



## ANALYSING PRODUCT UTILIZATION BY ISLAMIC RETAIL BANKS: THE CASE OF BAHRAIN ISLAMIC BANK AND KUWAIT FINANCE HOUSE-BAHRAIN



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### ABSTRACT

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Having its total assets to be estimated at USD 2.05 trillion as of 2017, the Islamic financial industry seems to have experienced a tremendous growth within a short span of time. The Kingdom of Bahrain has arguably been considered as one of the global Islamic financial hubs. Yet, a review of literature suggests that contemporary Islamic finance researches that use this jurisdiction as a case study seems to be minimal, indicating an existence of an imperative research gap. The purpose of this research was to partially fill this gap by analysing the main Islamic financial products utilized in the Islamic retail banking industry in the Kingdom of Bahrain, including the reasons for its utilization. This research qualitatively and empirically analysed the utilization of Islamic financial products by two Islamic retail banks in the Kingdom of Bahrain, namely Bahrain Islamic Bank and Kuwait Finance House-Bahrain. The findings indicate that *murābaha*, *tawarruq*, and *ijāra muntahia bil tamlik* are the main Islamic financial products utilized for financing purposes, while *mudhārabā* is the main concept utilized for the establishment of savings/investment accounts.

**Contribution/ Originality:** This research is one of the first researches on Kingdom of Bahrain as a case study which provides contemporary empirical data and analysis (2018 onwards) in relation to product utilization by the Islamic retail finance industry.

## 1. INTRODUCTION

Having its total assets to be estimated at USD 2.05 trillion as of 2017 (IFSB, 2018) the Islamic financial industry seems to have experienced a tremendous growth within a short span of time. This statement is significant because the industry is only around four decades old (Hassan, Kayed, & Oseni, 2012). Amongst the global Islamic financial industry is the Kingdom of Bahrain, which has arguably been considered as one of the global Islamic financial hubs (CBB, 2019). Yet, it seems interesting that a review of literature suggests that there may be limited contemporary empirical research papers on Islamic finance that uses the Kingdom of Bahrain as a case study. There seems to be a gap in the research arena in relation to what perhaps may be key empirical data pertaining to the Islamic financial industry.

As of 2019, the Kingdom of Bahrain is home to twenty-one fully-fledged Islamic banks, consisting of fifteen Islamic wholesale and six Islamic retail banks (CBB, 2019). As the Kingdom of Bahrain has been arguably considered one of the global Islamic financial hubs, it may be wondered what the practices are of the Islamic banks

in the Kingdom of Bahrain. What main financing mechanisms do these Islamic banks use? What are the key products that are utilized by the Islamic financial industry, or more importantly for this research, what are the most commonly utilized products by the Islamic retail banking industry? For what purposes, and how does the Islamic retail finance industry mainly utilize these Islamic financial products?

With this growing industry, adding contemporary data to literature is a useful contribution to its knowledge. This research specifically aims to add contemporary empirical data regarding the most commonly utilized Islamic financial products by Islamic retail banks in the Kingdom of Bahrain, and analyze how they are utilized. In order to fulfill this objective, the following research objectives were developed:

- To explore literature with regards to the main existing Islamic financial products.
- To investigate the practice, and analyze which products are most commonly utilized by the Islamic retail banking industry in the Kingdom of Bahrain.

Following the introduction, section 2 succinctly reviews literature pertaining to the main Islamic financial products used in the Islamic financial industry, in addition to reviewing existing literature in relation to Islamic banking product utilization in the Kingdom of Bahrain. Thereafter, section 3 is the research methodology section that discusses the use of a qualitative methodology and the Kingdom of Bahrain as a case study, by using two Islamic retail banks, namely Bahrain Islamic Bank and Kuwait Finance House-Bahrain as case studies. Section 4 is the empirical section that qualitatively analyses the main Islamic financial products utilized by Bahrain Islamic Bank and Kuwait Finance House-Bahrain, while section 5 offers a conclusion.

## 2. REVIEW OF LITERATURE

Past Literature suggests that there are a number of common Islamic financial products used by the Islamic financial industry. This may mainly include *murābaha* (cost-plus sale), *tawarruq* (monetization), *ijāra* (lease), *mushāraka* (contractual partnership), and *mudhārabā* (trust financing), amongst others (Hassan et al., 2012). As the research relates to analyzing which products may most commonly be used by the Islamic retail financial industry, this section reviews literature pertaining to these mentioned Islamic financial products, followed by reviewing existing literature pertaining to the utilization of Islamic financial products in the Kingdom of Bahrain.

