JELS Journal of Economics, Law & Society

ESREIN Economic and Social Research Institute

Islamic Finance as a Crisis-Resilient Framework: Insights from the Global Financial Crisis

Halima Alisic,[1*] Betul Dinc[1] & Anitë Salihu[1]
[1] *Lund University, Sweden*
**Email: halima.alisic@gmail.com*

Abstract

The Global financial crisis (GFC) or "the crisis" exposed significant weaknesses within the global financial system, largely stemming from financialization activities. This research paper explores the potential of Islamic finance (IF) principles to prevent financial crises while offering a more stable and equitable financial framework. A qualitative approach was adopted, involving interviews with various professionals in the IF field to explore the ethical and practical distinctions between conventional finance and IF. Key findings reveal the resilience of Islamic banks during the crisis can be attributed to their adherence to Shari'ah principles, which prohibit interest (riba), excessive uncertainty (gharar), and speculative activities (maysir). The study emphasizes the advantages of asset-backed financing and profit-sharing models, which align financial activities with the real economy, thereby fostering long-term stability. By highlighting the practical benefits of the ethical framework underpinning IF, this research contributes to the broader discourse on financial crisis prevention.

Article History
Received: September 5, 2024
Accepted: December 7, 2024
Published: December 30, 2024

Keywords
Islamic finance, financial crisis, ethical finance, financialization, CSR, regulation

JEL Codes
G21; G38;

How to Cite
Alisic, H., Dinc, B., & Salihu, A. (2024). Islamic Finance as a Crisis-Resilient Framework: Insights from the Global Financial Crisis. Journal of Economics, Law and Society, 1(2), 37-53. https://doi.org/10.70009/jels.2024.1.2.3

1. Introduction

In July 2007, as the world stood on the brink of a major financial crisis, Citigroup CEO Charles Prince famously remarked, "When the music stops... things will get complicated. But as long as the music is playing, you've got to get up and dance" (Nakamoto & Wighton, 2007). This statement epitomized bankers' awareness of their unsustainable practices, as well as their disregard for the risks associated with such behaviors, which ultimately culminated in the Global Financial Crisis (GFC). Financial crises have become increasingly frequent. Stiglitz (2003) notes over 100 crises in the preceding 35 years. Some of these crises have had catastrophic consequences. One such example is the GFC, which was triggered by a housing bubble and left the world questioning how it could have occurred. Initially, the crisis was attributed to regulatory failures, complex financial products, unethical behavior, and excessive risk-taking (Melvin & Taylor, 2009; Helleiner, 2011). However, other research links financial crises to interest and inflation (Crotty, 2009; Kennedy, 1995). The collapse resulted in bankruptcies, widespread job losses, and a multi-trillion-dollar bailout (Lewis et al., 2010; Acharya & Richardson, 2009; Coffee, 2009).

Historically, Abrahamic religions have either restricted or outright prohibited the charging of interest (usury) (Looft, 2014). However, only Islam continues to enforce such a prohibition today. Interestingly, Islamic banks were shown to be less affected by the crisis, suggesting their principles might offer greater financial stability (Baber, 2018; Al-Zumai, & Al-Wasmi, 2016; Farooq & Zaheer, 2015; Hussien et al. 2019; Elasrag, 2010; Diaw, 2015; Kayed & Hassan, 2011). Consequently, Islamic banking has emerged as a credible alternative to conventional banking, gaining recognition and expanding globally (Ahmed, 2010). Islamic principles, such as the prohibition of interest and promotion of ethical investment, could reduce the severity and frequency of financial crises by instilling greater discipline within the financial system (Hassan & Kayed, 2009).

This paper examines the potential of IF as a viable alternative to conventional finance in fostering economic stability and resilience against future financial crises. Specifically, it investigates how IF principles, which operate under a distinct set of ethical guidelines and regulatory frameworks, might provide a more stable financial environment than conventional finance. This study aims to identify key features that could shield economies from similar downturns in the future. To conduct this investigation, a qualitative case study approach is employed, drawing insights from both existing literature and primary data collected through interviews. The research includes professionals from Islamic banks in Bosnia and Herzegovina and Qatar—two regions with active IF sectors that provide relevant perspectives for this inquiry. Additionally, perspectives from an IF expert and a member of a Shari'ah Supervisory Board (SSB) are incorporated to provide a comprehensive view of IF principles in practice. This qualitative approach facilitates a nuanced exploration of how IF operates under stress, particularly when conventional financial institutions face instability.

The central research question guiding this study is: How do Islamic financial principles contribute to financial stability and resilience, as demonstrated during the Global Financial Crisis? By addressing this question, the paper explores the structural and ethical foundations of IF and assesses its practical effectiveness in crisis prevention. Understanding the mechanisms that contributed to the resilience of IF during the financial downturn can provide valuable insights into its role in promoting a more resilient global financial system.

The paper is structured as follows: Section 2 reviews the literature on financial crises and IF, Section 3 outlines the methodology, Section 4 presents the results and discusses the findings, and Section 5 concludes with implications for future financial systems.

2. Literature review

IF is rooted in the principles derived from the Quran and the Sunnah, collectively known as Shari'ah, or Islamic law (Hussain et al. 2016). While Islamic banking was fully implemented only in the last century, its theoretical origins date back to the seventh century (Iqbal & Mirakhor, 2013; Kahf, 2003; De Jonge, 1996). IF gained momentum in the mid-20th century, with its first practical implementation through Egypt's "Mit Ghamr Savings Bank," which avoided interest (riba) and focused on profit-sharing (Siddiqi, 1981; Lewis & Algaoud, 2001). The establishment of the Islamic Development Bank in 1973 further accelerated the global expansion of Shari'ah-compliant financial institutions (Ahmed, 2009). Currently, the global IF industry has experienced significant growth, with assets surpassing $3.3 trillion in the first half of 2023 (Sambidge, 2023). The industry continues to expand at an annual rate of approximately 10%, a trend projected to persist through 2024 (Damak, et al., 2023;Sambidge 2023). IF's resilience, especially in the aftermath of the GFC, has further solidified its relevance (Kayed & Hassan, 2011).

2.1. The Financial Crisis of 2008

The GFC, extensively studied with over 14,800 articles in Scopus, is often described as the most severe economic crisis since the Great Depression (Helleiner, 2011; Lewis et al., 2010). Triggered by the burst of the U.S. housing bubble, the crisis led to widespread mortgage defaults, severely impacting financial institutions heavily exposed to risky and speculative financial products such as mortgage-backed securities (MBSs) and collateralized debt obligations (CDOs) (Helleiner, 2011).

These products were globally traded, spreading the crisis across borders (Helleiner, 2011; Acharya & Richardson, 2009; Wignall & Atkinson, 2009).

