GROWTH RELATED CHALLENGES FACING ISLAMIC BANKING WINDOWS IN KENYAN CONVENTIONAL BANKS

BY

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DECLARATION

I declare that this research work is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this research contains no material written or published by other people except where due reference is made and author duly acknowledged.

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SUPERVISORS' RECOMMENDATION

I do hereby confirm that I have examined the master's research report of **ABDALLAH .M.DALLU** and I am satisfied myself that all revisions I recommended have been adequately addressed.

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ABSTRACT

Kenya's Islamic finance business is rapidly developing, getting well incorporated and mainstreamed into the worldwide financial architecture, nonetheless, not well comprehended by the majority of Kenyans. Islamic banking provides for financing instruments where profits and losses are equally shared by the bank and the customers in equitable proportion. They provide better opportunities for the business to share the actual proceeds received by the investments to the depositors. Islamic windows have become the stepping stones by providing opportunities to build capacity at the minimal overheads while the conventional banks are re-structuring for conversion. However, the Islamic windows are faced with growth challenges that need to be addressed. This study looked at regulatory and Institutional frameworks; availability of Islamic market and tradable financial instruments; competition from fully-fledged Islamic banks; and socio-cultural factors and how they affect the growth of the Islamic windows. Descriptive and Cross-section Survey Design was used for the study where questionnaire and interviews was the instrument for data collection. A target population of 32respondentswasused comprising of (18) bank management officials and (14) Sharia'h board members drawn from all the conventional banks with Islamic windows in Nairobi. Descriptive statistics including arithmetic mean, standard deviation, percentages and frequencies was used to analyze responses to the questionnaires. Inferential statistics including multi-collinearity, regression, correlation analysis, ANOVA model, and T-test will be used as significance test and specification tests. The results were tabulated or presented in charts. The study showed that only regulatory framework was significant in explaining the growth of Islamic windows. However the availability of Islamic tradable instruments affected growth positively while competition from fully fledged bank and socio-cultural factors affected growth negatively even though not significantly. The study recommended for clear regulatory framework that will help conventional banks realize there objectives of making profit as they embrace Islamic windows. There was a need to have variation of products in the market so that customers' expectations are met. Finally further studies need be conducted to identify the other determinants of growth of Islamic windows.

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DEDICATION

This work is dedicated to my family; my wife for always being there even when things were tough, my children for continued challenge and for their never ending support. Their support, encouragement and dedication have been priceless.

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ABBREVIATIONS AND ACRONYMS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
CBK	Central Bank of Kenya
FCB	First Community Bank
GAB	Gulf African Bank
GCC	Gulf Cooperation Council
ICD	Islamic Corporation for the Development
IFSB	Islamic Financial Service Board
KCB	Kenya Commercial Bank
SSB	Sharia'h Supervisory Board

DEFINITION OF OPERATIONAL TERMS

Islamic banking window:	A business model in which conventional banks offer Islamic banking products and services from their existing networks(Sanusi, 2011).
Islamic Finance:	All types of financial activities that operate in accordance with the rules and principles of the Islamic law (Sharia'h) and mainly the prohibition of transactions dealing in usury or interest, called Riba in Arabic (Farrukh, 2016).
Mudarabah:	is a mode of financing through which the bank, the owner of the capital provides capital finance for a specific venture indicted by the customer; the entrepreneur(Obaidullah, 2005).
Riba:	(interest or usury) is any return or compensation charged on a loan contract as well as charged in rescheduling debts (Al-Jarhi & Iqbal, 2001).
Gharar:	Is thesale of probable items whose existence or characteristics are not certain due to risky nature which makes the trade similar to gambling (El-Gamal, 2000).

CHAPTER ONE

INTRODUCTION

1.1Background of the study

The history of Islamic banking and finance dates back 571 AD. During this time the Prophet Muhamad bin Abdhullahi (Pbuh) used to be an agent for his wife Khadijah bint Khuwaylids' business. Muslims established business systems without interest for mobilizing resources to finance real economy trade and consumer needs. The system worked effectively during the epitome of Islamic Civilizations and many centuries thereafter. However, the Western Business Environment was changed by Protestantism which provided an impetus to intellectual growth. This gradually changed the business activities of the western financial institutions with special emphasis to banks. The banks of the Western business environments were guaranteed on capital to the shareholders. They went into risky investments and lending business to speedily grow their short-term profits. The cycle went on very well for the banks and their suppliers of funds till when the South Sea financial bubble burst in early 18^{th} Century. This was orchestrated by widespread greediness and unsupervised banking and financing practices in conventional banking systems (Sheikh, 2009).

During this period, the little known Islamic banking system survived the crisis and stood solid. Following this, most conventional banking experts have shown interests in venturing into Islamic banking system. Since then, there has been a widespread growth of Islamic Financial Structures across the world. According to a report from the Islamic Corporation for the Development of the Private Sector (ICD, 2016), the global Islamic finance assets grew up by 7% in the year hitting $2 trillion as at the end of 2016 across 124 countries that offer Islamic finance services. Islamic banking remains by far the largest sector of the Islamic Financial Service Industry. Its market share has grown in more than half of the 31 monitored financial markets, and the number of jurisdictions where Islamic banking is analytically important(Jaseem, 2016).

According to Waheed(2011), although Islamic banking is one of the fastest developing fragments in the financial world it is still in its infancy stage, at about 1 % of the global banking system (Grewal, Laldin, Nienhaus, Saqib, & Abidin, 2014). When compared to the conventional financial system it certainly faces many challenges. The most important challenge it is facing now is the fact that it operates in economies driven by interest, which is not compliant with Islamic banking principles (Kinyanjui, 2013). Islamic bank which offers Interest free products and services to its clients plays the role of investor, partner and trader. The interest free means of operation used by Islamic financial institutions fulfill the norms “Allahallows trading and forbids riba”. In view of this, the Islamic banks have systematized their procedures on the basis of profit /loss distribution which is acceptable in Islam.

Olson and Zoubi(2008)in a recent study investigated the differential features of Islamic and Conventional banks in the Gulf Cooperation Council (GCC) region on financial characteristic basis alone reported the Islamic banks were profitable compared to their conventional banking counterparts. This was replicated world-wide and more commercial banks are either converting into Islamic banks or opening windows to offer Islamic products in a bid to capture the Islamic market share.

In Europe Islamic banking activities take place in Turkey, the UK, France which are considered a low penetration of retail Islamic banking compared to large number of potential Muslim retail customers. In 2012 European Islamic funds comprised 8.3% of the total Islamic funds globally with countries like Luxembourg and Ireland creating niche markets to expand their range of services as international financial hubs. Several financial centers in Europe are competing as regional financial hubs and with such positive developments the intensity and activities of Islamic finance in the region is expected to increase. Regulatory and accounting frameworks that cater for Islamic financial products need to be developed to stimulate growth of the industry considering that the key challenge in the region is lack of Sharia’h compliant instruments (Grewal et al, 2014).

In the United States Riba free financial services are offered by more than 15 institutions with Sukũk andTãkaful being part of the capital market. The US is considered the 4th largest market of Islamic funds with assets worth $ 5.4 billion by 2016which led to introduction of US based Islamic indices namely the Standard & Poor’s Sharia’h indices and the Dow Jones Islamic market indices. The key challenge in North America is the absence of legal and regulatory framework meant to support the industry’s growth and prospects and lack of public awareness on Islamic finance(Grewal et al, 2014).

The growth of national economies in need of alternative investments, coupled with the large Muslim population of about 250 million in sub Saharan Africa has made the region a new and potential market with new Islamic finance opportunities. The pioneer of Islamic finance in Africa is Sudan followed by Nigeria, Kenya and South Africa. Kenya and Nigeria have made a considerable step in regulatory reforms for Islamic banking, while South Africa following sooth. There are over 38 Islamic banks operating in Africa with Sudan accounting for 81.5% of Islamic services in Africa while some African countries like Nigeria have introduce new measures to make way for Islamic financial markets (Grewal et al, 2014).

The Islamic Financial Service Industry stability report from Islamic Financial Service Board indicates that Islamic finance has recently made inroads in the Sub-Saharan Africa region, with Islamic banking being accessible across many countries. Governments have encompassed Islamic finance to grow their financial markets and increase the choices accessible to the customers, both from the private sector as well as government entities that crave for effective as well as cost-efficient financial solutions. Finance experts have appreciated Islamic finance as an alternate financing tool that can attract foreign direct investments, deepening the available options to the stakeholders and widening the financial markets(Jaseem, 2016).

Ibemere (2017)in a publication by Kuwait Finance House Research on the future of Islamic finance in Africa ascertains auspicious opportunities in Kenya, Nigeria, Senegal and South Africa. Africa's fiscal driving force is a "marketplace with significant potential for Islamic banking dealings" and its banks have the capitalization, steadiness and governing discipline to be successful. The report however recognizes inadequate expertise as the major blockade to the progress of Islamic banking in Africa. It concludes by asserting that there is an urgent need for experienced workforces which comprehend the products and services offered by the Islamic financial institution.

In Kenya the history of Islamic banking started when Gulf African Bank (GAB) was licensed by the Central Bank of Kenya (CBK) in 2007. This was followed shortly by First Community Bank, both of whom started operations in 2008. This move opened the doors for Sharia'h compliant banking not only in Kenya but the entire East and Central African region and the two have since been increasing their foothold around the country(CBK, 2010). It's now approximately ten (10) years after and several conventional banks have established Islamic windows in order to tap into the unbanked Muslim communities. The CBK is working on a framework that will lead to floatation of Sharia'h compliant bonds and Treasury bills (Sukuk) in the local market a move seen as a push by the CBK to tap cash inflow into Africa from the Gulf regions.

There are three fully fledged Islamic banks in Kenya; Gulf African Bank, First community bank and Dubai Islamic Bank. The substantial development of Islamic Finance in the incipient Kenyan markets has elicited the interests of most conventional financial institutions to implement a dual-banking system and commence Islamic financial business to meet the demands of its customers looking for Sharia'h compliant products and services in the form of Islamic Windows (Ndung'u, 2010). This saw other conventional banks taping in the Islamic finance market like National "Amanah", Chase "Iman", Barclays "Lariba", Standard Chartered "Sadiq" through the Islamic windows.

Sanusi(2011) defined an Islamic banking window as a business model in which conventional banks offer Islamic banking products and services from their existing networks. It refers to a situation whereby a conventional banking system provides some of the Islamic products or services. Islamic banking Windows usually operates as conventional banking sunshade and offer Sharia'h compliant products and services. A distinctive Islamic-window "**Islamic Windows**" style is a form of operating structure in a conventional bank that offers Sharia'h compliant products and services in its conventional branches usually by a committed pool of staff equipped with relevant and adequate knowledge of Sharia'h facets. This must have an operational framework whose activities are at par with the Sharia'h principles enacted by the Sharia Supervisory Board. Some of the requirements usually include full exclusion of accounts and operations, compliance with the Sharia'h law in management of liquidity of the bank, investing funds deposited by customers in Sharia'h-compliant transactions, and adherence to the Islamic code of ethical conduct for the members' of staff employed in the Islamic-window. Most conventional banks that have registered interests in opening up Islamic windows must confine themselves to the strict guidelines issued by regulatory bodies like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB)(Mohammed, 2016;Waheed, 2011)

The expansion of Islamic finance in Kenya is concomitant to the revision of finance laws by the Central Bank of Kenya in the last ten years. According to Ndung'u (2008) Barclays’ La Riba was the first Sharia’h compliant account in Kenya.The first bank to open up an Islamic window was the National Bank of Kenya (NBK) in 2009. The bank first introduced Al-mumin, in 2009 which was rebranded in April 2013 to National Amanah to offer a wider range of banking products and services that are Sharia’h compliant (National Bank of Kenya, 2013). This was closely followed by Barclays bank of Kenya which introduced the Barclays “La Riba” Account in February 2010, then the collapsed chase bank opened chase “Iman” in July 2010. Standard Chartered bank (K) Ltd opened “Sadiq” account in March 2014 while Kenya Commercial bank opened “Sahl” account in April 2015.

