malaysia's pragmatic *Shariah* regulation

The Malaysian *Shariah* regulatory regime is located on the more permissive side of the continuum than its GCC counterparts. The Malaysian SAC recognises contracts that are rejected in the Arabian Peninsula, thus allowing GCC banks to operate in Malaysia. Historically, *ulama* in Malaysia have followed the Shafi'i *madhhab*. For the purposes of Islamic Finance, 'In their deliberations, the members of the SAC accept all sources and *manhaj* (methodologies) of Islamic jurists from all of the four schools of Islamic thought (*Shafi'i*, *Hanafi*, *Maliki* and *Hanbali*)' (Hassan and Mahlke 2011: 223), are accepted in relation to *fiqh mu'amalat* (Islamic commercial transactions). This is testimony to the pragmatic attitude of the Malaysian State. The wide variety of *fiqh* allows for an incredibly wide variety of interpretations to be used for the creation of new products.

Not all *fiqh* is derived from the Qur'an or the Sunnah. Reformist Islamists use jurisprudential methods to derive Islamic reasoning to derive 'legal codes from the revealed sources of Islamic law that take the nature of modern society into consideration (Sonn 2006:182). These include: *qiyas*, analogical reasoning, *ijtihad*, independent reasoning, and *ijima'*, unanimous consensus amongst scholars as an accepted method of *fiqh* creation (Sonn 2006; Zubaida 2011). *Ijima'* is allowed on the debatable belief that 'in many important contexts a consensus will form and that this consensus will coincide with the public interest' (Kuran 2004: 177). a standard hermeneutical method

Since *fiqh mu'amalat* deals with transactions and products that did not exist in the time of the Prophet Muhammad, these sources are an imperative for the creation of Islamic finance. These sources are even more crucial for banking and financial services than they are to other commodities like food. Islamic practices related to food and clothing had a pre-modern precedent because people always needed to eat but financial intermediation is a relatively recent phenomenon.

In order to decide what is *halal* and *haram*, the regulatory boards act like filters by screening the activities and products of financial institutions and frequently updating their list of non-compliant items. The screening process follows different standards the exact procedures as that of ethical funds are followed. Similar to ethical finance, they screen for positive and negative elements, yet most of the effort is exerted on screening out negative elements that would not be favoured by investors or consumers. The process followed is usually one of purification and screening. One glaring omission in Islamic Finance that is usually expected of ethical finance is the avoidance of defence-related investments. In both ethical and Islamic finance, there is scope for positive screening of investments in companies that promote a wider social responsibility, corporate social responsibility (CSR) for the ethical investments, and *masalih* for Islamic. Although CSR is a major component for ethical investments, Islamic finance is squarely focused on negative screening (Langley 2008: 127–36), thus eliminating the impure rather than actively nurturing what is just. The Bank Negara lists the following service, goods and income as *haram*, or non-compliant:

- Financial services.
- Gambling.
- Manufacturing of non-*halal* products, conventional insurance.
- Entertainment.
- Manufacture or sale of tobacco-based products or related products.
- Stockbroking or share trading in *shariah* non-approved securities
- Other activities deemed non-permissible.
- Interest income from conventional fixed deposits/interest-bearing instruments.
- Dividends received from investment in *shariah* non-compliant securities (Dusuki et al. 2011).

Similarly to the screening process of organic food, *halal* products do not require a hundred per cent purity. Allowances are made for a limited amount of *haram* products and funds, including the most sacrilegious of items like pork and

alcohol. A textbook issued by a research institute funded by the Bank Negara, declares that, 'up to twenty-five per cent is allowed for activities which are tainted by non-compliant elements e.g. hotel, resort, share trading; twenty per cent for the lease from *Shariah* non-compliant tenant; ten per cent for activities that are widespread and difficult to avoid; five per cent for clearly prohibited activities like *riba*, gambling, liquor and pork'.¹¹⁷

Islamic finance's compliance to ethical standards that are of a religious nature has set precedents of schisms and dissonance between the religious and secular legal codes. The application of *shariah* law within a wider secular legal framework carries its own baggage of inconsistencies.¹¹⁸ Malaysian Islamic Finance was exposed to several instances of tension between the 'secular' legal and religious legal systems. Until 2009, contractual disputes related to Islamic financial services were resolved in secular courtrooms, which gave primacy to secular commercial law. In several instances, the verdicts sidestepped *shariah* rulings, invalidating Islamic finance contracts. In order to eliminate dissonance between the two legal codes and reduce the reputational risk of Islamic Finance, Bank Negara decided that in all disputes involving Islamic Finance, *shariah* law as interpreted by the SAC, would take precedence over secular commercial law. 'The SAC was accorded the status of the sole authoritative body on *shariah* matters pertaining to Islamic banking, *takaful* and Islamic finance'¹¹⁹; and in the case of disputes or contradictory rulings, courts and arbitrator are required to refer to the 'binding' rulings of the SAC.

5.5 Symbols: logos and language

It is not only the blessing of *shariah* scholars that gives Islamic banking value. The industry engages in a complex process of brand building that compounds

¹¹⁷ Obtained from the ICM Bulletin 2Q 2012; Securities Commission's website

¹¹⁸ For the purpose of this thesis, secular legal framework refers to a legal code that does not derive its legitimacy from religious capital whether experts or texts.

¹¹⁹ <http://www.bnm.gov.my/index.php?ch=7&pg=715&ac=802>

the trust-building process of *shariah* regulation. 'The accessibility of mass-market financial products is signalled by strong branding' (Aldridge 1998:12). The use of signs also indicate how the commodification of meaning underpinning Islamic banking products in preparation for the mass market.

The *halal* logo is one of the most sought-after symbols by Muslim consumers. It is a mainstay of the signalisation process of the *halal* industry (Fischer 2008:188). Signs, including logos are instrumental in the differentiation competition that takes place between producers of goods. 'Differences makes the sign machine' (Goldman and Papson 1996: 27) by propping up the *halal* logo. The standardisation of products, especially in close substitutes, makes it necessary that the additional value of the product is explicitly signalled Goldman and Papson 1996: 3). The aestheticisation of products can signal differentiation: added value and uniqueness. As Fischer (2008) explains, it is incorporated as a central aspect of the performance of consumption for Muslim-Malays.

The appropriation of signs, language and symbols that denote an Islamic authenticity lies at the core of the sector's strategy to beckon consumers. The Middle East, as an imagined space, invokes feelings of authenticity and desire amongst Muslim-Malays. The signs are curated based on 'raw materials' such as Arabic words, geometric patterns and calligraphy that are 'worked into commodities' through meaning found in the 'cultural fabric' of ordinary Muslim-Malays. The advertising used by the industry 'combines and recombines signifiers and signifieds to define a sign currency that can be joined to commodities (products and services)' (Goldman and Papson 1996: 24). The process transfers meaning from one system – Middle East – to another: *Shariah* regulated banks.

In Malaysia, since the Islamic revival Arab habits are increasingly venerated by ordinary people. The commodification process often requires that signifiers have a basis in daily life for the product to resonate with the consumer (Goldman and Papson 1996:11). In Chapter 4, I described how the Islamic

revival increased the currency of all activities and things with the added Islamic adjective. Islamic art was displayed at home and there was intense pressure to perform all rituals 'authentically' – closer to the Arabic rather than the low form favoured in villages (Nagata 1980; Fischer 2008).

As the cradle of Islam, the Middle East is held in the highest regard by all Muslims. It is regarded as the home of high culture and knowledge (Hourani 1990; Abaza 1994) and the Holy City of Mecca. By extension, so have symbolic associations to region, particularly Arabic. Hourani writes that since the times of the first Muslim conquests, 'the Arabic language spread together with Islam' (1990: 48) and it started to emerge as the preeminent language in the conquered territories.

The word of Allah was revealed to the Prophet in Arabic, therefore there are strong associations between Islam and the Arabic language. 'The Qur'an was the first book to be written in Arabic, and Muslims believed it was the language in which it had been revealed ... It was essential for those who accepted the Qur'an as the Word of God to understand its language.' (Hourani (1990: 49). Throughout the Arabic world, there is caché to be gained from speaking Modern Standard Arabic, besides the local 'dialect'. The social capital associated to Arabic is even more pronounced amongst non-Arab populations like Malay since *Bahasa Melayu* (the Malay language) belongs to the Austronesian family of languages, which has no link to the language of God. With the spread of Islam, Arabic became the highest medium of expression not only for those from the Arabian peninsula but also for any other societies that accepted the religion of Islam (Hourani 1990). Certainly, Malaysians' relationship with the Middle East is not an uncomplicated one. The 'love-hate' relationship with the Middle East, especially 'its somewhat violent, contradictory way of life' (Abaza 1994: 139–51)

and their ostentatious wealth became clear during my discussions with respondents.¹²⁰

Nevertheless, the impact of the Middle East is undeniable and this is reflected in the successful association of its meaning systems, such as language and art, with Islamic banking products. Upon arriving in Malaysia, I was surprised to overhear people within a certain milieu greet each other with '*as salaamu alaikum*' instead of *selamat datang* (welcome) or the more common *Hai* in Manglish (Malaysian English). Respondents who could speak Arabic, predominantly virtuosi, also proudly announced that this was one of their accomplishments as devout Muslims, along with ritual adherence to Islamic praxis including pilgrimages.¹²¹ Therefore, given the desirability of imagery from the Middle East, the industry's choice is consistent with the desires it is trying to evoke amongst its targeted consumer base. It is not surprising then that the symbolic value of Arabic is also pronounced in Islamic banking products. The most obvious symbolic process through which the authenticity of Islamic banking products is accentuated is through the use of Arabic names for the products, although some of the names of the banks are also derived from terminology used in the Qur'an for instance *mu'amalat* which refers to *fiqh* of transactions. Some of the most common contract names like *musharakah* don't need any explanation; others like *al ijarah thumma al bai* (hire purchase) are complex so they have to be translated (photo attached).

New services and concepts almost always use Arabic words and if possible they will carry an association to Islam and preferably to Mohammed. Recently, one of the banks launched a service that is very popular in the Gulf, as gender

¹²⁰ One of my respondents even made a joke that reflected this ambivalent relationship with the region. He said: 'Malaysians joke that Allah placed the Prophet in the Gulf, far away from here, because they always needed his presence more over there'.

¹²¹ The power of the Middle East as social capital was also reflected in my interactions with respondents. My reputation amongst respondents was enhanced by my basic use of the Arabic language. They were impressed to discover that my native language was Semitic and derived from Arabic. Many rationalised that I was a Christian Arab, rather than a European, and that improved my standing.

segregation is commonplace. Women's banking caters for all the financial needs of women that are serviced by women-only banks. As the bank website announces, this service, called 'Az Zahra is adapted from the name of Prophet Muhammad's daughter, Saidatina Fatima Az Zahra RA; it carries the meaning 'the shining one'. Az Zahra captures the qualities of femininity, intelligence, beauty, purity, love, serenity, and passion. Served by women only' (www.rhb.com.my). Often, the banks also use geometric patterns for their logos and letterheads. Calligraphy, 'the art of fine writing', also carries a special significance for Muslims. They believe that 'as God has communicated Himself to many by His word, in the Arabic language ... Calligraphy became one of the most important of Islamic arts, and Arabic writing adorned not only buildings, but also coins ... The writing was used to proclaim the glory and eternity of God.' (Hourani 1990: 56–57).

This symbolism is deemed so crucial that one of the major Islamic banks leveraged from a conventional platform had to undergo a major image overhaul after failing to convince its customers of its authenticity. During an interview, the CEO confided that research revealed that for consumers, symbolic capital mattered. The bank changed its name by adding the tag Islamic and adapted its logo and letterhead around Arabic lettering and geometric design. We can see how in its quest to promote Islamic banking as an authentic choice for Malays, the Islamic banking industry harvests signs with meaning. In an ironic twist typical of the contemporary modernity, it appropriates and disconnects and recontextualises and circulates signs across a number of geo-political spaces. In this respect, it is becoming an international standard that 'involves turning local practices into transferable ones' (Demortain 2007: 2).

5.6 Conclusion

The aim of this chapter was to understand how the Malaysian state and banks have created an objective Islamic banking sector. We started the discussion

with an explanation of the *shariah*, a set of religious norms that provide guidelines for believers. We established that the *shariah* is not a strict body of laws but rather a source of cultural components that are amenable to a variety of ideologies. The dexterity of this cultural tool-kit is partly the result of its adaptation to a variety of institutional, cultural and geo-political contexts throughout history. Indeed, despite the attempts of the state and banks to pin down the meaning of the main precept of Islam banking, *riba*, its origins remain ambiguous and are subject to a variety of interpretations.

Although some suggest that the prohibition *riba* was originally conceived as the transgression of the divine, the most widely-accepted interpretation is that *riba* was prohibited due to its unjust effect. This interpretation, which informs the consensus around the prohibition, of *riba* lends itself well to the creation of a profitable modern financial system that is based on Islamic values. The merger of these two logics have led some to contest the values of the sector.

We examined the legitimacy of the sector's claims by comparing and contrasting its theoretical standards and its practices. The main tension arises from the sector's use of debt-based products instead of equity. Consumers are still subject to a credit risk assessment and the risk of the transaction is not shared equally, instead it is borne by the consumer. Nevertheless, as the practitioners point out, although the young sector has to work on its ethical dimension, they have still broke new ground by creating a sector that depends on its unique source of authority, legitimacy, value and meaning.

In the second section, we looked at how the unique value of the sector is transmitted to its consumers. The sector is involved in a concerted effort to adapt people's banking practice around this prohibition of *riba*. The sector is monitored through a set of *shariah*-inspired rules, which filter out undesirable elements and promote desirable practices. In this respect, the standardisation system is comparable to other ethical financial systems and to other *halal* products. In order to communicate the added-Islamic value, the sector adapts

the widely accepted language and symbols of other *halal* commodities to banking products. Thus, the added Islamic-value that results from the *shariah* scholar's regulation of the products according to the boundaries of *halal*, are communicated via Arabic calligraphy, the use of Arabic terminology and middle-eastern motifs. The standardisation of Islamic banking products based on the ancient holy texts of Islam, as interpreted by *shariah* scholars, and communicated by symbols and motifs serve to inspire people's trust in the system. It is this trust in *shariah* regulation, which we'll go on to analyse in the next chapter.

Virtuoso: *'Muslims must follow the Quran and what the scholars advise. We can only trust'*.

CIA agent Pyle: *'A man becomes trustworthy when you trust him'*.

(Graham Greene, *The Quiet American*)

Chapter 6: Trust, shariah regulation and expertise

6.1 Introduction

Revisiting my field notes I recalled the importance of people's trust in the *shariah* regulatory system. From the very first few days of my fieldwork in Kuala Lumpur, trust shone as the crucial element on which demand for Islamic banking depended, and this trust was subject to the authority of *shariah* scholars giving their blessing to *halal* products. It was a factor that pre-fieldwork I had underestimated. In an excerpt dated 6 April 2012, I wrote:

I have to admit that people's trust in the scholars was a blind spot on my part and (this revelation) has left me dumbfounded. The scholars' role in the supply side was always obvious. Less so their role in acting as a figurative lynchpin between supply and demand. Notwithstanding Islamic banking's religious claims, my scientific education formed my cynical perspective on religious figures of authority, especially in economic and political domains. This fact made me blind to the genuine trust that people can place in the expertise of such authority figures. It's early days but a clear pattern is emerging from the first batch of interviews: these scholars are 'conductors' of trust. Most people seem to believe in their fatwas because of their trust in their unique expertise in all matters related to Islam.

This excerpt sheds light on how the main theme of this chapter was developed thanks to an explorative method. Researchers using grounded theory are expected to construct fresh theoretical categories that emerge from the data. Similarly to other researchers, such as Sitkin and Stickel (1996) and Uzzi (1996; 1997), I also did not set out to study trust from the outset. Had I not entered the field with the limited predispositions expected of grounded theorists, I probably would have taken trust for granted.¹²²

Studying trust is tricky, as trust is both a precondition and extant condition to the development and growth of Islamic banking. In Chapter 4, I explained how people trust the state to represent their interests: political, economic, and socio-cultural – in this case Islam as a function of the Malay ethnies. It is on this precondition that the state's development of *shariah* regulation for Islamic banking was perceived as legitimate. The crystallisation of the Islamic banking sector, as discussed in Chapter 5, is based on cherry-picked cultural components that simultaneously problematise conventional banking and offer Islamic banking as a solution. I explained how this repertoire of strategies was communicated via symbols and signifiers that felt authentic to Muslim-Malays and thus inspired trust. The combination of standardised norms of the *shariah* as regulated through *halal* enables an internal identification process that creates the unity of collective (Warde 1994: 64; Douglas 1996) from which individual banking practices can be regulated. The foundation of trust does not imply that people's trust in Islamic banking is a given or that it is unilateral, from consumers to the state. The state, the main institution to underwrite Islamic banking is involved in a complex process of negotiation with people. In a nutshell: it has to earn their trust in Islamic banking. In this chapter, we now turn to ordinary consumers and seek to interpret the process of trust from their everyday perspective. More specifically, we examine how they perceive the state-led trust-building process through *shariah* regulation. Crucially, we also

¹²² The grounded theory approach has precedents in the study of trust. Sitkin and Stickel (1996) also found that adopting this amorphous method allowed them the flexibility to react to unexpected and novel insights.

focus on the intermediation of *shariah* scholars in order to discover why they are seen as legitimate regulatory authorities of *halal* boundaries.

Although other studies of Islamic consumption in Malaysia suggest that *halal* consumption is bound to consumers' trust in the state (Fischer 2008), trust is not isolated as a separate analytical concept and the intermediation of religious experts as the embodiment of the *shariah* regulation, in the otherwise 'faceless trust' of abstract systems (Giddens 1990) is neglected. Trust is one of the most difficult concepts to handle empirically (Misztal 1996: 96; Barbalet 2009: 368). One of the main methodological and theoretical dilemmas is that considerations of the past, present and future are encapsulated in the experience. For example, the respondents were already users of Islamic banking products when fieldwork started and, as a researcher, I was not there to capture most of 'the "pure" experiences of trust'. (Mollering 2006: 145). However, the role of, trust does not stop at the definitive moment that they chose Islamic banking; their trust was continuously developing. As a researcher, I was not able to capture the key moment when they decided to use Islamic banking (although there was one exception). I was, however, able to discuss their present trust based on past decisions and in light of present and future outcomes. Second, capturing, the 'interaction effects between the [different] levels of trust' (Mollering 2006: 11) and interconnectivity of trust with other social and political phenomena is also difficult. The heuristic distinction, between micro, meso, and macro levels of analysis that is common in social sciences, is analytically useful but can be problematic in practical situations. The false dichotomy can misrepresent empirical reality (Nooteboom 2007) where 'more than one level matters and there are also possible interactional effects between the levels' (Mollering 2006: 131).

In this chapter, I seek to build on previous chapters, which served to contextualise trust and confidence. Both social mechanisms 'do not exist in isolation and always have to be seen in its wider context' (Mollering 2006: 153). Consequently, so far I have suggested that Islamic banking practices are

embedded in the authority of the Malaysian state and its management of symbolic *halal* boundaries through *shariah* regulation. The dynamics of the management of these boundaries, representing the political, cultural, and economic stake of Muslim-Malays in society, are crucial in understanding people's trust in Islamic banking.

With this in mind, I will go on to suggest that trust has a significant purpose; it is the 'glue' underpinning Muslim-Malays' everyday Islamic banking practices in Kuala Lumpur. Trust, the organising concept of this chapter, links to the overarching aim of this project. Trust is the common thread underpinning the everyday Islamic banking practices within broader historically determined, social, economic, cultural and political circumstances (discussed in previous chapters). Using three ideal types that emerged from the data, I will go on to show that the trust in *shariah* regulation, depends on two main factors: trust in the workings and underlying values of the *shariah* regulatory regime and trust in the 'competence and cognitive intensions' (Nooteboom 2007: 35) of the *shariah* scholars as flesh-and-blood expert intermediaries of *shariah* regulation. Furthermore, trust in the state's ability to deliver on its *shariah* promise is linked to people's confidence in the state's competence in representing their interests including the *halal* boundaries that are viewed as a means of standardisation and representation of Muslim-Malay culture.

