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The Practice of Islamic Finance in Internalising the Concept of Trust in Reasoning Underlying Finance Decisions

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This paper aims to analyse the view of Islamicfinance scholars and bankers regarding the internalisation of the trust concept within Islamic banking transactions (IBTs) and to examine how that concept is observed within the reasoning underlying the performance of these transactions. This paper involves face-to-face interviews and employing an open-ended questionnaire, in order to study the understanding of our informants on the issue of our concern. The interviews were conducted with selected informants from various Islamic financial institutions and universities in Malaysia. This study found that there is a consensus, expressed by our informants, regarding the importance of trust in Islamic finance. However, with respect to the current Islamic finance practices, the participating informants contended that the internalisation of the trust concept is based entirely on the formal (mathematical) models of reasoning employed by the conventional banks, which negates the substance of trust for neglecting the general Islamic principles and values, as the reasoning postulates the underlying performance of the IBTs.

Key words: *Islamic finance, Islamic banking, Trust, Reasoning, Islamic principles and values.*

Introduction

The teachings of Islam emphasise the reasoning underlying decision making. Islam approves the role of reasoning within the decision-making process, but Islam also recognises the bearing of the revelation that puts limitations on reasoning (Hasan, 1998). Therefore, the

role of reasoning has to be guided by the revelation that provides the overall divine framework in ensuring that the well-being of everyone is preserved and that the social harmony is not jeopardised in the context of everyone attaining their own self-interests, thus, any decision that complied only with the basic form and explicit structure, rather than fulfilling the substance and the spirit of Islamic values and the objectives of *shari'ah,* should be rejected (Yazid et al., 2015).

That reasoning needs to make reference to the Islamic principles enjoined by Quran and Sunnah that provide broad guidelines for any issues, including the matters related to Islamic finance. These principles and guidelines complement the role of reasoning with revelation and have bearing on the Islamic-finance decisions (Hasan, 1998). The Quran and Sunnah provide direct guidance for only a small number of issues and the prevailing part of the specific issues, such as economic and financial decisions, are open for examination, and the human interpretation of these sources entails the employment of human reasoning and intellect within the overall divine framework of principles and values. Therefore, the mission of the Muslim scholars is to make reference to Islamic sources in seeking solutions for newly emerging finance issues, rather than considering only the basic form and explicit structure of the Islamic contracts, upon which the IBTs is based (Yazid et al., 2015).

In the view of the above-mentioned, this paper aims to investigate the reasoning underlying finance decisions within the trust-based IBTs. Therefore, the paper attempts to analyse the views of *shari'ah* scholars regarding the reasoning.

The transacting parties of the IBTs decide, on the basis of the state of trust, to be involved in the considered trust-based banking transaction. That state has bearing on the trustworthiness of the involved parties regarding the attentiveness to the contracted terms of the IBTs. Additionally, the trust concept comprises hope and optimistic anticipation regarding desirable events to realise (Golembiewski & McConkie, 1975). That anticipation is sustained due to the persistence of the ethical and moral values such as kindness, trustworthiness, honesty and dedication (Hashim, 2009 cited in Noor, Fareed & Isa, 2018) within the respective society (Barber, 1983). In this sense, unjustified conducts within the IBTs are attributed to non-compliance with the ethical and moral values shared within that society. Therefore, the decision to be involved in the considered banking transaction on the basis of the state of trust needs to comprise an appropriate reasoning. However, such a reasoning is limited to what can be known (Simon, 1976) and entails the due mental consideration of the relevant causes in explaining and justifying the finance decisions.

The reminder of the paper continues as follows; Section Two highlights the trust concept within the literature, whereas Section Three discusses the reasoning of the trust-based finance

decision within the IBTs. Data and research methodology are presented in Section Four. The findings of the paper are explained in Section Five and the conclusion in Section Six.