A critical issue was the reliance on over-the-counter (OTC) derivatives, privately negotiated between buyers and sellers. This lack of transparency masked substantial hidden risks (Helleiner, 2011). Speculative, complex, and non-transparent financial products lay at the core of the crisis (Coffee, 2009; Helleiner, 2011; Nelson & Katzenstein, 2014; Chapra, 2008; Hassan & Kayed, 2009; Ahmed, 2010).

Deregulation and regulatory failures exacerbated the crisis. Self-regulation frameworks allowed banks to underestimate risks and increase leverage through off-balance-sheet entities (Acharya & Richardson, 2009; Coffee, 2009; Helleiner, 2011; Wignall & Atkinson, 2009). Misaligned incentives, fueled by equity-based compensation, encouraged short-term gains and high-risk behavior motivated by greed (Coffee, 2009; Acharya & Richardson, 2009; Wignall & Atkinson, 2009; Stiglitz, 2003; Nelson & Katzenstein, 2014; Lewis et al., 2010).

The primary causes of the crisis were regulatory failures, speculative financial products, and greed (Wignall & Atkinson, 2009; Jickling, 2009; Lewis et al., 2010). The crash resulted in a global recession and widespread bank insolvencies that necessitated a $2 trillion bailout (Luo & Wang, 2023; Helleiner, 2011; Coffee, 2009, Acharya & Richardson, 2009). To prevent future crises, enhanced regulation and a greater focus on ethics have been recommended (Franzoni & Allali, 2018;Lewis et al., 2010). This paper explores how IF, which aligns with these recommendations, could serve as an alternative approach.

2.2. Islamic Finance for Crisis Prevention

IF provides a distinct approach to financial management, emphasizing ethics and risk-sharing as tools to prevent financial crises. The GFC, characterized by excessive risk-taking and speculation, exposed the vulnerabilities of conventional finance (Acharya & Richardson, 2009; Jickling, 2009). In contrast, IF prohibits practices such as riba, gharar, and maysir, all of which contribute to financial instability (Usmani, 2002). Scholars argue that IF, adopted more broadly, could serve as a global alternative to conventional finance, reducing the likelihood of crises (Aglionby, 2009; Chapra, 2008; Kayed & Hassan, 2011).

By requiring that financial transactions be tied to tangible assets and real economic activities, IF reduces speculative activities and prevents asset bubbles from forming. For example, Warde (2010) observed that IF institutions demonstrated resilience during the GFC due to their adherence to these principles. Additionally, profit-and-loss sharing (PLS) ensures fair risk distribution between investors and entrepreneurs, promoting stability.

However, practical implementation remains a challenge. Critics like El-Gamal (2006) and Hassan & Kayed (2009) argue that certain IF products, such as murabahah, mimic conventional financial instruments, resembling interest-bearing loans rather than genuine risk-sharing investments. Such products technically comply with Shari'ah but fail to uphold the ethical principles that provide stability. This reduces the potential benefits of IF, emphasizing the need for products that align fully with Islamic principles.

Iqbal and Miakhor (2011) highlight that IF's risk management framework addresses moral hazards and conflicts of interest that contributed to the crisis by emphasizing transparency and accountability. However, the absence of standardized regulatory frameworks leads to inconsistent product structures, weakening the distinct advantages of IF (Khan & Bhatti, 2008). To enhance its efficacy, international standards must be established, and product design must prioritize authentic Islamic principles.

The comparative resilience of Islamic banks during the GFC, attributed to conservative lending and avoidance of speculation, supports the potential of IF to prevent future crises (Siddiqi, 2009). However, this resilience may also be due to factors like smaller size and limited global exposure.

Elasrag (2010) clarifies that Islamic finance is not an entirely separate financial system but a framework designed to structure financial transactions so they remain closely connected to real economic activities. By focusing on tangible assets and ethical considerations, IF counters the effects of financialization, which prioritizes short-term profits over long-term stability (Davis & Kim, 2015). As a result, IF promotes long-term economic sustainability (Melvin & Taylor, 2009).

Interest in IF has grown beyond Muslim-majority countries since the GFC. As financialization reshapes economies, the demand for ethical and stable financial systems has increased. Non-Muslim countries like the UK, Luxembourg, and Hong Kong are adopting IF practices to enhance financial stability (Warde, 2010; Wilson, 2009). However, integrating IF into conventional systems requires regulatory adjustments and addressing socio-political barriers such as Islamophobia. The success of IF depends on developing Shari'ah-compliant products that meet diverse market needs (Hassan & Lewis, 2005).

In summary, IF offers a promising framework for preventing financial crises through ethical behavior, risk-sharing, and transparency. However, its effective implementation requires standardized regulatory frameworks and an authentic application of Shari'ah principles. Future research should focus on governance and regulatory enhancements to solidify IF's role in promoting global financial stability.

2.3. Financialization

The GFC is often attributed to the excessive financialization of the economy and the rampant securitization of debt. Financialization, defined as the increasing dominance of financial motives, markets, actors, and institutions in shaping the economic landscape, has profoundly impacted economic and social systems (Epstein, 2005; Davis & Kim, 2015). This shift fueled economic instability and amplified systemic risks, as evidenced by the widespread use of derivatives and mortgage-backed securities during the crisis (Sawyer, 2013; Freeman, 2010; Lapavitsas, 2011; Lucarelli, 2012; Deutschmann, 2011; Plys, 2014). These financial instruments, while innovative, severed financial transactions from the real underlying economy, leaving the financial system vulnerable to systemic shocks.

Critics argue that financialization fosters a culture of short-termism and speculation at the expense of long-term productive investment, exacerbating global inequalities and stalling productivity growth. The shift from real economic activities to financial activities has been widely criticized for contributing to income inequality and forming financial bubbles (Tridico & Pariboni, 2018; Miah & Suzuki, 2015; Davis & Kim, 2015). Financial institutions, driven by profit maximization, have prioritized speculative activities over supporting real economic growth. For instance, the principle of maximizing shareholder value, highlighted by Lazonick and O'Sullivan (2000), has driven corporate downsizing and cost-cutting measures, worsening income inequality and marginalizing workers.

Securitization, an enabler of financialization, involves bundling illiquid assets like mortgages into tradeable securities, amplifying risk across the financial system (Davis & Kim, 2015). While it can improve liquidity and diversify risk under ideal conditions, its misuse—evident in the subprime mortgage market—introduced significant systemic vulnerabilities. By allowing financial institutions to offload risk from their balance sheets to global investors, securitization obscured accountability and transparency. Subprime mortgages were securitized into complex instruments, leading to widespread overvaluation and eventual market collapse (Acharya & Richardson, 2009).