According to Muriri (2009) Islamic banking in Kenya has shown a commendable performance with a market share of the banking sector in terms of gross assets of 0.8%. The two fully fledged Islamic banking in Kenya FCB and GAB had a loan portfolio of Kshs. 4.9 billion, deposits of Kshs. 7.5 billion and over 27,270 deposits accounts. These are indicators of the tremendous potential of the market niche which has been previously untapped.Ndung'u (2010)explained that FCB and GAB have contributed in development agenda of the country by participating in Sharia’h complaint components of infrastructure bonds issued by the CBK on behalf of the Government of Kenya and “structured Sukuk” is expected to cover the T-bills market in the near future. The concept of Islamic banking has received a lot of interest and overwhelming support from both Muslims and non-Muslims but CBK as the regulator has been faced by challenges to address including lack of personnel versed with Islamic bank knowledge, development of policy framework and many others.

Kenya’s Islamic finance business is rapidly developing, getting well incorporated and mainstreamed into the worldwide financial architecture, nonetheless, not well comprehended by the majority of Kenyans. Farrukh (2016) defined Islamic finances all types of financial activities that operate in accordance with the rules and principles of the Islamic law (Sharia’h) and mainly the prohibition of transactions dealing in usury or interest, called Riba in Arabic. This translates to focus on the ‘‘real economy’’ as the generation of income solely from money-lending is not allowed. The emphasis is therefore on trading and investments on a profit/loss sharing basis. It is argued that a financial system built on these principles is likely to lead to promotion, creation and distribution of wealth in a fair and equitable manner.

The regulatory and institutional frameworks are still posing a challenge to the growth of Islamic banking windows. The CBK is the highest legal entity that regulates and controls the operations of the financial institutions in the country. It has had the challenge of developing a policy framework that would open up the market and change the Banking Act and Prudential Guidelines to reflect this new reality as has been done in other developed countries. According to Momoh, Dabiri, and Kareem (2011), a policy framework should provide the basis for competition of Islamic banks with conventional banks. However, the CBK framework has been custom-made in line with the conventional financial system which supports the prevailing conventional banking system and provides less acceptance to Islamic banking. Besides their general corporate governance framework, the institutions have an additional requirement of Sharia’h governance which is fulfilled by an independent body of Islamic scholars. This body, commonly called the Sharia’h Supervisory Board (SSB), is independent and its responsibility is limited to providing guidance to financial institutions to ensure compliance with Sharia’h. The SSB does not affect the daily operations of the banks.

The Islamic finance industry offers quite dynamic growth opportunities through the provision of products and services that contribute to the expansion and the impact of the financial market as a competitive alternative financing model. Islamic banks accept demand deposits and time deposits. Demand deposit are fully repayable on demand and do not get any return, holder of time deposits are given a share in the profit earned by the bank according to a profit sharing rates made known in advance.

1.2 The Problem statement

The Islamic banking sector has been the main driving force of the global Islamic financial services industry with estimated asset of $2.293trillion as December 2016(Dubai Islamic Bank, 2017)which represents 80% of the total global Islamic finance assets. In countries like Bangladesh Islamic finance has shown continuous growth since its establishment in 1983, not only in terms of deposits and assets but also in the market share. It has seven (7) fully fledged Islamic banks and sixteen (16) conventional banks with Islamic windows.

Islamic finance has affected the economy of Bangladesh in firstly, sustainable growth noted by the improvement in human development indicators and secondly the strong market position of Islamic banking in the private banking sector where private commercial and foreign banks hold 68.5% of the total banking assets, two thirds of the domestic private commercial banks (20 of 30) and a third of the foreign commercial banks (3 of 9), all offer Islamic financial services either as fully fledged Islamic banking or as conventional banks with Islamic banking windows. The market share of Islamic banks and branches in Bangladesh is 68.9% of the deposits of the country's total banking system and 71.1% of the total credit (Nienhaus et al, 2014).

According to Muriri (2009) since its inception Islamic banking in Kenya has shown a commendable performance with a market share of 0.8% of the gross assets base in the banking sector. The two fully fledged Islamic banking in Kenya FCB and GAB had a loan portfolio of Kshs. 4.9 billion, deposits of Kshs. 7.5 billion and over 27,270 deposits accounts. These are indicators of the tremendous potential of the market niche which has been previously untapped. It is now more than a decade and the Islamic finance Industry in Kenya has not yet fully exploited it potential, make recognizable impact to promote linkages between provisions of finance in the real economy (Abdulkadir, 2018).

Historically, the first conventional bank to introduce Islamic banking window was Barclays bank of Kenya in 2006. This was followed closely by two fully fledged Islamic banks, GAB (2007) and FCB (2008) and later DIB in 2017. In 2009 National bank of Kenya opened the Al-Muumin Islamic window which was rebranded to "Amanah" in 2013 due to lack of activities. The defunct chase bank opened "Al-Imaan" Islamic window in 2013 while Standard chartered and Kenya commercial bank opened Al-Saddiq and Al-Sahl Islamic windows in 2014 and 2015 respectively (Abdulkadir, 2018). The entrance of DIB into Kenya local market shows the potential that the market has to Islamic finance. However the rate of growth of the Islamic banking windows is notably very slow in Kenya as compared to other countries like Bangladesh, Qatar and Malaysia. The country is yet to see a bigger market share of the Islamic finance industry with only four (4) Islamic windows opened in more than a decade. In the Chase bank collapse, the External auditors Deloitte's & Touché Kenya Ltd were accused of re-classifying Chase Bank's Islamic banking assets– technically referred to as *Musharakah*- into insider loans triggered a series of events that led to the collapse of the lender(Olingo, 2016).

A number of studies have been undertaken related to Islamic financing. (Musani, 2012)conducted a survey on the challenges of Sharia'h complaint banking in Kenya with an objective to identify the Sharia'h compliant banking products offered by banks in Kenya and challenges faced. The study revealed that the banks offered current and saving accounts deposit but not Sharia'h compliant investments. They also found out that the challenges included developing markets, regulation and supervision of islamic finance, competiton, legislation and tax regulations as the most challenging.Ahmed (2013) investigated the challenges facing the implementation of Islamic banking in Kenya where he found that regularory framework, attitudes, bank competition and effeciency, selection criteria and islamic culture all influenced to a great extent the implementation of Islamic banking in Kenya.

Salim (2017)discussed about expanding the Islamic financial services frontier with lessons from islamic finance sector in Kenya where he highlited the key areas that have contributed to the growth of islamic financial services sector which included governance, niche market strategy and a promising regulatory environment. Adan (2017)assesedthe factors influencing growth of client base of fully fledged islamic banks in Kenya. The study established that is moderate growth of client base in islamic banking in Kenya. Financing options, Sharia'h compliance, customer satisfaction, and product quality are the keys reasons for the moderate growth of client base of fully fledged banks.

Kadubo (2010) investigated the factors influencing the development of Islamic banking in Kenya where he did a case study of islamic complaint banks namely FCB, GAB, Dubai bank, KCB, and Barclays bank. The study revealed that islamic banking compliant was driven by religious compliance and meeting customers needs, continous imprevement and review of Sahria compliant products and diversification of the market niche is key to development and marketing of Islamic banking products. The study also noted that the islamic banking through conventional banks islamic windows growth was slow and recommended further research to establish the factors to improve the pace of growth of th Islamic banking products in Kenyan market.

The previous studies have concentrated mainly in Islamic banking generally but none has been done specially to target the Islamic window in conventional banks in Kenya. This study therefore seeks to fill this research gap by conducting an investigation into growth related challenges facing the implementation of Islamic windows in conventional banks in Kenya.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of the study was to investigate the growth related challenges of Islamic windows operating in Kenyan banking systems.

1.3.2 Specific objectives

i. To establish the influence of regulatory framework on the growth of Islamic windows in Kenyan conventional banks.

ii. To establish the effects of Islamic tradable financial instruments on the growth of Islamic windows in Kenyan conventional banks.

iii. Determine the effect of fully-fledged Islamic bank competition on the growth of Islamic windows in Kenyan conventional banks.

iv. To examine how Socio-Cultural factors influence the growth of Islamic windows in Kenyan conventional banks

1.4 Research Questions

To provide a basis for concluding on this problem statement, the following research questions were answered:

1) What is the extent to which regulatory framework influences the growth of Islamic windows in Kenyan conventional banks?
2) What is the effect of the availability of Islamic tradable financial instruments on the growth of Islamic windows in Kenyan conventional banks?
3) What is the effect of fully-fledged Islamic bank competition on the growth of Islamic windows in Kenyan conventional banks?
4) To what extent do socio-cultural factors affect the growth of Islamic windows in Kenyan conventional banks?

1.5 Justification of the study

Because of its capability to offer ground-breaking financial solutions to an under-served people in the economy, Islamic banking has been seen as a society banking niche with significant growth potentials. In the Muslim world, and mostly in the West, considerable segments of the financial institutions and retail markets are aggressively considering this option for their financing and investment needs.

Islamic finance products have come of age as strength to be reckoned with in the international financial market. These developments and geographical expansion have led to challenges which can no longer be overlooked. They require the attention of academics and scholars, professionals and practitioners in the Islamic banking and finance industry, government technocrats, standards boards, Sharia'h experts and allied organizations, and other jurist consultants. These challenges cause a noteworthy risk to the continued growth and development of the Islamic banking and finance industry, should they be left unaddressed.

1.6 Significance of the study

This study was of significance and interest to the following stakeholders of the banking industry:

1.6.1 Regulators and Policy makers

The CBK is the main regulator of banks in Kenya. The Parliament of Kenyais the policymaker that helps to come up with laws that help to regulate the banking industry to ensure that the banks do not oppress the lenders e.g the Capping Act. The study will help both the policymakers and regulators to ensure good policy are made and enforced in relation to Islamic banking windows for development of the industry.

1.6.2 Banks and other Financial institutions

The study will be very useful to conventional banks that have embrace are in the verge the Islamic window since they require an understanding of challenges that affect their growth. The study will provide them crucial information to help them to make crucial decisions in relation to Islamic banking to ensure sustainable growth of the Islamic windows and the same time profitability of the banks. They also need that vital information bring clarity of misinformation on the concept of Islamic banking and come up with suitable products for the local mwananchi.

1.6.3 Investors

Investors are risk takers. They need to have the very important information in relation to Islamic windows so that they are certain that their investments are worth the risk.

1.6.4 Clients

Being the end users, clients have to be informed, educated and guided in making decisions that will affect their livelihood in this tricky, dynamic banking industry. Conventional finance includes elements such as interest (Riba) and risk (Gharar) which run contrary to the Muslim faith. The continued development of Islamic finance has arisen to allow Muslims to invest savings and raise finance in a way that does not compromise their religious beliefs.

1.6.5 Sharia'h Boards

They interpret the concept of Islamic banking as prescribed by the Holy Quran and traditions of the prophet. The research will help them understand how the conventional banks work and how embracing the concept will affect their sustainability. The Sharia'h board which comprises of Muslim scholars will have to come up with jurisdictions that will be beneficial to the conventional banks as far as embracing Islamic window banking is concerned.

1.6.6 Academic Community

Academics are working endless to provide the general public and institutions with vast knowledge concerning Islamic banking and the products offered. There is normally misconception of some thoughts regarding to Islamic banking the most common being that there is no difference between making profit and interest and that the Islamic windows are just a disguise and leakages are bound to happen as there is no clear segregation of funds within the bank. It is clear therefore that there is need for more information on this financial system in order to address the existing is conceptions and the reality about them is understood. The information will be useful for review and the basis for future researches.

1.7 Scope of the study

The study examined challenges that relate to the growth of Islamic windows in conventional banks in Kenya. In Kenya currently there are three fully fledged Islamic banks; Gulf African Bank, First community bank and Dubai Islamic Bank and other conventional banks taping in the Islamic finance market like National "Amanah" from national bank, Chase "Iman" from chase bank, Barclays "Lariba", Standard Chartered"Sadiq" through the Islamic windows. The unit of analysis therefore was all commercial banks with Islamic windows. The research targeted population comprised of account holders, Sharia'hAuditors, staff members and Sharia'h advisory board members.