Trust: Review of Literature

The importance of the trust concept in the banking discipline is explained in terms of enabling decision-making where information is insufficient (Luhmann, 2000). In this respect, the majority of the offered conceptualisations of trust comprise risk and uncertainty as essential structures (e.g. Castaldo et al., 2010; Rousseau et al., 1998; Coleman 1990). Risk measures the probability and severity of adverse events where an actor could be negatively exploited by others in a given relationship (Aven, 2011), whereas uncertainty is inherent in the imperfection of the information used in assessing the probability of these events (PytlikZillig & Kimrough, 2016).

Generally, the economic theory makes no clear-cut distinction between risk and uncertainty, and only considers the former simply as the measurement of the latter. For example, Dusuki (2011), stated that the general meaning of risk is the measurement of uncertainty or the unpredictability associated with future contingencies. Similarly, Milliken (1987), defined uncertainty as, "*an individual's perceived inability to predict something accurately,*" (1987:136), whereas McIver et al (2008), simply defined uncertainty as unpredictability. Guseva and Rona-Tas (2001), argued that risk, under a probabilistic hypothesis, is rational calculation, and unless uncertainty is transformed into risk so that the rational calculation generally becomes possible, revolving credit cannot develop on a mass scale.

The classical economists (e.g. Knight, 1921; Keynes, 1937; Savage, 1954) have made a conceptual distinction between risk and uncertainty by stressing the direct relationship between uncertainty and knowledge, regardless of any probabilistic implications. In this sense, the uncertainty as an underlying structure of the concept of trust needs to be understood in a broader context by associating it directly to the knowledge and the non-probabilistic reasoning. In a similar vein, Savage (1954), maintained that any form of uncertainty is ignorance, which is a state of mind. In this sense, Simmel (1964), contended that, notwithstanding, trust cannot occur in the context of total ignorance or total knowledge. Trust is more meaningful when addressed within a state that is closer to ignorance and unknowability, rather than a state that is dominated by rationality and probability (Knight, 1921; Deutsch, 1958).

Notwithstanding the assumption that economic actors are unlimitedly able to reduce uncertainty into a calculated risk probability, the state of unmeasurable uncertainty will be kept in existence. Savage (1954), explained that state where the economic actors would still be uncertain regarding the validity of the first probabilistic expectation and the judgement

made upon that expectation, which necessitate another round of judgement and, thus, the economic actors find themselves revolving in an endless loop of judgements.

In his 1936 article entitled The General Theory of Employment Interest and Money, Keynes opined that uncertainty, as a state of mind, can decrease when new evidence can increase the level of knowledge. He defined the phenomenon that the probability of its occurrence cannot be predicted, which leaves people ignorant about its eventuality, as an uncertain phenomenon. Such a phenomenon cannot be addressed through the employment of any probabilistic measurement. Keynes offered the following definition of uncertainty:

"*By uncertain knowledge, let me explain, I do not mean merely to distinguish what is known for certain, from what is only probable. About these matters, there is no scientific basis on which to form any calculable probability whatever. We simply do not know.*" (1937, 113–114).

However, the economic actors are always assumed to be able to reduce uncertainty into numerical probability by forming subjective probability that represents the expectations (the calculated confidence) that emerge from an actor's personal judgement regarding a future event, based on his/her beliefs or perceptions, as a partial solution to reduce uncertainty into a calculated risk (Friedman & Savage, 1948; Savage, 1954; Shackle, 1959; Arrow, 1971). Knight (1942), noted that when there is no valid basis of any kind for classifying the eventualities of the future, the economic actors have no other choice but to resort to the probabilistic expectations for addressing these eventualities. Beckert (1996), referred to that situation as the trusting situation.

In recent works, Davidson (2011), contended that the decision-making process involves the situation of unmeasurable uncertainty, in which the laws of probability do not apply. In a similar vein, risk is distinguished from uncertainty that arises where the future contingencies are indeterminate or subject to doubt, and where there is no possibility of placing numerical probability on whether such an adverse event will be realised or not (Broadbent et al., 2008). Uncertainty, is generally believed to be a multi-structural concept that comprises a number of perceptual and cultural dimensions (Williams et al., 2003), whereas risk is quantified merely as a numerical value of calculated variance of probable contingencies that may eventually be realised (Helliar et al., 2001).