The GFC exposed the dangers of over-reliance on financial markets and weak regulatory frameworks, prompting calls for stronger financial regulation and exploring alternative economic models (Tridico & Pariboni, 2018). The systemic failures prompted calls for stronger financial regulation and exploring alternative economic models (Davis & Kim, 2015). IF offers a robust counter to financialization by grounding financial transactions in tangible assets and prohibiting speculative instruments.

IF principles explicitly ban riba, gharar, and maysir, creating a framework prioritizing equity, risk-sharing, and transparency (Ahmed, 2011). These principles act as a natural regulatory mechanism, ensuring financial activities contribute to productive economic outcomes while avoiding the systemic risks inherent in financialized systems. Studies, such as Chapra (2008), emphasize that adherence to IF principles can curb speculative and high-risk financial activities, mitigating the risks of financial crises. By focusing on ethical, asset-backed transactions, IF promotes long-term stability and sustainability, offering a viable alternative to the destabilizing effects of financialization.

2.4. Ethical finance and Corporate Social Responsibility theory (CSR)

Carroll (2009) defines Corporate Social Responsibility (CSR) as the ethical responsibility of businesses to develop policies, make decisions, and undertake actions that benefit society while balancing the interests of various stakeholders, including employees, customers, suppliers, communities, and shareholders. Since its emergence in the mid-20th century, CSR has evolved significantly, transitioning from focusing on basic philanthropic activities to becoming an integral component of corporate governance and strategic management (Carroll, 2009). Carroll's work stipulates that CSR encompasses both ethical and business dimensions, serving as a reflection of a company's commitment to operate responsibly beyond mere compliance with laws and regulations (Carroll, 2009).

Carroll's CSR pyramid provides a hierarchical view of corporate responsibilities, with economic obligations forming the foundation, followed by legal, ethical, and philanthropic responsibilities (Carroll, 1991). While economic responsibilities remain primary, other scholars stress the ethical dimension of CSR, arguing that corporations bear inherent ethical responsibilities that extend beyond profit generation (Berkey, 2021). Berkey (2021) highlights the significant impact corporations have on individuals' economic and social conditions, suggesting a strong overlap between business ethics and political philosophy. This reinforces the idea that CSR should not be limited to voluntary actions but should also include ethical obligations that promote justice and social well-being.

The GFC serves as a stark reminder of the consequences of neglecting ethical principles and CSR in corporate decision-making. Characterized by unethical behaviors such as a lack of transparency, excessive risk-taking, and exploitative practices, the crisis revealed systemic risks associated with prioritizing short-term gains over ethical accountability. A significant aspect of the crisis was the interest-bearing loans. Looft (2014) critiques such practices, noting that borrowing money at interest without risk-sharing creates an exploitative relationship, particularly disadvantaging vulnerable borrowers.

The GFC underscored the importance of robust ethical frameworks and CSR in financial institutions, highlighting the need for policies that ensure fairness, reduce inequalities, and promote accountability (Carroll, 2009). By incorporating these principles, businesses can mitigate systemic risks and foster a more equitable financial system.

IF principles inherently align with CSR by prioritizing ethical investments, social welfare, and community well-being—key aspects of CSR (Hanic & Smolo, 2023). The ethical obligations embedded within CSR and IF serve as a counterpoint to financialization (Miah & Suzuki, 2015). IF practices, such as PLS and asset-backed financing, discourage speculative behavior while aligning with CSR goals of equitable and sustainable business practices. By requiring financial transactions to be tied to real economic activities, IF fosters stability and promotes societal well-being. Therefore, IF not only addresses systemic risks but also operates as a form of institutionalized CSR, promoting ethical business practices as part of its foundational framework.

3. Methodology

3.1. Research approach

This study employed a qualitative case study approach with an inductive methodology to explore the role of IF in crisis prevention in interest-based economies. Unlike quantitative research, qualitative research focuses on words rather than numbers, making it ideal for examining complex, subjective, and nuanced issues that are not easily measured or quantified (Bell et al., 2019). While extensive literature exists on IF's role in financial crises, the qualitative approach allowed for a deeper investigation into how Islamic principles intersect with conventional economic dynamics to enhance resilience. This approach allowed us to investigate how Islamic principles intersect with economic dynamics, offering insights into crisis resilience. Using an inductive approach allowed the researchers to remain open to new ideas that emerged during data collection, which was crucial for capturing novel perspectives. Throughout the process, care was taken to minimize researcher bias and maintain objectivity throughout the analysis by asking neutral and non-leading questions.

3.2. Research Design

A case study of the GFC was conducted to determine whether IF offers a viable alternative for crisis prevention. This approach facilitated an in-depth examination of real-world experiences, making it ideal for understanding the complex dynamics of financial crises (Bell et al., 2019). Semi-structured interviews were chosen as the primary data source to gain detailed insights, complemented by secondary data from existing literature.

Data analysis was carried out systematically to ensure validity and reliability. Once collected, the data was organized using axial coding to identify relationships between themes, facilitating a nuanced analysis. Recurring themes from the interviews were compared with themes from the literature to ensure consistency and accuracy.

3.3. Data Collection Method

The study focused on IF institution's operational during the GFC. Participants included representatives from two banks, one in Bosnia and Herzegovina and another in Qatar. Additionally, one member of an SSB from the Middle East and a financial expert based in Poland were interviewed, bringing the total number of participants to seven. To preserve anonymity, respondents are referred to using generic identifiers throughout the analysis. Data collection was carried out through semi-structured interviews via Zoom. Participants were selected based on their extensive experience in IF, with all respondents having at least 10 years of professional expertise, including during the crisis. Open-ended questions were employed to encourage diverse perspectives and in-depth insights, with the interview questions provided in the appendix. All interviews were recorded with consent and transcribed for accuracy. Snowball sampling was employed to identify additional participants, broadening the range of expert opinions.

3.4. Data Analysis

Transcriptions were done using AI software and carefully proofread to ensure accuracy. The data was categorized systematically into themes and subcategories to facilitate in-depth analysis. Axial coding was used to identify relationships between themes, enabling a comprehensive understanding of the data.