### 2.1. Main Islamic Financial Products

A review of literature indicates that *murābaha* is considered one of the most common Islamic financial products used by the Islamic banking industry (Ayub, 2007). A *murābaha* transaction generally involves a credit sale, where a seller would sell a commodity by adding a profit margin to the initial purchased amount (Ibn Qudamah, 1997). Literature suggests that the initial purchase price of the commodity should be conveyed to the buyer (Alkhan, 2020a) so that the buyer is aware of the added profit margin for transparency purposes (Ibn Qudamah, 1997). This phenomenon represents a sense of fairness, since transparency in financial dealings is considered as a positive trait. The main purpose of a *murābaha* is for the buyer (or otherwise known the financed party in an Islamic banking transaction) to gain a physical hold of the asset in order to benefit from it (AAOIFI, 2015). Therefore, rather than providing an interest-based loan - which is considered to be prohibited in Shari'a (Khan, 1986; Visser & Macintosh, 1998) - an Islamic bank will simply purchase an asset (through spot payment) and sell it to the client on credit for a known higher amount (Ayub, 2007). This may represent a financing mechanism that may be in line with *Shari'a* (Islamic law) requirements.

It is worth mentioning here that although *murābaha* may represent a sale-based financing transaction, literature further suggests that not all sale-based transactions necessarily serve an ultimate purpose for a client to gain physical hold and benefit from a purchased asset. In this regard, literature suggests that *tawarruq* may also be considered as a sale-based transaction (Mohamad & Ab Rahman, 2014). A key difference between a *tawarruq* and a *murābaha*, is that rather than gaining a physical hold and benefit from the purchased asset, a *tawarruq* typically

involves an additional step where the financed party (who purchased the commodity on credit) would sell the purchased commodity to a third party buyer for spot payment in order to receive cash or liquidity (Mihajat & Hasan, 2014). Thus, the ultimate purpose of a *tawarruq* is to receive cash (Al-Bahuti, 2003) and not to gain a physical hold and benefit from the asset, which seems to be the case for *murābaha* transactions.

Literature further suggests that *tawarruq* may also be one of the common products utilized by the in Islamic banking industry (Kahf & Habbani, 2016). This may be interesting because literature shows that the permissibility of *tawarruq* according to *Shari'a* remains to be a continued issue of debate (Ahmed & Aleshaikh, 2014). Even more so, the main areas of the *tawarruq* debate does not seem to relate to *tawarruq* as practiced by individuals - otherwise known as unorganized *tawarruq* (Al-Enezi, 2015) - where an individual may purchase an asset through credit and thereafter seek to find a third party buyer in the market who may purchase the asset for a spot payment, in order for the seller to receive liquidity. Rather, the debate seems to mainly relate to a concept known as organized *tawarruq*, which is the type of *tawarruq* practiced by Islamic banks (Alkhan & Hassan, 2019).

Banking *tawarruq* mainly involves an organized mechanism where all the buyers and sellers in a *tawarruq* transaction agree in a predetermined manner to see how the transaction takes place. Thus, the client who intends to purchase a commodity on credit may have already agreed with a third party buyer that he intends to sell the commodity to the third party following the purchase of the commodity (Alkhan & Hassan, 2019). A detailed analysis of the *tawarruq* debate also may have been provided Alkhan and Hassan (2019), however, in relation to this research, it may be sensed from literature that the sale-based Islamic financial products mainly include *murābaha* and *tawarruq*.

On a separate note, a review of literature suggests that Islamic financial products also include lease-based transactions (Hassan et al., 2012). The main product in this regard seems to be a product known as *ijāra*, or *ijāra* and the related products such as *ijāra muntahia bil tamlik* (lease-to-own) (Ayub, 2007). There is a further suggestion that *ijāra* as an Islamic financial product may also be considered as one of the most commonly utilized products in the Islamic banking industry (Abdul-Rahman, 2010; Kettel, 2011). Generally, an *ijāra* involves one party providing a certain benefit to a beneficiary for a specified period of time, where the beneficiary would pay a certain amount in compensation for attaining such a right (Ibn Al-Najjar, 1999). Due to *ijāra* being a leased-based transaction, *ijāra* seems to generally involve a lessor and lessee relationship (Al-Hattab, 2010).