The trust concept is widely addressed in terms of expectation (e.g. Rotter, 1967; Barber, 1983; Hosmer, 1995; Dasgupta, 1988; Bradach & Eccles, 1989; Boon & Holmes, 1991; Hagen & Choe, 1998; Guseva & Rona-Tas, 2001; Möllering, 2001; Omstrom & Walker, 2003). In a similar vein, the trust concept is addressed in terms of expectancy (e.g. Rotter, 1967; Bhattacharya et al., 1998), subjective probability (e.g. Gambetta, 1988; Colman, 1990),

and likelihood (e.g. Madhok, 1995). Moreover, the trust concept is widely addressed in terms of willingness to be vulnerable to the unjustified conducts of others, based upon the rational (cognitive) expectation of their trustworthiness (e.g. Cook & Wall, 1980; Michalos, 1990; Moorman et al., 1992; Mayer et al., 1995; McAllister, 1995; McKnight et al., 1998; Rousseau et al., 1998; Omstrom & Walker, 2003, Colquitt et al., 2007). For example, McAlister (1995) and Mayer et al (1995), opined that cognitive trust is based upon the rational assessments of the actors' trustworthiness. The role of truster is confined to the probabilistic assessment of others' trustworthiness in a one-way passive context that requires no serious interaction between the parties within the risk-taking relationship. As directly related to its passive nature, the willingness to be vulnerable does not require any future-oriented considerations, because the probabilistic estimations of the others' trustworthiness are primarily concerned only with the ex-post information where there is no ex-ante knowledge that can be assessed to delineate this trustworthiness (Li, 2008; Poppo et al., 2008). Mayer et al. (1995), argued that the positive or negative expectations of the trustee's performance within the risk-taking relationship are assessed in terms of his personal characteristics comprising his trustworthiness namely, ability, benevolence, and integrity. However, the attempts to address trust need to advance beyond the narrow approach of applying the calculated confidence in assessing the trustworthiness and making probabilistic expectations of the trait-like characters, such as trustworthiness and intention (Li, 2008; McEvily, 2011; Möllering, 2014).

In the context of practicing the concept of trust, the immeasurable state of uncertainty is attributed to the actors' inability to verify the reliability of others with respect to fulfilling their verbal promises and written statements (Rotter, 1967) and their fiduciary obligation and responsibility (Barber, 1983). The state of uncertainty is also attributed to the inability to foresee the competence and dutifulness of the others (Lewis & Weigert, 1985), the forward performance of the others (Gambetta, 1988, Mayer et al., 1995), the decisions and interactions of the others (Hosmer, 1995; Bhattacharya et al., 1998), the intention of the others (Rousseau et al., 1998; Möllering, 2001), the reciprocation of the others (Omstrom & Walker, 2003), the motives of the others (Boon & Holmes, 1991), and the ethicality and morality of the others (Hosmer, 1995).

In the banking discipline, the rational techniques of the assessment and distribution of credit risk entail some limitations. For example, quantitative risk assessment is given more consideration compared to qualitative uncertainties underlying finance decision-making (Broadbent et al., 2008). This is due to the pervading power of the accounting logic of the risk assessment technologies, which aims at marginalising everything of importance into a single numerical probability, even though it cannot be measured due to its abstract nature (Broadbent et al., 2008). As a further limitation to the credit-rating approach, is the underpinning assumption that a clear distinction can be made between high and low credit risk borrowers, which lacks empirical testing. Therefore, researchers of banking and finance

are interested in understanding the theoretical underpinnings upon which the judgment is made by inflicting high-credit premium on one group of borrowers and low-credit premium on another (Win, 2018).

The trust concept is widely addressed in terms of the conduct and decisions made by parties within a respective relationship. Trust is addressed in terms of the behaviour of making oneself vulnerable to the future actions of an exchange party (Rousseau et al., 1998; Mayer et al., 1995). McKnight and Chervany (2001) defined behavioural trust in terms of the actors being, willingly and tranquilly, dependent on the others' discretion to act even in a situation with potentially negative consequences. They counted a few of the behavioural aspects of trust that make an actor vulnerable to the actions of others, such as decreasing control, accepting influence, granting autonomy, and transacting business. Moreover, Barber (1983), addressed trust in terms of giving others fiduciary obligations or duties that make oneself vulnerable to their actions.