3.5. Validity and Reliability

Validity reflects the accuracy and truthfulness of the study's findings, ensuring the research measures what it intends to measure (Bell et al., 2019). Semi-structured interviews, while effective for gathering detailed insights, have limitations as they rely on respondents' statements and recollections. These recollections may sometimes be influenced by subjective interpretations, potentially introducing bias. Bias could, in turn, reduce the validity of the results. To mitigate this risk, data collected from interviews was cross-referenced with secondary sources, such as books on IF, official guidelines, and previous studies. Thus, the method of cross-examination through triangulation was used to enhance the accuracy of statements (Bell et al. 2019). Triangulation improves the robustness and validity of results, allowing the researcher to identify consistencies and inconsistencies across different sources by integrating multiple perspectives, methods, and sources of data to cross-validate findings, thereby minimizing the risk of bias or error that may arise from any single method, which can often be subject to specific limitations or researcher biases (Erzberger & Perin, 1997; Hammerton & Munafò, 2021). This approach minimized the risk of bias or error from any single method, strengthening the empirical foundation and credibility of conclusions.

Although semi-structured interviews are less reliable than structured ones, reliability was enhanced through the consistent use of an interview guide and inter-observer consistency during data coding. Each researcher independently coded the data, and then compared results to identify and address discrepancies, ensuring that findings were consistent.

4. Results and Discussion

The interviews provided valuable insights into the stabilizing role of IF principles in mitigating financial crises. A systematic analysis of the transcripts revealed recurring themes, including the importance of ethical and asset-backed financing, which contrasts with the speculative practices in conventional finance that contributed to the GFC. Interviewees emphasized the role of profit-sharing and risk-sharing models in IF, which promote stability and equitable wealth distribution. Transparency, accountability, and adherence to Shari'ah principles were also highlighted as crucial for fostering trust and resilience in financial institutions. Most participants concurred that if IF principles had been implemented globally, the GFC could have been averted. They further emphasized that integrating IF principles into the global financial system could create a more resilient and stable economic landscape. This section presents and discusses these findings.

4.1. Integrating IF Ethics into CSR: Advancing Ethical, Transparent, and Sustainable Financial Practices

The findings underscore the ethical framework of IF as a critical component aligning with CSR principles. IF's integration of ethics into financial practices surpasses CSR's often voluntary and self-regulatory nature (Claassen, 2015). Unlike CSR, which may result in superficial compliance without substantive impact, Islamic ethics mandates obligatory adherence to principles such as transparency, fairness, and social welfare, making these non-negotiable elements of financial transactions. These principles provide a compelling counter-narrative to the financialization and rampant securitization that were central to the GFC. Furthermore, this embedding of ethics addresses gaps in traditional CSR approaches, ensuring that ethical considerations are an intrinsic part of financial decision-making.

Participants emphasized key prohibitions in IF, including those against riba, gharar, and maysir, as well as involvement in harmful industries. These principles were repeatedly linked to reducing speculative activities and promoting financial stability. For instance, one interviewee noted that the prohibition of riba anchors financial transactions in real economic activities, mitigating speculative risks and preventing debt-driven financial crises. Similarly, the elimination of gharar fosters transparency and trust in financial contracts. As one participant highlighted, “By eliminating excessive uncertainty, IF promotes transparency and trust in financial transactions, which are key to maintaining financial stability.” These findings align with prior research suggesting that IF principles promote fairness, transparency, and social justice, fostering a more resilient and equitable financial system (Smolo & Mirakhor, 2010; Siddiqi, 2006).

The analysis also highlighted the role of asset-backed financing as a critical differentiator of IF. By mandating that all transactions be tied to tangible assets, IF reduces speculative behaviors and excessive risk-taking, fostering stability and mitigating risks associated with unregulated securitization (Miah & Suzuki, 2015). Participants observed that this requirement grounds financial activities in real economic value, aligning with sustainable development goals. As one interviewee remarked, “IF’s requirement for asset-backed transactions ensures that financial activities are grounded in real economic value, thereby reducing the likelihood of financial bubbles.” This alignment with real economic activities mitigates risks associated with financialization, where speculative motives often overshadow productive investments (Miah & Suzuki, 2015). By promoting transparency, asset-backed financing builds trust and ensures that all parties understand the underlying assets and risks. This transparency ultimately leads to more responsible decision-making, an imperative mentioned by a further interviewee: “Islamic finance must be a socially responsible player in the market.”

Finally, integrating Islamic ethics within CSR frameworks could serve as a model for promoting genuine ethical engagement across the financial sector. This integration could mitigate CSR’s shortcomings, providing a structured, values-based approach that mandates ethical compliance and limits exploitative practices. Moving forward, adopting aspects of Islamic ethics—such as risk-sharing, transparency, and real-economy alignment—into CSR could promote a more resilient and socially responsible financial system, expanding the concept of corporate accountability beyond voluntary commitments and toward a framework of compulsory, socially oriented practices. Moreover, integrating Islamic ethics within CSR frameworks was proposed as a model for addressing CSR’s structural limitations. Unlike CSR’s selective application based on organizational goals, IF requires adherence to ethical principles across all financial dealings, ensuring consistency and societal accountability. This structured approach could enhance CSR’s effectiveness by embedding ethical imperatives into financial systems. Participants frequently highlighted the potential for IF’s risk-sharing, transparency, and real-economy alignment to inform a more resilient and socially responsible financial sector. One expert summarized this integration, stating, “The ethical framework of IF not only promotes financial stability but also ensures that financial activities are aligned with societal values and sustainable development goals.”

These findings suggest that IF’s legally binding, structurally integrated ethics can enhance CSR’s impact by providing a comprehensive, values-driven financial model. Risk-averse principles such as the prohibition of interest and excessive uncertainty create a predictable and stable financial environment, as noted by one participant: “The inherent resilience of IF, with its emphasis on ethical practices and risk aversion, promotes long-term stability and could have mitigated the impact of the crisis.” Additionally, PLS mechanisms align interests between financiers and entrepreneurs, fostering responsible financial behavior and reducing defaults.

4.2. Profit-Sharing Models: Balancing Human Nature and Financial Stability in IF

Profit-sharing models, such as mudarabah and musharakah, were identified as pivotal in aligning stakeholder interests and fostering financial stability. These models distribute risks equitably between financiers and entrepreneurs, thereby discouraging excessive risk-taking. Participants consistently emphasized the ethical and collaborative nature of these contracts. One expert stated, "Profit-sharing mechanisms like mudarabah and musharakah align the interests of investors and entrepreneurs, reducing the incentive for excessive risk-taking that was prevalent in the conventional system during the crisis."

Mudarabah contracts, where losses are borne solely by the financier unless caused by negligence, encourage careful management and accountability among entrepreneurs. Musharakah, on the other hand, requires all parties to share risk and reward proportionately, fostering transparency and mutual benefit. These findings align with the literature, highlighting the potential of risk-sharing models to build a culture of trust and collaboration, which is crucial for long-term stability (Smolo & Mirakhor, 2010). An interviewee emphasized, "Musharakah ensures that both investors and entrepreneurs have skin in the game, promoting a balanced approach to risk and reward." Another participant further emphasized, "The ethical foundation of profit-sharing models in IF builds a culture of trust and mutual benefit, essential for long-term financial stability." Mudarabah and musharakah contracts promote collaboration, transparency, and mutual benefit, offering a stable and ethical alternative to conventional financial practices.