This chapter is divided into two main sections. In the first section, I place trust in sociological focus by explaining why trust is inherently social. Its creation, maintenance, and function emanate from its collective social sources. In the second section, I shift to the theoretical frameworks that aim to explain trust – its functions and characteristics. Using Giddens' (1990) conceptualisation of trust as a starting point, I carve out a space for trust within Islamic banking practices. I discuss the characteristics of trust and explore its various bases. The data shows that the nature of this trust is not homogenous. Therefore, I probe further into the mechanisms of trust by asking: is trust homogeneous or are there noticeable discrepancies in the mechanisms of trust between the ideal

types? Is trust reflexive, passive or routinised? In order to organise the various processes, ideal types are used as heuristic tools to characterise different types of trust. The virtuoso, the pragmatist and the sceptic – ideal types that have emerged from the data – each typify the various strands of trust observed during fieldwork. Is there space for mistrust and shades of ambivalence? We will then go on to examine the corollary effects of trust in *shariah* regulation. More specifically, we ask, is it possible that, whilst trust might be functional within the scope of Islamic banking, it could prove dysfunctional within broader Malaysian society? In the second half of the chapter, we will turn to the dynamics between expertise, regulation and trust: what qualifies *shariah* scholars as legitimate experts in the eyes of ordinary people? How do they bridge the gap between abstract systems and ordinary people? How does their role enable them to act as trust agencies?

6.2 Trust in sociological focus

Trust was once a main theme in the texts of leading sociological figures.¹²³ But, from the mid-century onwards, interest waned and it's only recently that it has enjoyed a resurgence (Mistral 1996; Swedberg 2010: 18). Perhaps it is a sign of the times, marked by a noticeable growth of voter apathy and a simmering distrust in political institutions, that trust is again a focus of sociological analysis. Characteristically of trust, it is only when it is lacking that people start to question it.

In addition, as outlined in Chapter 2, the other reason for the ambivalent status of trust within sociology, is its elasticity as a concept and its ability to find a home in a number of disciplines. Indeed, there is an aspect of trust, its cognitive base, that remains elusive to theoretical tools available to sociology.

¹²³ See for instance Émile Durkheim's *Professional Ethics and Civic Morals* (1957) or *Leçon de sociologie* (1972), Weber's *The Protestant Ethic and the Spirit of Capitalism* 2005, Parson's *The Social System* (1951) and Simmel's *The Sociology of Money* (1950).

Nevertheless, as we shall discover in the next two chapters, starting from this one, the creation, maintenance and function of trust emanate from collective social life – not the lone individual. Trust's relational quality, that it must involve at least one other individual or an institution (Giddens 1990; Lewis and Weigert 1985; Simmel 2005), and that 'the practical significance of trust lies in the social action it underwrites' (Lewis and Weigert 1985: 971), is one of the few aspects of trust over which there is consensus.

Thus, in the case of Islamic banking practices, trust can be said to exist in relation to *shariah* regulation and expertise and its function guarantees the social order that enables the proliferation of Islamic banking practices. Trust's function as well as its source exists in relation to something or someone exogenous to the individual, whether experts, abstract systems or their social ties. Trust is often described in terms of its function. Some of the commonly cited functions of trust view it as a prerequisite to: order (Mistral 1996; Beckert 2007b), reduced social complexity (Luhmann 1979), co-operation (Gambetta 1988), social capital (Putnam 1995), individual risk calculation (Coleman 1990). Trust is found in interpersonal face-to-face relationships, such as the ones discussed in the next chapter. It can also denote the trust discussed in this chapter, a 'generalised trust' (Giddens 1990) that is instrumental for the functioning of 'systemic trust' (Luhmann 1979: 22) of 'abstract systems' (Giddens 1990).

Since trust is usually noted after the 'deed' (the act of trust) happens and also due to an effort to understand the base of order in society, i.e. the consequence of trust (or lack of) in society (see de Tocqueville; Putnam 1995;), trust is often discussed in terms of its functional consequences. Indeed, for Luhmann, trust is distinguished from other social mechanisms through its function. Therefore, all varieties of trust, have one shared commonality, its function, 'reduces social complexity by going beyond available information and generalising expectations of behaviour in that it replaces missing information with an internally guaranteed security' (1979: 93).

For our purposes, trust has three important functions: it is the foundation to order (Mistral 1996) that underpins the growth of Islamic banking practices and it reduces the complexity faced by consumers in the face of an increasingly complex world (Luhmann 1979) that offers consists of a variety of choices. From the reduction of complexity emerges its third function, it serves as a 'coping mechanism' (Warde 1994) to counter the uncertainty and risk associated with the complexity of choice characterised by increased 'reflexivity' and 'weak inductive knowledge' (Giddens 1990) which cannot secure complete certainty.

6.3 The characteristics of trust

The problem with solely focusing on the functions of trust is that this tells us very little about how trust as a social mechanism operates (Mistral 1996) and from what base the 'state of favourable expectation is produced' (Mollering 2001: 404). In fact, whilst trust in Islamic banking was easily verified in the beginning of interviews through a yes or no answer to the question: 'do you trust Islamic banks, banking products or *shariah* regulation?' Understanding the source of the functional consequence turned out to be more complex. As I mentioned in the second chapter, the definition formulated by Giddens (1990) is the one adopted in this project as an entry point into understanding the process underpinning the consumer's trust in Islamic banking. According to Giddens:

Trust may be defined as confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence express a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge) (1990:34).

This definition highlights the following facts relevant to the discussion (see Chapter 2 for a more detailed analysis of this definition). It emphasises the sociality of trust; it denotes a possibility of unmet expectations; assumes good expectations on behalf of the trustee and faith in the reliability of the knowledge underpinning the system or represented the expertise; expresses an affinity between trust and confidence. These characteristics as they are relevant to this project will be discussed below in further detail.

6.3.1 Trust and confidence

Trust is often merged or conflated with confidence (Mistzal 1996; Swedberg 2013), as both are fundamental aspects to the fiduciary system upon which any system relies. Since we will be discussing confidence in the next chapter, we will tease out the major discrepancies between trust and confidence, according to their use in this project (see Luhmann 1979; Giddens 1990; Dodd 1994) for different perspectives on the difference between trust and confidence).

Trust is defined by the individual's determination and potential to choose (Mistzal 1996: 16). As Luhmann points out, trust denotes the possibility of alternatives and therefore, the possibility of unmet expectations, whilst confidence does not. Although Luhmann insists on a categorising the two separately, Giddens' conception of trust and confidence is more suitable for our purposes. He conceives of confidence and trust as belonging to the same type of process, albeit differing by the degree of certainty. As a result, confidence, which is based on more certainty, has been earned and therefore given, whilst trust, which is based on weaker knowledge, is received (Simmel 2005; Swedberg 2013). When choosing between Islamic and conventional banking, respondents are choosing between alternatives and setting themselves up to the risk of failed expectations. On the other hand in this instance choice is underpinned by consumer confidence in the state's and banks' underwriting of credit-money. For this reason, since we are discussing trust in *shariah*

regulation, trust kicks in at the moment of choice between conventional and Islamic banking.

6.3.2 Expectations and faith

People's attitude towards *shariah* regulation as one of trust is underpinned by expectations that both the system and the experts representing it have their 'interest at heart'. From this we can already derive that trust is belief that the expectations of the 'trustor' are met (Mollering 2001: 404; Mistral 1996).

Expectations are not based on complete knowledge, or trust would not be required. Simmel, whose work on trust served as a foundation for Luhmann's and Giddens' later work, suggested that trust included an enigmatic element that was akin to a 'quasireligious faith' (Simmel 2005: 178). The notion of 'trust as faith' (Giddens 1990: 27) implies that a leap into the unknown bridges the gap between limited knowledge and expectations (Mollering 2001).

Users of Islamic banking products expect the *shariah* experts to produce banking practices that authentically represent Islamic value. They also expect the effect of their choice to be of benefit in the current life and/or the afterlife, yet they have no way of finding out whether the value holds up, before they experience a financial crisis or in the afterlife. When asked how they knew for certain that Islamic banking was Islamic, one of the respondents replied, 'we don't, we can simply trust'.

6.3.3 Time

The leap-of-faith discussed above is required because trust is orientated towards the future, but the act takes place in the present, often built on expectations based on past experience or knowledge. Thus, there is a time

lapse between the act of trusting and the meeting of expectations. Presently, the 'trustor' believes in the added-Islamic value of Islamic banking. However, whether the trust will be justified or broken can only be known after the event itself (Giddens 1990: 33; Barbalet 2009: 369). The outcome of the trust in Islamic value can only be known in the future whether in the afterlife or when they avoid another economic crisis. The future orientation of the respondents is summed up in the following phrase: '*Islamic means that what we pay now will pay off in the long run*'.

6.3.4 Reflexivity

Modernity is distinct in its heightened reflexivity and 'active trust' that involve greater deliberation and reflexivity than that found in basic generalised trust. Reflexivity is characterised by a 'conscious awareness' (Luhmann 1979) of the self in identity creation. The act is carried out by a back-and-forth action during which the individual examines cause and outcome and 'the problematisation of the relationship between representation and reality' (Pollner 2006: 562). Acts of reflexivity are mostly evidenced in the practices of the virtuoso and the sceptic. Although the outcome is the same – they both use Islamic banking products – the process is marked by different kinds of trust. Both types compare the theory of Islamic banking in holy texts with the outcome of the products and the advice of the *shariah* experts. Whilst the virtuoso can spot discrepancies and ambiguities between the two, the ambivalence that emerges from the contradictions observed is contained by a leap of faith. Conversely, the result of the contradictory process linked to the increased awareness of the complex choices, coupled with limited knowledge (Mistral 1996: 132), leaves the sceptic unconvinced and highly critical of *shariah* regulation, and expertise (but not of its financial outcome).

6.3.5 Distrust

Although the discussion is broadly focused on trust and its function, as explained above, reflexivity can also result in distrust. Distrust, such as the one typified by the sceptic, is not the antithesis of trust.¹²⁴ Rather it is part of the wider spectrum of trust which ranges from a high degree of faith to a weaker one in which the intentions or outcome of the system or the experts are questioned. Most of the literature on trust views trust as a positive social mechanism with positive outcomes. The positive outlook on trust is due to the functionalist emphasis on normative order and cooperation (Putnam 1995). Since trust is conceived as morally essential, these perspectives exclude the possibility of a functional distrust. As Luhmann (1979: 71–75) pointed out, there is a need for distrust, as characterised by the sceptic type. ‘Healthy distrust’ is an integral part of democratic practices (Valsiner 2008), as distrust can indicate a rational response to conflicting interests or be built on past experiences of unmet expectations (Mistral 1996: 72). Indeed, as I argue that the trust of the virtuoso and the pragmatists in Islamic banking is tied up with loyalty to the state in return for it assuming the responsibility of their economic and ideal interests, the sceptic demonstrates a disdain towards this inviolable norm within the Muslim-Malay community. By rejecting this social contract, he is also rejecting the inviolable norms of *shariah* regulation and the *halal/haram* boundaries.

6.3.6 Risk and anxiety

The notion of risk, here defined in the everyday sense – the possibility of loss that arises when one is vulnerable to the actions of others (Luhmann 1988;

¹²⁴ Giddens suggests that the opposite of trust is existential angst and dread (1990: 100).

Nooteboom 2007),¹²⁵ – is inextricable from trust. Trust and risk are the flipside of the same coin as trust in modernity is inversely related to the certainty afforded by traditional social forms (Luhmann 1979; Giddens 1990). Incomplete knowledge, total awareness of contingency of a future outcome, inability to control other's actions (Misztal 1996: 18) create a perception of uncertainty and risk. The management of risk discourse by a political and economic elite, for instance by transmitting incomplete information about risks, can also contribute to distrust and anxiety. In this case, distrust is 'unhealthy' as it characterises the political mood. Although Luhmann argues that there should be a space for distrust in the system, when distrust becomes overwhelming, it becomes dysfunctional (1979: 75). As we shall go on to discover in the section about distrust and social pollution, in this chapter and the next, symbolic boundaries of the *shariah* are materialising in dysfunctional social boundaries that foster fear of others, mainly Chinese Malaysians, and the fragmentation of society.

6.3.7 Routine

Although reflexivity is the leitmotif of modern society, routine also emerges as a distinct base for trust. Trust's need to be constantly renewed through dynamic and consistent fulfilment of expectations (Simmel 2005: 177-178; 214), is exhausting and unfeasible. Modelling his theory on Simmel's work, Giddens suggests that the instances of active trust are infrequent and generally spurred by exceptional circumstances. He concedes that generalised trust is less of a 'leap to commitment' than surrender to the mundane and continuous routine of everyday life, which automatically excludes other options (Giddens 1990: 90). As a result, people rely on compensatory mechanisms that relieve the constant reflexivity, which is tiring and unsustainable (Warde 1994: 891–2).

¹²⁵ This definition contrasts to the economic use of risk, which denotes a range of possible outcomes and uncertainty, defined as not knowing what the complete range of possible outcomes (Knight 1921).

In all cases, people can choose to delegate choice to intermediaries like experts and family and friends or resort to routine and social conventions. Active trusting is only 'actively' intermittently during exceptional moments such as the window of opportunity opened by the financial crisis (Giddens 1990; Mollering 2006; Nooteboom 2007). In this chapter as well as the next, we will come across various instances of compensatory mechanisms. However, this mode of trust is represented by the pragmatist. Compared to the high levels of reflexivity of the virtuoso, the pragmatist is highly routinised in the *halal* way of life. This type is also the most likely to delegate the choice, with the aim of getting to the most socially acceptable outcome. Nevertheless, across all types, reliance on experts is also indemnification against a 'wrong choice'. As they liked to assure me, should any misgivings turn out to be true, they will be exonerated due to their 'pure' intent and the act of trusting designated experts: 'I have done my part and used Islamic banking. If it is not really Islamic, the scholars will have to answer to Allah not me because my intention was a good one'.

6.4 Introducing the ideal types in Islamic banking

In Chapter 2 I explained how the collection of data took place in a variety of sites: my apartment, the respondents' homes, their work place, coffee shops, retail bank outlets, as well as shopping malls, casual dinners at the wet-market, and hanging out between workouts at the gym in Kuala Lumpur. The data, reflecting the consumers' reality, is then distilled through three ideal types. This chapter is the first to profoundly engage and interpret the respondents' attitude towards Islamic banking through the ideal types: the Pragmatist, the Virtuoso and the Sceptic, which we will be exploring in further detail here.

6.4.1 The Pragmatist

*Being a Muslim myself, it is better for me to follow the rules of Islamic [banking]
... I use Islamic banking because it's Islamic and I am a Muslim.*

This type showcases a pattern of consumption that is overall routinised with intermittent reflexivity. Routine should not be understood as the result of following rules. Rather, it can be attributed to a predisposition which generates analogous preferences (Aldridge 1998: 5). Routine is one of the compensatory mechanisms that delegates choices in order to mediate the anxiety that arise through the obligation to choose (Warde 1994: 891–92; 896). Behavioural patterns of this type suggests that predisposition defined by the consumption of Islamic products and reliance on the state backed *shariah* regulation is more likely to generate analogous preferences across all economic practices. As one of the respondents reasoned, making the leap from Islamic commodities to Islamic banking seemed logical. This type expresses explicit discursive interaction about the financial aspect of the product and less about the ideals of the *halal* system. Islamic ideals and values are not ignored but they're satisfied with the lowest common denominator.

6.4.2 The Virtuoso

The only solution for a Muslim is to try and comply with what Islam asks from us as much as possible.

This type is characterised by a high degree of monitoring and reflexivity. She or he engages in explicit discursive interaction about the Islamic aspect of the product and less about the finance than the pragmatists. The hierarchy of interests is stacked in favour of ideal interests against pecuniary gains as they strive for excellence in religious practice. The financial aspects are not completely ignored but are certainly secondary. Paradoxically, this type relies heavily on state and expert regulation but expresses ambivalence about the

interests of the parties supplying the products. Despite their reliance on state regulation, their choices cannot be classified as being completely routinised. They are highly reflexive about their choices, contextualising their use of Islamic banking practices within wider existential speculations about man and God, and man and being. Nevertheless, they do not handle ambiguities well, viewing life through a Manichean prism of Islamic (good and clean) and non-Islamic (bad and dirty).

6.4.3 The Sceptic

I doubt that the Prophet was discussing financial derivatives with his followers. Islamic banking is typical of putting too much emphasis on the form and not the spirit.

This type views Islamic banking as another type of commodity that is available on the market. He (as this type was only made up of male respondents) is less interested in the moral aspect, shuns *shariah* scholars and is predominantly concerned with the economic outcome. He is generally well versed in the mechanics of finance and financial products in general and can identify the technical aspects of Islamic banking products that appeal to him. He does not identify with the moral or Islamic symbolism of the products and, unlike the Pragmatist and the Virtuoso, is likely to examine all pros and cons of all products, Islamic and non-Islamic alike, and judge each on the merits of their economic outcome. Most expressed an initial scepticism because of the Islam element. Some are wary that it could have links to political Islam. For the hardliner sceptic, Islamic banking was not authentically Islamic and linked to the rise of fundamentalism and dogmatism and is a source of symbolic violence because these practices are viewed as a political struggle for Malay dominance – which he wants no part of. He is less likely to be interested in the solely Islamic banks and more likely to be a saver/borrower with one of the larger dual platform banks. He rejects the *halal* routinisation but is concerned about the

lack of certainty and risk of conventional products. However as most pointed out, these characteristics are not necessarily Muslim: interest ceilings can be found in conventional products and Islamic banking is 'trying to reinvent the wheel'.

6.5 Trust and everyday Islamic banking practices

During fieldwork I noted that the difficulty in pinning down trust is not confined to sociological analysis. It also emerged during interviews. There is a variety of definitions in everyday language and opacity regarding the meaning of trust. This ambiguity did not go unnoticed when discussing this theme with the respondents. Without any prompting, the respondents themselves declared their trust in Islamic banking products – yet many could not explain what they meant.

It was common for respondents to resort to tautological reasoning that reinforced a circular logic by repeating the same phrase in different guises. Characteristically, it was the Pragmatists who explained their trust in tautological phrases. 'I trust Islamic banking because it's Islamic' was the response of many respondents. An unexpected reaction was the inability of some to explain how or why they believed that it was Islamic. The Islamic quality of the product was something that was taken for granted and was obvious for them – requiring no explanation. They conveyed what Mollering (2006: 51) refers to as a 'taken-for-grantedness'.

As a result, squeezing out more elaborate explanations required the same questions to be creatively re-articulated. However, the obvious nature of trust for respondents was meaningful in itself. This obvious nature of behaviour is typical of routine: 'regularly and habitually performed programmes of action or procedures ... And they represent institutions in as much as they are typified, objectivated and legitimated, not senseless repetitions, although their sense is

mostly tacit and taken-for-granted whilst they are performed' (Mollering 2006: 69). When I pointed out that they were not really explaining why they trusted Islamic banking and I tried to prod them for a deeper insight into their reasoning, they replied that they had picked to live their life as Muslims and it was their intention to live their life as closely as possible to Islamic rulings indicating their reliance on *halal* as a convenient convention. In the words of Abdi:

I use Islamic banking because it's Islamic and I am a Muslim. As a practising Muslim it is important that if there are banking products made according to Islamic reasoning, even if they're basically the same thing financially. If I can do or use something which is in compliance with the shariah ruling, then I choose that, even for my financing. In the end, if I pay more or less, as long as I pay within what is permissible according to the shariah ruling, it makes no difference.

The response of other Pragmatists followed in a similar vein. Their statement / *know that Islamic banking is good because it's Islamic* is pointing to a mechanism upon which their trust depends. Generalised trust becomes routinised in their daily life. When they say that they trust Islamic banking, they mean that they trust that it is based on sound Islamic values and therefore this is not meaningless repetitions. They have consciously decided to be guided by its bearings. The leap of commitment takes place at the moment they decide to rely on *shariah* regulation for all their choices.

Pragmatists exercise reflexivity at the point in which they decide to rely on *shariah* regulation that is a given and stable institution (Mollering 2006: 51). It is only subsequently that they abdicate the need for reflexivity, until a circumstance dictates that they reconsider their original commitment. In empirical terms, the choice related to Islamic value is taken at a sectorial not individual bank level. They view their options as the Islamic banking industry

versus the conventional, rather than viewing individual banks as part of a wider choice. This recurrent routine is neither irrational nor unreasonable (Warde 1994; Mollering 2006). Their automatic reliance on *halal* narrows down their options considerably, reduces anxiety and increases efficiency.

A useful analogy is to think of Islam as their moral compass in life and they just follow the course without reflecting too long on the route. Simmel (1950: 319) observed that 'motivation and regulation of this behaviour have become so objectified that confidence no longer needs any properly personal knowledge'. Singa illustrates this point with her comment when asked about the advantages of Islamic versus conventional banking:

I am not too concerned with analysing the advantages of either. But as it is now, with being a Muslim myself, it is better for me to follow the rules of Islamic [banking]. However they decide to work the mechanisms out, like how interest should be worked out, it is better for me because Islam shows the better path in life.

What emerged from interviews with the respondents was that the epistemological foundations of *shariah* regulation have permeated their perception of life and they expect to find goods that are tagged as Islamic and have confidence that they reflect the *halal* values of *shariah* regulation. For instance take the following quote:

MM: Do you think that it is a compulsion of choice for Muslims to use Islamic banking?