Additionally, literature further suggests that one of the most common forms of *ijāra*, which may commonly be referred to as *ijāra muntahia bil tamlik* (lease to own), may also be commonly utilized by the Islamic banking industry. An *ijāra muntahia bil tamlik* may also involve the same concept of a normal *ijāra*, however the legal ownership of the leased asset can be transferred to the lessee at the end of the lease period (Al-Hafi, 2000). In the context of Islamic banking, Islamic banks seem to use *ijāra mutahia bil tamlik* as a financing product where an Islamic bank lease it as a financed asset to a client, in a manner that ultimately enables the client to gain ownership of the asset at the end of the lease period (and financing tenor) (Ayub, 2007). Alkhan (2020a) seems to provide empirical evidence suggesting that *ijāra muntahia bil tamlik* may usually be utilized as an Islamic financial product to finance higher valued assets with longer tenors of financing, relative to *murābaha* transactions. This may be due to various traits involved with the *murābaha* and *ijāra* products (Alkhan, 2020a).

On a separate note, literature suggests that Islamic financial products may also include partnership modes of financings (Hassan et al., 2012). In this regard, the two main products based on partnerships seem to be *mushāraka* (contractual partnership) and *mudhāraba* (trust financing) (Ayub, 2007). However, although *mushāraka* may be considered as one of the main Islamic financial products, it may not necessarily be highly utilized by the Islamic banking industry relative to other products such as *murābaha* and *ijāra* (Alkhan., 2020b). Classical *Shari'a* literature seems to suggest that the term *mushāraka* literally means sharing (Ibn Mandhur, 2013). Contemporary Islamic financial literature suggests that *mushāraka* generally refers to a contractual agreement between two or more parties, who combine their assets and labour for partnership purposes in order to generate profits (Ali & Hussain,

2017). Also, one of the common forms of *mushāraka* may include a *mushāraka mutanāqisa* (diminishing partnership) (Rahman, Hilmy, Saifurrahman, & Hassan, 2018). According to literature, a *mushāraka mutanāqisa* seems to generally refer to a normal partnership, but here one party ultimately purchases the shares off the other partner (usually through a gradual process) (Mikail, 2016). Contemporary Islamic financial literature also suggests that Islamic banks are utilizing *mushāraka mutanāqisa* as an Islamic financing product, where the client and Islamic bank jointly purchase an asset, and where the client ultimately purchases the shares of the Islamic bank through certain procedures (Nor et al., 2019). Additionally, it seems that *mushāraka mutanāqisa* has been mainly utilized as one of the choices for property financing (Muneeza et al., 2016).

The second main partnership-based product, which is known as *mudhāraba*, generally involves a partnership where one party contributes the capital (referred to as *rub il mal*), and another party invests this capital through entrepreneurial activities (known as *mudhārib*) (Hassan et al., 2012). A key difference between a *mudhāraba* and a *mushāraka* is that in a *mudhāraba*, solely one party contributes the capital (Ayub, 2007). Thus, it may be argued that since the party investing the capital through entrepreneurial activities also financially contributes to the capital; hence, this would lead to the transaction being called a *mushāraka* rather than a *mudhāraba*. Literature suggests that Islamic banks have been utilizing *mudhāraba* as an Islamic financial product for various purposes, including the establishment of savings and investment accounts based on *mudhāraba* principles (AAOIFI, 2015).

To conclude this section, it is found in the past studies that the main Islamic financial products utilized by the Islamic banking industry include *murābaha*, *taawarruq*, *ijāra*, *mushāraka*, and *mudhāraba*. The empirical section further analyzes which of these Islamic financial products are utilized by the Islamic retail financial industry, including analyzing for the purposes for which these Islamic financial products are utilized by the Islamic retail financial industry.

## 2.2. Islamic Financial Products Utilized by Islamic Retail Banks in Bahrain

Past studies pertaining to the utilization of Islamic financial products by Islamic banks in the Kingdom of Bahrain suggest a limited utilization. Although the Kingdom of Bahrain (along with Malaysia) is viewed as justified jurisdictions for Islamic banking case studies, therefore this seems to exist as a significant jurisdiction. It still however seems to be limited. For example, Samad, Gardner, and Cook (2005) analysed the Islamic banking theory and practice by using the Kingdom of Bahrain in one of its case studies along with Malaysia (Samad et al., 2005) however the study does not necessarily specifically relate to the utilization of Islamic banking products by Bahraini Islamic retail banks. Another example is a research article which examined the performance and risk analysis of a Bahraini Islamic bank as a case study (Turen, 1996). Another example of the limitations of Islamic banking research is that the existing literature relates only to different aspects of research areas rather than investigating the use of specific Islamic financial products within the Islamic retail financial industry. For example, a recently published informative research article involves examining the compliance of disclosure with financial accounting standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), which used the Kingdom of Bahrain in one of its case studies along with the State of Qatar (Al-Sulaiti, Ousama, & Hamammi, 2018). Another example in this regard includes a research article discussing the role of *waqf* (Islamic trust) in financing education, using a *waqf* fund established by the Central Bank of Bahrain as a case study (Furstenberger, Hidayat, & Hwa, 2017). This supports the notion that Islamic finance research pertaining to product utilization by Islamic retail banks in the Kingdom of Bahrain is somewhat limited.