These groups interact and are involved in the day to day activities in the Islamic window and hence it's thought that they are reliable in providing information that will meet the objectives of the study. The study covered Islamic banking operations between 2008 upto date which is a period of ten years. The research was conducted during the academic year of 2017/2018 using a cross-sectional and descriptive survey design covering the aforementioned banks within Nairobi.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the research's theoretical framework, empirical review of past related literature, critical evaluation of related literature to depict the research gaps, the conceptual framework, and operationalization of variables.

2.2Theoretical Framework

The theoretical framework of a study is a structure that can hold or support a theory of a research work and explaining why the problem under study exists. The study examined Structure Conduct Performance Theory, Prospect Theory, Islamic Economic Theory, and Resource Based View Theory to understand the challenges of growth of Islamic windows in conventional banks.

2.2.1 Structure Conduct Performance Theory

The structure conduct performance theory (SCP) was proposed by Bain (1951). The proponents of SCP approach argue that, an industry performance is dependent on the conduct of its players i.e the firms, that are then dependent on the organizations structure. Markets with high concentration levels influence how the firms behave in a collusive way, which in turn helps to improve performance. Profitability of the firms in the industry are determined by the concentration level of market (Goddard et al, 2004).

The SCP theory seeks to explain the market structure in terms of the concentration level through the conduct links in determining performance of a firm which is profitability. The SCP theory stipulates that external basics conditions or factors determine the structure of the market that there is a one-way flow from the market structure through conduct to performance. The SCP theory has been challenged by the Relative Market Power (RMP) theory which argues that the importance of the industry lies with the market share rather than concentration (Shepherd 1972). RMP suggest that organization with large market shares and well differentiated products are more efficient and have a higher probability of getting high profits and improved performance. Thus we can conclude that banks with relatively large market share benefit from exertion of market power, and the market concentration.

The SCP theory can be used to explain the market power wars of the various banks in the banking industry which offer Sharia'h compliant products. The introduction of Islamic banking to the industry has shaped the way forward for the conventional banks, through the initiation of Islamic windows so as to remain relevant in the industry.

2.2.2 Prospect Theory

The Prospect Theory was popularized by Daniel Kahneman and Amos Tversky in 1979. It collected in one place a series of simple but compelling demonstrations that people violated the use expected utility theory which was model used for making decision making under risk. The prospect theory presented a new model of risk attitudes that captured the experimental and empirical evidence on making decisions under risk conditions. Barberis (2013) argues that the proposed Prospect Theory has two limitations: it can be applied to gambles with at most two nonzero outcomes, and it predicts that people will sometimes choose dominated gambles. In 1992 Kahneman and Tversky published a modified version called cumulative prospect theory which sought to address the above limitations.

The Prospect theory is based on four components: reference dependence; loss aversion; diminishing sensitivity; and probability weighting. The theory explains that people derive utility from gains and losses which is measured relatively to some reference point rather than from absolute levels of wealth and this is what is referred to as reference dependence. Loss aversion is explained from the idea that people are more sensitive to losses however small they might appear to be, than gains of the same magnitude. For example a loss-averse individual will be painful for losing $100 compared to the pleasure of winning $110. The diminishing sensitivity implies that people tend to be risk averse over moderate probability gains but also tend to be risk seeking over losses i.e they prefer a certain smaller gain to a percentage chance of a larger gain. The probability weight deals with how an individual overweight unlikely extreme outcomes (Barberis, 2013).

Decisions are based on judgments where the judgments are considered to be assessments about the external state of the world. The conditions on which decisions are made are considered challenging because of the uncertainty conditions, and the difficulty in foreseeing the consequences of the outcomes with clarity. Decisions are made difficult when the choices promote contradictory values and goals resulting from the internal conflict nature of value trade-offs. The Prospect theory tries to address how the choices are framed and evaluated to help in the decision making process.

The challenge in application of the Prospect Theory in economics is that the theory central idea is that people derive utility from gains and losses measured to a reference point but in any given context it is not clear how to define precisely what a gain or a loss is. However (Koszegi & Rabin., 2006) describe a framework that is of the idea that the reference point people use to compute gains and losses is their expectations or beliefs held in the recent and past outcomes. They propose that people derive utility from the difference between consumption and expected consumption, where the utility function exhibits loss aversion and diminishing sensitivity. Critics have also argued that while the theory offers accurate description of risk attitudes in experimental settings there is some doubt whether its prediction will retain accuracy outside the laboratory where stakes are often higher and people have significant experience making decision at short hand.

The Prospect theory is a model of decision making under risk thus its most obvious application are areas such as finance, endowment effect and insurance where attitudes to risk play a central role (Barberis, 2013). The areas of concern to Islamic finance therefore the theory is applicable to help customers, the central bank, and the conventional banks with Islamic windows in making decisions under risk. The prospect theory is helpful in explaining the choice of an option that doesn't promote the greatest expected value, how decision choice are evaluated when the options available do not differ significantly in their expected value, and also explaining cases where decisions require choices among options that promote conflicting values just like the case of conventional banks with Islamic windows.

2.2.3 Islamic Economic Theory

The foundation of the Islamic economy system was laid in the Al-Quran and practices by the Prophet Muhammad *(Pbuh)* in Medina during his brief time of existence. The rules laid down by the Almighty *(Swt)*are the foundation of Islamic economy system and they provide the required effective institutions. Al-Quran therefore defines the institutional rules and behavior that form part of the Islamic economy system. The blueprint of Islamic economy is derived by: rules extracted from Al-Qur'an and the Sunnah which are teachings and practice of the Prophet Muhammad *(Pbuh);* studying the institutions in the contemporary economy to determine their deviation from the ideal Islamic economy; and prescribing policy recommendations to close the gap (Askari, Iqbal, & Mirakhor, 2015).

Islamic economy system is a market based system where markets are seen as the most efficient mechanism for resource allocation. To be efficient markets must have rules such as information disclosure aimed at protecting stakeholders and must be supervised by with strict rule enforcement. According to Islam legally acquired property is considered sacred with fully protected rights. Allah is the creator of the things in earth and given to human generation as trust, thus natural resources must be developed in such ways that benefit all human generations equitably. The rules of the Almighty conveyed in the Al-Qur'an and Sunnah express Justice, thus Islamic institutions and the ideal Islamic economy is built around justice in dealings. The results promotion of social and human development on earth founded on rules that promote justice.

In Islam economic goals are not about the conventionally measured GDP level and growth but there are spiritual, moral, and human dimensions to all economic endeavors thus the goal of progress and development is the overall well-being of human society (Askari, Iqbal, & Mirakhor, 2015).

The Prophet (Pbuh) organized a market that was structured and governed by rules based on the Al-Qur'an he implemented policies to encourage trade among Muslims and non-Muslims in and outside Medina. The rules included: no restrictions on international or interregional trade; free spatial movement of resources , goods, and services from one market to another; no barriers to market entry and exit; free and transparent information regarding the price , quality, and quantity of goods; specification of exact date of completion of trade in instances when trade takes a long time; guaranteed contract enforcement by the state and its legal apparatus; prohibition against hoarding of commodities; ban sellers or buyers harming the interests of other market participants; and ban on the shortchanging of buyers especially in measurements and weights (Askari, Iqbal, & Mirakhor, 2015).

Among the rules that constitute the institutional structure of ideal Islamic economy include rules that: govern property; contracts and contractual obligations; trust; markets and code of conduct; risk sharing; wealth accumulation and utilization; wealth distribution; work and work ethics; and competition and cooperation. Islamic considers that violation of legitimate property rights of a person to oppression and exploitation and it brings discord and corruption on earth when individuals do not discharge their private property obligations. Islam affirms the attributes of sincerity, truthfulness, and the strength and rigor of the loyalty of the fulfillment of obligations a person is intending to take on by entering into contractual relationship.

Islamic finance central proposition is risk sharing and prohibition of interest based transaction in which a rest is collected as a percentage of the principal loan without the full transfer of the property rights to the lender. In this transaction the risk associated with it is borne by the borrower thus Islam proposes a mutual exchange in which one bundle of rights is exchanged for another allowing both parties to share risk. Al-Qura'n affirms this in the following verse: "*they say trade (exchange) is just like Riba(usury); whereas Allah permitted trade and forbiddeth usury." (2:275)*.

Exchange requires freedom for parties of contract, mitigation of risk to third parties having to bear externalized costs of two party transactions, and establish trust among participants. On wealth Islam emphasizes that wealth is only a means to achieve man's objective and not an end itself, therefore it must be earned through good, productive, and beneficial work as defined by Sharia'h which also describe the methods of lawfully earning wealth.(Askari, Iqbal, & Mirakhor, 2015)

The theory will help enlightening customers, conventional banks, as well as regulators the basis of Islamic finance in the various transaction they undertake.

2.2.4 Resource Based View Theory

The concept of Resource Based View Theory (RBV) was initially from Penrose (1959)who viewed organization as a pool of resources and articulation of the same was done by Wernerfelt (1984). Penrose (1959) proposed that an organization's uniqueness is derived from the heterogeneity rather than the homogeneity of the product and services available. The essence of the RBV lies in the emphasis of resources and capabilities as the genesis of competitive advantage: resources are heterogeneously distributed across competing firms and are imperfectly mobile which in turn makes this heterogeneity persist over time. The two key assumptions of RBV are that resources bundles and capabilities underlying production are heterogeneous across firms and the differences may be long lasting and imperfectly mobile.

According to Wernerfelt (1984) an organization is made up of combination of valuable resources that can only contribute to an organization competitive advantage if deployed and utilized in a way that the productive resources are easily accessible to the organization. Every individual in an organization can be viewed as a unique bundle of tangible and intangible resources and capabilities. Where resources are anything that gives a company an advantage or disadvantage relative to its rivals which may include assets such as human resource, physical assets, organizational assets, financial assets as well as technological assets that an organization deploys to innovate, manufacture and convey services and products to their clients.

According to Janine(2013) culture types are integrated in an organization’s processes and routines to provide a potential source of competitive advantage. The proponents of the theory argue that organizations should look internally to find the sources of competitive advantage instead of looking from the competitive environment. Zubac, Hubbard, and Johnson (2010) stipulate that the RBV is currently the dominant theory that explains the performance of the organization and the internal attributes that create a competitive edge. The theory emphasizes the dynamics related to work within an organization meant to create a competitive advantage and to deliver excellence in this dynamic world where innovation and change is inevitable. The RBV theory is useful in explaining and determining the internal components and attributes that lead to a competitive advantage.

The right organizational culture and a good working environment are vital in ensuring success of the organization and competitiveness focusing on areas of leadership, customer focus, and process adherence. The different RBV School of thoughts emphasize various concepts such as the resource, the capability, knowledge, as the ultimate capability and dynamic capabilities as second order capabilities. According to Helfat and Peteraf (2003) the most common conception is that organizational capabilities are built upon a combination of resources and related time and excellence in comparison to the organization rivals where an organization capability is a firm’s ability to perform a coordinated set of tasks through utilization of corporate resources. For an organization to become a high performing, key members need to understand their business strategy and create an adaptive, flexible, and constructive culture that will facilitate the implementation of a business strategy. Thus RBV is a useful tool to harness organizational culture of performance and proponents suggest that competitive advantage and performance results are consequences of firm specific resources and capabilities that are proven to be costly to copy by competitors and are important factors of sustainable competitive advantage(Barney, 1991).

According Barney (2003) RBV emphasizes the firm's resources as the main determinant of competitive advantage and performance based on two assumptions in analyzing sources of competitive advantage. First assumption is that the firm is within an industry which is heterogeneous concerning the bundle of resources that they control, and secondly the resources heterogeneity may persist over time as funds used in implementation of a firm's strategy are not perfectly mobile across firms meaning that the funds cannot be traded in factor markets and are difficult to copy and accumulate. Thus uniqueness of resources is a necessary consideration that contributes to competitive advantage.