Ahmed: I will not judge what others do ... That is for God to decide. But I think that you cannot be Muslim if you have Islamic products and you don't use them. Before we did not have a choice and now we do, so why not use them? They might not be perfect but it is something.

MM: How do you know that an Islamic banking product is really

Islamic?

Ahmed: So whether the product is *halal* or *shariah* compliant, that is taken as a given. When the bank issues an Islamic product, *shariah* scholars have to approve it first. So we can take it as that all Islamic products are *halal*.

Throughout the discussion about Islamic banking, *halal* regulation of other commodities often cropped up. The pragmatists all reasoned that Islamic banking was homologous to any other *halal* commodities and services and many settled into the consolation of comfort of routine by *halal*. For them, once people agreed with the principles of *halal* it would be illogical to reject *halal* banking. Lufti said that it was illogical for devout Muslims not to use Islamic banking: 'You can't eat *halal* food and not use Islamic banking'.

Other researchers like Fischer (2008) wrote that similarly, for some of his informants, Islamic banking is a logical necessity in 'halalisation'. In principle, it would be altogether impossible for them to perform proper Islamic consumption with *haram* money from conventional banking (2008: 186). Many pragmatists compare their use of Islamic banking products to their use of other *shariah*-sanctioned products and services, specifically food, beverages, fashion, entertainment, make-up and porcelain. The best description of how Islamic banking contributes to a sense of continuity in their everyday practices – from eating to clothing and banking – is illustrated by Yasmin:

It is very important that certain aspects of our way of life is according to Islamic teachings. In Malaysia everything is Islamic: banking, eating, business, *mu'amalat*. Everything is about Islam and everything is related. That is one of the good things about business in Malaysia. Ever since we were kids we were brought up with this idea that we must be into religion and this applies to business too.

Even the 'Virtuosi' believe that all aspects of their social life must be analogous to every other part. The sum of their everyday practices has to be coherent according to Islamic values. However, they do not simply incorporate a new idea into their routine. Throughout our discussions they showed that they contemplate every single action on its own terms. They examined it according to the Islamic norms promoted by the Islamic banking system versus their own reading of Islamic ethics, whether through actual studying of the holy texts, religious classes or media messages – therefore the back and forth problematisation of Islamic banking was frequently revisited.

Zaharia explained her 'conversion' to her complete Islamic life, which includes Islamic banking:

In my case, we learnt Islamic education for the sake of learning; we don't really understand it as a whole. But as I progressed in my education, and I went to college, one of the sisters from the Central Bank of Malaysia, she came and she talked to us about Islam and certain things about Islam to increase our understanding. I think that when I'm in my international school, the Islamic programme helped me understand my religion more, and I personally believe that when you study your own religion, you have to know and understand what you are doing, instead of just learning in class.

Zaharia explained that she feels lucky to have discovered Islam again late in life and that she's going through a real spiritual renaissance. She was awakened from the non-Islamic routine and since this rebirth, she's been trying to live as Islamically as possible, as the Qur'an instructs Muslims 'to get as involved as possible'.

She continues to explain:

As soon as I found out that we could bank Islamically, that Islamic banks existed, I closed my other accounts and switched. Knowing

that there were banks based on the principles of Islam, it would have been wrong not to close the conventional and change to Islamic. We chose to live Islamically as a family because we were lucky to rediscover and renew our knowledge of Islam. Once we discovered the knowledge of the Qur'an, we became different.

Reflexivity was prominent amongst those Virtuosi who had rediscovered a sense of self as a Muslim. Islamic banking was part of this broader process of discovery. Instead of following Islamic rules as routine, their spiritual awakening required an examination of the Islamic ideals and the execution of these ideals in all spheres of life. Zaharia underwent this spiritual awakening late in her life. She explained that her parents followed Islamic rules just as a way of ticking off the boxes. They were rules to be followed without much consideration of context or meaning.

Mazran: The problem is that as children we were taught to embrace religion without really discovering what it really is about. We just followed and went to the teacher and just never questioned and never knew where the rule originated from and which phrase it came from. We never rediscovered and renewed our knowledge. Once we open to the Qur'an, the change becomes different.

For the Virtuosi, Islamic banking practices are embedded in everyday conundrums and examination of choices beyond the parameters allowed by and created by the state. The narrative is less of one of convention and more of reflexive norm negotiation. Unlike the Pragmatists, they are less concerned about what they as Muslims ought to do and more focused on their personal voyage as a Muslim overcoming the tribulations of everyday choices.

6.6 Ordinary consumers, Islamic banking and the state

Although respondents were not directly asked about the state's role in Islamic banking, it nevertheless emerged during the discussions. For the Pragmatists, Islamic banking products are a way of confirming Malayness as defined by the state. For them, the state is simultaneously above Malay society and yet constitutive of it and its Islamic values. Following the introduction of *shariah* regulation, *halal* products have taken on an ethnic significance as they will only buy food that is produced by Muslims (Fischer 2008: 38) who are always identified as Malay. As more than one respondent reminded me: 'Muslim is Malay and Malay is always Muslim'.

A student at the Islamic University said the following: 'Our government is fighting against the current to create a better world for Muslims. We should support them'. Her friend agreed: 'We are lucky that government does this for us. In Egypt they had the pharaoh [referring to the deposed Mubarak] who did not allow Islamic banking. Malaysians owe it to the government to use Islamic banking – there is no doubt'. These statements highlight the sense of reciprocity and obligation between the state and consumers.

Islamic banking for the Virtuoso remains a necessary evil. As purists who sought to obtain moral clarity in all their actions, they remained ambivalent about the mechanisms of the system. *Riba* was certainly forbidden they said. Unfortunately, it was not obvious to them that Islamic banking was not engaging in *hiyal*. However, they acquiesced because the *fatwas* of the scholars had the ultimate authority. This uncertainty was revealed during one dinnertime conversation. A respondent, her younger brother, and her mother, laughed and nodded in acknowledgement when I asked what they thought about those Muslims who thought that Islamic banking mimicked the conventional: 'Islamic is not pure enough. It has too many non-*halal* elements in it ... And it's not always clear as to how much the separation of [Islamic and conventional]

money is enforced. But there is one main difference – there is no *riba* in Islamic banking’.

As many Virtuosi revealed, the golden standard of Islamic banking practices remained family lending and borrowing. These banking practices were never tainted with any kind of *riba* and there was no obligatory payment under duress. As was dictated by the Qur’an, there was an understanding that they paid their family back when they had the means.

Still, there was an expectation on behalf of the respondents, that the state should set standards and intervene and regulate according to these standards. Speaking about other Islamic countries that did not have Islamic banking services, Omar said:

Our government exposed us to this system, it made sure that everyone had the knowledge and it should be up to their government to do the same. Especially as they are an Islamic country, why aren’t they using Islamic banking? The government of an Islamic country should educate its people about Islam, and that includes Islamic banking, so that way everyone can live a better life.

Islam is viewed as part of their cultural interest because Malays are taught from their childhood to revere Islam, and those who represent it, as a symbol of their innate identity. Respondents explained that the authority of scholars was engrained in their socialisation at school and at home. For instance, Nour said that they learnt to regard *shariah* scholars as guides who occupy a central position in their relationship between ethnicity and religion: ‘Malay means Muslim ... always. And since we were kids, we were brought up with the idea that Malays should follow our religion in all spheres and especially what our *shariah* scholars of Shafi Islam said’. Traditionally, the *masjid* (mosque) or the *surau* (prayer room) are the main physical spaces where the laity interacts with the experts. These are the locations at which scholars preach their sermon,

lead prayers, or manage their smaller and more intimate prayer groups for those who wanted to study the Qur'an closely.

It became increasingly clear that, to varying degrees and for different reasons, the state's regulation of Islamic banking was perceived as part of the state's duty to protect and improve the welfare of Muslim-Malays. In assuming responsibility for *halal* practices, it was ensuring cultural protection for the Pragmatist and spiritual well-being for the Virtuoso. Not everyone agreed with this stance. Whilst the Virtuosi and Pragmatists trusted the government for ensuring the clear separation of what is allowed for Muslims and what is not, others viewed this excessive trust in *shariah* regulation as the result of a political environment where the differences between Muslims and others are highlighted and discussed using inflammatory language.

Marwan was vociferous about this point. An eloquent student who undertook most of his education in schools abroad, he is quick to point out that Islam does not say anything about modern banking or financial instruments *per se*. He quips: 'I doubt that the Prophet was discussing derivatives with his followers'. Marwan does not trust policies that he believes are designed to 'create divisions based on religion'. He emphatically adds a caveat to his argument. He has no problem with using Islamic banking products but, as far he's concerned, he is paying the same costs and getting the same products as the conventional. For Marwan, there is no difference between conventional and Islamic, and has no confidence in its ethical or Islamic value proposition.

Marwan elaborates:

One day I was thinking about this and was asking myself, what is behind all this? They do believe that there is a God who is recording us so that one day he'll say: you did this and that and this. What is this a game? I don't think that this is how religion works, with God checking up on us and punishing this and that. But this fear and this lack of

thinking is what they use to encourage people to use Islamic banking. Use Islamic banking or this will be one way that you'll get punished. Or use Islamic banking so that it will make up for your other mistakes. What is this a game? This is ridiculous. Typically putting too much emphasis on the form and not the spirit. They become materialistic, they want to touch God. This is part of the problem with Islamic banking too, because shapes your thinking in a way.

Global finance's backing of Islamic banking did reduce the legitimacy of the sector's claims of alterity for some. On the other hand, as noted in earlier comments, for the Pragmatists and Virtuosi, this was symbolic of Islam and Muslims protecting their self-interest and well-being in as authentic a means as possible. Yet, not all Virtuosi were convinced that the state's combination of the logic of Islam with that of global finance was really ideal. Take the following example of a Virtuoso who is comparing and contrasting the interest system of the conventional with the charges of Islamic banks:

Osman: Sometimes conventional is more Islamic. If a woman borrows 2 hundred thousand cash, then she is someone who is doing business. If she gives you half of that, wouldn't you have denied her from half of her business? Would she not use that money for other investment and make profit? Profit is allowed in Islam. It's only fair that you pay extra for the profit that she missed.

In his exchange, Osman not only pointed out the opportunity cost of lending money, he also went on to show awareness and engagement with the discursive trends with Islamic banking circles as he compared and contrasted his views with that of *shariah* scholars.

MM: Aren't you convinced that this is really Islamic?

Osman: There is still a dialogue. Because scholars say, someone lends you 1k and they expect an extra 100 on top of that, that is *riba*.

So I say OK. We are not in the position to question them, they have the knowledge, so we have to take their word for it.

Osman's attitude is typical of the Virtuoso. Although he uses Islamic banking, his views on the regulation and the experts were characterised by ambiguity, even if they finally acquiesced through their faith in it. Fischer also reflected that, 'purists in general critiqued the material excesses of the state, but with respect to Islamic Banking they fully and uncritically relied on the authenticity of state certification' (2008: 186). They were more vocally sceptic about the motives of the interests behind the sector, and yet they heavily relied on this regulation for all their consumer and financial needs.

The Sceptics also echoed the reservations made by the economic historians (see Chapter 5). Marwan was also convinced that *riba* was an injunction that was only applicable in circumstances where slavery was a distinct possibility. He also shrugged off the claims of difference. When asked to elaborate he replied: 'Price ceilings? That's nothing new. In the conventional market you can get that through hedging. You can enter into a swap or whatever. Even a fixed amount is nothing new'.

For Marwan, Islamic banking lacked legitimacy due to the similar result of conventional banking. He continued:

For Islamic finance, one of the motivators is that we should help the Muslim public. How do we help them? There is a product called *mudaraba*. Someone provides the capital and someone provides management and we share profit. No interest charged. So the banks are supposed to provide capital and public should provide entrepreneurship and they should share the profit. But this doesn't happen. Most of the banks wouldn't offer this product to you because they wouldn't trust you. They would tell you it's not worth it for them because it's too risky, or you might not pay your money

back. At the end of the day it's not fair. It's basically around the same thing – they're just giving it different names and making themselves feel good but changing the process through which they do it.

Seif also views Islamic banking as the next logical extension of the state's efforts to use Islam for political expediency. He explains that being a gay man he finds himself at odds with some aspects of Islam and especially the encroachment of religious regulation on his private life. Still, from a cultural perspective, he considers himself to be Muslim and appreciates the finer ethical points that the religion emphasises. What he objects to is what he perceives to be the increasing use of Islam by the political class in an attempt to divide and rule the different ethnic communities.

He explains: 'I don't like the Islamisation of Malaysia and I find that this Islam tag is all politics, it's not about religion. There is the trend to say, this is the Islamic way or that is the Islamic way but it's the politicians driving it in order to get votes. I'm sure that this also includes IB, and I do know that Muslims are being taught that conventional banking is not *halal*'.

Meanwhile, Marwan states:

I am a Muslim and I never lost touch with religious teachings. I know the Qur'an inside out and I still pray occasionally. But that is probably why I see through these political attempts to use religion to control people's lives. I'm not like the majority who are always fussing about the origin of the chicken they're eating but never think about the spirit of what they're doing. I don't eat pork but I don't live the *halal* lifestyle that people follow blindly here. I think that if Islamic banking urges us to discuss the morality behind economic transactions and how to deal with others: to be kind, generous, and nice, then it's great. But then

again everybody agrees with this: Muslim, Catholic or Jew. These are all abstract comments that make sense.

In both these comments we can observe how, for the Sceptics, the boundaries of *halal* are seen as a code for expressing and defending interests which are in conflict with theirs and they reject them.

6.7 The materialisation of *halal* boundaries in social life

In this section, we further the analysis of the boundaries on which Islamic banking is based by contextualising them within the broader salience of *halal* in the everyday life of Malays. We also look at their social significance in terms of notions of purity and in connection to everyday social interaction with ‘other’ Malaysians.

Seif explains how these boundaries are being actively promoted by the banks. He says:

They are teaching them interest is *haram* and so then the Muslims think ‘oh, so I can no longer use conventional banking and I must use IB because there is no interest in it so it’s *halal*’. This is emphasised by the banks themselves. When peoples’ ID card states that they are Muslim, the bank employees will automatically suggest Islamic products.

As I will also discuss in greater detail in the next chapter, we will discover that anyone inside the *halal* boundary is clean whilst others are ‘dirty’ (Hacking 2003). Hence these boundaries take on social significance as they also coincide with the boundaries delineating ethnicity. Certainly, this experience is not restricted to Malaysia. The Muslim Hui minority in China also identified clean and permissible with their own ethnic group and forbidden with the Han majority

(Gillette 2007). However, since in Malaysia Malays are a political force, the social implications are more complex and linked to Malay privilege.

The testimony of the Sceptics offered valuable insights into how these symbolic boundaries have emerged in everyday social life as rituals of exclusion. 'Such rituals permit a constant negotiation over issues that might pollute and hence cause communal friction' (Turner 2008: 6). Their testimony provides a historical context to the evolution and materialisation of symbolic boundaries into social cleavages over the past three decades. Kheku's charming anecdotes shed light on social life in Malaysia before the rise to prominence of *halal* boundaries in their everyday life created perceptions of risk that have concrete consequences on the social interaction between ethnic groups as Muslim-Malays fiercely guard their pure social spheres from dirt whose behaviour is not limited by the same rules. As I listened to Khee's recollections of his childhood, growing in the jungle, he told me how his father, a Malay farmer, often hunted wild boar (a member of the *haram* pig family) with his Chinese friend, whose thick accent marked him out as a recent migrant from mainland China. Kheku chuckles that not only did the family savour roasted boar, but his father used to hunt with their beloved dogs, largely shunned by Muslims now for being 'unclean or dirty'. He says:

There was a great sense of community before, and less divisions based on these religious notions that intrude in our lives now. This is not the case any more; people don't mix together anymore now and this is why they insist on using Islamic banking, Islamic this and Islamic that. These changes became very noticeable in the 1980s. In the 70s I was very young, but I noticed them as a teenager in the 80s. When I was a kid no one covered their hair and I remember when I lived in the kampong that my father used to take us to Chinese restaurants and we ate everything except for pork. But now you don't really see this happening any more. Muslims refuse to eat at restaurants owned by non-Muslims and make a fuss about this and

that being *halal*. They want to eat at Muslim restaurants because they don't want to eat pork or because they don't even want the utensils to have touched pork even if it's been cleaned. They've been told that anything not prepared by Muslims is not clean and not *halal* as it could be contaminated by pork.

Others corroborate Kheku's observations about the evolution of boundaries and their gendering of attitudes of trust and on the flip-side risk. Before the introduction of *shariah* regulation, food was prepared by kin, or at a local stall prepared by people who were 'completely' identified with the localised setting – even if they belonged to a different ethnicity. The social regulation of credit also followed a similar evolution.

Anthropological accounts from the early 1970s illustrate how, following Independence, demand for sundry items, including food that could not be farmed, was often bought on credit from Chinese shopkeepers. The same shopkeepers also acted as informal moneylenders. Yet, Muslims were neither bothered by the fact that the Chinese ate pork and drank alcohol, nor concerned by the knowledge that the money they borrowed was probably, at least partly, the profit of *haram* activities (Mokhzani 1973). The scholarly evidence, and Khee's observations, suggest that contemporary attitudes to the risk of contamination from others emerged over time, in tandem with the increasing salience of *halal* boundaries. From no awareness with little care about the mixing of food and money with those of other ethnic groups, we observe a mindset orientated to the risk of the social pollution of others who fall outside the accepted confines of purity. As Hacking (2003) would suggest, the creation of boundaries, designated to conserve purity and keep pollution out, has created the fear of risk of defilement from others.

The fear of defilement mentioned above was evident in my discussions with the Pragmatists and Virtuosi. A number of respondents expressed alarm at the thought that non-Muslims were polluting the pool with money obtained through

haram activities. Many believe that the correct preparation or handling of *halal* goods and services, including Islamic banking, can only be carried out by Muslims. This ingrained mistrust of non-Muslims surfaced when I brought gifts from the UK to my respondents. Although it was evident that they were pained not to make me lose face, before even touching the gift with their hands, some asked whether it was *halal* certified and others just wanted assurance that it contained no alcohol or pork.

The ideal types were not critical of the state's boundary creation. Most understood the regulation of these differences as a *de facto* social fact derived from religious difference. As a result they had strong opinions on purity maintained by *halal* and the risks associated to its violation. The majority of respondents expressed sensitivity to the methods of production of everyday goods and services. They feared that contamination could undermine their identity, and this was a cause of anxiety. Consequently, for the Pragmatist and Virtuoso, their loyalty to the state hinges on their trust in its capacity to regulate Islamic banking and other *halal* goods as part of their cultural interests.

Unlike the Sceptic, these types believe that life as a Muslim is regulated by rules that clearly demarcate what is permissible and what is not. They also explain that the regulations might sound odd to an 'outsider' who would be perplexed at the idea of avoiding certain types of soap or bone china. However they insist that in Malaysia, this expectation of difference emanates from within the Muslim-Malay community as much as from outside, reflecting the 'dialectic interplay of processes of internal and external definitions' (Lamont and Molnar 2002: 170), vis-à-vis the *halal* boundaries.

Sarah, a Virtuoso, contrasts and compares some of the primary distinctions of purity and pollutions of Muslims with the habits of those who are not: 'As Muslims we have lots of regulations, of dos and don'ts, so to avoid all that *riba* and all the forbidden things that will carry us to our day after. Certainly, this is important for items like food and soap and even china'.

When asked why she singled out these two items, she replied:

Because sometimes they mix it with pig fat or pig bone. It's unclean for Muslims to touch anything made from pig. The Qur'an says that the pig is dirty and we are forbidden. The only exception is in an emergency where there is nothing else to eat. This is a big difference with the Chinese. They eat pig, a lot of pig. They also like to drink and gamble. All these things are forbidden by the Qur'an.

Talking about the use of Islamic banks by non-Muslims, especially Chinese, who are viewed by many as 'dirty' in other respects, resulted in mixed reactions. The pragmatists welcomed it as a sign of legitimacy. One respondent, comparing them to members of the Jewish community, explained that they were known as 'shrewd, hardworking, and [having] financial acumen'. She concluded that this was a clear sign that Islamic Banking offered financial value. The Virtuosi were not concerned with the legitimization of the financial outcome. For some it was proof Islamic banking was not truly Islamic and that it was polluted by the dirty money of the Chinese. These Virtuosi were concerned that they could be borrowing money that was derived from *haram* sources. For the other optimistic Virtuosi, the regulatory process purified the money that might have been derived from *haram* sources, reasoning that in any case, it was their intent that they had control over and that is what mattered. In addition, they viewed the use of Islamic banking of non-Muslims as proof of its blessing, concluding that this was a welcome opportunity to proselytise, one of their duties as devout Muslims.