However, the study also identified practical challenges in implementing profit-sharing contracts. Scholars have critiqued certain IF products, such as murabahah, for resembling conventional loans more than true risk-sharing mechanisms (El-Gamal, 2006; Kayed & Hassan, 2011). Participants acknowledged this limitation, noting that financial pressures sometimes lead institutions to adopt practices that compromise the ethical ideals of IF. For instance, while risk-sharing contracts are ideal, market dynamics and financial exigencies occasionally result in practices that mirror conventional finance.

Despite these challenges, the principles underlying profit-sharing models offer significant advantages over conventional financial practices. By embedding risk-sharing and equitable profit distribution into financial products, IF addresses moral hazard and aligns stakeholder incentives, thereby reducing systemic risks. As one expert remarked, "PLS arrangements in IF create a more resilient financial system by promoting responsible risk-taking and aligning the interests of all parties involved."

4.3. Regulatory Environment

A central theme from the interviews was the role of real asset-backed investments in mitigating speculative risks and fostering market stability. Participants consistently emphasized the SSB as a pivotal mechanism for ensuring that Islamic banks operate within the bounds of Islamic law, prioritizing fairness and avoiding investments in industries deemed harmful to society.

Participants underscored the importance of a robust regulatory framework rooted in Shari'ah compliance. One participant noted, "The rigorous Shari'ah compliance and oversight in IF create a robust regulatory environment that could have prevented the widespread adoption of high-risk financial products seen in the crisis." Another highlighted the additional layer of scrutiny provided by SSBs, stating, "The presence of Shari'ah boards helps maintain ethical standards and prevents the introduction of high-risk financial products." Transparency and accountability were repeatedly identified as cornerstones of Shari'ah compliance, ensuring that financial activities are conducted fairly and ethically. As one participant explained, "Transparency and accountability are cornerstones of Shari'ah compliance, ensuring that all financial activities are conducted in a fair and ethical manner."

While the SSB provides stringent oversight, participants identified challenges in applying Shari'ah principles consistently across global markets. A recurring concern was the lack of standardized regulatory frameworks, which creates inconsistencies in Shari'ah compliance and complicates cross-border transactions. One participant observed, "The absence of standardized regulatory frameworks can lead to differences in Shari'ah compliance, making it difficult for IF institutions to operate seamlessly across regions." The diversity in regulations across countries creates challenges for the global IF industry, leading to inconsistencies in Shari'ah compliance and hindering cross-border transactions.

To address these challenges, participants emphasized the need for a unified global regulatory framework. Collaboration among international organizations such as the Islamic Financial Services Board (IFSB) and the AAOIFI was proposed as essential for enhancing the credibility of IF and fostering global financial stability. As another participant stated, "Harmonized regulatory standards would enhance the credibility of IF, making it more attractive to both Muslim and non-Muslim investors."

The SSB also acts as a strict governing mechanism, with authority to nullify contracts that violate Shari'ah standards, thereby enhancing accountability, as noted by a participant: "The Shari'ah board has authority to terminate the venture's contracts regardless of the stage of the business." However, participants stressed the importance of harmonizing SSB standards across countries to strengthen the global application of IF principles. Despite these challenges, IF's emphasis on ethical investments, profit-and-loss sharing contracts, and real asset-backed transactions offers a resilient model for preventing financial crises and promoting long-term stability.

The study's findings align with Warde (2010), who underscores the need for authentic Islamic products that resist commercial pressures to mimic conventional financial practices. Participants noted that IF institutions were minimally impacted by the global financial crisis, reinforcing the effectiveness of Shari'ah-compliant practices. As one participant remarked, "The minimal impact of the crisis on Islamic banks has reinforced the effectiveness of Shari'ah-compliant practices, leading to increased interest and adoption in the post-crisis period."

A study by Tabash and Dhankar (2014) showed that Islamic banks in Saudi Arabia maintained higher liquidity ratios during the GFC, showing their capacity to meet sudden withdrawal demands. Specifically, the Liquid Asset Ratio (LAR) of Islamic banks in Saudi Arabia, which reached 33.96% in 2007, indicated a robust level of liquidity just before the crisis. Although there was some impact in 2008 due to the uncertain financial market conditions, the effect on Islamic banks was minor compared to conventional banks. An ANOVA analysis further showed that Islamic banks experienced no statistically significant change in liquidity before, during, and after the crisis, underscoring their stability. This shielded them from the severe liquidity issues faced by many conventional banks during the crisis (Tabash, Dhankar, 2014). The literature supports these findings, suggesting that adopting IF principles could enhance the stability and resilience of conventional banks (Hasan & Dridi, 2011).

The post-crisis period has seen a reevaluation of financial practices, with innovations in Shari'ah-compliant products and stronger regulatory frameworks to enhance stability. One interviewee observed, "The post-crisis period has been marked by significant innovation in IF, with institutions developing new products that align with Shari'ah principles and address market demands." Overall, the global financial crisis spurred further adaptation and growth in IF, highlighting its potential for promoting long-term financial stability and preventing future crises.

Additionally, the GFC underscored the systemic risks of financialization and the need for alternative economic models. IF, with its focus on ethical compliance and risk aversion, provides a values-driven framework that prioritizes societal well-being over speculative profits. As highlighted, the rigorous Shari'ah compliance embedded in IF not only promotes financial stability but also ensures that financial practices align with long-term economic and social justice objectives. This positions IF as a viable model for addressing the vulnerabilities of financialization, fostering a more resilient and equitable global financial system.

4.4. Systemic Resilience

The interviews highlighted the inherent resilience of IF, rooted in its risk-averse and ethical principles, as a key factor in promoting long-term stability. One participant noted, "The inherent resilience of IF, with its emphasis on ethical practices and risk aversion, promotes long-term stability and could have mitigated the impact of the 2008 financial crisis." IF's focus on risk-sharing and ethical guidelines minimizes speculative bubbles and financial instability. Another interviewee added, "The avoidance of interest and excessive uncertainty in IF creates a more predictable and stable financial system." PLS mechanisms further align interests, reducing defaults and enhancing stability. The strict regulatory oversight and Shari'ah compliance requirements also contribute to this resilience, ensuring transparency and accountability. Islamic banks' minimal impact from the crisis reinforced the effectiveness of Shari'ah-compliant practices, leading to increased global interest in IF. As one participant stated, "The minimal impact of the 2008 crisis on Islamic banks has reinforced the effectiveness of Shari'ah-compliant practices, leading to increased interest and adoption in the post-crisis period." This post-crisis period has seen a reevaluation of financial practices, with innovations in Shari'ah-compliant products and stronger regulatory frameworks to enhance stability. As another interviewee noted, "The post-crisis period has been marked by significant innovation in IF, with institutions developing new products that align with Shari'ah principles and address market demands." Overall, the crisis spurred further adaptation and growth in IF, highlighting its potential for promoting long-term financial stability and preventing future crises.