If all organizations in the industry have the same stock of resources, then no strategy will be unique to a particular organization since organizations rely heavily on the analysis of the competitive environment. The RBV focuses on the analysis of various resources possessed by the organization are organization specific and not perfectly mobile or imitable. Sustained firm resource heterogeneity is a major source of competitive advantage (Das, 2000).
This theory is relevant on discussing the challenge of competition between fully fledged Islamic banking affect the growth of Islamic windows in conventional banks.

2.2Empirical Review

2.2.1 Regulatory Framework

Alexakis and Tsikorous (2009) provided an overview of the regulatory framework and key regulatory institutions in Islamic finance to highlight areas that merited increased attention. The study found out that increased involvement in Islamic finance by western regulators, crediting agencies, existence of sound accounting procedures, and increased protection of stakeholder of Islamic institutions affected the growth of Islamic finance.

According to Jaseem (2016) Islamic finance has proven to be resilient to the global financial crisis however is not immune to change and countries that embrace it are visibly at different stages of economic, market and institutional developments. The countries are also at different phases in terms of regulatory development of Islamic finance. There are four general common issues facing policy makers in Islamic finance firstly is the legal framework where countries have taken different directions, some have opted to have separate laws while others have chosen to amend existing laws, clarity and transparency of the laws is key to ensuring a level playing field among the various financial institutions embracing Islamic banking to foster confidence of the customers. Secondly is the supervision and regulation of the industry where both conventional and Islamic finance exist has proved to be a complex task that needs thorough planning and development of instruments for management of liquidity and monetary policy control.

Thirdly is the choice of distributional channel for Islamic financial products to the consumers in the market. Finally the structure of Sharia'h governance needs to be addressed in a chosen framework that emphasizes either centralization or decentralization. Jaseem (2016) concluded that countries that have progressed in development of Islamic finance are those who have put a roadmap in place for development of legal framework and building broad based capabilities.

To support the growth of the industry there is a need for collaborative effort between the various industry players including: the supervisory authority; policy makers and market players to maintain a balance between the strong regulation and the market's ability to grow. Creation of an enabling financial infrastructure must be given priority, the financial infrastructure include common international standards for supervision and regulation as well as transparency and disclosurein order to facilitate continuous development of stable and resilient Islamic financial services that promotes growth and innovation (Jaseem, 2016).

Nienhaus et al (2014) explained that the policy issue in Bangladesh is the adequacy and scope of the legal and regulatory framework that helps to provide an appropriate enabling environment for Islamic finance. They argued that the growth of Islamic finance in Bangladesh was driven by vigorous demand of the private sector without public support, thus being the major reason for the absence of specific legal and regulatory environment for Islamic finance. Islamic finance Bangladesh has for 25 years flourished in a conventional regulatory regime with little adjustments. This is in contrast to Malaysia where despite Islamic finance starting the same year with Bangladesh it has reached similar market share but with the most elaborate legal, tax and regulatory systems that have been tailored to fit the needs of Islamic finance. The Bangladesh Bank has initiated and coordinated change together with other policy authorities with vigorous agenda to changes to legal framework and formal measures that include development of liquidity management and capabilities.

Nienhaus et al (2014) explained that the Bangladesh bank issued instructions for risks relating to financing and investment contract made by Islamic banks for capital adequacy purposes. It led to issuance of guidelines to supplement existing banking laws, rules and regulations which dealt with issues including: licensing of fully fledged Islamic banks and Islamic windows in conventional banks as well as conversion of conventional banks into Islamic windows; principles of Sharia'h compliant deposits, Wadi¬ah current accounts and Mudarabah based savings; investments principles and products (Murabahah, Istisna, Ijara); maintenance of cash reserve ratio and statutory liquidity as prescribed by the bank; fit and proper criteria for members of Sharia'h board of an Islamic bank; guidelines for accounting and reporting; and a standard framework for calculating the rate of return for profit sharing deposits. The guidelines were an important step forward however they didn't address every issue and in some case remained ambiguous.

Laldin et al, (2014) argued that the aim of legal and regulatory framework is to lay down the guidelines and operational framework for the Islamic financial systems that involves all the stakeholders in the industry and covers all aspects of Islamic financial practices, product structuring, marketing and settlement of disputes.Sharia'h is the backbone of the industry, thus any solid framework should be built on the concepts and rules defined by Sharia'h. Enhancement of Sharia'h framework is a way forward for the countries embracing Islamic finance and should include necessary aspects such as Sharia'h standards for Islamic financial products, Sharia'h governance framework, and not forgetting a comprehensive Sharia'h compliance framework for all the operations of Islamic finance institutions to preserve integrity and credibility of the industry. This means inclusion of court systems, and arbitration and mediation institutions to act as alternatives methods of dispute resolutions. The central bank needs to establish a central Sharia'h advisory body to harmonize different Sharia'h views issued by different Sharia'h boards at the bank level. The central bank also needs to dedicate a department to deal with Islamic banking issues, issue guidelines and regulations, address issues of liquidity management, and Sharia'h compliant deposit insurance.

2.2.2 Competition from fully fledged Islamic banks

According to Louis and Ahmed (2014) lack of tradable financial instruments and secondary markets is also seen to heavily affect the growth of the Islamic finance sectors including the windows. While Islamic finance has a wide range of products such as Sukũk (bonds), Musharaka, Mudharaba and Ijara, which can absorb anticipated economic shocks arising from the interest rate capping by the CBK governor, the market of such products remains unexploited. This is because the existing secondary financial markets operate on interest rates basis. The treasury bills and securities as well as open-buy transactions between the banks and the government all bear interest which is forbidden in Islamic financing this aspect puts the conventional banks on a high pedestal and thus, renders them more competitive with an adverse effect on the profitability of Islamic banks.

Kumar, Kee, and Charles (2010) argued that overall service quality gap of Islamic bank is significantly higher compared to conventional banks this is due to higher expectations competence and convenience of the services provided by Islamic banks to their customers. On the contrary the perception on the factors and tangibility are significantly higher in conventional banks to that of Islamic banks which result in a service gaps, and placing a higher significant reliability in Islamic banks. Customers use the dominance analysis to predict the service quality to receive from the Islamic banks and conventional banks. Human factors such as the bank's ability to understand and give individualized attention, the will to help customers and prompt services provided is key to the competition between the Islamic banks and the conventional banks with Islamic windows.

Siddiqi (2006) noted that Muslims orientation and motivation in issue of finances is similar to everybody else, the people's choice on a financial system affects or coincides with their choice. Ifa genuinely distinct oriented and motivated financial system doesn't exist the, they do not one but should there be one that is genuinely oriented and motivated then behavioral patterns affect the choice. Muslims view conventional banks with Islamic windows lacking genuine motivates in relation to the Islamic finance as they are founded on the same infrastructures of Riba based banking. It is just like preaching water and drinking wine.

2.2.3 Availability of Islamic tradable financial instruments

The uniqueness of the Islamic banking models dictates unique financial instruments or products to drive the business.(Sheikh I. M., 2015)noted that Islamic windows also act as intermediaries and trustee of deposits from their customers just like conventional banks except that it shares profit and loses with its clients. This variance that brings in the component of mutuality in Islamic banking makes its customers as depositors with some possession of right in the bank.(Dar & Presley, 2000). The development of a stable Islamic Financial industry will require forsaking imitation of conventional instruments and packaging them as Islamic financial instruments in compliance with the Sharia'h principles.

Chapra (2008) argued that Islamic banking windows are also more impartial, as depositors or partners share in the proceeds of the partnership, be it profit or loss. Though the conventional banks have set up Islamic banking windows, their performance and relative stability of Islamic financial institutions stalks from the distinguishing characters of the financial instruments they offer. Most of Islamic financial instrument as one sees today were developed in the daily practices of Islamic banking and finance. These financial instruments have been developed to meet the needs of particular markets and nature of business of a particular Islamic financial institution from time to time. Islamic banking windows trades different instruments to content suppliers and users of funds in different ways. These instruments assist in setting the bases for developing complex Islamic financial instruments, signifying the great potential for financial innovation and expansion in Islamic financial markets(Sheikh I. M., 2015).

Hassan and Lewis (2007) identified the following basic types of Islamic financial instruments; Musharaka (partnership), Mudaraba (profit-sharing), Murabaha (cost-plus financing), Ijara (leasing), Istisnaa (commissioned manufacture), Salam (advance 3 purchase) and Bai bi-thamin ajil (deferred payment financing). Wheelen and Hunger (1998) argued that the growth of Islamic banking windows in a country depends market share, profitability, and cost reduction. The global banking environment is very dynamic and competitive, banks should develop market driven and diversified financial to meet changing clients' needs to enhance their performance for survival.

Profitability takes the center stage for growth. To sustain the dynamic and competitive environment Islamic banking windows' earnings needs to be fairly steady for its expansion and growth over time. (Goddard, Molyneux, & Wilson, 2004).

Ibrahim and Vijay kumar (2003) publicized that the growth of Islamic banks windows is lagging behind because of their low equity base and short term investments. Islamic banking windows offers short term Debt financing like Salam, Murabaha, and Qard fund. The long term financial instruments available to the Islamic windows that are not usually preferred includes Istisna, Sukuk and leasing. Iqbal (1999) noted that the Islamic banking system of contracts gives room to use financial derivative products framework to develop risk management solutions. He examines and debates the case of a precise Islamic contract, istijrar, highlighting its possible use in managing certain forms of risk.

Azizul, (1999) noted that Islamic banks windows operates in a complex markets where conventional banks function side by side with Islamic banks. Because of their uniqueness the Islamic windows needs to be treated differently. Inadequate comprehensive structure in line with the correct nature of Islamic financial models may result to inappropriate policies issued by the regulatory body on Islamic banks. Qadeeruddin(2005) noted that Islamic banking windows operating in the existing conventional regulatory and legal framework will be a great challenge. Ndung"u (2011) highlighted that among the impediments facing Kenya's ambition to be a hub of Sharia compliant investment products to compliment the Islamic banking in the country are lack of;an enabling legal and regulatory framework, Shari"ah compliant investment vehicles, and awareness by majority of the populace. Kenya as a country requires to offer more than the normal Sharia compliant products and introduce other investment vehicles like corporate bonds (sukuks), unit trusts, and insurance (takaful) products.

2.2.4 Socio-Cultural factors

Hussein (2010) explained that the merit of Islamic economic is meant to overcome weaknesses and deficiencies of western economy model in fundamental and beneficial ways. It tends to introduce the objective that keepsself-interest within the bound of social interest by limiting individual preferences to conform to social priorities which helps to promote harmony between self-interest and social interest meant to clear the tension between individual interests and society achievement. Being faith based system, Islamic banks do not engage in activities or transactions that are detrimental to the society and moral values. They are forbidden to invest in money laundering and dealings that are against Sharia'h law like gambling, which could expose the Islamic banks to risks as such to conventional banks(Kadubo, 2010).

According to Sayyid (2003) Islamic banking was personal initiative of concerned Muslims who wanted to address the problem of Riba with pioneers being resourceful individuals, professional bankers, Islamic economists and religious scholars. The pioneers initial didn't have a working model to act upon but relied on the assumption that interest based banking might be replaced by profit and loss sharing banking which according to the teaching of the Qur'an and Sunnah. The environment at that particular time was a regulatory environment which was Riba based it took time and initiatives to develop Riba free financial systems in countries like Iran, Sudan, Malaysia and Pakistan. Islamic bankers had to organize themselves through International Association of Islamic Banks which led to establishment of AAOIFI to achieve standardization in Islamic banking practices.

According to Kadubo (2010) the core belief of Islamic banking stems from a divine injunction against the acceptance of interest between buyers and sellers of capital resources. The injunctions are Islamic jurisprudence from the Al-Qur'an and Al-Sunnah. The injunctions are historically and ethically linked as interests create social divisions between the poor and the rich causing hardships to the borrowers. The lender is seen to exploit other's needs without the view of the productive nature of the capita, Islamic banking creates the beliefs that interests as a reward for savings has no moral basis, benefit of money is to transform money into investments, and abstinence from spending deserves no reward.