Hence this research intends to fill this gap by providing an analysis of product utilization by Islamic retail banks in the Kingdom of Bahrain. The following section, discusses the research methodology that was applied to fulfill this objective.

### 3. RESEARCH METHODOLOGY

Research Methodology should match with the type of research problem (Noor, 2008); hence this research used the qualitative research methodology, which is accepted as the most suitable methodology to ascertain prominent issues (Corbin & Strauss, 2008) and involves undertaking specific procedures to accomplish the aims set out for a research project (Dawson, 2002; Munro, 2006). Furthermore, this research used single case method study approach by analyzing the cases of two Islamic retail banks in the Kingdom of Bahrain, namely Bahrain Islamic Bank (BIsB) and Kuwait Finance House-Bahrain (KFH-BH). These two Islamic retail banks represent one-third of the Islamic retail financial industry in the Kingdom of Bahrain (CBB, 2019).

This type of case study design may be referred to as a “single/embedded” case study design (Gray, 2009). The single factor represents the single jurisdiction, which is the Kingdom of Bahrain, while the embedded factor represents multiple units of analysis used for the empirical enquiry (Yin, 2003) which are the two chosen Islamic retail banks. This case study design was viewed appropriate since two Islamic retail banks rather than one may provide a comparative analysis between the two Islamic retail banks that may strengthen the empirical enquiry. Figure 1 displays the research methodology and case study design used for the empirical enquiry.

## Qualitative Methodology

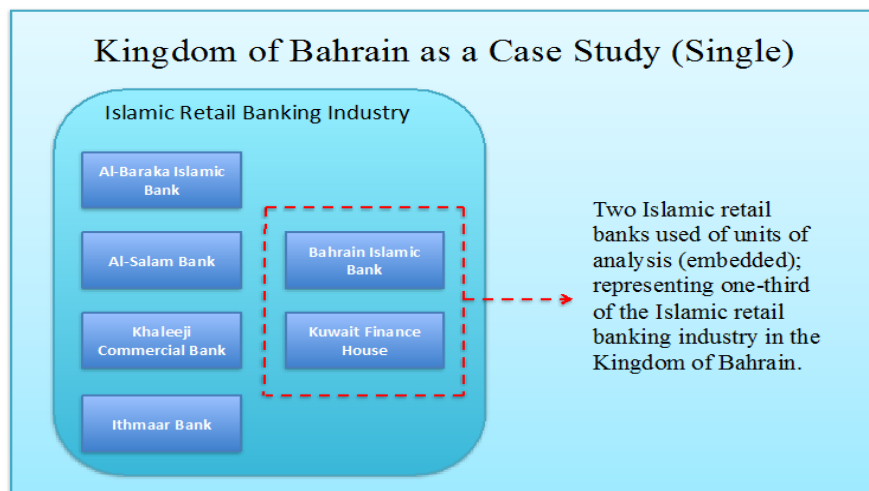


Figure-1. Research methodology and case study design.

#### 3.1. Methods of Data Collection and Analysis

This research has solely used secondary data. It mainly uses the consolidated statements of financial position for the year 2018 for both Bahrain Islamic Bank and Kuwait Finance house-Bahrain. This was because it was expected that the Islamic financial products utilized by Islamic retail banks are visible within their financial statements. Also, where relevant, information included within the websites for both banks was also available to understand the reasons for using specific financial products by Islamic banks.