6.8 *Shariah* scholars as experts

Having discussed the broader implications of trust in *shariah* regulation, this section explores how the expertise of *shariah* scholars enables them to function

as general trust agencies for Islamic banking. As mentioned in the introduction, as the human access points to the abstract *shariah* system scholars act as intermediaries between supply and demand, and their influence features heavily in everyday practices of laypeople.

Malaysians have no means to verify whether the goods and services are truly compliant to *halal* regulation and, in most cases, are not even privy to the specialised knowledge required to make such judgements. Many admitted to a lack of knowledge about the production of these products, and others who were connected to people working in the sector said: 'If I were just a member of the public, I would not know any of the scholars directly involved, but I know

Shariah scholars' first qualification as experts relates to their broader role as authorities on the technical knowledge (Giddens 1990: 84) related to the *shariah* and its interpretations. *Shariah* scholars are trusted because people trust their intentions. In this case, it's not the calculations that count as intent but 'the possession of expertise to carry out such action. In other words, intended actions consist of a person's intentions and his or her emotional, technical or material ability to perform the intended actions' (Misztal 1996: 24).

Their reputation as experts of Islam is also recognised by the state and the Muslim community to give them the authority to issue *fatwas* and interpret Islamic teachings (Turner and Arslan 2011). This makes *shariah* scholars dynamic agents in the production of Islamic banking value. As explained in Chapter 5, the religious expertise of *shariah* scholars automatically qualifies them to give advice on every aspect related to social life including economic practices. This includes the drawing of boundaries – what is in and pure and what is out and dirty.

Within this broader group exists a subsection of scholars who have developed further technical expertise that is directly related to Islamic banking. These scholars are a minority within a stratum whose privileges are derived from the

intersectionality of political, financial, and religious power and are underpinned by the state. The Malaysian state maintains a monopoly by legitimating only a small pool of experts who simultaneously control the supply and demand sides of Islamic banking products according to its political exigencies.

The authority of this breed of scholar increases at the expense of the more traditional scholar who is not fluent in the modern day language of finance or technology (Turner and Arslan 2011). The younger scholar is seeking formal qualifications related to finance, accountancy, or economics, besides being fluent in Malay, Arabic, and English as well as the technology used for social media. More often than not, religious experts whose professional environment is informed by classical religious teachings as much as 'western' economic 'sciences' like finance and accountancy have made Islamic banking more central to Muslim-Malay everyday life. Indeed, parallels can be drawn between the regulatory function of these scholars and that of financial advisors in the conventional financial sector. Both groups draw on similar resources: information, expertise, financial, and economic resources; authority and legitimacy; strategic positions and organisational skills (Black 2003: 11). The trust that Malaysians have in *shariah* scholars is intertwined with the fabric of everyday social life. Besides their institutionalisation as policy experts and regulators in the state bureaucracy, as discussed in Chapter 3, their influence extends to the more mundane and routine aspects of everyday lives of the average Malay.

Malaysians show a strong bond of attachment to religious experts for various 'problems' as the experts can legitimately straddle different fields that overlap through a similar logic of practice. *Shariah* scholars are consulted for general counselling, work advice, spousal abuse, and depression (Ng 1998: 43) Even in urban area such as Kuala Lumpur, *shariah* scholars occupy a position of prestige as guardians, creators, and interpreters of Islamic knowledge. Their religious power lies in their authority to profoundly modify, in a deep and lasting fashion, the practices of ordinary people. In effect, they channel their narrow

technical knowledge to a wider public audience that does not have the capacity to develop this knowledge. All respondents underlined the special status that *shariah* scholars held in the everyday life of the great majority of Muslim-Malays.

The experiences of respondents who believe in the underlying value system of the *shariah* prove what Mitzal (1996) and Giddens (1990) have argued from a theoretical standpoint. That whilst encounters are not always presupposed, in a large majority of instances, positive encounters with the individuals and groups responsible will take place and they are access points which generate trust and confidence in the *shariah* regulatory system. Respondents reacted warmly to some of the personal qualities of these same religious experts, what Weber (1968: 440–67) identifies as ‘charisma’ that gives a person an ‘extraordinary quality’. Consider for instance, the response of an NGO worker, Mohammed, a Pragmatist. He was adamant that the *shariah* compliant labelling by scholars is central to the public’s willingness to use Islamic banking. I asked him whether the scholars’ blessing played a role in his choice to use Islamic Banking. He replied ‘yes!’ and continued to explain:

Mohammed: At first I was not sure about Islamic banking. I had never heard of it before going to university. Slowly, during my time at the Islamic university, I started to learn about *riba* [from the *shariah* scholars on campus] and I started to understand why Islamic banking is a compulsion for anyone who wants to follow Islam.

MM: How do you know that they’re saying the truth?

Mohammed: Just like eating *halal* food, there is a huge element of trust on the consumer’s part. Like it or not I have to trust them. I cannot buy a house without their trust. I know that these scholars have a much higher level of knowledge that I have on Islam, and I trust them.

These in-the-flesh encounters with the scholars were very important for the

Virtuoso. Knowledge helped communicate trust in Islamic banking. The Virtuosi overwhelmingly confirmed their regular attendance at these religious events. Many developed a passion for deeper learning about Islamic banking during their preparation for their pilgrimage to Mecca, which is one of the five pillars of Islam. People are initiated into rituals that they might not have been aware of or asked to further their knowledge of them. The pilgrims are reminded that their Islamic consumption must be practiced with the corresponding Islamic finance and are introduced to the various financial options available such as *Tabung Haji*, the fund set up specifically for Malay pilgrims. Second, they are made aware that before embarking on the hajj or any other pilgrimage all altercations and financial debt have to be settled. The following quotes show how scholars use Islamic rituals to encourage laypeople to internalise the boundaries of banking practices and adopt behaviours accordingly. For Aminah, another Virtuoso, the preparation for the pilgrimage served as an induction course about Islamic banking.

Aminah: Whenever we want to go Mecca we have to get some knowledge on how it's done. It takes months of preparation to purify ourselves and learn how to embark on this journey in the right mind-set. So the scholars here teach us more about Islam and how to be better Muslims. They prepare us before we go there in many ways. We were often reminded about the money that they use, that the money is *halal*, that is when you really start learning about it. I used to follow *Tabung Haji* courses on TV which explained the problems with *riba* in greater detail.

Other Virtuosi like Zaharia found the scholars in Mecca even more helpful in her wider pursuit of living Islamically:

I learnt a lot about it here from these scholars but then in Mecca you get to be exposed to more knowledge about Islam from Qur'an. That is how most of us here get started into learning much more about

religion. When I was there I learnt even more about Islamic banking and for the first time in my life I was given the alternative to *riba*. That is when I chose the Islamic.

Anisah, another Virtuoso, illustrated how the charisma of an expert also stimulated trust:

We used to rotate scholars but at one point we went for a consistent one because he was a good speaker. We could understand what he said and we were all very very comfortable with him. I think that it's because he was not pushy. He was nice and he also made jokes. He always told us what we should do based on what the Qur'an said and explained the reason. So it was simple: we get the instruction of what we do and why. It was then that I decided that I want to become an Islamic banker to fight for my religion. He was one of the first who spoke about *riba*. He said that the law in Islam said that if you accept *riba*, God will be mad at us and he will send us to hellfire. He really disliked *riba* and he told us that now we have a choice with Islamic banks.

6.9 Communicating trust in Islamic banking

Even respondents who were lax about their mosque attendance followed the scholars online or on television, across all the age groups. The Pragmatists, who were generally lax with their mosque attendance explained that they were no different from the westerners who visited their places of worship during the festive season. An effort was made for Ramadan and other holidays, but the rest of the time they kept themselves informed through television and social media. The younger cohorts in particular, followed the younger group of *shariah* scholars who kept themselves abreast with technological changes central to the everyday life of their communities. Besides the more traditional modes of

interaction they are also monopolising newer forms of media and this was reflected in the enthusiastic engagement of the Pragmatists. Several of the people interviewed participated in regular virtual interaction through the submission of questions and scholars responded with online fatwas.

Daynah is one of the Pragmatists enthused by the younger internet scholars:

Nowadays I follow a scholar on TV and the internet. He is very popular. He is an internet scholar called Idrus. He is very funny and he is very up-to-date. For example people ask him about the PTPTN. Do we need to pay it? And he says, yes if you borrow the money, you have to pay it back. But the interest it depends on yourself. It is not providence to pay the interest, but nowadays, since it is custom to pay the interest and the law says so, we must pay it, yet there is no compulsion to pay the interest. So the 54,000 we must pay it back, the rest – the interest – depends on us. He is up-to-date!

Television has been an important tool in promoting the new face of modern scholars. Islamic Channel remains a regular mainstay and scholars are now starring in Islamic entertainment such as the Imam Idol that glued Malays to their television sets every Friday night for several weeks. 70-year-old Singha smiles and enthusiastically describes her passion for watching scholars on the state-owned TV station, AlHijrah, and 'Imam Idol' an Islamic version of American Idol based on the search for a new Imam:

There are these programmes regarding banking and how to invest in your money, and there are a lot. I enjoy watching these shows and I love to listen. Most of them are also bankers and scholars so they know what they are saying and can explain it to the common man. I also learnt a lot from watching Solehah. Women from all over the country had to compete to be the best *da'wa* – promoter of Islam. They had different challenges such as preventing adultery or helping

teenage girls with pregnancies. On one of the series there was also an Islamic banker who competed. I learnt that insurance was *haram*.

Both types, Pragmatist and Virtuoso, seek out scholars for pleasure and establish an emotional rapport with them. Many enjoy listening to them recite the Qur'an, dish out advice on interpersonal relations and in the meantime get a glimpse of the 'problems being faced by the younger generation' and teach them about new *halal* food, finance, travel destinations, music, and film. Sonia chuckles as she says:

Oh yes yes! yes! I enjoy listening to them [the scholars]. Their thoughts on how to live everyday life as a Muslim are important to me. It's not only Islamic banking, but other aspects of life such as relationships and how to treat other people and charity.

As these excerpts show, the trust generated as a consequence of the regulatory capacity and reach of the *shariah* scholar in the private and public social life of Muslim-Malays is unparalleled by other experts within any other sector or industry. They are not limited to targeting consumers during purchases or at home through traditional media. The Islamic banking industry has at its disposal experts who are more deeply engrained in the social and moral life of the layperson and have at their disposition a wider array of techniques available. Having established the wider social context of their authority amongst the community, we will go on to discuss how their influence is reflected in everyday Islamic banking practices.

The discussions with the respondents revealed that their relationship with *shariah* scholars coincided with theoretical discussions on the functions of expertise for the Pragmatist and the Virtuoso. First, for the Pragmatists and the Virtuosi, the scholars fulfilled the vital function of ensuring that Islamic banking was purely Islamic. When asked why this was important, many echoed Nour, who stated: 'I am not an expert on Islamic banking. We have scholars who are

and they lead us to the right way'. For many respondents, the lofty ideals of the *shariah* would be overwhelming without the guidance of the scholars who taught them to aim for these ideals whilst recognising that 'We can trust them to tell us what is wrong and what is right and how to guide us as human beings who have temptations and not angels'.

Thus, the respondents highlighted the connective function of experts. The authority that comes with the possession of unique knowledge positions them as access points of connection between lay individuals or collectivities and the representatives of abstract systems (Giddens 1990: 88). In a similar vein, but within more of an empirical context, Demortain (2007: 5) highlights the regulatory capacity afforded through what he calls the 'multipositionality and authoritative knowledge of experts' which gives them the capacity to act as translators between users and rule makers. This function became obvious during the interviews as respondents described their reliance on the scholars to give Islamic banking their blessing, explain the rules in practice and also, how they relate to the broader religious framework of Islam. Osman expresses his beliefs on the importance of *shariah* scholars in his everyday practices:

It is crucial for scholars to approve of Islamic banking. Without them, Islamic banking could not exist. They are our spiritual guides and they know what rules must or must not be followed. They have great knowledge of Islam and they can guide us.

The asymmetry of power, knowledge, and authority between the expert and the ordinary person did not remain unnoticed by the respondents. Their awareness of their ignorance in the face of the expertise of scholars is what partly motivated their trust. The trust in the expertise of the *shariah* scholars is not based on the layperson's full knowledge of Islamic teachings. On the contrary, trust is required specifically in the absence of complete knowledge, confirming, 'faith is sustained in the workings of the knowledge of which the lay person is largely ignorant' (Giddens 1990: 88). This admission of weak knowledge was a

caveat that many interviewees made a point to mention in the beginning of their interview. They often apologised that they would not be able to help me with my research. When I inquired why they thought that this was the case – did they not use Islamic banking products? Certainly, they did was their reply. But they were not experts and could not provide me with a detailed explanation. Many would reply, ‘but you probably know more than I do, I don’t know as much as you do’.

The lack of interest or knowledge about money and banking is not unusual. Their admission of weak knowledge points to the impossible feat of becoming an expert, and coupled with a lack of enthusiasm, increases the necessity to rely on experts to separate the pure from the impure, or the Islamic from non-Islamic.

Laypeople are aware of their weak knowledge and that the experts are in the best position to interpret and digest these abstract and complex rules on their behalf. They expect scholars to explain things that they would not understand on their own and they trust them enough to accept partial and incomplete knowledge. Most respondents feel that the spheres of finance and Islam, especially when combined together, are not domains that can be easily comprehended. Many shun in-depth knowledge of either, instead relying on the opinions of others who have access to this knowledge. They expect this knowledge to be comprehensible to a non-expert, be free from unnecessary jargon, and as much as possible be available across different types of media – especially the interactive kind. Consider the following exchanges:

Biey confirms that she accesses *shariah* scholars on different media:

At the university library, I had come across some of the papers of my favourite scholar, but I have the basic knowledge on Islamic finance and these were too in-depth and technical for me to understand. He used difficult words that I could not understand. Truth be told, I prefer

to follow him on TV or on his blog – where I post questions. I was surprised the first time I heard him because I could understand it and it made me think. I guess that when he's on TV, he must deliver something up to the public standard. He cannot go into too much detail. So for me the TV show is better for the public.

MM: How are you sure that it is really Islamic? What gives you the certainty?

Osman: I know that some are saying that it's even worse than conventional because it debases the name of Islam. What is important for me is that scholars are saying that this is Islamic and the truth is that they are our spiritual guides who spend many years and actually their lifetime studying Islam and I'm not in a position to learn whether it's true.

MM: Are you ever concerned that Islamic banks might not be following the strict Islamic guidelines or that, as some Muslims believe, they are just a ruse?

Zaharia: We try to use our knowledge and understanding as much as we can but you cannot know everything about the Islamic banks' activities. You can try and find out but it is difficult to understand the finance parts and even more how Islam applies to the finance. The only solution for Muslims is to try to comply with what Islam asks from us as much as possible – according to the Qur'an and what the scholars advise. We can only trust.

The relationship to expertise was not even across all respondents. The third ideal type, the Sceptic, was not at all convinced by the *shariah* value of Islamic banking and even less of the intention of the scholars. The Sceptics expressed the strongest degree of distrust, 'having an actively negative attitude toward the claims to expertise that the system incorporates. In the case of persons it means doubting or disbelieving the claims to integrity their actions embody or

display' (Giddens 1990: 99). Sceptics expressed concern that Islamic Banking and the scholars were an instrument for the state to legitimate its omnipresence within Malaysian society. They mistrusted the claims made by the regulatory system and the scholars and bankers who communicated these claims as agents of this system. The common denominator between the respondents who mistrust Islamic banking's value proposition is their view of *shariah* regulation as a divisive political ideology that neglects authentic Islamic principles. They trust that Islamic banking products are financially viable and can offer good financial value for money but 'there is nothing fundamentally Islamic about it'.

Seif: I think that the financial industry is trying to capitalise on these identities and the government is encouraging it for economic and political reasons. I think that there is a huge complicity between the two. These *halal* and *kosher* industries boil down to economic incentives. A friend was telling me about this New York rabbi whose job it is to inspect the materials or products that originate from SE Asia but are to be used in the West. I know that he is paid a fortune, so these religious people clearly have a vested interest. He stays in luxury hotels and gets paid a lot just to stamp items as kosher. I've also heard of *shariah* scholars who do the same. They're in the pockets of banks and also enjoy a very luxurious standard of living. I read that some Gulf *ulama* who were at a conference in Asia but stopped in Bangkok and somehow got lost there for four days. Can you imagine, getting lost in Bangkok, wink wink?

Similarly, respondents who did not view Islamic banking as truly Islamic and did not trust the Islamic banking universe also showed a disinclination towards other types of *halal* regulation. For these Malays, Islamic banking is a ruse by the government, scholars, and commercial interests to use *shariah* for their advantage.

Seif was always sceptical of Islamic banking on both its financial and ethical grounds. When Seif first heard of it he thought that it was a 'crazy experiment of fundamentalists' and, like many of their 'hare-brained ideas', it was doomed to fail. He was also uncomfortable with the idea of aiding any attempt as encouraging 'Wahhabi-Saudi influence over Malaysia'. Ironically, it was his French non-Muslim life-partner, equally 'repulsed by displays of fundamentalism', who convinced him to carry out a cost-benefit financial analysis. Seif came round to its 'financial advantages' but is still cynical about Islamic banking's ethical value.

6.10 Conclusion

This chapter deepened the analysis of the development and growth of Islamic banking practices by examining how the process is shaped by the dynamics of trust in *shariah* regulation and expertise. Islamic banking is unique in its reliance on formal regulation informed by religious norms and rules, and the aim of this chapter was to study ordinary people's trust in *shariah* regulation. Trust is a fiduciary predisposition defined by choice (Mistral 1996), possibility of alternatives (Luhmann 1979), and 'quasifaith' that bridges the gap to weak knowledge (Simmel 2005: 178), and uncertainty (Giddens 1990). *Shariah* regulation was singled out for analysis as through its *halal* boundaries it is perceived as being instrumental in excluding forbidden *haram* elements from Islamic credit and maintaining purity within. I argue that, quite simply, for those who perceive social use-value in Islamic banking, trust in the *shariah* regulation is the first condition underpinning their choice of Islamic banking. Trust has a significant role: it is the 'glue' underpinning Malays' everyday Islamic banking practices.

My findings, organised on the basis of three ideal types that emerged during fieldwork in Kuala Lumpur, reveal that for Islamic banking consumers trust in *shariah* regulation and its experts is a primary embedding mechanism of everyday Islamic banking practices. Trust is a foundation that underpins the

growth of Islamic banking. It reduces complexity faced by consumers in a complex world marked by a number of choices, and it functions as a coping mechanism in the face of risks that expectations from Islamic banking products are not met. For most respondents, the state's underwriting of the Islamic banking sector was viewed as part of the state's responsibility to care for and safeguard the cultural interests of the Malay community. Consequently, trust is functional in enabling people to choose Islamic banking over the conventional. Consumer trust in *shariah* regulation depends on two main factors: trust in the workings and underlying values of the *shariah* regulatory regime, and trust in the 'competence and cognitive intentions' (Nooteboom 2007: 35) of the *shariah* scholars. The role of these experts is to engage in the symbolic production of the added social use value of Islamic banking as defined by *halal* boundaries. By simultaneously regulating supply and demand, these experts are 'flesh-and-blood' intermediaries (Giddens 1990) between the sector and the consumers and function as conduits of trust.

Although respondents of all three types consumed Islamic banking products, their attitudes to them ranges from primarily moral in the case of Virtuoso, to purely instrumental in the case of Skeptic. The virtuoso is characterised by reflexive trust and an interest in living out the ideal values of Islam as a form of excellence. This pursuit of excellence engenders ambivalence in this type, as he compares Islamic utopia to the practice on the ground. The pragmatist is not interested in excellence, but the practice that is socially acceptable through a combination of material and ideal interests. Consequently, he consciously rests on routinised choices. Attitudes to the role and expertise of the Shariah scholars also differed. The virtuoso and the pragmatist both trust the scholars and consider them to be a positive influence, but the former are more prepared and or inclined to be proactive in their approach to them, compared to the pragmatists. The sceptic shows a high degree of reflexivity but unlike the virtuoso, rejects the ideals and practice. As a result, his interest in Islamic banking is financial. This type views scholars as agents of the state and its allies in the financial sector. Moreover, it was this type that was the vocal about

the dysfunctional effects of sharia boundaries with the broad context of national Malaysian society, and sceptic respondents expressed disquiet at the role of the experts in enabling such effects.

Although the focus of the discussion is on the functional aspects of trust, the data suggested that both trust and distrust have a dysfunctional side.