Additionally, the trust concept is addressed in several studies in terms of risk-taking behaviour (e.g. Barber, 1983; Boon & Holmes,1991; Lewis & Weigert, 1985; Dasgupta, 1988; Hosmer, 1995; Currall & Judge, 1995; Mayer et al., 1995; McKnight & Chervany, 2001; Rousseau et al., 1998, Castelfranchi and Falcone, 2000a; Hassel, 2005; Li, 2015). For example, trust is addressed as a decision of putting oneself at risk or undertaking risk (Lewis & Weigert, 1985) and as behaviour under a risky situation (e.g. Lewis & Weigert, 1985; Boon & Holmes, 1991; Currall & Judge, 1995). Furthermore, Dasgupta (1988), addressed trust in terms of behaviour that entails a particular level of acceptance of risk due to the actor's inability to control the others' actions, whereas Castelfranchi and Falcone (2000a), depicted trust as the equivalent to the act of delegation, reliance, and dependence, where an actor plans to take the risk of achieving his assigned goals through the others' actions. Hassel (2005), addressed trust as a risk-taking action, and that action represents the sole evidence that trust exists. In a similar vein, Li (2015), depicted trust as the only choice that results in concrete actions that compromise vulnerability.

The trust concept is addressed in terms of risk-taking behaviour within an exchange relationship, which renders one of the involved parties vulnerable to the forward conducts of the other party where negative consequences of these conducts are potential (Mayer et al., 1995; McKnight & Chervany, 2001; Rousseau et al., 1998). Contrary to the rational calculation of the others' trustworthiness, Hosmer (1995), addressed the behavioural trust in terms of the mutual reliance and dependence that are reasoned by the accepted moral duty of protecting the recognised rights of the others who are involved within a given joint endeavour or economic exchange. He explained further that the acceptance of such duty positively provides a guarantee that the rights are recognised and the interests of all the involved actors will be included in the ultimate distribution within a given joint endeavour or economic

exchange. He opined that given the uncertainty and, hence, the immeasurability and uncontrollability of the eventual results of the decisions and actions that protect the rights and interest of the involved actors, the desired outcome of protecting these rights is achieved by the implementation of social values and ethical and moral postulates of religious injunctions, distributive justice, and recognition of rights. Moreover, the trusting behaviour is depicted in terms of enforcing an obligation (Underhill & Oerton, 1970) 1970), establishing a commitment (Cummings & Bromiley, 1996; Yamagishi., 1998), and a sense of obligation (Gudeman, 2004). Furthermore, the trust concept is addressed as the explicit commitments undertaken to respect the rights of the parties within a relationship (Yamagishi, 1998; Cummings & Bromiley, 1996). Similarly, PytlikZillig and Kimrough (2016), argued that trust would apply to a relationship between actors only when these relationships involve particular social aspects, such as reciprocity and moral-non-calculative reasoning. In this respect, Craswell (1993), explained that the non-calculative reasoning of trust is realised by trying to describe the mental states of the actors in accordance with the social-cultural values and the religion-based norms that are self-enforcing, because breaching covenants causes extra psychic cost and, as a result, the actors who internalised such values and norms would fulfil their undertakings. He explained further that if the actors represent the majority in a society, the willingness of actors to trust each other will be enhanced. In a similar vein, Barber (1983), explained trust as a set of optimistic assumptions held by an individual regarding the persistence of the social ties of the society in which that individual exists, and the competence and morality of the others involved with this individual.