## 4. EMPIRICAL DATA AND ANALYSIS

### 4.1. Bahrain Islamic Bank

A consolidated statement of financial position for the year 2018 of Bahrain Islamic Bank reveals that Bahrain Islamic Bank utilizes a number of Islamic financial products such as *murābaha*, *tawarruq*, *ijāra*, *mushāraka*, and *mudhāraba* (BIsB, 2018) as also revealed from the review of literature. Moreover, the assets section of the financial statements for Bahrain Islamic Bank declares ‘financing assets’ consisting of two products, namely *murābaha* and *mushāraka*. As for *tawarruq*, which literature referred to as a distinct financial product, was included within the *murābaha* category. In a further breakdown of *murābaha* transactions, the *tawarruq* was also included as a financial

product as a part. This is because *tawarruq* represents a sale-based financing product similar to a *murābaha*, where both Islamic financial products are utilized as credit sales for financing purposes. However, a key additional step in *tawarruq* is selling the financed asset onto a third party for spot payment rather than maintaining ownership of the commodity to benefit from it. This additional step is conducted because the ultimate purpose of a *tawarruq* is to obtain cash financing, rather than gaining a physical hold and benefit from the financed asset, which seems to be the case in *murābaha*.

The consolidated statement of financial position for the year 2018 for Bahrain Islamic Bank shows *murābaha* transactions (which includes *tawarruq* financings) totaling around BHD 482m. To clarify this matter further, Table 1 displays an extract of the *murābaha* breakdown for Bahrain Islamic Bank extracted from the consolidated statement of financial position for Bahrain Islamic Bank for 2018.

Table-1. Murābaha breakdown: Bahrain Islamic bank.

Murabaha	2018	2017
	BD'000	BD'000
Tasheel	217,622	206,855
Tawarooq	214,778	195,474
Altamweel Almaren	82,128	64,912
Letters of credit refinance	32,819	27,229
Motor vehicles Murabaha	7,858	9,625
Credit Cards	18,596	17,992
Others	46	58

Source: Extract from BISB 2018 annual report.

Table 1 reveals that *murābaha* is used for diverse financing products. This includes *murābaha* for financing motor vehicles, which totaled around BHD 7.6m. An interesting factor is that *murābaha* is also utilized for credit cards, as it totaled around BHD18.6m within the *murābaha* breakdown for financing assets. This proves that the product structure used by Bahrain Islamic Bank for issuing Islamic credit cards is based on *murābaha*.

Furthermore, *tawarruq* is also included in the *murābaha* breakdown, as evident in Table 1. This suggests that *tawarruq* transactions may represent a majority of *murābaha* transactions as they totaled around BHD 215m. Similarly, the entry for 'Tasheel' also totaled around BHD 218m because it was included in the product structure of *tasheel* as displayed on the website of Bahrain Islamic Bank. *Tasheel* too thus represents a personal financing product for clients who wish to obtain cash, under the principle of *tawarruq* (BISB, 2020). Hence, by including the *tasheel* amount of BHD 218m, the total amount for *tawarruq* transactions totaled around BHD 433m, which represents a clear majority of *murābaha* breakdown of financing assets.

These findings reveal that in the case of Bahrain Islamic Bank, *murābaha* is mainly utilized for financing motor vehicles and credit cards, while *tawarruq* is utilized for personal cash based financings, while *tawarruq* contributes as a part of *murābaha* financing assets. The consolidated statement of financial position for Bahrain Islamic Bank for the year 2018 also indicates that a partnership-based financing product, namely *mushāraka*, is utilized as an Islamic financial product. It is because *mushāraka* assets totaled around BHD 100m which out of which a majority financing was 'mushāraka in real estates.' This shows that *mushāraka* is utilized as an option for real estate financing.

The consolidated statement of financial position for Bahrain Islamic bank for the year 2018 also revealed that leased-based financing assets, namely *ijāra* and *ijāra muntahia bil tamlik*, are utilized by Bahrain Islamic Bank as Islamic financial products. However, it remains unclear however why *ijāra* and *ijāra muntahia bil tamleek* were not included as a financing tool within the financing assets entry under the assets section of the consolidated statement of financial position for Bahrain Islamic Bank for 2018. Instead, both *ijāra* and *ijāra muntahia bil tamleek* can be seen as dedicated entries within the assets section of the financial statement, which totaled around BHD 21m and BHD 167m, respectively. An extract of the entries for *ijāra* and *ijāra muntahia bil tamleek* on the assets side of the

consolidated statement of financial position for Bahrain Islamic Bank is further displayed in Table 2, which will clarify this matter further.

Table-2. Ijarah and Ijarah Muntahia bil Tamleek: Bahrain Islamic Bank.

Assets	2018	2017
	BD'000	BD'000
Ijarah Muntahia Bit tamleek	166,730	164,397
Ijarah rental receivables	21,141	14,483

Source: Extract from BIsB 2018 annual report.