Sudin and Wan (2008) in their study of the impact of selected economic variables on deposits levels in the Islamic and conventional banking systems in Malaysia noted that rates of profit, base lending rates, money supply and Gross Domestic Product (GDP) have different impact on deposits in both Islamic and conventional banking systems. Customers in conventional banking systems behave in conformity to saving behavior theories which are in contrast with the Islamic banking customers as it contradicts with Sharia'h compliance. Religious beliefs play a key role in banking decisions made Muslim customers.

Issak and Kaswira (2012) explained that, Islamic finance is heavily influenced by the religion in that the aim of Islam is to establish a fair and just society both economically and socially. It encourages followers to enjoy God given resources as a trust bestowed to them and dislikes and forbids unfairness and taking advantage to accumulate income and riches.Sole (2007) further revealed that conventional bank's motives for conversion is to offer Sharia'h compliant products and services to the Muslim Population that is growing very fast. Olson and Zoubi (2008) found out that conventional banks converted into Islamic banks either to keep their customers, believed in the prohibition of usury, wanted the competence to attract the Muslim customers or wanted to emulate the Islamic finance system to achieve higher returns.

2.3 Conceptual Framework

A conceptual framework is a scheme of concept or variables which the researcher operationalizes in order to achieve the set of objectives (Mugenda & Mugenda, 2003). The conceptual framework is illustrated on figure 2.1 below.

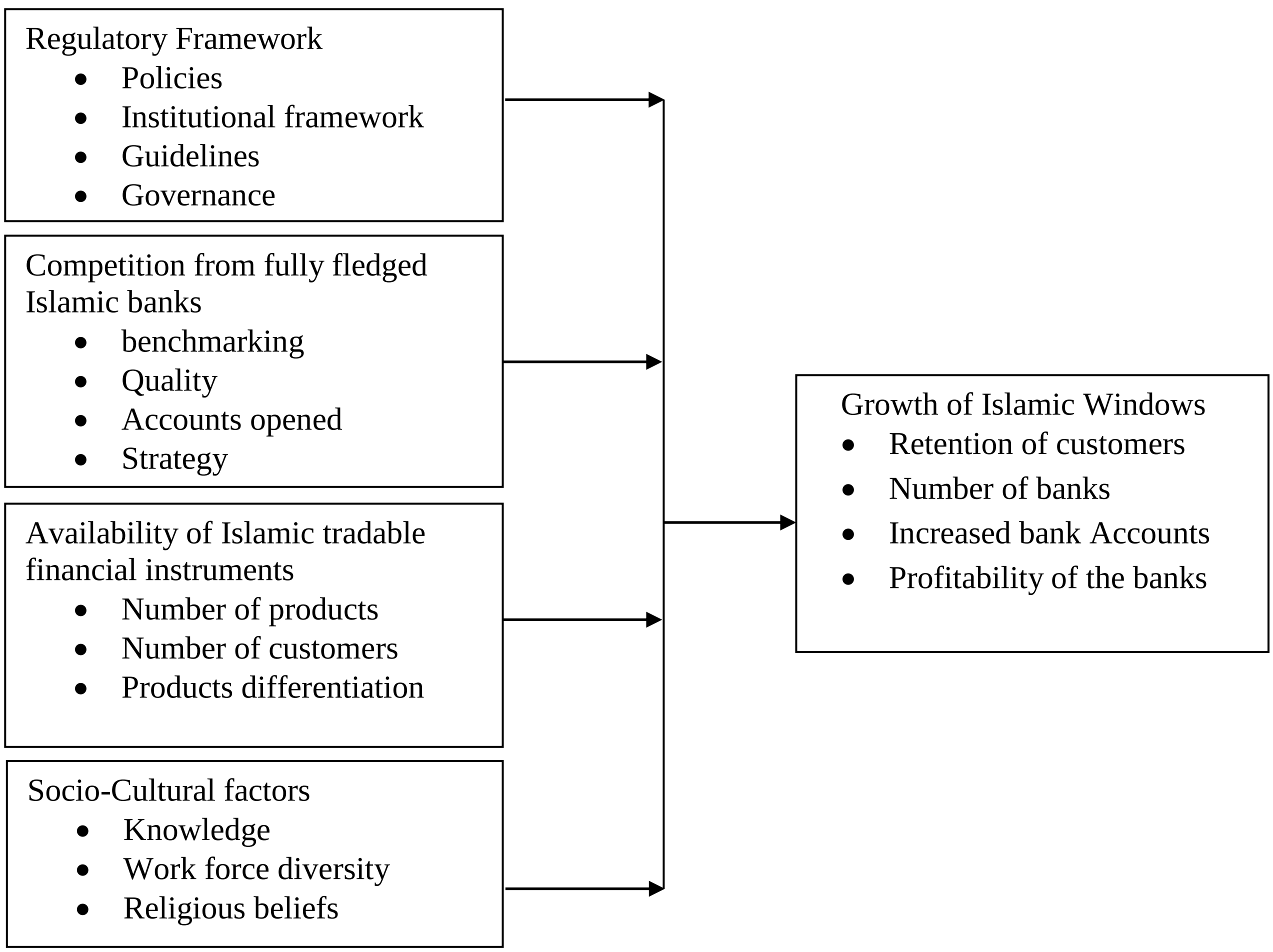

Figure 2.1. The Conceptual Framework

2.4 Operationalization of Variables

Orientation	**Variable**	**Objective**	**Indicators**	**Measurement Scale**
Dependent Variable	Growth of Islamic Windows		• Retention of customers • Number of banks • Increased bank Accounts • Profitability of the banks	Ratio
Independent Variable	Regulatory Framework	To establish whether Regulatory Framework has an influence on the growth of Islamic widows in conventional banks	• Policies • Institutional framework • Guidelines • Governance	Nominal
Independent Variable	Competition from fully fledged Islamic banks	To determine how Competition from fully fledged Islamic banks affect the growth of Islamic widows in conventional banks	• benchmarking • Products differentiation • Accounts opened • Strategy	Nominal

Independent Variable	Availability of Islamic tradable financial instruments	To examine how availability of Islamic tradable financial instrumentsaffect the growth of Islamic widows in conventional banks	• Number of products • Number of customers • Products differentiation	Ordinal
Independent Variable	Socio-Cultural factors	To determine the effect of Socio-Cultural factors the growth of Islamic widows in conventional banks	• Knowledge • Work force diversity • Religious beliefs	Nominal

Figure 2.2 Operational Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology and design used in the study. It seeks to explain the various stages and phases that were followed in completing this study. It is a blueprint for collection, measurement and analysis of data. It acts like an overall scheme or structure to help the researcher attain the objectives of the study. It includes the research design, target population, sampling techniques and procedures, the research instrument used, and finally data collection and analysis process.

3.2 Research Design

Johnson and Onwuegbuzie (2010) defined a research design as a sketch and procedures for a given research that entails decisions from broad assumptions to detailed methods of data collection and analysis process. This study used descriptive survey designs. Robson (2002) explained that a descriptive survey gives a thorough and accurate description by determining how and why the phenomena came into being and the situation involved.

3.3 Target Population

Population refers to all units of elements that of interest to the researcher and the research. According to Ngechu (2004) a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. The population of the study was drawn from a population of 32 respondents which consisted of 18 bank managers from the conventional banks with Islamic window, and 14 Sharia'h board members from the same banks.

Table 3.1 Target Population

Target Population	**Management**	**Sharia'h board**	**Total**
National Amanah	5	4	9
KCB Sahl	5	3	8
SCB Sadiq	4	3	7
Barclays La Riba	4	4	8
TOTAL	**18**	**14**	**32**

3.4 Sampling and Sampling Procedure

Sampling is the process of selecting a suitable sample for the purpose of determining the parameters that the researcher used to select representative respondent from a target or accessible population (Adams, Khan, Raeside, & White, 2007). In this study stratified random sampling technique was employed where the researcher divided the target population in strata of homogenous groups. This technique was appropriate as it helped in selecting a random representative of sample from the bank management and the Sharia'h board members. Kothari (2009) defined a sample size as the number of items to be selected from the population to constitute a sample. The study sample size was 32 respondents from the four conventional banks, 18 management representatives and 14 Sharia'h board members. Mugenda and Mugenda (2003) argued that when the population size is below 100 census is suitable thus, this study usedcensus method since the sample size was 32.

3.5 Research Instrument

According to Oso and Onen (2005) instruments refer to the tools that the researcher will use to collect data. This study used questionnaires for the top management, miners and the local residents. Nsubuga (2000) explained that Questionnaires are presentation of carefully selected and orderly questions to specific respondents who react based on the collection of written items. This study used both structured and closed ended questions based on the likert scale because of their simplicity in construction and are reliable because they are objective focus(Kothari, 2009).Close ended questions are simple to code and analyze compared to open ended questions. The choice of mixture of open and close ended questions was partly due to the assumption target population might comprise of both literate, semi illiterate or illiterate.

This study also used document analysis to collect secondary data where possible especially those that contain vital statistics related to the issue of study. Nsubuga (2000) referred to document analysis as a systematic examination of current existing records such as paperwork, photographs, and drawings as a source of data.Jwan and Ong'ondo (2011)stipulate that documents give background information about a particular topic and provide useful information that form part of the conceptual framework.

3.6 Validity and Reliability of the instrument

Validity is the extent at which a research instrument is able to measure what was intended to measure. It is premised on the assumption that the issue under study is measurable and can be captured (O‘Leary, 2009). The researcher ensured the items in the research instrument were prepared according to the objectives of the study. Extensive literature review was conducted to identify content areas, suggestion from educational experts, colleagues and supervisors were relied on to analyze the validity of the instrument. This was useful in checking content validity which is intended to measure the rate of the instrument measured the content intended to measure; concurrent validity to measure how the relates correlate; and face validity which measured what the instruments purports to measure.

Pilot study was conducted for pre-testing of the research instruments at the campus to determine the reliability of the instruments.

Reliability is the degree to which an instrument measures the same way each time used under the same conditions. It is the measure of consistency of given results from a test (Adams, et al, 2007). Cronbach Alpha Coefficient was used to test internal consistency of the items in the research instrument. Scores obtained from one item from the test were correlated with other scores obtained from other items in the instrument. A Cronbach alpha of 0.79 was obtained. A value of Cronbach alpha above 0.70 is an indicator of reasonable test of scale of reliability and consistency according to Gaur & Gaur (2009).

3.7 Data collection procedure

The researcher secured a permit from KCA University, Kitengela campus to undertake the research.

3.8 Data Processing and analysis

Data analysis is a systematic process of transcribing, editing, coding and reporting data in manner that makes it sensible and accessible to the researcher and other readers for interpretation and discussion purposes (Jwan & Ong‘ondo, 2011). Quantitative data was collected and both descriptive and inferential statistics was used to analyze data. Tables were used to summarize responses for further analysis.

Descriptive statistics including arithmetic mean, standard deviation, frequencies, and percentages was used to analyze responses from the questionnaires collected. Inferential statistics was used to conduct diagnostic tests of specification and significance which include: Person's correlation measured the relation between the variables of the study to establish how the independent variable related to each other and the independent variables; T-test tested the significance of each of the independent variables in influencing the growth of Islamic windows in conventional banks in Kenya at 95% confidence level; ANOVA model tested the significance and robustness of the whole model at a 5% significance level; Correlation analysis was used to determine the correlation coefficient (r), used to assess the relationship between variables and the strength of the relationship; Multiple regression models were used to find the relation between the independent variable and the dependent variable; and Multi-collinearity was used to determine if the independent variables in the regression model were highly correlated**.**

The findings from the analysis were tabulated or used charts in presentation.

The following regression model was used:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$ …………………………………. (i)

Where;

Y= Growth Challenges

α = Alpha

X_1 = Regulatory Framework

X_2= competition from fully fledged banks

X_3 =Availability of Islamic tradable financial instruments

X_4 = Socio-cultural Factors

e = the error of prediction

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the results and findings of the study based on the research objectives. The results were presented by use of tables and charts to make it easier to understand and interpret. It includes the response rate of the questionnaires distributed, demographic characteristics of the respondents, descriptive analysis of quantitative data, inferential analysis of the study variables, and diagnostic tests for the study model.