4.5. Summary of the Results

The findings of this study demonstrate the potential of IF principles to provide a resilient, ethical, and sustainable alternative to conventional financial practices. By embedding values such as transparency, risk-sharing, and alignment with real economic activities into financial transactions, IF addresses the systemic vulnerabilities exposed during the GFC.

Participants highlighted that IF's prohibitions against interest (riba) and excessive uncertainty (gharar) and speculation (maysir), along with its emphasis on asset-backed financing, foster stability, reduce speculative risks, and enhance trust in financial systems.

Moreover, unlike the often voluntary nature of CSR, IF mandates ethical adherence, ensuring that financial activities align with societal values and sustainable development goals. This structured approach addresses gaps in traditional CSR practices, providing a foundation for long-term financial resilience and equitable growth.

The analysis of profit-sharing models further illustrates how IF aligns stakeholder interests and mitigates excessive risk-taking, fostering a collaborative and stable financial environment. While practical challenges remain—such as the occasional drift toward conventional practices and the lack of standardized global regulatory frameworks—the benefits of IF principles in promoting ethical behavior and financial stability are undeniable.

The role of SSBs was also highlighted as critical in maintaining ethical standards and ensuring compliance with IF principles. However, the study identified the need for greater harmonization across regulatory frameworks to enhance the global applicability of IF practices. Collaborative efforts among international organizations like the IFSB and AAOIFI are essential to establish unified standards, strengthening the credibility and appeal of IF globally.

Thus, this study affirms the transformative potential of IF in reshaping global financial systems. By prioritizing ethics, transparency, and stability, IF offers a viable pathway toward a more resilient and socially responsible financial future. The challenges identified—while significant—present opportunities for innovation, collaboration, and the continued evolution of Shari'ah-compliant practices in addressing the complexities of the modern financial world.

5. Conclusion

This research highlights the transformative potential of IF principles in fostering a more resilient and ethical financial system, particularly in preventing financial crises. By examining IF principles and their implementation during the GFC, the study underscores how ethical investments, asset-backed financing, and prohibitions on interest, uncertainty, and speculation contribute to greater financial stability. The interviews with IF experts provided valuable insights, reinforcing the idea that IF principles can significantly reduce the risks of financial crises. This study contributes to the academic discourse by advocating for a shift toward ethical banking practices that can better withstand economic shocks.

This study faced several limitations that should be acknowledged to contextualize its findings. First, the small sample size of participants, drawn from a limited number of IF institutions, restricts the generalizability of the results. While the qualitative case study approach allows for in-depth exploration, relying on a small group of experts may only partially capture the diversity of perspectives within the global Islamic finance industry. Additionally, the interview-based data collection posed challenges, as it relied on participants' recollections and subjective interpretations, which could introduce biases. Efforts were made to mitigate these issues through cross-referencing secondary data and employing triangulation techniques, but these measures cannot entirely eliminate the limitations inherent in qualitative research. Future studies with larger, more geographically diverse samples could enhance the robustness and applicability of the findings. Furthermore, the qualitative case study approach is not inherently generalizable, the findings provide a valuable critique of the capitalist financial system and suggest IF as a sustainable alternative.

These insights have practical implications for crisis prevention, including establishing standardized regulatory frameworks that integrate Islamic finance (IF) principles globally. Additionally, fostering collaboration with conventional banking systems to incorporate ethical practices—such as risk-sharing, transparency, and a focus on real economic activities—could enhance financial stability and resilience. Regulatory authorities should actively promote IF adoption as a crisis-resilient framework, particularly through policies encouraging ethical investment and asset-backed financing in non-Muslim-majority countries. While Islamophobia presents a significant challenge to the global acceptance of IF principles, consistent positive financial metrics can help mitigate negative perceptions. Furthermore, conventional banking should transition away from non-asset-backed financing, often contributing to speculation and economic instability.

Future research should explore the challenges of implementing IF in non-Muslim-majority countries, where socio-political, regulatory, and cultural barriers may hinder its adoption. Key areas to explore include adapting Shari'ah principles within secular legal frameworks, overcoming misconceptions and Islamophobia, and developing regulatory structures that harmonize IF with existing financial systems. Additionally, research should investigate strategies for increasing awareness and acceptance of IF among non-Muslim stakeholders, including the potential for education and advocacy to dispel misconceptions. Examining the long-term economic impacts of integrating IF principles into conventional banking systems in these regions could also provide valuable insights, particularly regarding the scalability and sustainability of IF as a global financial model.

This study affirms the potential of IF to reshape global financial systems. By prioritizing ethics, transparency, and stability, IF offers a viable path toward a more resilient and socially responsible financial future. Challenges, while significant, present opportunities for innovation and collaboration, ensuring the continued evolution of Shari'ah-compliant practices in addressing modern financial complexities.

Declarations

The authors have no relevant financial or non-financial interests to disclose.

References

AAOIFI - Accounting and Auditing Organization for Islamic Financial Institutions. (n.d.). Retrieved March 30, 2024, from https://aaoifi.com/about-aaoifi/?lang=en

Acharya, V. V., & Richardson, M. (2009). Causes of the financial crisis. *Critical Review, 21*(2–3), 195–210. https://doi.org/10.1080/08913810902952903

Aglionby, J. (2009, March 2). Islamic banks urged to show the way. *Financial Times*. Retrieved April 5, 2024, from https://www.ft.com/content/0f74e17a-0757-11de-9294-000077b07658

Ahmed, A. (2010). Global financial crisis: An Islamic finance perspective. *International Journal of Islamic and Middle Eastern Finance and Management, 3*(4), 306-320. https://doi.org/10.1108/17538391011093252

Ahmed, H. (2009). Financial Crisis Risks and Lessons for Islamic Finance. *ISRA International Journal of Islamic Finance, 1*(1), 7-32.

Al-Zumai, F., & Al-Wasmi, M. (2016). 2008 financial crisis and Islamic finance: An unrealized opportunity. *International Journal for the Semiotics of Law, 29*(2), 455–472. https://doi.org/10.1007/s11196-016-9469-6

Baber, H. (2018). How crisis-proof is Islamic finance? A comparative study of Islamic finance and conventional finance during and post financial crisis. *Qualitative Research in Financial Markets, 10*(4), 415-426. https://doi.org/10.1108/QRFM-12-2017-0123

Bell, E., Bryman, A., & Harley, B. (2019). *Business research methods* (5th ed.). Oxford University Press.