Reasoning

Islam determines the way of wealth-accumulation in an ethical manner. The absolute human desires will only lead human conduct towards catastrophic ends of exploiting others to obtain personal gain. In this respect, Yazid et al (2015), analysed the views of *shari'ah* scholars on whether or not Islamic values are implemented in structuring Islamic finance products. They found that in spite of the agreement on the importance of values such as fairness and transparency of Islamic finance, some banks did not uphold these values in their operations. They provided examples where the adjustment of the profit rate in BBA home financing in the Malaysian banking industry (complied with Islamic law in protecting the rights of the transacting parties) depends on the market interest rate as a benchmark and the monthly instalments are calculated by using similar standard amortisation of the mathematical models of conventional banking, where the element of exorbitant uncertainty, connected to early settlement and customer default, lead the customer to pay unearned profit even though the tenure has not matured. They concluded that especially regarding trust-based contracts, namely *Murabahah*, *Ijarah*, *Musyarakah,* and *Mudharabah*, Islamic banks in Malaysia do not need a 'cosmetic' change in order to fulfil *shari'ah* requirements but rather the operation of Islamic banking should shift to embrace the spirit of *shari'ah*. In a similar vein, Sharifah

(2004), argued that some Islamic banks do not take into consideration the social obligation within the process of credit risk pricing and, hence, charge many types of penalties in the case of default, which renders their products not much different from the conventional counterparts. Dusuki and Abdullah (2010) stressed that most writings on Islamic banks suggested that those banks were concentrating on profitability of the Islamic banks, whereas the discussions on social obligations of Islamic banking have trivially taken place.

According to Nain (2018), trust-based contracts, i.e. *mudharabah* and *musharakah,* possess a number of features that comprise the reasoning and the implication that the managing partner cannot be held responsible for any operational losses, which means that the Islamic bank cannot collateralise the risk. Moreover, he opined that Islamic banks as intermediaries have to undertake processes of project evaluation, which are very long, costly, and complicated. The finance decision-maker cannot put too much weight on the feasibility study as a benchmark for trustworthiness by equating trustworthiness with profit, or equating untrustworthiness with losses. Additionally, he explained that this view seems to contradict the Islamic legal maxim stating that freedom from liability is the pre-existing and the prevailing state. Therefore, requiring the working partner, who holds the capital providers' fund to prove his trustworthiness, means that he is presumed to be untrustworthy without providing any substantial evidence or proven knowledge in this respect, which may contradict the essence of the trust-based contracts.

Therefore, Islamic banks are faced with additional exposure to credit and counter-party risk compared to their conventional counter-parts, due to their *shariah*-compliant nature (Ahmed & Khan, 2007). The features of PLS instruments entail the exposure to credit and counter-party risk due to the nature of Islamic loan contracts, limited default penalties, and moral hazard incentives that may be caused by the PLS contracts (Abedifar et al., 2015). Additionally, in some instances, Islamic banks cannot mitigate credit and counter-party risk by demanding collateral, due to their partnership-specific relationship (Mollah et al., 2017). For being part of the global financial industry, i.e. performing their business activities, not in isolation from conventional counterparts, Islamic financial institutions apply, mostly, the same conventional techniques in the assessment of credit risk (Agha, 2015). Therefore, the main techniques used in credit risk management of Islamic banks are benchmarking, credit-rating, creditworthiness analysis, and collateral (Masood, 2012). However, Islamic banking systems can distribute the exposure to losses associated with financial transactions only by employing the *Shari'ah*-derived principles (Hassan & Aliyu, 2018).

In this regard, Hasan (2016, 1983), explained that for being an ex-ante entity, risk probability has no cardinal measure, and the probability-based instruments cannot be the reasoning postulate underlying the finance decision, because these instruments do not provide an accurate measurement of the eventual loss/reward of the banking transactions. In other words,

the probability of that outcome is a matter of chance and speculation. Therefore, Agha (2015), contended that the risk probability is the immeasurable risk that forces the risk manager to take a glance into the future. But, what could eventually be realised would depend purely on luck or chance. Thus, he concluded that basing the distribution of the eventual losses within the respective banking transaction on the probabilistic reasoning is of far-reaching consequence for Islamic finance where ambiguity has to be avoided (Agha, 2015). Therefore, the probabilistic estimations cannot be the reasoning postulate underlying the assessment and making judgements regarding the trustworthiness of the parties in the IBTs (Ladin & Furqani, 2013).