4.2Response Rate

The questionnaire was distributed to 32 respondents from conventional banks with Islamic windows namely: National "Amanah", Kenya Commercial Bank"Sahl", Standard Chartered Bank"Sadiq", and Barclay's"La Riba" out of whom 27 responded to the study data collection. Thus the response rate was 84.4% and the non-response rate was 15.6 %. Those who responded were very cooperative while non respondents were very busy while some of had travel out of the country. The table 4.1 below shows the response rate.

Table 4.1: Analysis of Response Rate by count

Category	Amanah	Sahl	Sadiq	La Riba	Sample	Response	Rate
Management	5(100%)	5(100%)	4(100%)	4(100%)	18	18	100
Sharia board	2 (50%)	3(100%)	2(66.67%)	2(50%)	14	9	64.3
TOTAL	**7(25.9%)**	**8(29.6%)**	**6(22.2%)**	**6(22.2%)**	**32**	**27**	**84.4**

Mugenda and Mugenda (2003) assert that a response rate of 70% is very high and yields favorable results from the data analysis. Based on this, the study argues that the results were good and accurate.

4.3Demographic Information

The study collected data on respondents based on their gender, age, level of education, and period working for the bank. The following tables and charts illustrates the findings.

Figure 4.1 Response based on Gender

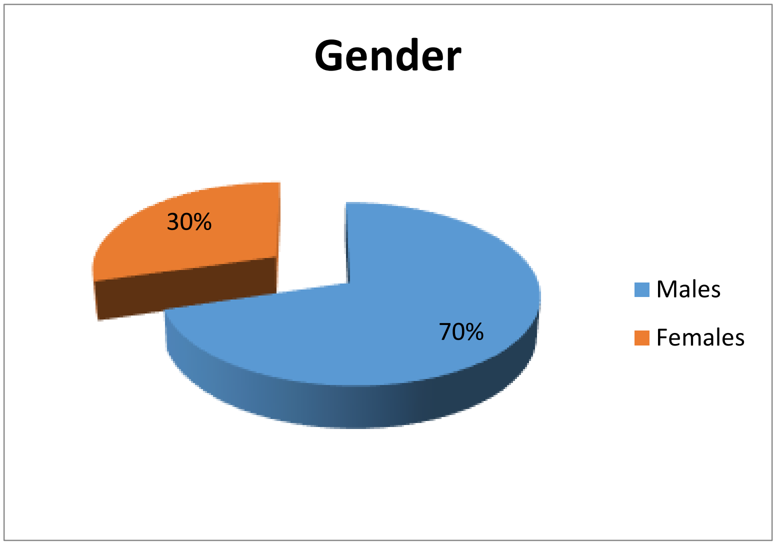

Figure 4.1 showed that 70% (19) of the respondents were male while 30% (8) were females. Thus we can say that Males are the dominant gender in the banking industry.

Table 4.2 Respondents by age group

Age by Group	Frequency	Percent
18-24	2	7.4
25-31	3	11.1
32-38	9	33.3
39-45	2	7.4
46-55	2	7.4
above 55	9	33.3
Total	**27**	**100.0**

From Table 4.2 the results showed that7.4% (2) are young below 25 years old, 11.1% (3) are below 32 years old, 33.3% (9) are below 39 years old, 7.4% (2) are between 39 and 49 years, 7.4% (2) are between 46-55 years and 33.3%(9) are above 55 years. We can conclude that majority of the respondent are youth 52% (14) or young adults i.e they are below 39 years while the 48% (13) are middle aged. It shows how youth are well represented in the industry.

Table 4.3Respondents level of education

Category	Frequency	Rate
Diploma	0	0%
Undergraduate	17	62.96%
Post graduate	10	37.04%
TOTAL	**27**	**100%**

Table 4.3 showed that all the respondents are university graduates with majority of the respondents being undergraduates 62.96% (17) while 37.04% (10) are post graduate degree holders.

Table 4.4Respondents duration they have worked for the bank

Category	Frequency	Rate
Below5 years	11	40.7%
5-10 years	11	40.7%
Over 10 years	5	18.5%
TOTAL	**27**	**100%**

Table 4.4 showed that only 18.5% (5) have more than 10 years working experience in the banking industry while 40.7% (11) have experience of 5 to 10 years working in the banking industry and the rest 40.7% (11) have experience of less than 5 years working in a bank.

4.4 Study Variables

The study used descriptive statistics to obtained results that was used to interpret the variables and to relate the same to the objectives of the study. The following is the descriptive statistics of all the variables of the study and their interpretation.

4.4.1 Growth of Islamic Windows in Conventional banks

Table 4.5 Descriptive Statistics for Growth of Islamic Windows

Growth of Islamic Windows indicator	Mean	Std.Dev
Islamic windows Clientele has increased drastically since its inception.	4.44	.641
Islamic windows have retained their customers despite the challenges they face.	4.11	.577
The number of banks with Islamic windows is increasing by a large percentage each year.	3.56	.934
Islamic windows are attracting many customers to open accounts with them	3.85	.989
Islamic windows affects the profitability of a bank	4.15	1.064
Growth of Islamic Windows	**4.02**	**0.841**

To determine the factors that shows the growth of Islamic windows in conventional banks in Kenya from the population of 27 respondents comprising of bank management and Sharia'h board members, we used a likert scale 1-5 where 1 means strongly disagree, 2 disagree, 3 not sure or neutral, 4 agree and 5 strongly agree. The findings shows that the bank management andSharia'h board members agreed that the clients of Islamic banking windows have increased since the inception of Islamic windows; despite the various challenges it faces, the banks have retained their customers, and the Islamic windows affect the profitability of the banks. However, they were skeptical about percentage increase of conventional banks with Islamic windows and the ability to attract more customers to open accounts with them.

From the findings it is clear that there is evidence of growth of Islamic Windows in conventional banks with a mean of 4.02 with relates to agree in our likert scale.

4.4.2 Regulatory Framework

Table 4.6 Descriptive Statistics for Regulatory Framework

Regulatory Framework Indicator	Mean	Std. Dev
The bank has being influenced by the regulatory Framework on the Implementation of Islamic windows.	4.07	1.107
Legal Support is the major challenge facing the Islamic banking industry	3.93	1.035
Commercial banking laws contain provisions that prohibit the scope of Islamic banking activities within conventional limits	3.15	1.322
There are appropriate commercial banking laws for implementation of Islamic banking and financial contracts	3.44	1.251
Weak regulatory framework reduce public confidence in the financial system which delay necessary structural reforms in growth of Islamic Windows	3.63	1.182
Legal framework ensure efficiency of Islamic banking system	3.78	1.311
Regulatory Framework	**3.67**	**1.201**

The statistics from the Table 4.6 show that the bank management and Sharia'h board members agree that the implementation of Islamic Windows is influenced by the regulatory framework and specifically legal support from the banking industry is a major challenge affecting the implantation and growth of the Islamic windows. However the findings show that the respondents were not sure: whether there was a provision in commercial banks that limited the scope of Islamic banking activities; the presence of appropriate or adequate commercial banking laws for implementation of Islamic windows and financial contracts; the confidence of the public is affected by the weak regulatory framework in the financial systems and delay in bringing reforms to accommodate the Islamic windows; and finally whether efficiency of the Islamic banking industry is as a result of legal framework.

Generally, the respondents were not sure whether regulatory framework affected the growth of Islamic windows the evidence being the average of 3.67 which translates between not sure and sure.

4.4.3 Competition from fully fledged Islamic banks

Table 4.7 Descriptive Statistics for Competition from fully fledged Islamic banks

Competition from fully fledged Islamic banks Indicators	Mean	Std.Dev
Increased competition from fully fledged Islamic banks affect the efficiency of the Islamic windows	2.85	1.562
Fully fledged Islamic banks have better strategies to attract customers than conventional banks with Islamic windows	3.00	1.710
Reputation is crucial factors to gain customers' confidence in bank	4.37	1.079
Quality of service from fully fledged Islamic banks affects greatly the choice of the bank.	4.37	.839
Fully fledged Islamic banks have better products than conventional banks with Islamic window.	2.33	1.301
Conventional banks with Islamic windows benchmark the services they provide with fully fledged Islamic banks.	3.37	1.043
Quality Service affect the choice between the fully fledged Islamic banks and Islamic windows	4.15	1.099
Competition from fully fledged Islamic banks	**3.49**	**1.233**

The respondents agreed that: reputation was key to gaining customers' confidence in a bank; the quality of service from fully fledged Islamic banks was a key reason for customer's choice of the bank; and quality service is a factor that customers use to choose between fully fledged Islamic banks and conventional banks with Islamic windows. However, the respondents were uncertain whether fully fledged Islamic banks have better strategies to attract customers than conventional banks with Islamic windows; and whether conventional banks with Islamic windows benchmark the services and product they provide with those provided by fully fledged Islamic banks. The respondents disagreed that efficiency of Islamic windows is affected by the increased competition from fully fledged Islamic banks; and the belief that fully fledged Islamic banks offer better products and services than conventional banks with Islamic windows.

Generally, from the statistics the respondents were not sure whether competition from fully fledged banks is a challenge to the growth of Islamic windows with the evidence of a mean of 3.49 which translates to not sure in our likert scale.

4.4.4Availability of Islamic tradable financial instruments

Table 4.8 Descriptive Statistics for Availability of Islamic tradable financial instruments

Availability of Islamic tradable financial instruments Indicators	Mean	Std. Dev
Financial products nature, price, influence implementation of Islamic windows	4.19	.736
Sharia'h guides the nature of financial products in Islamic windows	4.37	.792
Islamic windows have unique products that are non-existence in fully fledged Islamic banks	1.96	.898
The growth of Islamic market has influence the number of customers registering with Islamic windows	3.89	.801
Islamic windows have numerous tradable products to offer to its customers.	3.59	.844
Islamic windows offers a range of services which ensures its growth	3.56	1.050
Availability of Islamic tradable financial instruments	**3.59**	**0.853**

From the statistics the respondents agreed that the implementation of Islamic windows is influenced by financial products nature and price; and the financial products of Islamic windows are guided by Sharia'h law. The respondents also slightly agreed that the growth of Islamic market influenced the number of customers who registered with Islamic windows. However the respondents disagreed that Islamic windows provided unique products that are non-existence in fully fledged Islamic banks. The respondents were not sure whether Islamic windows have numerous products to its customers, and Islamic windows offer a range of products that ensure its growth.

Generally, respondents were skeptical that availability of Islamic tradable financial instruments is a challenge to the growth of Islamic windows.

4.4.5 Socio-Cultural factors

Table 4.9 Descriptive Statistics for Socio-Cultural factors

Socio-Cultural factors Indicators	Mean	Std. Dev
Religious perspective influences customers' choice of Islamic bank	4.07	1.141
Consumers' choice on Islamic banking products is based on dimensions of value, cost, and prior satisfaction	4.33	.784
Customers' beliefs determine attitudes towards Islamic Windows	4.11	.847
Non-Islamic customers refuse to invest in companies engaged in unethical socially harmful activities	2.33	.679
Consumers perceive financial services and products that conform to Islamic religious principles pose special challenges/ risks	2.96	.940
Muslim customers believe that Islamic windows are different from interest based banks.	3.85	1.027
Islamic Windows are meant for Muslim customers only	2.04	1.400
Islamic windows lack personnel that are knowledgeable on issues with Islamic banking.	2.74	1.559
Sharia'h guides the nature of financial products in Islamic windows	4.37	.792
Socio-Cultural factors	**3.37**	**1.334**

From the statistics in Table 4.9 we found out that majority of the respondents agree that: religious perspective influence the choice of Islamic bank; values dimensions, cost, and satisfaction contribute to the choice of Islamic banking products by customers; customers belief i.e. religion determines the attitude they have towards Islamic windows; and that the Islamic windows products are Islamic Sharia'h oriented. However, respondents slightly agreed that Muslim customers believe that Islamic windows are different from interest based. The respondents disagreed that: non-Muslim customers do not invest in companies involved in unethical, socially-harmful activities like gambling and interest; Islamic windows are specifically for Muslim customers only; and finally that Islamic windows lack personnel that are knowledgeable on issues of Islamic banking. However, the respondents were slightly uncertain with the perception that financial services and products that are guided by Sharia'h law pose special risks and challenges.