According to the testimony of the respondents, the effect of *shariah* regulation is the materialisation of symbolic boundaries into social ones. *Shariah* regulations that enforce boundaries of permissible/forbidden and pure/impure increase solidarity and order within these boundaries, but distrust towards others outside these boundaries. Therefore *shariah* regulation has corollary effects: it is both functional and dysfunctional. Whilst it generally engenders the trust of Muslim-Malays in Islamic banking, it contributes to creating an atmosphere of distrust between ethnic groups and creates fragmentation with the broader Malaysian society. Having looked at trust as one of the embedding mechanisms of Islamic banking practices, the next chapter examines how family and peers are unwitting allies of the state and Islamic banks by signalling confidence in Islamic banking.

Pragmatist: 'Our family has great input in our lives, from the bank account we open to what we study'.

Chapter 7: Social ties, and confidence in Islamic banking

7.1 Introduction

One of the first instances of participant observation in Kuala Lumpur took place at the MIHAS *halal* fair. The products at this fair were geared towards a 'Muslim consumer': an individual who demands commodities that are produced in accordance with *shariah* regulation. The fair was held in the Kuala Lumpur Convention Centre (KLCC) conference centre attached to the Petronas Twin Towers. Alighting at the KLCC stop on the air-conditioned metro, I made my way directly to the fair where I was welcomed with a 'goody bag' full of vouchers, leaflets and assorted samples of *halal* goods. Walking around I perused all the products and services on offer, sometimes chatting with other customers and at other times inquiring about the goods being offered at the stands. All sort of products and services available in European markets were on offer, albeit with a *halal* accent: frozen food, chicken nuggets to pizza and kebabs; non-alcoholic wine, beer and cider; breathable nail polish that does not contravene the pre-prayer ritual of washing hands and arms; Islamic (pig free) bone china; luxury *terroir* cured meats from France; holidays to family friendly resorts that are alcohol free and offer segregated leisure areas as well as family entertainment and, of course, Islamic bank accounts, mortgages, loans, insurance, and investment funds.

The scene I observed on this humid, rainy morning reminded me of a typical buzzing high-street in any European country. As families together compared the samples of frozen food, boisterous children trailing their parents stuffed their mouths with as many free morsels of food as humanely possible. Gaggles of

schoolgirls moved around in packs, gossiping and giggling, from one cosmetics counter to another helping each other pick *hala* eyeliner, lip-gloss, and nail polish. Young couples and fresh graduates toured the bank stands, discussing the best financing deals on offer together. Very often they would be accompanied by the father who would supervise the discussions with Islamic bank representatives, interjecting with questions or encouraging comments whenever he felt that it was required.

This scene, which I participated in frequently for the duration of my stay, albeit on a smaller scale and in a variety of settings, brought home the sociality of everyday Islamic banking practices. The interviews confirmed what I observed during participant observation at the hubs of economic activity: banks, shopping malls, fairs, and markets. People's everyday Islamic banking practices are not a simply a sum of their individual preferences, they also depend on their social environment, their habits and their dispositions. Second, people use Islamic banking products because so do their peers and family members. Third party use of Islamic banking is a 'proxy sign of confidence' (Swedberg 2010; 2013). People discuss money and consumer choices with their partners, are accompanied to the bank by their parents, and consult friends about the best financial products for their needs. Their personal ties with people they trust shape their everyday Islamic banking practices.

In Chapter 5, I discussed how trust in the *shariah* regulatory regime and expertise is the primary embedding mechanism of everyday Islamic banking practices. Abstract systems are a permanent feature of modern societies. As people move away from personalised trust, they increasingly rely on generalised trust in abstract systems that are characterised by a 'faceless commitment' (Giddens 1990). This chapter builds on the previous one: I examine how the personalised trust between consumers of Islamic banking products and other laypeople they encounter on a routine basis is the conduit to confidence in Islamic banking which promotes its use and its growth. A lens is focused on the respondents' strong social ties to demonstrate that the growth of

Islamic banking practices depends on the confidence generated in the sector through proxy signs. These can include recommendations and experience of trusted family members and peers.

Despite people's reliance on abstract systems and expertise, social relations still play an important supporting role in shaping economic choice. In effect, by promoting confidence in Islamic banking, family and friends are inadvertent 'allies' of the state and Islamic banks. Respondents follow direct advice or emulate the example or experience set of they trust. Social ties are characterised by personalised trust. For people to follow the advice of other laypeople, they must trust them to have good intentions in their regard (Layder 2006).

Proxy signs of confidence depend on an idea of independence vis-à-vis interests of the banks (Swedberg 2010). Since the main theoretical anchor of this chapter is on personalised trust and social ties, reputation also plays a role in these ties. Respondents trust their family and the views and advice of their elders. They trust their family and friends, especially those with experience and knowledge of finance, business or Islam and those who have been more successful than them. If this circle of persons they trust itself expresses its trust in Islamic banking, then they will themselves have confidence in Islamic banking and hence be encouraged to use it. Thus, social ties typical of face-to-face relationships, play an important role in building confidence in Islamic banking by communicating that Islamic banking practices are the proper type of banking practices for Malays and by 'standing in' for limited information (Swedberg 2010), reducing the complexity of Islamic banking for laypeople.

As explained in Chapter 2, this project demonstrates that there are other implications for choice in the contradiction between the 'societalising process and individual atomisation' (Warde 1994: 879). Instead of thinking of consumer choice as being primarily linked to the individual's creation of a unique identity, it is likely that, as Warde counter-argues, 'being socially acceptable is the goal

and the means of allaying anxiety' (Warde 1994: 65). People want trusted family and peers to signal that they are making the right choice.

Confidence matters in different ways for each ideal type. The Virtuoso follows the advice of trusted people who possess a higher level of knowledge of Islam than they and the Pragmatists seek to emulate others who can balance the appropriate Islamic banking practices with economic gain. On the other hand, the Sceptics, who reject the state's conception of *halal* boundaries, also reject its conception of Islam. Therefore, in practice, they reject their family as a source of guidance in this respect, both their real and fictive kin and others. The Sceptics use Islamic banks because people in their trusted social milieu have confidence in the reduced risks and preferable long-term rates which denote economic stability.

This chapter is split into two main sections: the first half will focus on theoretical insights about the relationship between social ties and Islamic banking. The discussion starts by examining the role of social ties vis-à-vis choice in modernity. In particular, how do new social forms contribute to the confidence that underpins the growth of Islamic banking practices? Trust and social ties are often discussed in relation to their positive social functions, but is this always the case? Can trust and reliance on our close social ties result in dysfunctional consequences?

The second part of the chapter considers and presents the grounded theory that emerges from the data collected in the field, using the three ideal types to structure the analysis. The discussion then elaborates further on the characteristics of the personal social ties observed during fieldwork: family members and peers, and how in signalling confidence in the growth of Islamic banking practices they are inadvertent allies of the state and Islamic banks. Last, we examine how these strong social ties that promote confidence in *halal* consumption broadly and Islamic banking specifically, can also contribute to broader social dysfunction within Malaysian society. On one hand, close social

ties function to enhance social cohesion and the coordination and consolidation of Islamic banking practices amongst Muslim-Malays. The flipside of this outcome is that by encouraging coalescence of group identity and solidarity around the boundaries of *halal/haram* as underpinned by *shariah* regulation discussed in the last chapter, it enforces a heightened sense of risk in the interaction with 'others' whose everyday practices fall outside the *halal* boundary. The broader implications for all of Malaysian society is that Islamic banking practices contribute to the intra-community cohesion of Muslim-Malays but accentuate the deepening of cleavages between Muslim-Malays and other ethnic groups and therefore the fragmentation of Malaysian society.

7.2 Confidence and personal ties

As stated in previous chapters, this project is based on grounded theorising. The conclusions that emerge are driven by the data and constructed into analytical structures making references to established theoretical frameworks when necessary. Whilst the argument presented in the previous chapters emerged from patterns that were immediately obvious, I struggled to make sense of the patterns discussed in this chapter. It was immediately obvious that family and friends played a fundamental role in laypeople's choice of banking, but it proved difficult to theorise. As it turns out the difficulty was the result of not heeding the caveat emphasised by grounded theory advocates: to listen to the data. The conclusion proved to be much simpler than originally envisaged: people are social beings who seek cues from others whom they trust. When people with whom they have strong personal ties vouch for Islamic banking and also have experience of Islamic banking, they create confidence in Islamic banking practices, thus encouraging their uptake and growth.

In the last chapter I explained how *shariah* regulation and expertise aids the growth of Islamic banking by acting as a trust agency in Islamic credit. Generalised trust in abstract systems and expertise is ubiquitous in modern

societies. One feature common to the paradigm of modernity presented by Giddens (1990), Beck (1992) and Bauman (2000) is the idea that people experience a highly individualised existence that is shaped by reflexive identity-creation.¹²⁶ The individualisation of people is linked with dependence on modern institutions, the nature of which is deeply bound with the mechanisms of trust in abstract systems (Giddens 1990: 83). For Giddens and Beck, this, the atomisation of the individual's choice process is bound with trust in expert knowledge of modern institutions – which is both ubiquitous and ineluctable. These institutions mediate the risk that was not present in traditional set-ups, but emerges with the freedom of choice bestowed upon the modern individual: he has no choice but to reflexively choose, with all the anxiety that this entails (Bauman 1992).

Critically, choice, particularly as it becomes more commodified, diversified, and complex, is based upon the maintenance of self-identity (Giddens 1990; Beck 1992; Bauman 2000), with more reliance on institutions and experts and less on traditional social forms. This means that the modernisation process has displaced traditional frameworks such as the family from the centre of the individual's existence, into the periphery.

The evidence from Kuala Lumpur shows that, similar to patterns observed in other modern societies, traditional social forms have dissolved and abstract systems regulated by experts are pervasive as demonstrated by people's overwhelming trust in *shariah* regulation. Yet, individuals are still influenced by and reliant on social forces. The opportunity for free association opened up the respondents to socialisation with other individuals outside the traditional family group. Respondents associate with peers from university, the workplace, and other social spaces typical of a modern urban landscape. Still, the family remains a lasting influence on the economic choices of respondents. The

¹²⁶ Bauman (1990) acknowledges the role of life-style and neo-tribes as Giddens (1990) mentions taste and lifestyle which he attributes to social groups without explaining how the boundaries demarcating these differences are formed (Warde 1994: 892–93).

observations that Liu (2008: 57) made about the dynamics of modern consumption in China, also applies to the Malaysian case: modern consumption is 'intimately associated with interlocked collective responsibilities' such as filial piety. Therefore, the shift towards generalised trust in abstract systems such as shariah regulation, does not only coexist with social forms such as the family, it is enabled and accommodated by them.

In societies, such a Malaysia, where there is a 'high value on interdependence' and the pressure to 'adjust to meet the expectations of others' and the good of others' (Liu 2008: 62), signs of confidence from trusted proxies play a sizeable role in shaping consumption choices. Despite, or perhaps as a result of, pressures of identity creation and choice, social interaction provides an opportunity to relieve the anxiety. Thus, social interaction is crucial for consumption and therefore for the growth of Islamic banking practices. Therefore, although as mentioned in the last chapter choice of Islamic banking is characterised by reflexivity, another often-neglected element of economic choice is habit, more specifically, the habitual expectation denoted by confidence. Although generalised trust in regulation and expertise such as *shariah* regulation and scholars are a feature of Islamic banking practices, economic life is still reliant and constituted by other social forces that include face-to-face encounters and encourage habit by signalling confidence.

7.2.1 Confidence, personal ties and Islamic banking

Confidence, as was explained in Chapter 2, is the predominance and communication of habitual expectations (Dodd 1994: 138). It is based not on best information, but on proxy signals, negative or positive (Swedberg 2010; 2013). Confidence, here, is taken to include the fiduciary dimension of Islamic banking practices that cannot be captured by the trust framework discussed in the previous chapter. This shifts the focus to the impact of personalised not

generalised trust and therefore on people with whom respondents have strong social ties – not depersonalised links to abstract systems and expertise.

As my data demonstrates, the individual engages in social interaction with others for purposes of communication. Modernity transforms the social forms of people's engagement and interaction. The free association typical of modern cities like Kuala Lumpur takes place within networks of communication, where individuals look for signs of confidence related to their impending choices. As respondents interact self-consciously with trusted social connections within this structural cultural context, the signs of confidence demonstrated by others shape their choice of banking.

Rather than only accounting for direct recommendations, Swedberg suggest that we should also account for the importance of signs in signalling confidence. For him, people's reliance on something else other than full knowledge, such as friends vouching for the reliability of Islamic banks or the outcome of their products is a proxy sign of confidence (2013: 543). These signs of confidence come from direct communication of experience or from the indirect socialisation into Islamic banking practices. Therefore, confidence in Islamic banking depends on Muslim-Malay's symbolic interaction with each other, which is then expressed in unique subjective ways according to the ideal types (Virtuoso, Pragmatist, and Sceptic) that are discussed later on.

The implications are threefold:

Anxiety and risk:

Modern society is characterised by a proliferation of choices and goods and the mediation of abstract systems between commodities and people. The anxiety that results from overwhelming choice and space–time distancing is mediated by confidence. Reliance on signs of confidence from family and peers reduces the risks of making the wrong, financially unsound, socially awkward, and sinful choice. It has already been argued that the management of one's own personal

finance generates understandable anxiety, principally because making the right choice requires a level of experience that laypeople rarely possess (Aldridge 1998; Lai 2001). Financialisation, it follows, will tend to generate widespread anxiety principally because of the abundance of financial products confronting the lay¹²⁷ consumer and, especially under the pressure of a political narrative that relentlessly insists on the individual's responsibility to reap the profits as well as a professional investor. In the case of Islamic banking products, another layer of complexity exists. Ordinary people are not only expected to understand the mechanics of banking products and their financial functions, they have the added burden of having to understand *shariah* regulation and its Islamic value, and consume accordingly. Trust in the signals of confidence coming from kin and peer, or even merely in following in their footsteps, eases this burden.

Identity and consumption:

Consumption is a fundamental forum of symbolic interaction between people and objective culture. It is a moral choice, involving social interaction, collective meaning and individual action through which people can become socialised as well as self-fulfilled. In this case, as trusted others reinforce these choices by giving signs of confidence that this is the socially acceptable banking choice, respondents internalise a *halal* lifestyle, including banking practices. This meaningful action becomes part of their being and identity whilst they also become socially acceptable members of their immediate community.

Embedded economic action:

Last, it is clear that Islamic banking practices are neither asocial nor solely based on utility maximisation of the individual. The embeddedness of consumption of credit in social ties in order to mediate incomplete information and the uncertainty that accompanies choice contradicts the suggestion that

¹²⁷ Laypeople are specifically not experts because they have not acquired the specialist knowledge that marks out experts as authorities on that particular subject (Collins and Evans 2002: 238).

economic action is in tension with the social world. On the contrary, social life facilitates and constitutes consumption of credit.

7.3. Characterising the personal ties of Islamic banking consumers

Social ties inform most of network analysis that was inspired by Granovetter's (1985) opus *Economic Action and Social Structure: the Problem of Embeddedness*. In his article, he explored 'the role of concrete personal relations and structures (or "networks") of such relations' (1985: 490) and how they shape the inclinations of people's economic behaviour.

This project does not follow network analysis. The use of social ties is used to denote a more basic social reality based on what Granovetter (1973; 1983) calls strong/thick social ties that connect people who have frequent face-to-face encounters and share intimate information, space or experiences together. The strength of network analysis is in understanding 'how macro-social structures emerge out of micro-level processes of interpersonal and inter-group interactions' (Lin 2006: 628) and often demonstrates the advantages of weak ties. Here we will simply be observing social interaction between people who enjoy immediate and almost daily encounters – not their broader network.

In this chapter, I will be examining personalised trust relationships that are typical of high density networks and characteristically based on 'sameness' (Granovetter 1983) and thus, are usually taken for granted by the very people for whom they are instrumental in mobilising resources (Layder 2006 :165).

There are various ways to characterise the familial and friend networks observed amongst the respondents. These networks are considered 'strong ties' (Granovetter 1973) according to the measure dictated by the homophily principle: the strength (or weakness) of the ties is determined by the network distance. This is defined as: 'the number of relationships through which a piece

of information must travel to connect two individuals' (McPherson, Smith-Lovin and Cook 2001: 416).

The reinforcement of the trust and social capital cycle within 'strong ties' is often also due to homophily (Lin 2006; McPherson, Smith-Lovin and Cook 2001; Mignione 2006; Nooteboom 2007). According to McPherson, Smith-Lovin, Cook's extensive review of the subject: 'homophily is the principle that a contact between similar persons occurs at a higher rate than among dissimilar people. The pervasive fact of homophily means that cultural, behavioural and genetic or material information that flows through networks will tend to be localized' (2001: 416).

People trust those with whom they enjoy close social proximity and in turn these people generate more trust by repeatedly confirming their expectations. The experience of respondents suggests that confidence is built on habitual meeting of expectations, which perpetuates a cycle of confidence and trust. Homophily was observed across all the ideal types. The tendency of each type was to look for confidence from people with similar values. It is common for people to choose friends like themselves, rather than becoming more alike due to reciprocal influence. By associating with people like ourselves, our worldview is reinforced (McPherson, Smith-Lovin and Cook 2001: 415–16). There was systematic evidence of both value and status homophily amongst the respondents (Lazarsfeld and Merton 1954). The coalescing of ideal types is the latter, as it is based on values, attitudes, and beliefs (Lazarsfeld and Merton 1954). Virtuosi pursue signs from others who claimed to prioritise Islamic ideals above all else. The pursuit of a 'balanced modern life' that takes into account 'realities of life and Muslim values' was the commonality of pragmatists. Sceptics wanted signs of confidence in the financial stability and return. The recurring and mundane nature of social ties is what makes them effective generators and conduits of trust as well as a valuable resource of social capital. Were these ties not a routine aspect of social life, and had to be constantly re-examined, their efficacy would be greatly reduced.

7.3.1 Peer groups

Status homophily in 'which similarity is based on (informal, formal or ascribed) status'¹²⁸ (Lazarsfeld and Merton) must also be taken into account. This is characterised by an inclusion typical of larger social networks where information is circulated. The latter types of bonds are often fostered at school or work – the two locations where, due to sharing similar activities, the majority of ties that are not kin are fostered (McPherson, Smith-Lovin and Cook 2001: 431). This tight fostering of ties was especially evident amongst students. As they revealed during interviews, university was a time of exciting change but also of insecurity that was better navigated with the help of friends. Interacting within the same institution such as university or the office creates opportunities for shared experiences and bonding, especially when these involve a rite of passage such as living away from the family home for the first time. The shared spaces of interaction, experience and life goals means that when in doubt, people look at others for direction. Take Biey, who admitted:

Yes, we talk about a lot of things. We help each other out because we are all students and face the same problems. Most of us didn't know how to apply for PTPTN¹²⁹ or which bank to choose. And even creating a budget was something that we helped each other with. Being a student is expensive and if we know of cheap deals we will tell each other. I found out that Bank Rakyat sponsored a friend. They were talking about it and she helped me apply for a sponsorship too. I wouldn't have known about it if my friend had not told me.

The students sought advice from others who were like them and 'in the same boat', confirming that belonging to networks of similar people is efficient as people share similar resources required for similar life-goals

¹²⁸ Both social and structural homophily will be discussed here, although it must be pointed out that value and quality are derivative of social position themselves (McPherson, Smith-Lovin and Cook 2001: 419).

¹²⁹ PTPTN stands for Perbadanan Tabung Pendidikan Tinggi Nasional (National Higher Education Fund Corporation)

and these resources are especially valuable in complex environments (Lin 2006; McPherson, Smith-Lovin and Cook 2001). This was also observed of respondents who were in their mid-twenties to thirties and who associated with other professionals from their work place as well as others they met at meeting places such as the gym or prayer groups. As they were either earning a salary for the first time or were planning to start a family, issues such house financing, personal financing, and *takaful* as well as financial planning became a priority they all shared and therefore discussed and in relation to which they would look at others for signs of confidence. As to be expected, ethnicity was a uniting force for the virtuosi and pragmatists.

These findings corresponded with the discoveries made by other researchers (Fischer 2008; Eriksen and Stjernfelt 2012). Even in urban Kuala Lumpur, most respondents, with the exceptions of the Sceptics, connected to ethnically homogeneous networks. Whilst it is expected in private spaces like the household, as inter-ethnic marriages are discouraged, some public spaces like neighbourhoods and pedagogical institutions are often informally or formally segregated, inhibiting spontaneous social intercourse with others outside their ethnic group. The public spaces where people can casually interact, such as shopping malls are not conducive to meaningful interaction only 'civil inattention' (Giddens 1990; Bauman 2001).

When visiting respondents in their homes, I usually arrived an hour early to explore the area and I would often notice a concentration of Muslim-Malays. With the exceptions of the Sceptics, most of whom had foreign and non-Muslim partners, respondents confirmed that they lived in majority-Muslim areas that were specifically designated for them, according to the affirmative policy which prioritised swathes of land for Muslim-Malays.