In this respect, Imam Al-Ghazzali (in *Ihya' 'Ulum al-Din*, Vol. 4, p. 1639-1641), classified the causes comprising the reasoning of human conduct into two categories. The first category includes two types of causes, namely the justification-laden causes and the consideration-laden causes, whereas the second category includes the deluded causes.

The justification-laden causes represent the matters that could be examined, so that the reasoning underlying the finance decisions can be evidently justified. The cause is depicted as justification-laden when the finance decision is reasoned on the basis of sufficient evidence and proven knowledge, which enables the formation of a substantial (justified) judgement regarding the forward trustworthiness of the transacting parties to the contracted terms of the IBTs.

An example of the justification-laden causes is when the finance decision-maker decides to disapprove the credit facility to an ill-minded (*safih*) customer where the state of 'ill-mindedness' is evidently proven. The consideration of such a state as a cause by the creditor is a due; otherwise he/she will unjustly make himself/herself vulnerable to the adverse performance of the respective customer. Another example of considering the justification-laden cause is when the bank, as a capital provider, decides to be involved in *mudharabah* transactions with an unqualified entrepreneur.

The consideration-laden causes represent the matters comprising both states of doubt and certitude. These states are perceptual rather than being evidentlyaddressed. In this sense, the consideration of that type of cause in reasoning the finance decision comprises the decision-makers' inability to acquire evidence and proven knowledge that are sufficient to eliminate the state of doubt and forming sound judgement regarding the trustworthiness of the respective party with a complete degree of certitude. In simpler words, the consideration-laden causes comprise a state of immeasurable uncertainty that is inherent due to the inability of knowing the future contingencies.

One example of the consideration-laden causes is when the creditors decide to be involved in the credit transactions on the basis of a tangible declaration obtained from the customer, albeit his inability in acquiring proven knowledge that is sufficient for making accurate judgement regarding the intended trustworthiness of that customer. This is because forward trustworthiness is a party-specific and ex-ante entity.

The second category of causes is the deluded causes. This type of cause represents the matters comprising an imaginary state of mind that lacks any evidence or proven knowledge. In this sense, the consideration of that type of cause is inappropriate for reasoning the finance decision. This is because that consideration does not provide the decision maker with any sort of evidence for forming sound judgement regarding the others' trustworthiness for reasoning his/her finance decision. In that case, the only resort for the decision-maker is the probabilistic speculation. The outcome of such speculations are subject to error, comprise subjectivity and ambiguity, and present no cardinal measurement regarding the inherent uncertainty underlying the future contingencies.

One example for the deluded causes is when the finance decision-maker, in seeking to rationalise his decision, utilises the outcome calculated by implementing probabilistic models as the measurement of the trustworthiness of the respective party. The predicted outcome is inaccurate and, hence, it is inappropriate to make a sound judgement regarding the others' trustworthiness.

According to Imam Al-Ghazzali, taking both the justification-laden causes and the consideration-laden causes into consideration for reasoning the prospective conducts must precede the decision maker's reliance (*tawakkul*) on Allah (S.W.T). He opined that the decision-maker must not depend entirely on the consideration of the deluded causes, otherwise his reliance (*tawakkul*) would not be sound.

Data and Methodology

In this study, face-to-face interviews have been conducted for studying the understanding of the informants on the reasoning underlying the practice of the trust concept within the IBTs. Face-to face interviews had been conducted with four *shari'ah* advisors who are involved in the Islamic finance industry and, at the same time, lecturers in Islamic banking and finance, one lecturer in Islamic banking and finance, and two assistant managers in Islamic banks. The list of informants is shown in Table 1.