Generally, the respondents are uncertain that socio-cultural factors are a challenge to the growth of the Islamic windows in conventional banks.

4.5 Diagnostic Tests

4.5.1Diagnostic Tests on Independent Variables (IVs)

The study tested for the existence of multi-collinearity between the IVs. The objective of the test was to ensure that IVs were not measuring the same relationship in the model. Multi-collinearity exists when the Variation Inflation Factor (VIF) is greater than 10 and the Tolerances less 0.1. The following results were obtained as presented in Table 4.10

Table 4.10: Multi-Collinearity Tests on Independent Variables

Collinearity Statistics

Model(Variables)	**Collinearity Statistics**	
	Tolerance	**VIF**
Regulatory Framework	.045	22.366
Competition from fully fledged Islamic banks	.333	3.003
Availability of Islamic tradable financial instruments	.070	14.314
Socio-Cultural factors	.247	4.051

a. Dependent Variable: Growth of Islamic Windows

Using the Tolerance to interpret the results, Regulatory Framework was 0.45 and availability of Islamic tradable instruments was 0.07 while their VIF was 22.366 and 14.314 respectively.Multi-collinearity exists when the Variation Inflation Factor (VIF) is greater than 10 and the Tolerance is less 0.1 or 10%.Thus, we can conclude that the Regulatory framework and availability of Islamic tradable instruments were measuring the same relationship in the model. This means the two predictors (Regulatory framework and availability of Islamic tradable instruments)were not reliable to estimate the study model leaving the only reliable predictors to be Competition from fully fledged banks and socio-cultural factors.

4.5.2 Correlation Analysis

A Correlation analysis was carried to determine whether there exists any relationship between the DV and the IVs. Should there be a significant relationship between the DV and IVs, then it is viable to estimate the study model. It is important to detect simple linear relationship and multi-collinearity as it helps to act as a building block for multiple regression model (Anglim, 2007). Pearson's product method was used at significance level of 0.05 and the following results were obtained as in Table 4.11 below.

Table 4.11 Correlation Results

Correlations						
		Growth of Islamic Windows	Regulatory Framework	Competition from fully fledged Islamic banks	Availability of Islamic tradable financial instruments	Socio-Cultural factors
Growth of Islamic Windows	Pearson Correlation	1	.944*	-.819	.797	.141
	Sig. (2-tailed)		.016	.090	.107	.821
	N	27	27	27	27	27
Regulatory Framework	Pearson Correlation	.944*	1	-.721	.841*	.347
	Sig. (2-tailed)	.016		.106	.036	.500
	N	27	27	27	27	27
Competition from fully fledged Islamic banks	Pearson Correlation	-.819	-.721	1	-.536	-.361
	Sig. (2-tailed)	.090	.106		.273	.426
	N	27	27	27	27	27
Availability of Islamic tradable financial instruments	Pearson Correlation	.797	.841*	-.536	1	-.107
	Sig. (2-tailed)	.107	.036	.273		.839
	N	27	27	27	27	27
Socio-Cultural factors	Pearson Correlation	.141	.347	-.361	-.107	1
	Sig. (2-tailed)	.821	.500	.426	.839	
	N	27	27	27	27	27
*. Correlation is significant at the 0.05 level (2-tailed).						

Table 4.11 represents Pearson correlation results of the study DV and IVs to determine their association. From the results Regulatory frame work is highly positively correlated to the growth of Islamic Windows and highly significant ($r = 0.944>0.5$, $p=0.016<0.05$) thus an increase in regulation increases the growth of the Islamic windows. Competition from fully fledged Islamic banks is highly correlated to the growth of Islamic Windows in conventional banks ($r = -0.819> 0.5$, $p = 0.09> 0.05$) however it insignificant since the $p =0.09 >0.05$ is above our alpha value of significance. Thus we can say an increase in competition negatively affects the growth of Islamic windows in conventional banks. Availability of Islamic tradable financial instrument positively correlated but less significant ($r=0.797> 0.5$, $p=0.107>0.05$) thus an increase of Islamic tradable financial products ensures growth of Islamic windows but it is not a major factor since $p=0.107>0.05$ is above our alpha level of significance. Lastly, socio-cultural factors positively correlates to the growth of Islamic Windows ($r =0.141< 0.5$, $p=0.821>0.05$).The correlation coefficients is below the average of 0.5 and thus there may be a small change of growth due to socio-cultural issues and since the $P=0.821>0.05$ it show that it is less significant.

Since regulatory frame work is highly significant ($p =0.016< 0.0$); competition from fully fledged banks, availability of Islamic tradable financial instruments, and socio-cultural factors are less significant to the growth of growth of Islamic windows in conventional banks then we can conclude that only regulatory framework is significantly correlated to the growth of Islamic Windows in conventional banks.

4.5.3Regression Analysis

Multiple regression was carried out to determine the nature of the relationship of the model for predicting the DV in terms of IVs, the study used the following linear regression analysis based on the model:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$ …………………………………… (ii)

Where;

Y= Growth Challenges

α = Alpha (is a constant value of the DV where all the IVs are 0)

β = coefficients

X_1 = Regulatory Framework

X_2= competition from fully fledged banks

X_3 =Availability of Islamic tradable financial instruments

X_4 = Socio-cultural Factors

e = the error of prediction

4.6Model Fitting

The study carried out an Analysis of Variance (ANOVA) to estimate the model fitness and the results were captured in Table 4.12 below.

Table 4.12: ANOVA for Growth of Islamic Windows in conventional banks in Kenya

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	121.651	4	30.413	9.422	.000[b]
	Residual	71.016	22	3.228		
	Total	192.667	26			

a. Dependent Variable: Growth of Islamic Windows

b. Predictors: (Constant), Socio-Cultural factors, Availability of Islamic tradable financial instruments , Competition from fully fledged Islamic banks, Regulatory Framework

A hypothesis was generated from table 4.10 to test the model for fitness of fit;

H_o:β_1= β_2=β_3 =β_4 = 0 (i.e, the coefficient of X_1, X_2, X_3, and $X_4$are all zero)

$H\alpha$: at least one $\beta_i \neq 0$

$H_o$is accepted if p-value >0.05 (at 5% significance level)

$H_o$is rejected and $H\alpha$: is accepted if p-value <=0.05 (at 5% significance level)

Table 4.10 shows that p-value there 0.000 which less than 0.05 thus $H\alpha$: is accepted and $H_o$is rejected. This means that there exists evidence to show that at least one of the predictors is useful in predicting the growth of Islamic windows in conventional banks in Kenya. Therefore, the model is useful in explaining the Growth related changes of Islamic windows in Kenya.

These findings provided enough evidence that IVs can be regressed against the DV to estimate the study model. Below Table 4.13are the Regression results to support the claim.

Table 4.13: Regression results of DV against Predictor Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.263	7.378		-.171	.866
Regulatory Framework	.361	.155	.312	2.320	.030
Competition from fully fledged Islamic banks	-.024	.084	-.043	-.283	.780
Availability of Islamic tradable financial instruments	.801	.162	.669	4.949	.000
Socio-Cultural factors	-.107	.154	-.107	-.693	.496

a. Dependent Variable: Growth of Islamic Windows

The results show that regulatory framework (p= .03) and availability of Islamic tradable financial instruments (p=0.000) were significant in explaining the growth related challenges of Islamic windows in conventional banks in Kenya. The other predictors; competition from fully fledged Islamic banks (p=.780>0.05) and socio-cultural factors (p=.496>0.05) were not significant in explaining growth of Islamic windows in conventional banks in Kenya.

From table the model would fit as below;

$$Y = -1.263 + .361X_1 -0.24X_2 + .801X_3 - .107X_4 + e \quad \text{.......................................} \quad (iii)$$

Only regulatory framework and availability of Islamic tradable financial instruments had positive coefficient. This means that they directly related to the growth of Islamic windows while the other IVs; Competition from fully fledged banks and socio-cultural factors had negative coefficients meaning that they inversely related to the growth of Islamic windows.

4.7 Model summary

The following Table 4.12 represents the results of the model summary.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795[a]	.631	.564	1.79666

a. Predictors: (Constant), Socio-Cultural factors, Availability of Islamic tradable financial instruments, Competition from fully fledged Islamic banks, Regulatory Framework

From Table 4.12 the coefficient of determination (adjusted R square) was .564 or 56.4% thus Socio-Cultural factors, Availability of Islamic tradable financial instruments, Competition from fully fledged Islamic banks, and Regulatory Framework can be used to explain 56.4%change of growth of Islamic windows in conventional banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of findings, conclusions made from the study findings as well as recommendations from the findings in relation to the main study objective; to investigate the growth related challenges of Islamic windows operating in Kenyan banking systems, and the specific objective; to establish the influence of regulatory framework on the growth of Islamic windows in Kenyan conventional banks, to establish the effects of Islamic tradable financial instruments on the growth of Islamic windows in Kenyan conventional banks, to determine the effect of fully-fledged Islamic bank competition on the growth of Islamic windows in Kenyan conventional banks, and lastly to examine how Socio-Cultural factors influence the growth of Islamic windows in Kenyan conventional banks

5.2 Summary

This section provides a simple summary of the findings from the study, their interpretation in relation to the study objectives and discussion.

5.2.1Findings on Regulatory framework and Growth of Islamic windows in Kenya.

The findings from the study showed that implementation of the Islamic windows in Kenya is influenced by regulatory framework. This is supported by the fact that Regulatory framework was found to be highly significant in determining the growth of Islamic windows in Kenya. The tests done on the variables showed that regulatory framework had a significance level of less that the threshold ($p=.000<0.05$) which is an indication of its significant role in explaining 56.4% of the growth of Islamic Windows in conventional banks in Kenya from the study. There is evidence of the assumption on how legal support is slightly assumed to be a major challenge facing the Islamic banking industry. However, it is not clear up to know whether there are enough banking laws that support the Islamic banking and Islamic windows in Kenya. Findings also suggested a doubt on how the regulatory framework ensures efficiency of the Islamic banking system in Kenya. It's not clear still to whether there are appropriate commercial banking laws that support the implementation of Islamic banking and financial contracts as most people are still not sure of the same.

This means that having a clear regulatory framework gives a higher chance of growth of Islamic windows as all stakeholders will be aware of their expectations.

5.2.2 Findings on competition from fully fledged banks and Growth of Islamic windows in Kenya.

The findings from the study revealed that competition from fully fledged banks had no significant role in determining the growth of Islamic windows evidently from the P-value of .000 which is less than our alpha threshold of 0.05. However, findings revealed that reputation was key to gaining customers' confidence in a bank. Customers chose fully fledged Islamic banks because of the quality of services offered to them. Customers also preferred fully fledged Islamic banks because they believe they offered quality Islamic banking services. This concurred with the revelation of Alafi and Al-fawwer that the quality of service greatly attracted customers towards their choice of Islamic banks products. However, findings showed that it's not clear whether fully fledged Islamic banks had better customer attraction strategies than conventional banks with Islamic windows and may be assumed to be the reason why Islamic Windows do not benchmark the services and product they provide with those provided by fully fledged Islamic banks. It is not clear on how efficiency of Islamic windows is affected by the increased competition from fully fledged Islamic banks since Islamic windows believe that fully fledged Islamic banks products and services cannot be assumed to be better than those offered by conventional banks with Islamic windows.