The student respondents at the International Islamic University of Malaysia (IIUM) explained that even if they wanted to make friends with non-Muslim Malaysians it would be hard.

Lufti: I only knew one person who was not Muslim studying here. All undergraduates here are Muslim. The Chinese go to UKM or non-Muslim universities and the majority go to Unitah Rahman University, which is a private college. At home all my friends are Muslim too. I don't really know why, I think that we should all be one nation Malaysia, but it is just the way it is.

His classmate confirmed that this concentration not only prevented interaction with 'outsiders', but it also reinforced conformity amongst her peers. For some students, university was the first time that they heard of Islamic banking. It was here that they opened their first Islamic bank account too.

Daynah: I am not a very pious Muslim. I never really did much, but when I started studying Islamic studies here, I started doing more Muslim obligations. I pray every day when they call us for prayer and this is an Islamic university. It makes us more pious. They constantly remind us of Islam and that it is our duty as Malays to follow Islam.

7.3.2 The family

The second type of social ties to be studied is the family. The family is an especially important source of social ties and association in many modern societies. The household is of special political and economic relevance in many societies, especially as most family ties are homophilous on most characteristics (McPherson, Smith-Lovin and Cook 2001: 431). Malaysia is no exception. The family, in this case the Muslim-Malay unit, takes on a unique significance with regards to Islamic banking and the respondents' use of Islamic banking products. In our discussion about Islamic banking practices, it's

salience increases due to overwhelming reliance of individuals on the family, compared to for instance the UK where young adults often move out at a young age. Second, the Malaysian family is also a site of political intervention by the Malaysian state (Stivens 2006; Fischer 2008). The Muslim-Malay family today is the most effective site wherein the lay consumer is called upon to act as a good Muslim and as a good Malay within the spheres of money, consumption and Islam. For this reason, family members are important sources of proxy signs of confidence.

7.3.2.1 The family as a site of political intervention

The family's importance in shaping people's practices was recognised by both the Malaysian state and its challengers, hence, the use of the family as a site of political contestation. For Fischer it is 'the body through which Malaysians are subjected to the moral calls from the government' (2008: 151). Due to the family's prominence in the partisan political arena, the domestic sphere is highly politicised and is the site of disputes between state, its challengers and media that take place under the guise of 'family values' (Stivens 2006) and identity and nationalist consumption (Fischer 2008).

Former Prime Minister Mahathir Mohammad often spoke about his views on the family's role in Malaysian society in public. He argued that the family played an important role in economic growth, and considered the family as the main vehicle of deployment in the state's development goals. For instance, in 2003, he said 'Family is the basic social unit which prepares and supplies human capital resources for national development'. The family values agenda calls upon the Malay family to auto-discipline itself for its own good and consequently, the greater good of the country. It has been suggested that paradoxically, the contests between Islamisation projects (Othman 1998: 186) discussed in Chapter 4, produced an 'ideological convergence' (Stivens 2006) over the family as a conservative neo-liberal construct based on 'Asian Values',

the 'Asian family' and the Islamic family (Stivens 1998b). The irony was noted by other researchers who observed that the convergence between two seemingly opposing narratives celebrates a call for the family to pursue the state's developmental goals (Fischer 2008; Stivens 2006) of which Islamic banking is an integral part.

This 'neo-traditionalist' construct was reflected in the opinions of most respondents who contrasted the Malaysian family with the problematic louche western model that promotes libertinage in the spiritual and economic spheres. The following quotes illustrate this point perfectly:

Omar: 'Our upbringing is different to yours. We are less free to make more decisions as our parents have more control over our lives'.

Yasmin, who was interviewed jointly (and would, ironically, later be disowned by her family for marrying someone they disapproved of) with Omar, agreed: 'They have great input in our lives, from the bank account we open to what we study'.

Omar continues: 'But I think that it's also mutual. They want to guide us and we want them to guide us and we also think that we have more respect for their opinions than in the West. Not all Malays are like this but I would say that the majority are. Why do I think that this? Some is the influence of religion and some are Asian values'.

Interpreting the economic crisis and the London riots that had taken place the previous summer as the result of excessive consumption with no ethical brakes, Yasmin adds:

The West is very materialist and not interested in religion. The economic crisis was the result of too much greed. Everyone wants nice houses and credit cards to buy expensive goods that are for

desire and not need. The protests in London were also about wanting more. They riot and steal expensive things. There is something wrong in a system that promotes this materialism.

It is therefore not surprising that families are a foundational formative source of banking practices. They provide a shared and intimate space of consumption and communication about matters of consumption. Consider the following extracts from my field notes. They are replies by members of the three ideal types outlined in Chapter 5 to my question regarding the influence of their family on their use of plastic money:

Yasmin, a Pragmatist says:

My parents and I always discuss how finances are to be managed. They taught me the difference between necessary needs and desires. For example, both of my parents told me that they couldn't afford credit cards. We use credit cards as a safety device. We don't carry cash but we use them as debit cards and we also get points for using them. We never spend more than what we have in our account.

Omar, another Pragmatist confides:

My parents use it for household goods and whenever we go shopping. We each have several credit cards. Credit cards are especially useful when you need to buy very expensive things. The family has a formative role in shaping particular dispositions towards value and trust in specific consumer goods and services. More specifically, it is related the family's link to wider dynamics of Malaysian politics.

Abdul, a 28-year-old virtuoso who has a 6-year-old son and 4-year-old daughter, explains that the views of the family, particularly the male heads of

the family, carry a lot of weight when it comes to important decisions. Participation in the economic life of the children, like other aspects of social life is viewed as normal and necessary. He speaks from the point of view of a parent and the head of the family:

My children are still young but I make sure to expose them to the Islamic way of living. We do have discussions at home and I already explain our choices to them. Even when they are older, I will insist that we must all use Islamic banking. Awareness is key to living the Islamic life.

Another Virtuoso, Zaharia is a parent. She confirms that she encouraged her children to take Islamic banking. Ideally, she would loan them the money herself as she believes that to be the most Islamic way to bank. Unfortunately that is not an option. She explains: 'We do discuss their finances and Islamic banking. For me Islamic banking allows them to take loans on a clean conscience – without getting involved in *riba*'.

As the above quotes demonstrate, family members are a first point of reference and confidence for the respondents. For many Malaysians the household is still the space where uncertainty over sensitive issues like money are dealt with, or mediated through interaction with other family members. The belief that important concerns should be kept within the family is indicative of its standing as an important resource by all Malaysian ethnic groups (Kit S Ng 1998: 42). Researchers who have studied the Malaysian family believe that in both its nuclear and extended forms, it has 'continuing force' through powerful 'imagined and concrete networks' that operate powerfully across internal geographical distances in the country and beyond (Stivens 1996; 2006). In fact, many respondents emphasised on several occasions that the wellbeing of the family, financial and spiritual, was one of their main priorities and that the wellbeing of the family as a collectivity and of the individual also rested on the other family members.

Family ties provide the social and cultural capital upon which everyday economic knowledge, ethos and taste are based. Lai's (2001) survey of Taiwanese consumers shows that social ties function as sources of trust that inform economic behaviour. Family and friends and honored acquaintances with whom respondents enjoy strong ties are highly valued for their advice (or merely their example) in as much as they are one's social capital, and therefore a source of value.

7.4. Trust, knowledge and Islamic banking

This section provides a broad overview of the social interaction of the three ideal types surrounding Islamic banking for both friends and family. Later sections will focus on social interactions in contexts that emerged as unique to each social form: the financial crisis and the family and, the rite of passage and peers. A rite of passages is defined an event or an experience that marks the person's transition from one social stage to another. According to the respondents, these experiences were strongly marked by interaction with peer. The ones discussed here are: living away from home for the first time, buying the first property and starting a family.

Family and friends were frequently mentioned as an influence over the respondents' choice to use Islamic over conventional and also their choice of one Islamic bank over another. Discussions with friends, family, educators at school and university featured heavily in interviews with respondents. For the Pragmatists and Virtuosi, social ties bestowed respondents with the necessary resources to react to the symbolic cues offered by Islamic banking. Conversely, whilst the Sceptics recognised the symbolic cues they reacted to the instrumental-financial and not symbolic value. Thus they ignored or rejected the Islamic-moral call. Respondents pointed out that social interaction exposed

them to Islamic banks and equipped them with the necessary ability of using Islamic banking but bypassing time consuming reflections.

The interviews revealed how respondents trust friends and family to have their interest at heart, showing that personalised trust rested on faith in intentions of others. Crucially, it is not just their economic interests that friends and family have at heart but also their spiritual well-being, mirroring Bourdieu's argument that for ordinary people, economic choices are inextricable from the moral and ethical universe. Not all confidence was directly communicated. Often it was subtle and took place through the parents setting 'the standard' which the children would later continue following. Some of the families transmitted their preference for Islamic banking through 'modelling' (Neely 2005) the ideal practices, which they then reinforced with overt communication, problematising both conventional banking and consumption and offering Islamic banking as a solution. A number of the respondents mentioned that they were made aware by their parents, from a young age, that *zakat*¹³⁰ was being paid on their behalf. The 'modelling actions' were followed up with 'reinforcement' (Neely 2005), or discussions about the tenets of Islam and how they coincided with Islamic banking and the opening of Islamic bank accounts. Often, their parents had opened the first bank accounts of the younger Pragmatists and Virtuosi. A number of the respondents echoed Ayman's experience:

'My first account was a CIMB Islamic account, but I didn't open it. My parents opened it and gave me the money. They wanted to guide me from a young age'.

Members of all ideal types expressed how family and friends are sympathetic to their lack of knowledge on financial matters and wanted to act as stand-ins and

¹³⁰ The act of *zakat* is similar to almsgiving. Its literal meaning is purification and it denotes a Muslim's duty to donate a portion of one's wealth as a means of purification of both wealth and soul. In contemporary times, it is viewed by many as a type of social taxation and evidence that Islam offers a complete blueprint for an economic system (See Kuran 2004; Tripp 2008, 2006 for further detail).

guides on their behalf. The friends and family members either worked in finance and were thus authorities on the subject or had decades of experience and could 'guide them on the right path'. It is important to point out that although some of these associates would be defined as experts (read more about the definition in Chapter 2), in this case the bond is underpinned by personalised and emotional trust. The authority of these experts makes them attractive, but ultimately, they are trusted due to their strong social connections based on frequent face-to-face encounters. The respondents believe that the interpersonal connection places a duty on friends to share honest advice unlike that provided by banks or advertising. As one respondent pointed out: 'Family is only interested in your happiness. Family does not want to make money from you ... just make sure that you are doing the right thing'.

Besides receiving social cues and knowledge about taste and distinctions that are symbolic of Muslim-Malay identity, social ties have another functional value. They increase the efficiency of choice by providing the respondent with a direct shortcut to broader and faster decisions. Having proxies collecting, organising and distilling information on your behalf means that less time, resources and effort are required to make a certain choice.

In order to gain deeper insights into the dynamics described above we shall now turn to Karima, a Virtuoso. She explains that her choice of banking was determined by the authoritative advice and example of her father. She used his confidence in Islamic banking as her proxy. Clearly, she regards this social tie as a valuable source of advice, the value of which was not less than the value of professional expert advice. Karima explains that her father's knowledge of Islamic banking gave her insights into the structuring of the products. Being an Islamic banker and an expert in the field he was also able to point her to the most renowned and active *shariah* scholars in Islamic banking. As a Malay who declares that Islam is a core aspect of her identity, she was pleased that her father was a gateway to gaining an understanding of the taste that a middle class Malay female like her should follow. She subtly expressed scorn towards

peers who do not explicitly demonstrate their distinct Islamic taste in finance but instead choose to continue with conventional banking. In Karima's own words:

My father's knowledge helped me make the right and informed choices. If I was a normal member of the public I wouldn't know all these details. For example, when I want to buy anything that requires financing, I will make sure that I will only subscribe to Islamic financing. So I will immediately ask: 'please refer me to the person who can subscribe me to Islamic financing'. Others who have not been exposed to this knowledge forget that they're Muslim when it comes to real life. Some of my friends will just follow the financing that the dealer points them to because they will want to buy this car or this house. It is not in our culture to be demanding, but my knowledge gives me the confidence that I am making the right choice.

Karima trusted her father to make the best recommendations for both her spiritual and economic choices. Thanks to her father, she bypassed the grueling work: collecting information and then analyzing the sometimes-conflicting information and weighing the various choices. She arrived straight at the end result. From her vantage point, her trust enabled her to opt for the best choice in two respects. First, she was introduced to the world of Islamic banking, the intricacies of the products and the moral narrative surrounding the sector. Second, Karima was also given an advantage by being privy to information regarding the hierarchy of scholars:

My father is an Islamic banker and he knows who the best *shariah* scholars for banking are. In the beginning when I didn't have a clue about any of the products and how they were structured and, what is permissible and what is not.

Other respondents also spoke about scheduled family discussions to discuss the optimal financial practices and how their parents accompanied them to the

bank to open their accounts, which is how I met some of the younger respondents. These instances show the impact of 'direct consumer learning' (Neely 2005) on people's banking choices. The queries of Pragmatists focused on the difference in price and moral value between conventional and Islamic products. Like the Sceptics, they often used the term interest to describe the price of the product. Unlike the Virtuosi, they were also very frank about their concern with the financial outcomes of their choice, i.e. price. Whilst already having an obvious preference for Islamic banking, this choice was not a foregone conclusion and they were swayed towards this option when they learnt that the difference would not be overwhelming or in some cases, Islamic was even cheaper. According to Nour:

My family approve of Islamic banking because it makes financial sense and because they uphold Islamic values. As they say in English, it is a win-win situation. My friends confirmed this, most of who work with banks. Because of our age we always have a discussion about house finance and personal loans. I'm not from the banking sector, but I like to listen. They give me advice about how to go about things. So for example when I wanted home financing, a very, very good friend, who is a manager of one of Bank Salaam branches, suggested that I take the Islamic financial loan as it is cheaper than the conventional. He wrote a short list of banks that I should look at and in the end I chose RHB. The flat rate for every bank is 6.2% but if you take it with an Islamic, the interest can be deducted up to 2.4%. He told me that it depends on the size of my loan. My house cost RM 180,000 because it is a low cost house (of less than 200,000), so I got the deduction and the final interest that I will pay to the end of tenure will be up to 4.2 or 4.4% only.

Similarly, Abdi says:

My father was the one who brought up the topic. He asked me, do you take the conventional or the Islamic loan? He was concerned about the loan and interest, because he doesn't want us to pay more than we have to pay and he was also concerned that *riba* was not good for us as Muslims. We had to avoid it, within reason. He explained that not only is *riba* against Islam but that we would also suffer financially with conventional. For example if we pay 250,000RM for the house, with the conventional would be double. That was one of his concerns mostly. Maybe 20 years ago we didn't have Islamic banks. My uncles paid for up to 250,000 for their house, much much more than the original price, because of very high interest. I say that Islamic banking brings a new wave of loans and idea of banking. It is very good.

The attention of the Pragmatist was geared towards signs of confidence in a balanced or what in their own words they describe as 'a modern and moderate' option for Muslim-Malays. Unlike the Virtuoso, the emphasis is not solely the moral purity and intransigence of *halal* boundaries, nor just on the financial outcome, like the Sceptic. The aim was to include a balanced amount of both. Yet, as I explained in the last chapter, their routinisation of *halal* practices meant that the choice of Islamic was already taken for granted. Thus the confidence sought was about the individual banks and the products.

For another Virtuoso, trust in family was impetus for change, contradicting theories that trust tends to maintain the status quo (Mistral 2006). Family members who through Islamic revivalism discovered this total way of life felt that it was their duty to inform others and share the religious capital that they had discovered. From a spiritual perspective they perceived themselves as belonging to a higher status and living in a more complete state of purity. As a result, they switch to a completely *halal* way of life. This signalled confidence to

other family members to do the same. The signs of confidence about *halal* eventually expanded to include banking practices too.

Karima says:

We discuss our finances very often. When it is something related to money, we will make sure that it adheres to Islamic principles. For example, I didn't take car financing because my father could pay it in cash. Then I paid him on an instalment basis, without any additional interest and only because I had a salary and could afford to pay him back. This is one-to-one borrowing, the most ideal type according to Islam. It doesn't strictly relate to Islam banking but you can see that in our family affairs, we are still *shariah* compliant.

Sceptics were the exception to the rule. In the same way that the Virtuosi and Pragmatists distinctively integrated their life as part of an integral Muslim-Malay whole, the Sceptic was also integralist in his rejection. Having rejected the state's *shariah* regulation, he also broke the trust with his family in all matters related to Islamic value. In particular, the Sceptic either did not prescribe to his family's idea of the special value of Islamic banking or followed their negative signals.

Seif's family live in the rural part of Malaysia. As such, they share very little in terms of moral or ethical values. According to him, their bonds are based on emotionally charged memories of his very pleasant childhood. Being gay, a fact all of the family is aware of but no one ever discusses, any communication about morality or ethics according to the Islamic way of life are avoided. They are aware that Seif rejects and mistrusts any moral calls made on behalf of the *shariah*. Other Sceptics rejected the Islamic value of Islamic banking because they accepted the negative signals of confidence in Islamic banking. Marwan's cosmopolitan family is Muslim and proudly so. Yet, they express hostility to the idea that the state should intervene in such 'private matters'. Marwan explained:

Although we follow basic Islamic moral codes, my family tries to avoid *halal*. We see it as an invasion of our space and a political attempt to politicise religion. Obviously, food is difficult to avoid here. We're not going to go out of our way to obtain non-*halal* food. But with all things being equal, we would usually go for the non-*halal*. They were a bit shocked that I decided to get an Islamic mortgage. They consider it fundamentalist. When I explained that it made financial sense, they came round to the idea.

7.5. Family and the financial crisis

Households are subject to an increasing proximity to financial markets (Carruthers and Chul-Kim 2011: 246). An increasing number of families own financial assets such as stocks and pensions. In addition, many Malaysians supplement their income through consumption of banking products, making them vulnerable to credit market conditions. This vulnerability is perhaps linked to reports that some 60 Malaysians are declaring bankruptcy every day. As mentioned earlier, household debt has outpaced the GDP growth (see Chapter 1). It stands at RM 4.76 billion (\$1.35 billion) and RM 1.31 billion (\$37 billion) as of second quarter of 2013 for conventional loan and Islamic financing respectively (INCEIF 2014). The proximity to financial markets means that the family is increasingly vulnerable when there is a crisis. The crisis was unusual in that polar opposite confidence signs, both positive and negative, were operating simultaneously. As trust in conventional banking collapsed, people starting looking elsewhere. As we shall go on to read, for the Virtuosi, as a result of the financial crisis, it was the family that first problematised the use of conventional banking.

The household is a primary space of interaction for the family. As a result, it is not only routine happenings that they experience together, but when on occasion they happen, extraordinary circumstances too. For many, the 1997-

1998 financial crisis was such an extraordinary and unfortunate happening. It set the stage for a break in confidence in conventional banking and for increased trust and later confidence in Islamic banking. The family problematised conventional banking practices and thus signaled negative confidence towards conventional banking and later positive towards the Islamic. As discussed in Chapter 5, when trust and confidence in conventional banking decreased, people turned to Islamic banking. The South East Asian crisis was a traumatic event for many families, including those of the respondents. The effect was felt by the adults, those old enough to lose their assets or funds or to be directly hit by the soaring interest rates. Many respondents mentioned the crisis as the causal factor that broke their trust in conventional banking and thus problematised the values (or lack thereof) the banking practices that they had engaged in so far. Often the proxy signals were not transmitted instantly, but later through anecdotes and the collective family memory.

Anisah's father lost his job and as a result had to downgrade their 'middle class' lifestyle, including their house, car and leisure options. Anisah reveals that it was her mother who recently shared the traumatic experience of the financial crisis. Her mother's memory served as a negative signal towards the conventional:

Most of my financial education comes from my parents and we often discuss these topics. It helps that my dad's a banker and mum's an accountant. During the crisis I was in secondary school and of course all my siblings were still in school. My mum was not working, so for Dad to support all of us during the financial crisis was so tough. The interest rate increased so much and he needed to pay higher and higher installments for the house. So what could he do? He sold the car and then he paid some portion of the housing financing principal.

Anisah said that after the financial crisis, the family was determined to avoid *riba* and the Western financial system. They viewed it as morally bankrupt and

skewed in favour of the banks and the West. Anxiety concerning financial institutions is not uncommon in post-crisis societies when the trust and social capital required for people to get involved in more financial activities than are strictly necessary are low. People who have experienced extreme forms of economic hardship during an economic crisis show high levels of mistrust in financial intermediation (Stix 2011). If as is assumed in this thesis, that money is conceived as a 'promise' – a social relation between creditors and debtors that requires the 'community' to step in with guarantees to the banking sector (Pixley 2010: 38), then people's reluctance to use conventional banks and their switch to Islamic banking is illustrative of their trust and confidence that this promise was better guaranteed by using this sector.