Carroll, A. B. (2009). A history of corporate social responsibility: Concepts and practices. In A. Crane, A. McWilliams, D. Matten, J. Moon, & D. S. Siegel (Eds.), *The Oxford handbook of corporate social responsibility* (pp. 19-46). Oxford University Press. https://doi.org/10.1093/oxfordhb/9780199211593.003.0002

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons, 34*(4), 39–48. https://doi.org/10.1016/0007-6813(91)90005-G

Chapra, M. U. (2008). The global financial crisis: Can Islamic finance help minimize the severity and frequency of such a crisis in the future? *Islamic Economic Studies, 15*(2), 1-25. https://doi.org/10.52282/icr.v1i2.745

Claassen, R. (2015). Financial crisis and the ethics of moral hazard. *Social Theory and Practice, 41*(3), 527-551. https://doi.org/10.5840/soctheorpract201541326

Coffee, J. C. (2009). What went wrong? An initial inquiry into the causes of the 2008 financial crisis. *Journal of Corporate Law Studies, 9*(1), 1–22. https://doi.org/10.1080/14735970.2009.11421533

Crotty, J. (2009). Structural causes of the global financial crisis: A critical assessment of the 'new financial architecture’. *Cambridge Journal of Economics, 33*(4), 563–580. https://doi.org/10.1093/cje/bep023

Davis, G. F., & Kim, S. (2015). Financialization of the economy. *Annual Review of Sociology, 41*(1), 203-221. https://doi.org/10.1146/annurev-soc-073014-112402

Damak, M., Roy, D., Mensah, S., & Anand, N. (2023, May 1). *Islamic Finance 2023-2024: Growth beyond core markets remains elusive*. S&P Global. https://www.spglobal.com/ratings/en/research/articles/230501-islamic-finance-2023-2024-growth-beyond-core-markets-remains-elusive-12712350

De Jonge, A. (1996). I*slamic law and the finance of international trade*. Monash University.

Deutschmann, C. (2011). Limits to financialization: Sociological analyses of the financial crisis. *European Journal of Sociology, 52*(3), 347–389. https://doi.org/10.1017/S0003975611000154

Diaw, A. (2015). The global financial crisis and Islamic finance: A review of selected literature. *Journal of Islamic Accounting and Business Research, 6*(1), 94-106. https://doi.org/10.1108/JIABR-03-2012-0015

El-Gamal, M. A. (2006). Islamic finance: Law, economics, and practice. Cambridge University Press.

Elasrag, H. (2010). Global financial crisis and Islamic finance. Available at SSRN: https://doi.org/10.2139/ssrn.1591563

Epstein, G. A. (Ed.). (2005). *Financialization and the world economy*. Edward Elgar Publishing.

Farooq, M., & Zaheer, S. (2015). Are Islamic banks more resilient during financial panics? *Pacific Economic Review, 20*(1), 101-124. https://doi.org/10.1111/1468-0106.12093

Franzoni, S., & Allali, A. A. (2018). Principles of Islamic finance and principles of corporate social responsibility: What convergence? *Sustainability, 10*(3), Article 637. https://doi.org/10.3390/su10030637

Freeman, R. B. (2010). It’s financialization! *International Labour Review, 149*(2), 163-183. https://doi.org/10.1111/j.1564-913X.2010.00082.x

Hammerton, G., & Munafò, M. R. (2021). Causal inference with observational data: the need for triangulation of evidence. *Psychological Medicine, 51*(4), 563–578. https://doi.org/10.1017/S0033291720005127

Hanic, A., & Smolo, E. (2023). Islamic approach to corporate social responsibility: An international model for Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management, 16*(1), 175–191. https://doi.org/10.1108/IMEFM-07-2021-0284

Hasan, M., & Dridi, J. (2011). The effects of the global crisis on Islamic and conventional banks: A comparative study. *Journal of International Commerce, Economics and Policy, 3*(2), 163-200. https://doi.org/10.1142/S1793993311000270

Hassan, M. K., & Kayed, R. N. (2009). The global financial crisis, risk management, and social justice in Islamic finance. I*SRA International Journal of Islamic Finance, 1*(1), 33-58.

Hassan, M. K., & Lewis, M. K. (Eds.). (2005). *Handbook of Islamic banking*. Edward Elgar Publishing.

Helleiner, E. (2011). Understanding the 2007–2008 global financial crisis: Lessons for scholars of international political economy. *Annual Review of Political Science, 14*(1), 67-87. https://doi.org/10.1146/annurev-polisci-050409-112539

Hussain, M., Shahmoradi, A., & Turk, R. (2016). An overview of Islamic finance. Journal of International Commerce, *Economics and Policy, 7*(1). https://doi.org/10.1142/S1793993316500034

Hussien, M. E., Alam, M. M., Murad, M. W., & Wahid, A. N. M. (2019). The performance of Islamic banks during the 2008 global financial crisis: Evidence from the Gulf Cooperation Council countries. *Journal of Islamic Accounting and Business Research, 10*(3), 407-420. https://doi.org/10.1108/JIABR-01-2017-0011

Iqbal, Z., & Mirakhor, A. (2011). *An introduction to Islamic finance: Theory and practice* (2nd ed.). John Wiley & Sons.

Iqbal, Z., & Mirakhor, A. (2013). *Economic Development and Islamic Finance*. International Bank for Reconstruction and Development / The World Bank. https://doi.org/10.1596/978-0-8213-9953-8

Jickling, M. (2009). *Causes of the financial crisis. Congressional Research Service Reports and Issue Briefs.* Retrieved from https://www.everycrsreport.com/files/20090129_R40173_3c7849992c3492c0049a745c9b0e0fdd32166f74.pdf

Kahf, M. (2003). Islamic economics: Notes on definition and methodology. *Review of Islamic Economics, 13*, 23-48.

Kayed, R. N., & Hassan, M. K. (2011). The global financial crisis and Islamic finance. *Thunderbird International Business Review, 53*(5), 551-564. https://doi.org/10.1002/tie.20434

Kennedy, M. (1995). *Interest and inflation-free money.* Seva International.

Khan, M. F., & Porzio, M. (Eds.). (2010). *Islamic banking and finance in the European Union: A challenge.* Edward Elgar Publishing.