Upon analysing the utilization of *ijāra* as an Islamic financial product, it is observed that *ijāra muntahia bil tamlik* is utilized at a higher value in terms of asset size. This could be because *ijāra muntahia bil tamlik* is usually utilized for higher valued assets with longer financing tenors (such as home financings), as suggested in the literature. Interestingly, although there are evidence to suggest that both *ijāra* and *ijāra muntahia bil tamleek* are utilized by Bahrain Islamic Bank, but with a higher value assets it is clearly seen that *ijāra muntahia bil tamleek* represents the main Islamic financial product utilized by Bahrain Islamic Bank for financing purposes.

Lastly, in the case of *mudhārabā*, its utilization does not seem as clear as of *murābaha*, *taxwarruq*, and *ijāra* products within the consolidated statement of financial position for Bahrain Islamic Bank for the year 2018. This could be because *mudhārabā* as an Islamic financial product is not recommended as a financing tool. However, the utilization of *mudhārabā* is evident in two areas of the available secondary data. First, the consolidated statement of financial position for Bahrain Islamic Bank for the year 2018 displays certain percentages in relation to diverse account holders, where a *mudhārib* share is included. This indicates that there are depositors who deposit their amounts in accounts held by Bahrain Islamic Bank based on the principles of *mudhārabā*, where the clients/depositors are considered as *rub il mal* (capital provider), and where Bahrain Islamic Bank is considered as the *mudhārib* (entrepreneur who invests the capital). The second area of secondary data that supports this notion is the Shari'a Supervisory Board *fatwa* (juristic opinion) of Bahrain Islamic Bank which recommends clients to establish saving accounts. The Shari'a Supervisory Board *fatwa* also indicates that Bahrain Islamic Bank offers these accounts by using the concept of *mudhārabā*. Thus, it undoubtedly *mudhārabā* is utilized by Bahrain Islamic Bank as an Islamic product, for account holders' purposes if not necessarily for financing purposes. This is sufficient to prove why *mudhārabā* is not displayed under the assets in the consolidated statement of financial position for Bahrain Islamic Bank.

To conclude this section, findings of this study are consistent with those of the previous studies which suggest that Islamic financial products utilized by Bahrain Islamic Bank in terms of assets include *murābaha*, *taxwarruq*, *mushāraka*, and *ijāra muntahia bil tamlik* for financing purposes, while *mudhārabā* is utilized for accepting funds for savings and/or investment purposes. It however remains empirically unclear as to why *mudhārabā* is not utilized as a financing product.

The next section provides the empirical data and analysis for Kuwait Finance House-Bahrain, supported by statistical evidences and a brief comparative analysis with Bahrain Islamic Bank.

#### 4.2. Kuwait Finance House-Bahrain

The consolidated statement of financial position for Kuwait Finance House-Bahrain (KFH-BH) for the year 2018 is much similar to that of Bahrain Islamic Bank, however it is reported differently. First, 'financing assets' on the assets side are mentioned as 'financing contracts', indicating that it is a similar practice but shown in a slightly different terminology (KFH-BH, 2018). Second, along with *murābaha* and *mushāraka* as financing contracts, there is also a separate entry on the assets side for *ijāra muntahia bil tamleek* (similar to the Bahrain Islamic Bank). Hence,

KFH-BH included *murābaha*, *mushāraka*, as well as *ijāra muntahia bil tamlik* as ‘financing contracts’ on the assets side (which totaled around BHD 887m for the year 2018).

A question arises here is that if these three Islamic financial products represent financing assets, it remains unclear why Bahrain Islamic Bank did not consider *ijāra muntahia bil tamlik* under financing contracts, as done by KFH-BH and revealed in their breakdown of the financing contracts showing *murābaha*, *mushāraka*, and *ijāra muntahia bil tamlik* (KFH-BH, 2018). This is further clarified in Table 3 showing an extract of the breakdown for financing contracts of KFH-BH:

**Table-3.** KFH-BH financing contracts (Self-Funded).

Financing Contracts				
				Ijarah
				Muntahia
	Murabaha	Musharaka	Bittamleek	Total
Self-financed	BD 000	BD 000	BD 000	BD 000
Stage 1: 12-month ECL	176,498	121,000	225,439	402,508
Stage 2: Lifetime ECL not credit-impaired	19,060	-	37,874	56,934
Stage 3: Lifetime ECL credit impaired	16,438	40,000	26,712	43,190

Source: Extract from KFH-BH 2018 annual report.