Mazran's family was badly hit during the crisis. They also switched to Islamic banking, but he still speaks about the experience with great bitterness:

I was 16 during the financial crisis and it affected my parents badly. Inshallah we didn't lose everything but they had to let go of several assets. Fortunately not the main house because they had a lot of assets, but they had to let go of a lot of land and houses that my parents had worked hard to acquire over the years. We also had to change our car and our lifestyle.

What these exchanges show is that, for the respondents, the crisis left a deep-rooted mark on their worldview and conditioned their banking practices. The dread and anxiety transmitted by their parents not only changed their choice of banking sector it also influenced approach to borrowing and spending and specifically debt. Both concluded that following this formative experience, Islamic banking was the inevitable choice for them. Mazran sighs as he confides that he believes that the 1997-1998 crisis was not the last one:

Growing up during the 1997-1998 financial crisis, I think that I learnt from it. I learnt that most borrowing takes place over a long span, 30

years or so and the unpredictability of the future must be taken into account. I decided to go Islamic because it is safer in the long term. We have this law that says that banks can only penalise certain amounts of the default and how they treat the default is different from the conventional. The crisis also taught me a valuable lesson in faith. I was never taught about *riba* in an everyday perspective and the teaching mainly focused on basic everyday things. *Riba* is taught in an abstract way, disconnected from everyday life and it did not occur to me that, if you're not careful, *riba* happens constantly in your life. Experiencing the worst effect of *riba* in real life makes you wonder what effect it will have in the afterlife.

7.6. Peers and rites of passage

Peers are another trusted source of confidence for respondents. For many respondents, peers were useful for navigating similar life circumstances that were new and relatively more complex than the situations that they were used to. As they move out of their family home and begin their adult life, peer relations take on a stronger role in their life. During moments of greater uncertainty than usual, peers reduced anxiety of choice. Daynah said that:

'life as a student is not so easy, so you discuss finance often with friends to learn from them. We realise that we know different things and that we can help each other by sharing our knowledge and information'.

Lufti, a Pragmatist admitted that he knew nothing about banking or managing his finances before coming to university. Coming from a relatively privileged background, he never had to make any choices. His parents did everything for him, when he was not at boarding school. At university he had unprecedented and unfettered freedom but it was sometimes cumbersome. He had to dedicate

time to making choices that he never had to confront before. His friendship with university friends was useful in this respect. When for instance he had to choose a bank or a type of loan, he observed the choices of the others who more worldly than him.

Daynah and Lufti, friends and classmates at the Islamic University, agreed that the choices were not obvious and they were often uncertain and confused. Daynah, whose mother was a street vendor selling noodles, captures the dilemma faced by most of the Pragmatists:

In practical terms we would always pick the one with the best profits, so if the conventional bank offers more profit or much lower rates, my first reaction would be to pick that. But I also recognise that if I want my life to be blessed, I have to choose Islamic. There is no doubt about whether you are doing the right thing or not then. No questions about whether we are fulfilling the commandments of Allah.

Fatima, another Pragmatist explains:

Many of my friends often ask me for advice. They want to know which Islamic bank they should take financing from and so on. We share information because it is a common conversation at our age. At this moment all of us are making large purchases. At our age we are buying cars and homes.

This is particularly salient because these special purchases occur during landmarks, or moments that are turning points in their lives. Respondents who are uncertain about finance or Islam or both can mobilise by proxy the resources of their social ties. It allows them to escape the routine and less attractive tasks, such as information gathering, required when making a choice in consumption. Besides being anxiety inducing, banking can be 'dry and boring for many people' (Pixley 2010: 39). Respondents expressed boredom at the

idea of analysing the banking options and were happy to bypass this process by speaking to friends they trusted would have their best intentions at heart and who had acquired more knowledge and experience than themselves.

Balkis, another Pragmatist, was introduced to home financing by a friend who is a manager of HalalBank in Kuala Lumpur. He was the one who suggested that she take the loan, telling her that if she used Islamic financing instead of a regular mortgage, it would be cheaper. She explains:

Because of my friend I got a good deal. I did not have to do any research. Hmphhh, it is tiring and boring you know? This very, very good friend is a manager of a bank so he knew all the rates and policies. He suggested a few banks and people and I took a loan with RHB bank. He suggested that I do not take the financing with his bank because it was not competitive compared to the others.

In other less frequent instances, the respondents were the ones to influence their friends. Sarah, a Virtuoso, was one such case. Having discovered Islamic banking, she was dismayed that her friends were ignoring their moral duty as Muslims. Clearly emotional about this issue, she explains how she soon set them on the right path:

I didn't think about opening an Islamic bank account because I wasn't exposed to it. It was not until that I came to university that this matter was brought to me ... we did know that Islamic banking existed, but we weren't properly exposed to the matter. Before my friends were using the conventional bank but when I made them aware they switched. We all just have Islamic now.

The social ties of the Virtuoso communicate idealistic and moral confidence about Islamic banking. The focus is less on the financial outcome, and more about being a good Muslim. The respondents feel that these collective

resources belong to the *Ummah* and can also teach them the proper way of behaving as a good Malay citizen who adheres to Islamic teaching.

Sarah, continues:

Yes you have to take society into your consideration – in Islam [it] is not just about yourself. We can also help each other by sharing our knowledge with each other. As we are starting to have children, I have three, living a Muslim life is important. We need to help each other learning what this means.

Mazran explained how his friend's cousin is a CEO of an Islamic bank.

We had the opportunity to meet with this CEO and he explained that getting out of *riba* and then going back to it is wrong. He was given the opportunity to move to Islamic banking and now he can never move back. It's the same for us.

7.6.1 University

University was a formative experience for many Virtuosi. It was the first instance in which they immersed themselves in a 'total' manner within an Islamic environment. Some of them lived together in dorms. Others lived at home but spent most of the day with their peers: learning, hanging out and eating together. All these activities were either Islamically inclined or included Islamic rituals. Praying was a frequent activity throughout the day and even eating was based on a presupposition of Islamic regulation.

The focus of the university was an Islamic pedagogy according to Malay values. They monitored the students who in turn were expected to self-discipline themselves and others. The following quotes will illustrate how these Virtuosi

students, often uninformed and unequipped to manage their finances, sought the counsel of others in their social network. Many of them join a student society that were led by older and 'better-informed students' who had the authority to lead. Some of these societies take it upon themselves to aid their novice students to live Islamically. They lead discussions on a variety of everyday subjects, mainly finances, but also relationships and 'other personal things' and they also invite the representatives of Islamic banks to hold seminars where they dispense information and brochures during a free lunch.

Discussing how university uses a formative social space in terms of Islamic banking, Daynah responds:

I would say from university, because I learnt Islamic Finance. Normally during sermon the focus is more general: how to serve your God, how to pray and how to fast. Normally you would get that information through formal education ... I mean university. For example one day we were discussing charity in Islam and discussing *waqfs* (Islamic trusts).

University was where many respondents were socialised into Islamic banking. This introduction was quite decisive for lower middle or working class respondents. For many of these respondents, coming from poorer and often rural areas, lectures, casual chats and meetings organised by student associations were spaces through which they could be socialised into the ways of Islamic banking. Take, for instance, the next quote from Aminah:

When I entered university they brought up the issue of Islamic banking when I opened the bank account. This was first mentioned during the class Kulliyah of Islamic Revealed Knowledge and Human Science¹³¹ and later from the student leader of the university society

¹³¹ See: www.iium.edu.my/irkhs

we had just joined. During the society meetings we mainly discuss economics and other issues of everyday that come up. They alert us to things that students will encounter in everyday life. The main point we know is that interest is forbidden. We always discuss the PTPTN. It is the most important issue. Most students are taking this loan and they want to know their rights. We discuss whether PTPTN according to Islamic values and whether it is Islamic to pay it back.

The PTPTN was one of the priority issues for many students. It was their first encounter with institutional, complex debt. As a result of the financialisation of tertiary education, bar house financing, for many students education 'financing' was one of the most consequential choices they would ever have to make. They were concerned about the financial and moral repercussions of this student loan. Many students and student associations discussed the outcome of this loan. Many Pragmatists were outraged at the high interest being charged and others, mainly Virtuosi were upset that interest was even being charged in the first place. For this reason, a number of respondents attended protests against the PTPTN.

Arya, another Virtuoso, says that they are not only encouraged to use Islamic banking, but strongly discouraged to use any conventional products. Sometimes they discuss credit cards with friends and also their financial future: how they will be able to earn money to buy things that they want and the virtuous way to do so. They spend hours reading about new phones and laptops, the problems that users are facing and also their features. They love clothes and gadgets and spend most of their money on these things. During one of their many discussions, they could not figure out whether using both systems was permissible. They reasoned that since the Malaysian government offered both, then maybe it was ok. They asked their *fiqh mu'amalat* lecturer, who set them straight and told them combining the two is unIslamic: 'Madam Amnah told us not to take any credit cards or products from conventional banks. She said that we will end up buried in debt and also pay *riba* on top of that. All the students

need to study the *fiqh* and we study all of them, but we know that as Malays we must follow Shafi’.

Sceptics accessed information through family and friends, debated the Islamic value but rejected it. They were interested in the financial returns. Jalil says:

I agree that most of us are like him. So far I have one account with Junebank. Then I also have another with HalalBank. I don’t care about the Islamic bit. I only opened it because I opened ASAP because the profits are excellent. They give me very high dividends. I discussed with my friend and she also agreed that the dividends would be great and allow us to pay our PTPTN rates.

Marwan, who is agnostic towards Islamic banking, yet a believer of Islam who ‘never lost touch with religious teaching’, is vehemently against the principles of Islamic banking. He starts off by saying: ‘I have nothing against it. I use it, but it is based purely on a cost-benefit analysis. I wouldn’t pay more unless I could see any additional benefits’.

Yet his views would be highly controversial amongst the other ideal types: ‘Some are very strict about it and get offended and they insist that it is different, this is *halal* and it is *shariah* compliant and this is what you as a Muslim want’. Explaining his attempts at trying to discuss Islamic banking with his peers, Marwan sighs and says:

They try and tell you, no it’s different because when you buy a car with the conventional bank you’ll have to pay interest and that is *haram*. We can make it *halal* because we will buy the car and charge you a higher price and sell it you. It’s true that it’s the same price, but it is a selling transaction not an interest-based transaction which is *haram* and sales is *halal*. I say, guys, are you trying to cheat me or are you trying to cheat God? I still have to pay the same thing. I can

buy the car from the same market and it's cheaper – you are charging me more! Why do I have to pay you more? Because this is interest but they don't call it interest. It won't convince me.

7.7 Social dysfunction: confidence, risk and dirt

We have so far discussed how strong social ties are functional in communicating confidence and enabling the growth of Islamic banking practices. By creating order through the bridging of gaps in knowledge and the mitigation of uncertainty, confidence enables the coordination of economic action. However there are caveats: as mentioned earlier, thick ties can be dysfunctional. Strong ties are Janus-faced.

Whilst they are highly functional in proliferating Islamic banking practices, they can also prove dysfunctional within broader societal dynamics. In the last chapter we already introduced the dysfunctional effect of symbolic boundaries of shariah regulation by explaining how it creates symbolic affinities between dirt and nonMuslims (generally nonMalays) who fall outside the boundary of halal. Muslims who follow rituals of the shariah by only partaking in what is permissible are pure. Conversely, for the pragmatist and virtuoso, others who fall outside are impure and belong with what is dirty. Here we continue the discussion by highlighting how thick tiesacerbate this dysfunction caused by boundaries.

Thick ties have been denigrated for promoting 'sameness' through the dissemination of 'provincial views and ideas of close friends' (Granovetter 1983: 202) to the detriment of society. Granovetter warns that strong ties can lead to dysfunction: wider social systems can become fragmented. Although he makes the case for the reduction of obstacles for those seeking to join the labour market, his cautions about the dangers of subgroups separated by acrimonious cleavages such as race and ethnicity, resonate in the Malaysian

case. Therefore the suspicion and distrust in other people whose social life is located outside these boundaries becomes manifest in the restriction of social interaction of Muslim-Malays. These symbolic boundaries become material – encouraging the fragmentation of Malaysian society through the social disassociation of communities from each other. As we shall go on to discover, these symbolic practices encourage Muslim-Malays to restrict interaction with others like themselves.

The testimony of respondents in the previous chapter revealed that strong bonding within the Muslim-Malay community and trust in *shariah* regulation comes at a price. As Turner (2008) noted, there is a price to pay for purity. Some respondents, mostly Virtuosi and a number of Pragmatists express distrust towards other communities who do not believe or commit to a *halal* lifestyle regulated by the *shariah*. Evidence collected for this chapter also supports the view that strong ties reaffirm ‘common sense’ found within the community and shield people from other perspectives. The Sceptics, who are situated on the other side of the spectrum, supported this view. It is not surprising that the social ties of Sceptics who showed the highest degree of reflexivity are characterised by the highest degree of diversity and often reject the state-sanctioned norms regarding Islam and more specifically the *halal* lifestyle.

Examining the positive aspects of trust is conventional and common. Less obvious, is the recognition that trust isn’t always functional (Dodd 1994: 139; Mitzal 1996). In this section, I suggest that the flipside of *shariah* socialisation is the emergence of risk associated to ‘others’ who are not regulated by its rules. The cohesion fostered by trust and confidence in ‘shariaisation’ within the Muslim-Malay community acerbates suspicion of other ethnic groups. The perception that non-Muslims are unclean and tainted by ‘social pollution: dirt’ (Hacking 2003) is the price of *shariah* regulation that defines Muslim-Malays versus non-Muslim others: Chinese and Indians. This social friction is the price of religious excellence. Since the paradox of piety is that it cannot be flaunted, it

is best measured against those who lack it. Thus, those interested in gauging their piety attempt to contrast and minimise contact with those who lack it (Turner 2008). This friction is reflected in the response of a Virtuoso, who uses an analogy to explain how the dirt of others can taint Muslims and how it is best avoided:

I think that the Chinese do things differently to the Malays. They have more money and are only interested in profit. They will choose to invest their money in the banks with the best profits and not ones according to good values. They do not care if the money comes from *haram* activities. We do not solely pick a bank on profit motive. Our money must be free from the sins of *riba* and we need to purify ourselves by not taking it.

The trust that acts as 'glue' between the individuals in the community and the state is, so far as *shariah* regulation is concerned, synonymous with a pure and clean lifestyle inherent in the Muslim-Malay way-of-being, and gives rise to the corollary reaction of treating others outside the community as dirty. The dynamics of this dysfunction are lodged around the fraught contours of boundaries. It is through boundaries that risks are mitigated and identified (Hacking 2003: 35). Moreover, the corollary to this perception is that the risk of overstepping the boundaries raises the risk of contamination, which smears the very core of Muslim-Malay being. In practical terms this is translated into Pragmatists and Virtuosi avoiding goods and services produced by non-Muslims. Mazran, a Virtuoso, told me:

'You'll be surprised that some people, if they find out that the chicken came from a Chinese store, even if it's *halal*, they will refuse to eat it'.

The construction of symbolic borders or boundaries is a mechanism through which a society defines and maintains its identity and keeps purity within and

symbolic pollution outside (Douglas 1996). These ideas of pollution serve to protect the social system from boundary transgression and are thus inseparable from issues of control and power relations. Although Douglas (1986) associates the attempt to keep transgressor out with minority groups who are anxious about their relatively weak status within a larger society, the boundary pollution nexus applies to Malays who see themselves as rectifying their 'underdog' status that they held throughout the colonial period and to redress the socio-economic inequalities that emerged as a consequence. Respondents pointed out that although Chinese resent Malays for the state's affirmative action, 'Malays became angry at the injustice of having the Chinese becoming more prosperous. It was always our country and it was unfair that we are not enjoying any of the privileges'.

Although what matters most are our choices and values, it is best to avoid situations in which you can become tainted. For example, if you are at the supermarket and someone buys wine and then the cashier has change left over from that purchase, in terms of choice – you have no control over it because you would not know that the source of the money was *haram*. However, if it can be avoided by going to a completely *halal* supermarket where customers will be mainly Muslim is always the best.

7.8 Conclusion

The aim of this chapter was to demonstrate that family and peers constitute an important part of Islamic banking practices. Islamic banking cannot be unravelled from everyday social life with family and peers and signs of confidence communicated by trusted family members and peers play an important role in shaping Islamic banking practices. Contrary to perspectives that view economic action as hostile to social life, the experience of the respondents suggests that their social surroundings constitute and facilitate

Islamic banking practices. Whilst generalised trust underpins the Islamic banking system, confidence (in Islamic banking) is sustained through the personalised trust that characterises social interaction within close family and friends.

Despite the intensification of individuality and fluidity of modern society, the consumption of credit is embedded in the social ties of the consumer. Rather than total displacement of family and peers, there is evidence of a recalibration of the social space to include the influence of abstract systems and expertise as well as kin and peer, on consumer choice. Traditional social ties and modern institutions coexist in a fragile dependency. People's reliance on *shariah* regulation and expertise is bolstered by confidence in the sector that is signalled by family and friends. More specifically, peer and family were useful 'proxies of confidence' (Swedberg 2010) in Islamic banking. Thus by signalling confidence in the sector, family and peer are unwitting 'allies' or 'stand-ins' (Swedberg 2010) of the state and bank. The family in particular is valued by respondents and the state as a site of consumption of credit and *halal* commodities and an important vehicle of confidence transmission. The functionality of strong social ties and confidence manifests itself in the following ways:

1. It reduces existential anxiety by indicating the socially acceptable choice for their particular social form or group;
2. It mediates uncertainty of choice related to financial risk;
3. It provides a shortcut through information gathering and knowledge processing;
4. It can problematise conventional banking by signalling negative confidence and thus creating space for other practices such as Islamic banking.

This confidence was not manifested or processed in a homogenous manner. Each ideal type was on the look-out for confidence that correlated with their own interests. The Virtuoso sought confidence in the Islamicity of the Islamic

banking products. Purity and reassurance of the impermeability of the *halal* boundaries enacted by *shariah* regulation were a priority. The Pragmatists' concern was a 'modern' compromise between ideal and financial values. For this type, finding the balance between the values that are authentic to Malay identity within the parameters set by modernity was an expression of his or her belonging to a moderate group of Muslim-Malays.

Last, I spoke about the Sceptic. Not all types accepted the *halal* boundaries of *shariah* regulation. Despite his use of Islamic banking, the Sceptic seeks no confidence in its Islamic social-use value. Economic interests are his only concern. In his case, the diversity of his social ties exposed him to a mixture of confidence signals. He either accepted as a proxy the negative confidence of the *shariah* value of Islamic banking by his family and peers or he completely rejected the proxy signs of the ones who sent positive signals.

However, not all types accepted the *halal* boundaries of *shariah* regulation. Despite his use of Islamic banking, the Sceptic seeks no confidence in its Islamic social-use value, economic interests being his only concern. The diversity of his social ties exposed him to a mixture of confidence signals. He either accepted as a proxy the negative confidence of the *shariah* value of Islamic banking by his family and peers or he completely rejected the proxy signs of the ones who sent positive signals.

However, the confidence in Islamic banking practices, underpinned by boundaries based on *shariah* regulation, is accompanied by a caveat. Whilst it is true that strong social ties can be functional in contributing to the growth of Islamic banking practices, there is a dysfunctional side that cannot be ignored. The evidence supports Granovetter's (1985) warnings that the social solidarity created by thick social ties can enable an intragroup insularity and thus provoke wider fragmentation of society. The thick social ties have served to turn the symbolic *halal/haram* or permissible/forbidden binary into a social reality. Due to a fear of contagion from social pollution (Douglas 1996) or dirt

(Hacking 2003), the ideal types who value the confines set by the *shariah* retreat from others outside the community due to a fear of symbolic contagion from the non-Malay and non-Muslim 'others' in Malaysian society, particularly the Chinese.

8. Islamic banking in contemporary Malaysia: unique but theorisable

In the introduction I posed the question: *how can we explain the growth in everyday Islamic banking practices amongst Muslim-Malays in Kuala Lumpur?* In addressing this question, this study sought to explore the Malaysian state and banks' success in conveying the economic advantage with the added halal social-use value of Islamic banking products to a critical mass of receptive consumers. In order to do so, the study developed a socio-historical framework that predominantly consisted of the tools of economic sociology. This framework sought to follow sociological traditions that aim to explain the development and growth of Islamic banking in terms that are not principally about religion. As Halliday (1995:75) always insisted:

'For all its claims to prescribe for social and individual as well as political behaviour, the variety of practices in Islamic countries suggests that 'Islam' as such cannot explain how Muslims behave, or how they might/ought to behave. Other factors outside 'Islam' must be invoked. The resort to an all-explanatory 'Islam' is therefore circular....The study of Islamic communities cannot be based on a 'sociology of religion' alone; it must, rather, involve a sociology of how religion interacts with other ethnic, cultural and political forces'.