Khan, M. M., & Bhatti, M. I. (2008). Development in Islamic banking: A financial risk-allocation approach. *The Journal of Risk Finance, 9*(1), 40-51. https://doi.org/10.1108/15265940810842401

Lapavitsas, C. (2011). Theorizing financialization. *Work, Employment and Society, 25*(4), 611-626. https://https://doi.org/10.1177/0950017011419708

Lewis, M. K., & Algaoud, L. M. (2001). *Islamic banking.* Edward Elgar Publishing.

Lewis, V., Kay, K. D., Kelso, C., & Larson, J. (2010). Was the 2008 financial crisis caused by a lack of corporate ethics? *Global Journal of Business Research, 4*(2), 77-84. https://doi.org/10.2139/ssrn.1633638

Looft, M. (2014). *Inspired finance: The role of faith in microfinance and international economic development.* Palgrave Macmillan.

Lucarelli, D. B. (2012). Financialization and global imbalances: Prelude to crisis. *Review of Radical Political Economics, 44*(4), 429-447. https://doi.org/10.1177/0486613411434385

Luo, M., & Wang, S. (2023). Financialization and sluggish recovery of firms' investment: Global evidence from the 2007–2008 financial crisis. *International Finance, 26*(3), 344–363. https://doi.org/10.1111/infi.12439

Melvin, M., & Taylor, M. P. (2009). The global financial crisis: Causes, threats, and opportunities. Introduction and overview. *Journal of International Money and Finance, 28*(8), 1243-1245. https://doi.org/10.1016/j.jimonfin.2009.08.002

Miah, M. D., & Suzuki, Y. (2015). Transcending the trend of financialization: The heterodox vs. Islamic economics view. *Journal of Economic and Social Thought, 2*(4), 65-78.

Nakamoto, M. & Wighton, D. (2007). Citigroup chief stays bullish on buy-out. Financial Times. Retrieved April 3, 2024, from http://www.ft.com/cms/s/0/80e2987a-2e50-11dc-821c-0000779fd2ac.html

Nelson, S. C., & Katzenstein, P. J. (2014). Uncertainty, risk, and the financial crisis of 2008. *International Organization, 68*(2), 361-392. https://doi.org/10.1017/S0020818313000416

Plys, K. (2014).Financialization, crisis, and the development of capitalism in the USA. *World Review of Political Economy, 5*(1), 24–44. https://doi.org/10.13169/worlrevipoliecon.5.1.0024

Sambidge, A. (2023, August 30). Islamic finance tops $3.3trn but growth challenges remain. Arabian Gulf Business Insight. https://www.agbi.com/analysis/banking-finance/2023/08/islamic-finance-booms-but-growth-challenges-remain/

Siddiqi, M. N. (2006). Islamic banking and finance in theory and practice: A survey of state of the art. *Islamic Economic Studies, 13*(2), 1-48. https://doi.org/10.2139/ssrn.3161388

Siddiqi, M. (2009). Current financial crisis and Islamic economics. *Insights, 1*, 141-150.

Siddiqi, M. N. (1981). Muslim Economic Thinking: A Survey of Contemporary literature. Islamic Foundation

Smolo, E., & Mirakhor, A. (2010). The global financial crisis and its implications for the Islamic financial industry. *International Journal of Islamic and Middle Eastern Finance and Management, 3*(4), 372-385. https://doi.org/10.1108/17538391011093306

Stiglitz, J. (2003). Dealing with debt: How to reform the global financial system. *Harvard International*

Review, 25(1), 54-59.

Tabash, M. I., & Dhankar, R. S. (2014). The impact of global financial crisis on the stability of Islamic banks: An empirical evidence. *Journal of Islamic Banking and Finance, 2*(1), 367-388.

Tridico, P., & Pariboni, R. (2018). Inequality, financialization, and economic decline. *Journal of Post Keynesian Economics, 41*(2), 236-259. https://doi.org/10.1080/01603477.2017.1338966

Usmani, M. M. T. (2002). *An introduction to Islamic finance*. Maktaba Ma'ariful Qur'an.

Warde, I. (2010). Islamic finance in the global economy (2nd ed.). Edinburgh University Press. Retrieved from https://iefpedia.com/english/wp-content/uploads/2011/03/2000-Ibrahim-Warde-Islamic-finance-in-the-global-economy-Edinburh-University-Press.pdf

Wignall, A. B., & Atkinson, P. (2009). The current financial crisis: Causes and policy issues. *OECD Journal Financial Market Trends, 2008*(2), 1-21. https://doi.org/10.1787/fmt-v2008-art10-en

Wilson, R. (2009). *The development of Islamic finance in the GCC*. LSE. Retrieved from https://eprints.lse.ac.uk/55281/1/Wilson-2009.pdf

Appendix 1

Table 1 below shows the interview questions that were asked during our interview process.

Table 1: Interview Questions

Theme	Question
1. Background and Experience	1. To begin, can you briefly introduce yourself, what you currently do and what motivated you to pursue a career in this area?
1. Perceptions of the 2008 Financial Crisis	1. What were your initial reactions to the unfolding events of the 2008 financial crisis? 1. To what extent did the 2008 financial crisis impact your bank or the Islamic banking sector in general? 1. What strategies or measures did the Islamic bank implement in response to the 2008 financial crisis to ensure financial stability and business continuity? 1. Did Islamic financial institutions respond differently to the challenges posed by the 2008 financial crisis compared to conventional banks?
1. Role of Islamic Finance Practices	1. In your opinion, could Islamic finance principles/tools have alleviated the effects of the 2008 financial crisis, and if so, to what extent? 1. Do ethical and socially responsible banking practices play a role within Islamic finance?
1. Response Strategies and Adaptations	1. Do regulatory and governance frameworks within Islamic banking institutions significantly differ from those of conventional banks? 1. How did regulatory frameworks and oversight mechanisms governing Islamic finance institutions influence the response to the 2008 financial crisis?
1. Lessons Learned and Future Outlook	1. Reflecting on the 2008 financial crisis, what are the most notable lessons learned within the Islamic banking sector? 1. Looking ahead, what do you foresee as the trajectory of Islamic finance, especially considering ongoing global economic challenges and the rise in Islamophobia? 1. From your viewpoint, what lessons can other financial institutions, both Islamic and conventional, gain from the 2008 financial crisis?
1. Personal Reflections and Insights	1. Do you believe Islamic banking principles could have prevented the crisis? 1. What personal insights or experiences from the 2008 financial crisis or any other financial crisis over the past couple of years have shaped your perspective on Islamic finance and its role in promoting financial stability? 1. Is there anything else you would like to share or discuss regarding your experiences during the crisis and their implications for Islamic finance?
1. Theories	1. Given the ongoing debate surrounding financialization, what role would you attribute to financialization in contributing to the 2008 financial crisis? Specifically, how do you perceive the impact of excessive financialization on economic stability during that period?

Source: Author's own.