Table 1: List of Informants

Informants	Post	Institution
S1	Shari'ah Advisor	Bank Islam
S2	Shari'ah Advisor	Bank Islam
S3	Shari'ah Advisor	Bank Islam
S4	Shari'ah Advisor	Bank Islam
S5	Lecturer	University
S6	Assistant Manager	Bank Islam
S7	Assistant Manager	Bank Islam

The informants of this study were selected by using the purposive sampling technique (Neuman, 2003). Although the sample of informants is small in number, the sample size is not a concern, according to Robson (2002), who noted that the informants are selected because researchers consider them as information-rich sources that will enable the study to move forward in achieving its goal. Kvale (1996), provided a general answer regarding the sample size as to interview as many informants as necessary to find out what the researcher needs to know. The purposive selection of informants entails the researcher's selection of appropriate informants on the basis of prior knowledge of the population in meeting the stated objective of this paper.

In collecting the data, this study has developed a questionnaire using structured open-ended questions by asking similar questions to the informants and providing them with the time needed to respond to the posed interviewquestions. On average, every interview lasted for around 60 minutes and the interviews were recorded and transcribed for analysis.

With respect to the research objective of this paper, the focal point in the questionnaire concerned the informants' understanding regarding the reasoning underlying the trust-based finance decisions within the IBTs. These points are drawn from the diverse literature on trust.

Discussion and Findings

This section highlights the findings of the interviews regarding the internalisation of the trust concept through the reasoning of the finance decision in Islamic banks, which is our main concern of discussion in this paper.

Reasoning of Islamic-Finance Decisions

In view of the transcribed responses, some of the most important points are highlighted.

Trust is a very universal concept, because it goes back to our relationship with Allah the Creator. We are always in a state of trust, because there is a lot that we do not know, which calls for the concept of reliance (*tawakkul*). The concept of trust is negated where the secular mind-set always tries to disassociate the value-based concept that reflects the spirit of *shari'ah* (Islamic law) from the real practices of Islamic finance. Islamic banks should observe the concept of trust, because it seems that Islamic banks are mimicking whatever is being practiced in conventional banks. Islamic banking should be more robust, resilient, and can cater for the needs of the society, may it be rich or poor, to, at least, start a business. This is because Islam encourages sales, trade, and entrepreneurship, which become the drive of the economy for the entire nation as a whole.

In a nut shell, the concept of trust is embedded in Islamic teachings, traditions, and transactions, because the idea of contract itself is to protect the rights of both parties, the concept of justice. So, we are prohibited from manipulating price or returns. Islamic and conventional banking are different, as Islamic banking embeds all the values that come into the picture. Therefore, the reasoning of the Islamicfinance decision always needs to make reference to the older values embedded in the transaction and govern the conducts and decision of the transacting parties, side by side, with the contractual relationship.

However, the trust-based transaction is reasoned based on the expected profitability criterion. The Islamic bank has trust in the respective credit applicant (gives him a chance to give financing) only if he possesses a good creditrating. However, there is a certain group of people in this world who cannot have access to financing; the poor.

By the time of signing the legal agreement, a certain level of trust is reached. As far as Islamic banking concerns, *shari'ah* law enjoins the concept of *wadiah yadul dhmanah* (liability hand) to negate away from the concept of interest, and because Islamic banks are tied with the views of scholars because of the nature of the contract. However, the trust-based finance decision is reasoned on the basis of following certain laws and requirements, borrowed from the World Bank, when they assess the characteristics of the investors. So, it becomes very rigid when it comes to the concept of trust. Therefore, the practice of trust may be negated, simply because the bank mimics the practice of the conventional financing, where the Islamic finance institutions still practice the concept of credit risk, which means if the finance applicant has a poor credit rating, the bank would be very reluctant to give him/her financing assistance. Additionally, if the applicant does not provide collateral, it would be pretty hard for the bank to provide him/her with long-term financing.

The reasoning of the finance decision negates the concept of trust where that decision is dominated by the practice of the conventional bank and the rules and guidelines imposed by the central bank or world bank, whereby the decision maker needs to follow these imposed

guidelines under the notion of a credit-risk test and ratio, with the aim of getting a solid return at the end of the business venture. Such a type of reasoning displaces the concept of trust.

The reasoning of the finance decision comprises the requirements imposed by the central bank of preserving a portion of realised profits as profit equalisation ratio (PER). The idea of PER is not the willingness of the Islamic banks, but Islamic banks have to follow the regulations. But as far as *shari'ah* concept concerns, the PER negates the spirit of the nature of the trust-based contracts.