The spectacular growth of Islamic finance in the Kingdom of Malaysia underscores the country as a paradigmatic case. Islamic banking assets accounted for 25 per cent of the Malaysian banking system's assets in 2013, up from 19.6 per cent in 2009, Islamic financing accounted for 27.5 per cent of total banking financing in 2013, up from 21.6 per cent in 2009. In addition, Islamic banking is expected to account for 40 per cent of total financing by 2020.

In this study, I argue that that the development and growth of Islamic banking is

a result of a concerted effort by the state and banks to create a mass Islamic financial market. As I explained in the introduction, following the crisis of trust in the political economy, the government turned to Islamic banking as a political and economic fix. I argue that Islam's vast repertoire of symbols, language and ideas are a powerful basis of an alternative 'cultural tool-kit' that could provide a 'world-view' which simultaneously problematised conventional banking and also offered a solution. Through Islamic banking, the state and banks offered a new 'justification' (Weber 2005) based on an ideology, 'a system of cultural meaning' that felt authentic to ordinary people's moral universe (Swidler 1986:279). In times of crisis, 'ideologies – explicit, articulated, highly organised meaning systems' (Swidler 1986:278) forge new practices. This niche financial sector was the ideal solution to assuage the Malaysian state's political and economic pressures at a unique historical conjuncture. From an economic perspective, Islamic banking provided a competitive advantage by accommodating global finance. It also offered an unprecedented influx of credit – a relief to the middle classes suffering from wage suppression and a welcome consumption-driven stimulus to the stalling economy. Politically, it renewed the political elite's commitment to its Muslim-Malay constituency by acknowledging Islam as an authentic source of Malaysia's vision.

Therefore, Islamic banking is the result of a top-down strategy driven by the economic and political interests of Malaysia's ruling group (the state and the political elite on the one hand, and finance capital and specifically the banking elite on the other). Nevertheless, as the challenges Islamic banking is facing in other Muslim countries, has shown, Islamic banking practices are not given and cannot be taken-for-granted. In order to direct their choice away from the conventional, and towards the Islamic banking sector, the state and banks have to convince people of the added value of Islamic banking.

Discovering people's motivation in choosing Islamic banking over the conventional required an interpretative approach that prioritised the point-of-view of the Malay consumer. In Chapter 3, the methodological orientations of

the project were discussed. The aim of the study was to interpret and convey the meanings behind the everyday practices of ordinary people who possess neither the power, nor the expertise to constitute Islamic banking 'from above'.

As I discovered during fieldwork in Malaysia, trust and confidence are the common threads that intermesh Islamic banking practices within these broader interdependent processes. In Chapter 2, I explain why the point of departure is the Polanyian (2001) notion of embeddedness. It serves as a useful analytical tool that captures the anchoring of the Islamic banking system in normative frameworks. Thus, I suggest that the growth of Islamic banking practices must be understood in reference to its embeddedness in its broader social surroundings. Islamic banking practices are both anchored within and constitutive of broader historically determined, closely intertwined, social, economic, cultural and political circumstances.

This project is based upon a theoretical approach that views the aforementioned circumstances as being endogenous to his economic practices. Thus, this study follows in the work of sociological perspectives that seek to interpret economic action in relation to its social context as opposed to the asocial and ahistorical individualist and utilitarian economic man of neo-classical economic theory. The shared values of a culture as understood, both 'from below' through people's association with each other, and 'from above', as institutionalised traditions, can explain how one choice was selected over another. Although the term embeddedness became popular sociological currency several decades after Weber's death, his perspectives on the economy also correspond to embeddedness. For Weber (2005), the economic function of the capitalist system is supported by the 'spirit of capitalism' – the ideology that justifies the involvement with capitalism. In other words, for Islamic banking system to function, and Muslim-Malays to trust the value of the products, they must feel an "elective affinity" to the values of the banking system.

8.1 Islam as a repertoire of economic strategies

This argument was developed through three sets of research questions that each aimed to address specific aspects of Islamic banking practices. The first set of questions were concerned with understanding the ethos and values of Islamic banking by analysing the: *crystallisation of Islamic banking as an objective category of finance*.

In Chapter 5, I outlined the contours and ideological undercurrents, as expressed through the definitional debates and controversies, of the Islamic banking 'tradition' (Hobsbawm 1983). I argue that Islam's vast repertoire of symbols, language and ideas are a powerful basis of an alternative 'cultural tool-kit'. I illustrate how the dexterity of this cultural tool-kit is partly the result of its adaptation to a variety of institutional, cultural and geo-political contexts throughout history. Besides investigating the original meanings of its main precepts, the legitimacy of the sector's claims were investigated through an examination of its theoretical standards against its practices, as explained by its practitioners. The main tension arises from the sector's use of debt-based products instead of equity. Consumers are still subject to a credit risk assessment and the risk of the transaction is not shared equally, instead it is borne by the consumer. The second half of the chapter explains how the sector operates through a set of *shariah*-inspired rules, which filter out undesirable elements and promote desirable practices. Its standardisation system is similar to other *halal* commodities, the symbols and language of which it also adopts. The standards which produce the symbolic added Islamic-value that results from the *shariah* scholar's regulation of the products according to the boundaries of *halal*, are communicated via Arabic calligraphy, the use of Arabic terminology and middle-eastern motifs.

8.2 Trust in Islamic banking

After established the concrete parameters and points of reference as set by the 'supply', the focus shifted to 'demand'. The rest of the study sought to investigate the meaning of Islamic banking from the perspective of consumers, ordinary Muslim-Malays resident in Kuala Lumpur. The second set of questions focused on: *generalised trust, shariah regulation and expertise and the regulation of everyday Islamic banking practices.*

In Chapter 6, I developed the analysis on the development and growth of Islamic banking practices by examining how it is shaped by the dynamics of trust in *shariah* regulation and expertise as Islamic banking is unique in its reliance on formal regulation informed by religious norms and rules. My findings reveal that for Islamic banking consumers' trust in *shariah* regulation and its experts is a primary embedding mechanism of everyday Islamic banking practices. Trust has a significant purpose: it is the 'glue' underpinning Malays' everyday Islamic banking practices. I argue that, quite simply, for those who perceive social use-value in Islamic banking, trust in the *shariah* regulation is the first condition to their choice of Islamic banking. Consumer trust in *shariah* regulation, depends on two main factors: trust in the workings and underlying values of the *shariah* regulatory regime, and trust in the 'competence and cognitive intensions' (Nooteboom 2007: 35) of the *shariah* scholars. The role of these experts is to engage in the symbolic production of the added social use value of Islamic banking value as defined by *halal* boundaries. By simultaneously regulating supply and demand, these experts are 'flesh-and-blood' intermediaries (Giddens 1990) between the sector and the consumers and function as conduits of trust. Trust reduces the complexity faced by consumers in a complex world marked by a number of choices, and it functions as a coping mechanism to the risk that the expectations of Islamic banking products are not met. For most respondents, the state's underwriting of the Islamic banking sector was viewed as part of the state's responsibility to care for and safeguard the cultural interests of the Malay community.

8.3 Confidence in Islamic banking

The last set of questions focused on another fiduciary aspect of Islamic banking: *the role of family and peer relations in creating confidence in Islamic banking practices amongst consumers.*

In Chapter 7, the aim of this chapter was to demonstrate that family and peers constitute an important part of Islamic banking practices. Contrary to perspectives that view modern money as inherently hostile to social life, the experience of the respondents suggests that their social surroundings constitute and facilitate Islamic banking practices. Whilst generalised trust underpins the Islamic banking system, confidence (in Islamic banking) is sustained through the personalised trust that characterises social interaction within close family and friends. Although, as I explained above, Islamic banking practices are underpinned by trust in shariah regulation and its experts, people's practices cannot be unravelled from everyday social life with family and peers. In effect, by promoting confidence in Islamic banking, family and friends are inadvertent allies of the state and banks.

Signs of confidence communicated by trusted family members and peers play an important role in shaping Islamic banking practices. Family and peers function as useful 'proxies of confidence' (Swedberg 2010) in Islamic banking. Thus by signalling confidence in the sector, family and peer are unwitting 'allies' or 'stand-ins' (Swedberg 2010) of the state and bank. The family in particular is valued by respondents and the state as a site of consumption of credit and *halal* commodities and an important vehicle of confidence transmission as it: reduces existential anxiety by indicating the socially acceptable choice for their particular social form or group; mediates uncertainty of choice related to financial risk; provides a shortcut through information gathering and knowledge processing; problematise conventional banking by signalling negative confidence and thus creating space for other practices such as Islamic banking.

8.4 Ideal Types

As I illustrated in Chapter 6 and 7, through the three ideal types that emerged from the data, trust is underpinned by a range of interests, the various combinations and permutations of which are detailed below. These types serve as a caveat. First, trust is neither homogenous nor even. The trust that underpins everyday Islamic banking practices is characterised by heterogeneity. Second, although generalisations are being made about Islamic practices, these types remind us that even through such a small sample, it would be incorrect to essentialise one type of Islamic practice as universally representative of all Muslims.

The *Virtuoso* is characterised by reflexive trust. His trust is based on a high degree of monitoring back and forth from Islamic ideals to Islamic banking practice. Therefore, the interests of this type are focused on living out the ideal values of Islam. His reflexivity allows him to observe the inconsistencies of the sector and as a result an ambiguity towards the state and Islamic banks is sometimes observed. Nevertheless, due to his ultimate reliance on *shariah* expertise, mainly driven by his acknowledgement of the asymmetry of knowledge and authority, between himself and experts, he chooses Islamic banking over the conventional. His choice is also bolstered by signs of confidence from his close social ties. Their use and rating of Islamic banking practices communicate reassurance of the impermeability of the halal boundaries as defined by shari'ah regulation, and therefore the purity of Islamic credit.

The *Pragmatist* is characterised by routine trust. It is based on a conscious predisposition towards habit, not mindless routinisation. Low levels of reflexivity, about the social use-value of Islamic banking, were observed in this type. Very little effort was spent evaluating whether it was Islamic or not. Crucially, routine is chosen as a means to efficiently locate the most socially acceptable choice of banking products. Since he is already routinised and confident in the ways of

halal, his efforts can be focused on locating the best deal within the Islamic banking sector. For, the Pragmatist seeks a balance between ideal and material interests as the main concern is to practice a 'modern' compromise between ideal and financial values. Indeed, Islamic banking reflects this type's belonging to a self-described 'moderate' and 'modern' group of Muslim-Malays. In light of their need to balance values perceived as authentic and integral to Malay identity within the exigencies of modern life, Islamic banking fulfils all the requirements.

The Sceptic is characterised by reflexive distrust. Although distrust is often considered dysfunctional, in this case it opens up a space for critical thinking about the sector specifically and the state's involvement in the production of *halal* boundaries and *shariah* regulation. This type does not reject the social-use value of *halal* boundaries because he does not identify as Muslim. The added-*shariah* value of Islamic banking is (a priori) rejected due to the underlying loyalty to the state that accepting this added-value implies. The motivation in choosing between conventional and Islamic banking is economic. Despite his choice of banking products, the sceptic seeks no confidence in its Islamic social-use value. Indeed, he is the only type to actively consider conventional and Islamic as potentially equally valid choices. Unlike the other two types, his immediate social types, either signal a negative confidence of the shari'ah value of Islamic banking. Or he rejects the signs of confidence from family and peers who value its added-Islamic value.

8.5 The dysfunction of trust and confidence in shariah regulation

Although the focus of the study is on the growth of Islamic banking and therefore the functional aspects of trust and confidence, in so far as they 'function' by enabling the proliferation of Islamic banking practices, there is a flipside to Islamic banking (in Malaysia) that cannot be ignored. *Shariah* regulation has corollary effects: it is both functional and dysfunctional. Whilst it

generally engenders the trust of Muslim-Malays in Islamic banking, it contributes to creating an atmosphere of distrust between ethnic groups and creates fragmentation with the broader Malaysian society

My analysis revealed that *shariah* regulation, which enforces boundaries of *halal/haram* and thus the dichotomy of pure/impure increases solidarity and order within these boundaries, but distrust towards others outside these boundaries. In Chapter 7, I explain how thick social ties which signal confidence in Islamic banking, also serve to compound the symbolic boundaries set by the *shariah* into a social reality. As Granovetter (1983) warned about thick social ties, they can foster an intragroup insularity, which in this case ‘aids’ Islamic banking, but it also accentuates the wider fragmentation of society are evidenced. Due to a fear of contagion from social pollution (Douglas 1996) or dirt (Hacking 2003), the ideal types who value the confines set by the *shariah* retreat from others outside the community due to a fear of symbolic contagion from the non-Malay and non-Muslim ‘others’ in Malaysian society, particularly the Chinese.

8.6 The preconditions of contemporary Islamic banking in Malaysia

Although the focus is on the growth of Islamic banking practices in contemporary Malaysia, Chapter 4 provides a historical analysis of the various junctures that contextualise the respondents’ trust and confidence in Islamic banking and thereby their choice of banking products. The focus of the chapter is on the political, cultural and economic dynamics: challenges and responses that led to the creation of the Islamic banking sector on the one hand, and for Islamic banking practices to gain salience amongst the Muslim-Malay community on the other.

The preconditions to the development and growth of Islamic banking in Malaysia, were illustrated through five vignettes. The first concerned the

colonial legacies of the ethnic division of labour which initiated the reification of Malay identity as fixed and eternally Muslim and instigated anxieties between the ethnic groups. The second examined the political economy of the postcolonial state. The state would initiate an affirmative policy that alleviates the Malay community out of poverty, based on an ethnic definition that would redeploy the aforementioned colonial 'knowledge'. This policy would be the basis of the social contract forged between UMNO and the Malay community. The state would protect their economic and political interests under a cultural banner and they would reciprocate with their loyalty and trust. The third vignette focused on the Islamisation of the state. It illustrated how the insitutionalisation of Islamic knowledge and expertise, as exemplified by the state's use of the *shariah* and ulema for its own ends is based on a legacy of bureaucratisation of Islam, spurred by the challenges raised from the Islamic opposition and movements. In the fourth vignette I suggested that political and social events, in particularly the *dakwah* Islamic revivalist movement(s) 'from below', also contributed to the salience of Islam as an expression of solidarity, identity and community amongst the Malays. Last, I explain the events leading up to the 1998-1999 financial crisis. In particular, how the state opened up the economy, restricted to the business sphere to the capital markets, and how it would invoke Islamic discourse to entice Malaysians to save and work like Protestants but consume like Catholics.

8.7 Concluding Remarks: Islamic banking practices as cement today and as solvents of a socio-political development model tomorrow?

In Chapter 2, I sought to make explicit the theoretical framework, or rather the research programme, within which I developed my observations for four months in 2012 of the experiences of ordinary Malays in contemporary Kuala Lumpur, in their dealings with Islamic banks. I went to Kuala Lumpur with the cultural and theoretical baggage of a graduate student whose Bachelor's and Master's degrees were a not always coherent and consistent mixture of sociological,

political economic and anthropological notions from various sources (sociology of development, sociology of religion, anthropology of Islam, political sociology and international relations, post-colonial studies, political economy and economic sociology). That experience confirmed what anthropologists of Islam were finally beginning to admit, namely that one could not “assume a single object called ‘Islam’.” (Bowen 2012: 2).

I had already come to terms with the fact that Islamic banking practices are not an unmediated and inevitable consequence of a society wherein Muslim religious practices predominate. In fact in my short Master’s dissertation, I had argued that a ‘Muslim society’ was neither a necessary condition for the development and growth of Islamic banking practices (Islamic banking could well succeed in any international financial hub) nor a sufficient one (Islamic banking is not flourishing in all Muslim societies).

Until then, however, my research experience had been limited to Arab countries where power was firmly – or so it seemed then, Mubarak and Gaddafi were still in control of Egypt and Libya respectively – in the hands of political leaders with little or no real sympathy for Islamic banking. My own research showed that although they were wary of banning it outright, they were warier of it serving as a possible vehicle of fundamentalist subversion from their authoritarian state. In the Egyptian case, the ethical dimension of Islamic banking could conceivably have embarrassed the moral and religious laxity of the *rasmalia al mahassib*, the crony entrepreneurs that drove and apparently continue to drive the lumpen-development generated by the country’s “connivance capitalism” (Amin 2012). In the Libyan case, Gaddafi’s regime – whose development path was less clear than Egypt’s but the excesses of whose ruling families were openly considered as shameful by Libyan Muslims – was never comfortable under the stern gaze of shariah scholars. The rebukes of Imam Sadeq al-Gheryani and Sheik Ali Mohammed al-Selabi in the run-up to the uprising of 2011 (Mekay 2011) reflected a long standing though generally muted resistance.

My interest in the Malaysian experience of Islamic banking stemmed from the need to look at a country led politically by non-Arab Muslims who not only did not seem to fear the potentially 'subversive' potential of Islamic banking as an agent of mobilisation of popular discontent (of mobilisation from below), but, on the contrary, appeared to have seen in it a vehicle of mobilisation and integration 'from above' for an economic development project that was simultaneously capitalist and Islamic.

The conclusion of the range of my research in the varying fortunes of Islamic banking practices in the Muslim world was that their success or failure cannot be causally reduced in an essentialist manner to a simple relation between Islamic banking and Islam. Nor can be attributed to the specific form of capitalist development underway in an Islamic country. After all, it may be argued that there are significant similarities between the close personal links between political leaders and captains of finance in Malaysia and the in-your-face crony capitalism of Mubarak's Egypt. There is, then, no alternative to a concrete analysis of each historically determined case, such as this study. Does this mean that each case is so specific and unique that, logically, no generalisations are at all possible and that, therefore, the development and growth of Islamic banking practices in a predominantly Muslim country are simply beyond the epistemological grasp of any sociological theory? The answer is no. Although there is no alternative to an analysis of the concrete social, economic, political and cultural circumstances, an overarching theoretical dimension is necessary in order to define the limits beyond which socially effective and institutionally entrenched culture (in this case Islam) and economic practices (in this case everyday Islamic banking practices) may be said to be causally unrelated to each other.

The Malaysian case is enlightening from this point of view. The Muslim Malay ruling alliance has and continues to attempt to mobilise and integrate the Muslim-Malay population for and into its economic development project by appealing to the latter's Muslim beliefs – especially the socially effective notion

of preferential trust in one's fellow believers. But the downside of this strategy is that it strengthens the social role of Islam and, thereby, strengthens its potential as critic of the ethical standards of the political and economic elites. At that point, what is an element supporting the powers that be, may well become an element of popular scepticism, distrust, censure or even outright discontent against these elites. As I explained in Chapter 1 and 4, there are recent precedents, in Malaysia, of Islam serving as a powerful vehicle of political resistance. It is my hypothetical view that the tipping point – when the gradual erosion of trust in Islamic banking and the state that promotes it goes beyond the critical thinking that characterises the religiously lukewarm *sceptic ideal type* identified in Chapters Six and Seven to reach a potentially catastrophic political situation – is more likely to occur when the economic growth stalls.

Another financial crisis of the same intensity as that of the 1997-1998 Asian crisis described in Chapter 1 will, is more likely to occur when the developmental trajectory stalls. In such circumstances, even those social groups that approximate the other two ideal types of Islamic banking consumers, the religiously staunch *virtuoso* and *pragmatist* types, will be motivated, by their ideal and ideal and material interests respectively, to distrust the state's much vaunted religious credentials.

Once again, the trust underpinning the political economy will not only be attenuated by Islam but, on the contrary, will be exacerbated by it. The 'fix' provided by the Islamic banking sector will unravel. Such a circumstance would tear asunder the delicate "convergence of ideology and reality" that Burawoy (1989: 24) observed in his study of a situation that is culturally and politically far removed from Malaysia in the beginning of the second decade of the 21st century: Hungary in the 1980s. In my ethnographic work in Kuala Lumpur I also observed that: "Paradoxically, not only despite but also because of their disbelief, rulers and ruled partake in rituals that underline all that the world could be yet isn't." (Burawoy 1989: 24). Even amongst those that strongly believed and trusted (reflexively or routinely) Islamic banking, I could not but detect a hint

of conscious effort to go along 'with the rituals' as option of least resistance. It is this that comforts me in my view that an economic crisis could precipitate a crisis of trust, not in Islam (that is only likely amongst those I identified at the ideal typical sceptics) but in a political and economic leadership that at that point will be seen to have callously exploited religious belief. This is what I consider to be this study's contribution to the sociological approach to economic practices in 'Islamic societies' and particularly Malaysia, today.

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