Upon analysing the financing contracts’ asset sizes of both banks under study, it is noteworthy that unlike Bahrain Islamic Bank, KFH-BH possesses a larger asset size for *ijāra muntahia bil tamleek* relative to *murābaha*. Additionally, what may be more noteworthy is that these financing contracts were ‘self-financed’ as shown in Table 3 above. This indicates that as a segment of its financing portfolio, KFH-BH partly finances its clients through its own funds, and partly through funds obtained from investors (or account holders) as *mudhāraba* funds. This conclusion is supported by statistics that show a separate breakdown for financing contracts as funded through investment account holders’ funds. Table 4 may illustrates this observation:

**Table-4.** KFH-BH financing contracts (financed through Investment account holders’ funds).

Financing Contracts				
				Ijarah
				Muntahia
	Murabaha	Musharaka	Bil tamleek	Total
Financed through Investment account holders' funds	BD 000	BD 000	BD 000	BD 000
Stage 1: 12-month ECL	142,821	-	182,424	325,245
Stage 2: Lifetime ECL not credit-impaired	15,423	-	30,647	46,070
Stage 3: Lifetime ECL credit impaired	13,302	-	21,616	34,918

Source: Extract from KFH-BH 2018 annual report.

Table 4 also suggests that when investors deposit their amounts in *mudhāraba* funds, KFH-BH can invest these funds by financing other clients (for example: *murābaha* or *ijāra muntahia bil tamleek* financings). Thus, it can be concluded that partially, Islamic retail banks do invest funds held within account holders’ funds to finance other clients. Also, since financing clients can also lead to an Islamic retail obtaining profits, this needs clarification how profits should be distributed between the *mudhārib* (Islamic retail bank) and *rub il mal* (clients/investment account holders) or there should be a predetermined agreement.

The above analysis of Bahrain Islamic Bank and KFH-BH thus suggests that Islamic retail banks in the Kingdom of Bahrain utilize *mudhāraba* by obtaining funds through investment account holders, and utilize those funds to finance other clients based on *murābaha*, *mushāraka*, and/or *ijāra muntahia bil tamlik*. As for *tawarruq*, evidence seems to suggest that KFH-BH does utilize *tawarruq*, but not as ostensibly as Bahrain Islamic Bank (KFH-BH, 2020). However, the evidence suggest that both banks utilize *tawarruq* for cash financing. This leads us to



conclude that Islamic retail financial practices in Bahrain Islamic Bank and KFH-BH are similar in nature, with minor differences and/or reporting practices.

4.3. Empirical Summary

The empirical analyses of the findings of the two banks, Bahrain Islamic Bank and Kuwait Finance House-Bahrain, suggest that the Islamic retail financial practices in terms of product utilization for both units of analysis are similar in nature. The evidence suggest that both Islamic retail banks use *murābaha*, *tawarruq*, *mushāraka*, *ijāra*, *ijāra muntahia bil tamlik*, and *mudhāraba* for Islamic retail financial purposes. It is also evident that both Islamic banks generally use *murābaha*, *tawarruq*, *mushāraka*, and *ijāra muntahia bil tamlik* for financing purposes, while they adopt a *mudhāraba* only for the purposes of establishing savings/investment accounts. Evidence also suggests that Islamic retail banks utilize *mudhāraba* funds deposited by account holders for the purpose of investments, through *murābaha*, *mushāraka*, and/or *ijāra muntahia bil tamlik*. It remained however empirically unclear as to why *mudhāraba* as an Islamic financial product is not utilized by Islamic retail banks for other financing purposes. This may be considered as a limitation. Figure 2 displays the empirical summary in relation to the above analyses of product utilization by Islamic retail banks in the Kingdom of Bahrain.