What prevents the internalisation of the concept of trust in the finance decisions of Islamic banks is the lack of understanding in terms of the contract's nature which invents the fundamental problem, the reasoning of the finance decision is dominated by contradicting mind-sets and trust-based transactions do not seem to work so well, because we apply the exchange principle to the mutuality (partnership) principle, where the nature of trust that resides in the principle of exchange (lender/creditor) differs from the nature of trust that resides in the nature of mutuality.

The reasoning of the Islamic-finance decision is dominated by the perspective of risk-appetite. Therefore, even if trust exists within the trust-based transaction, the approval of the finance application is reasoned by the consideration of whether or not the expected outcome of that transaction matches the risk-appetite of the finance-decision-maker.

Finally, the internalisation of the trust concept is realised when the reasoning of the Islamic-finance decision is reasoned on the basis of the representation taken from the finance-applicant regarding his intended commitment to his contractual obligation.

Reasoning as Practiced in Islamic Banking

The analysis of the transcribed respondents revealed some of the practices regarding how the trust concept is internalised in reasoning the Islamic-finance decisions of the Islamic banks. In that respect, some of the relevant points are highlighted in the following.

The first step of approving the finance application is knowing the respective applicant, not only from surface impressions, but in-depth by check-listing all the forms related to his/her background before the bank trusts him. That check is made based on the guidelines imposed by the bank's management in terms of his high, low, or medium risk. Then it will be known whether the respective applicant can be trusted or not, because, even if everything is completed, it depends again on the customer's obligation to pay. This obligation can be foreseen by the finance-decision maker.

The priority for approving finance is given to ageing customers, the bank's account holder, or the company or the fellow individual who has a tracking record. In reasoning the finance-decision, credit risk cannot be avoided, but the finance-decision maker can only mitigate the risk to a certain level, through the CTOS and CCRIS (central credit information system) of BNM. Regarding the trust-based transactions, i.e. *musharakah, mudharabah,* and *salam* financing, the Islamic banks do not have data streams, therefore, they have to carry out site visits rather than using CTOS and CCRIS.

Every bank has its own risk appetite which has bearing on the reasoning of the Islamic-finance decision in terms of scaling down finance applications that do not match the bank's risk appetite business to small risk percentages as a precaution. Banks need to provide financing which is very stable and, therefore, they must have limits of trust. In that respect, the bank will normally ask for collateral regardless of the state of trust underlying the finance transaction.

Apart from internalising the trust concept, the Islamic-finance decisions are reasoned on the basis of documenting all the terms of the bank's offer letter, and accepting all the terms and conditions to comply with the required terms during the period of providing the facility. When the business starts increasing, the finance decision-maker starts to internalise trust where the trustworthiness of the respective finance applicant and the feasibility of the respective business are proven.

The level of trust depends on the situation. The minimum or maximum level of trust depends on the criteria of each person. The reason being the bank cannot give the same trust to all of the finance applicants. Therefore, the bank's approach of trusting each of its customers will be the same, but the precaution will not be the same for all customers. Some customers will be charged with high margins, whereas other customers will have to give low margins, it depends on the criteria or the character of each customer. In this sense, the internalisation of the trust concept within the finance-decision is very subjective. So, it is a combination of opinions, which allows the finance-decision maker to approve or not to approve the financing transaction. So, it is about good consciousness that you do not always make bad decisions.

Conclusion

This paper analyses the views of *Shari'ah* scholars regarding the internalisation of the trust concept within the performance of the IBTs and whether or not that internalisation is guided by Islamic principles and values. Generally, this study found that the *shari'ah* scholars are in agreement that the Islamic financial system must uphold the Islamic values in its philosophy and on the importance of trust in the Islamic finance. However, with respect to the current

Islamic finance practices, the participating informants contended that the internalisation of the trust concept is based entirely on the formal (mathematical) models of reasoning employed by the conventional banks, which negates the substance of trust for neglecting the general Islamic principles and values as the reasoning postulates underlying the performance of the IBTs.

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