5.2.3 Findings on availability of Islamic tradable financial instruments and Growth of Islamic windows in Kenya.

Findings from the study suggested that availability of Islamic tradable financial instruments played a significant role in determining the growth of Islamic windows in conventional banks in Kenya. The variable had a p-value of .000 indicating its significance in the study. It's evident from the study that nature of financial products and their cost affect the implementation of Islamic windows in conventional banks as shown by statistics. This is in line with Osman and Ismail who concluded that superior services, prices, relation between the bank and the customer, as well as satisfaction level contribute to growth of the client base. There is no doubt asto whether the financial products of Islamic windows are guided by Sharia'h law. There is a slight belief that the growth of the Islamic market influenced the customers registered with Islamic windows. This is to say, if the Islamic market grows there is a likelihood of increase in the number of customers registered for the Islamic windows. However it is not clear whether the products offered by Islamic windows are different from those of fully fledged banks. It is still not clear whether Islamic windows offered a variety of products that are needed in market.

5.2.4 Findings on Socio-cultural factors and Growth of Islamic windows in Kenya.

From the statistics,socio-cultural factors are not a significant determinant of the growth of Islamic windows in Kenya conventional banks. However, the findings showed that religion influence the choice of Islamic window. Since customers believe that Islamic banking products are driven by value and ethics as per the teaching of Islam. This is also revealed by Adan (2017) most customers were not attracted to Islamic banking since they ran on Islamic principles. Muslims customers are still skeptical whether the Islamic windows were different from interested based since they all operate within the same bank as evidently shown by our statistics. The findings also suggested that there was no clear indication to whether financial products and services guided by Sharia'h poseda special risk or challenge. This might be the reason why most people are not registering as customers in Islamic windows or the conventional banks are unsure if they are ready to embrace Islamic windows. There was an agreement that Islamic windows do not lack personnel who were knowledgeable on issues with Islamic banking. The findings also showed that Islamic windows are not meant for Muslim customers only. This is also supported by the findings of Guyo and Adan (2013) that dual banking environment in Kenya was viewed by customers as more favorable by the social and ethical goals the Islamic banking serves rather than the mechanisms of its operationalization and functionality.

5.3 Conclusions

Based on the findings discussed in 5.2, the following conclusions were drawn from the study: firstly competition from fully fledged banks and socio-cultural factors are not the main challenges that hinder the growth of Islamic windows in conventional banks in Kenya leaving regulatory framework and availability of Islamic tradable financial instruments as the major challenges in growth of Islamic windows. Regulatory framework affect the implementation of Islamic windows therefore there is a need of having clear and effective framework to support its implementation. This could be through legal support from institution that develop policies and law like the CBK and the parliament. There is also a need of clear-cut banking laws that will support conventional banks embracing Islamic windows. Islamic tradable financial instruments are significant contributors to growth of Islamic windows in conventional banks in Kenya. Islamic windows products are Sharia'h compliant product and are meant to be fair to the customer, conventional banks should ensure their products help to accelerate the growth of the industry. Even though religion is a reason why Muslimschoose Islamic banking or may be non-Muslim reject Islamic banking as they feel that by accepting Islamic banking they are embracing Islam. Thus for Muslims using Islamic banking means abiding by Sharia'h law while for the non-Muslims it means Islamization. However some Muslims believe that Islamic windows are not different from the interest based since they are regulated and operate under the same platform of interest based banks.

5.4 Recommendations

5.4.1 Regulatory framework and Growth of Islamic windows in Kenya

There is a need of a clear-cutregulatory framework by the Kenyan government to clear the ambiguity that conventional banks have on Islamic windows and also clear the hurdles so that more conventional banks embrace the growth of Islamic windows. This should be through distinct legal, regulatory and even institutional frameworks that adhere to Sharia'h law. It seems the Banking Actis not clear or does not adequately addresses the problems that the conventional banks have in relation to profitability, taxation and also legal operation thus it is seen as a challenge to growth. The laws will also help to expand the market and give an opportunity for the banks to brainstorm on products that will be effective and convenient to the market so that benefits are mutual between all the stakeholders.

5.4.2Availability of Islamic tradable financial instrumentsand Growth of Islamic windows in Kenya

There is a need for the banks to develop unique products that will be competitive but fair to the customers. A differentiation of products within the industry will ensure health competition but most important the products need to conform to Sharia'h laws. This will attract more customers and level the playing field for all stakeholders. The growth of the Islamic market is dependent on the variation of products the Islamic banks and Islamic windows offer to its customers that makes them unique, attractive and are driven by values and ethics. The current tradable financial instruments are too predictable and create monotony thus banks needs to go further beyond their copycat trend to thinking beyond the box in relation to providing products that fit, relevant and Sharia'h oriented so that customers have no reasons to feel lack of satisfaction.

5.5 Limitations of the study

The study was limited by anumber of factors that may be affected the findings. The small number of conventional banks with Islamic windows did not give us sufficient results considering the fact that there are many conventional banks in Kenya. The study was only conducted in Nairobi, where most of the bank'sheadquarters reside, may be if the research was done in other areas it would have given different opinion. The questionnaire also limited the results since the answers or options were predefined, had it been interviews we would have had more facts in relation to growth of Islamic windows.

5.6 Areas for further researches

Since competition from fully fledged banks and socio-cultural factors have no significant contribution to the growth of Islamic windows in conventional banks there is need of further study to establish the other variables that support regulatory framework as the significant factors related to growth of Islamic banks which will try to explain the remaining 43.6% of determinants of growth of Islamic windows.

I also recommend Future research tobe conducted specifically a comparative study of the growth between fully fledged Islamic banking and conventional banks with Islamic windows.

Similar study should be done but specifically targeting non-Muslim customers to find out their influence on the growth of Islamic windows and Islamic banking in general.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

ABDALLAH MAMBODALLU
Reg. No: 16/03677
School of Business& Public Management
KCA University

Dear Sir/Madam

RE: TRANSMITTAL LETTER FORDATA COLLECTION

I am conducting a research in partial fulfillment for the award of Master Degree in Business Administration at KCA University. The study being undertaken is on *"**Growth related challenges facing Islamic banking windows in Kenyan conventional banks**"*

I kindly request your assistance and cooperation in responding to the questions attached herewith. Assurance is given that the information given will be treated as private and confidential for academic purposes as aforementioned.

Thanks for your cooperation and understanding.

Yours faithfully,
Abdallah Mambo

APPENDIX II: QUESTIONAIRE

My name is Abdallah Mambo Dallu, a student at KCA University, undertaking a Masters of Business Administration degree, (Corporate Management option). I am undertaking a research proposal on **Growth related challenges facing Islamic banking windows in Kenyan conventional banks.** You have been selected as a respondent for this research as you are relevant to this study.Please take your time to respond to the following questions.

Kindly answer the following questionnaire by ticking (√) in the appropriate box.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male [] Female[ ]
2. Age bracket:
   18-24 years [ ] 25-31 years [ ]
   32-38 years [ ] 39-45 years [ ]
   46- 55 years [ ] Above 55 years [ ]
3. Level of education:
   Diploma [ ] Undergraduate [ ]
   Postgraduate [ ]
4. Period you have worked in the organization
   Below 5 years [ ] Between 5-10 years [ ]
   More than 10 years [ ]
5. Your position in the organization: ……………………………………………………..
6. Banking institution: ………………………………………………………………….

SECTION B: Regulatory Framework and growth of Islamic Windows in Conventional banks

Rate the extent to which Regulatory Framework influences the growth of Islamic Windows in conventional banks in Kenya. Use a scale of 1-5 where **1**- Strongly Disagree (**SD**), **2**- Disagree (**D**), **3**- Neutral (**N**), **4**- Agree (**A**), **5**-Strongly Agree (**SA**)

		SD	**D**	**N**	**A**	**SA**
7.	The bank has being influenced by the regulatory Framework on the Implementation of Islamic windows.					
8.	Legal Support is the major challenge facing the Islamic banking industry					
9.	Commercial banking laws contain provisions that prohibit the scope of Islamic banking activities within conventional limits					
10.	There are appropriate commercial banking laws for implementation of Islamic banking and financial contracts					
11.	Weak regulatory framework reduce public confidence in the financial system which delay necessary structural reforms in growth of Islamic Windows					
12.	Legal framework ensure efficiency of Islamic banking system					

SECTION C:Competition from fully fledged Islamic banksand growth of Islamic Windows in Conventional banks

Rate the extent to which Competition from fully fledged Islamic banks influences the growth of Islamic Windows in conventional banks in Kenya. Use a scale of 1-5 where **1**- Strongly Disagree (**SD**), **2**- Disagree (**D**), **3**- Neutral (**N**), **4**- Agree (**A**), **5**-Strongly Agree (**SA**)

		SD	D	N	A	SA
13.	Increased competition from fully fledged Islamic banks affect the efficiency of the Islamic windows					
14.	Fully fledged Islamic banks have better strategies to attract customers than conventional banks with Islamic windows					
15.	Reputation is crucial factors to gain customers' confidence in bank					
16.	Quality of service from fully fledged Islamic banks affects greatly the choice of the bank.					
17.	Fully fledged Islamic banks have better products than conventional banks with Islamic window.					
18.	Conventional banks with Islamic windows benchmark the services they provide with fully fledged Islamic banks.					
19.	Quality Service affect the choice between the fully fledged Islamic banks and Islamic windows					

SECTION D: Availability of Islamic tradable financial instrumentsand growth of Islamic Windows in Conventional banks

Rate the extent to which Availability of Islamic tradable financial instrumentsinfluences the growth of Islamic Windows in conventional banks in Kenya. Use a scale of 1-5 where **1-** Strongly Disagree (**SD**), **2-** Disagree (**D**), **3-** Neutral (**N**), **4-** Agree (**A**), **5**-Strongly Agree (**SA**)

		SD	D	N	A	SA
20.	Financial products nature, price, influence implementation of Islamic windows					
21.	Sharia'h guides the nature of financial products in Islamic windows					
22.	Islamic windows have unique products that are non-existence in fully fledged Islamic banks					
23.	The growth of Islamic market has influence the number of customers registering with Islamic windows					

24.	Islamic windows have numerous tradable products to offer to its customers.					
25.	Islamic windows offers a range of services which ensures its growth					

SECTION E:Socio-Cultural factorsand growth of Islamic Windows in Conventional banks

Rate the extent to which Socio-culturalfactorsinfluences the growth of Islamic Windows in conventional banks in Kenya. Use a scale of 1-5 where **1**- Strongly Disagree (**SD**), **2**- Disagree (**D**), **3**- Neutral (**N**), **4**- Agree (**A**), **5**-Strongly Agree (**SA**)

		SD	**D**	**N**	**A**	**SA**
26.	Religious perspective influences customers' choice of Islamic bank					
27.	Consumers' choice on Islamic banking products is based on dimensions of value, cost, and prior satisfaction					
28.	Customers' beliefs determine attitudes towards Islamic Windows					
29.	Non-Islamic customers refuse to invest in companies engaged in unethical socially harmful activities					
30.	Consumers perceive financial services and products that conform to Islamic religious principles pose special challenges/ risks					
31.	Muslim customers believe that Islamic windows are different from interest based banks.					
32.	Islamic Windows are meant for Muslim customers only					
33.	Islamic windows lack personnel that are knowledgeable on issues with Islamic banking.					
34.	Sharia'h guides the nature of financial products in Islamic banks					

SECTION F:Growth of Islamic Windows in Conventional banks

Rate the extent the growth of Islamic Windows in conventional banks in Kenya. Use a scale of 1-5 where **1-** Strongly Disagree (**SD**), **2-** Disagree (**D**), **3-** Neutral (**N**), **4-** Agree (**A**), **5**-Strongly Agree (**SA**)

		SD	**D**	**N**	**A**	**SA**
35.	Islamic windows Clientele has increased drastically since its inception.					
36.	Islamic windows have retained their customers despite the challenges they face.					
37.	The number of banks with Islamic windows isincreasing by a large percentage each year.					
38.	Islamic windows are attracting many customers to open accounts with them					
39.	Islamic windows affects the profitability of a bank					

APPENDIX III: TIME SCHEDULE

ACTIVITY	JUNE	JULY	AUG	SEP
Research topic discussion with supervisor				
Proposal writing and discussion with supervisor				
Presentation of the proposal				
Data Collection, Analysis and discussion with supervisor				
Project presentation				