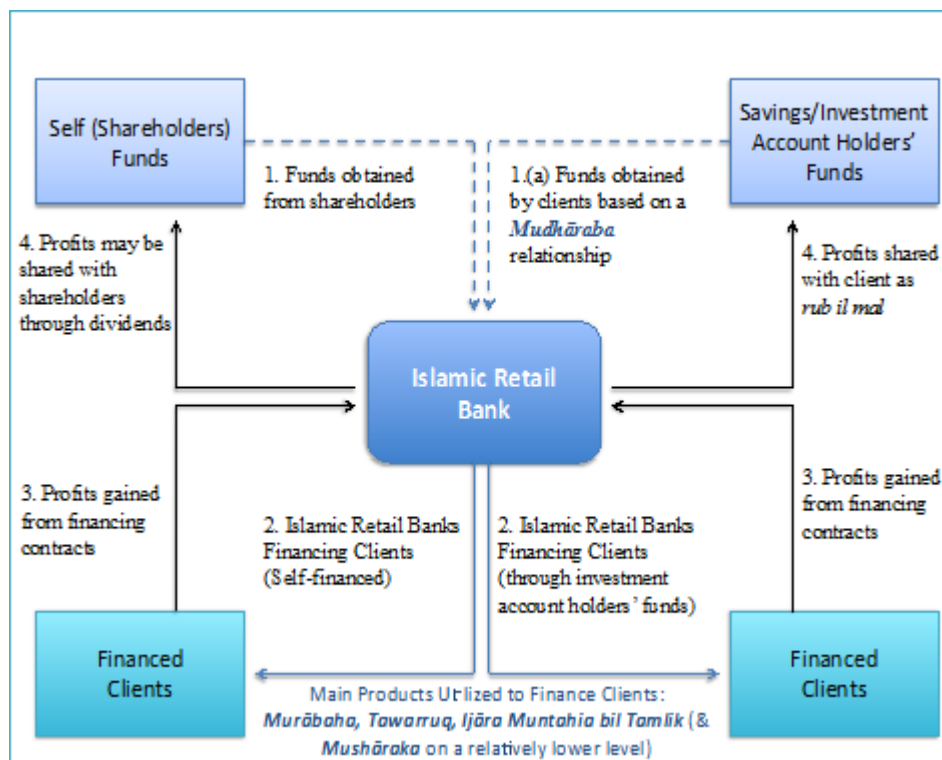


Figure-2. Product utilization by Islamic retail banks in Bahrain.

5. CONCLUSION

The Islamic financial industry has experienced a noticeable growth since its establishment around fifty years ago. Evidence suggests that as of 2017, the total assets of the Islamic financial industry totaled around USD 2.05 trillion. The Islamic retail financial industry is a significant segment of the entire Islamic banking industry.

The review of literature indicates that there are several types of modern Islamic financial products that have come into existence as alternatives for conventional interest based products (which may be considered as prohibited in *Shari'a*). This mainly includes *murābaha*, *tawarruq*, *mushāraka*, *ijāra*, and *mudhāraba*. Since conventional retail banking mainly includes borrowing funds from depositors and lending them to financed clients by charging higher

interest rates, the Islamic retail banking industry uses modern Islamic financial products and engages in Islamic retail banking practices.

This research analyzed the product utilization by the Islamic retail banking industry, by using two Islamic retail banks based in the Kingdom of Bahrain as case studies, namely, Bahrain Islamic Bank and Kuwait Finance House-Bahrain. The Kingdom of Bahrain has arguably been considered as one of the global Islamic financial hubs, and this justifies the use of this jurisdiction as a case study. The literature review also suggests that the Kingdom of Bahrain has been relatively less used in Islamic banking research case studies, which also further justifies the use of this jurisdiction as a case study. Thus, by providing empirical data and analyses pertaining to this jurisdiction, this research has attempted to fill this gap by providing contemporary empirical research data that has contributed to the knowledge of this domain.

The empirical results also reveal that both Islamic retail banks (Bahrain Islamic Bank and Kuwait Finance House-Bahrain) utilize *murābaha*, *tawarruq*, *mushāraka*, *ijāra*, and *mudhārabā* as Islamic financial products to offer Islamic retail banking services. The methodology of utilization for such products differs however. For instance, the empirical evidence suggest that *murābaha*, *tawarruq*, and *ijāra muntahia bil tamlik* are the main Islamic financial products utilized by the Islamic retail banking industry for Islamic financing purposes whereas *Mushāraka* though utilized as an Islamic financing tool but at a lower scale relative to other Islamic financing products. Similarly, evidence suggests that *mudhārabā* is mainly utilized for establishing savings/investment accounts. The funds obtained by the Islamic retail banks from clients through these accounts represent a *mudhārabā* relationship where the Islamic bank is considered as the *mudhārib*, and the clients are considered as *rub il mal*. It remains empirically unclear why *mudhārabā* was not being utilized as a main Islamic financial product for financing purposes.

A number of limitations were encountered during the course of this research. First, qualitative researches are somewhat considered less valid than quantitative researches. Second, as the case study design solely included one jurisdiction, this affected the findings because other jurisdictions may have different practices which this study did not analyze. Third, the current research solely used only the secondary data obtained from accounts statements and other empirical financial resources. Due to this reason, the research failed to analyze the underlying philosophies and reasons as to why specific Islamic financial products are utilized only for certain specific and assigned purposes only. Therefore, it is suggested that empirical researches should be carried out by using different jurisdictions and case study designs, which can be termed as extension of this research study.

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