

**EMERGENCE OF SHARIA COMPLIANT BANKING IN  
KENYA: OPPORTUNITIES AND CHALLENGES.**



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## ABSTRACT

Modern Islamic banking was pioneered in Egypt in the 1960s, it is today a common mode of financing especially in the Middle East and Europe. Islamic banking is a system of financing that is guided by Islamic economic laws. The main purpose of this study was to bring out a better and clear understanding of Sharia Compliant Banking as a faith based mode of Banking in Kenya, how it emerged its opportunities and challenges. The study was an exploratory survey which was conducted in an infant Sharia Compliant Banking phenomenon in the Kenyan market which is barely 5 years old. It was guided by the following objectives; to identify reasons towards the emergence of Sharia Compliant Banking, its opportunities and challenges it faces in Kenya's turbulent economic environment. The study was focused on First Community Bank which is a fully fledged Sharia Compliant Bank in Kenya that offers Sharia Compliant services and products. The shareholders, Sharia scholars, both the senior and low level management and the clients were both stratified and purposively sampled in order to come up with a diverse source of information so as to meet the set objectives. This population sampled for its knowledge and encounter with the sharia compliant banking sector in Kenya. The use of Questionnaires and interview guides that are both structured (close-ended) and unstructured (open-ended) were administered in the collection of relevant data. The tools were piloted, tested and retested to check for validity and reliability before the official start of the research exercise. The data was collected at the Head Office and the seven branches in Nairobi County. This was done by sending the questionnaires to a research assistant at the branches and interviewing of the officers at the Head office and the Sharia Board scholars. A total of 40 Questionnaires were sent to the respondents and 30 of them were well completed and interviewed. Quantitative data was analyzed with the use of statistical package for social sciences, where descriptive and inferential statistics was computed in order to understand the patterns and nature of relationships. Qualitative data was first analyzed by coding and categorizing data in emerging themes from the Interview guides in relation to the research questions, which was later on arranged in the Likert scale to synchronize it into quantitative data for presentation. Analyzed data was presented in Tables, Graphs and Charts. According to the findings 27% of the respondents said that passion for religion application accounts for the major reasons that led to the emergence of sharia compliant banking in Kenya. The Amended legal frame work do contribute quite significantly to the Sharia Compliant Banking in Kenya as an opportunity at 30%.The Study depicted that 27% of the respondents said that Competition from conventional banks is a major challenge facing the Sharia Compliant Banking sector in Kenya. The researcher did recommend that the sector need to attract more investors from the Middle East, Invest more in promotions and marketing strategies and also enhance the legislation further to be in line with the sector demands while engaging the media for positive publicity. The researcher did also recommend for further research on the effects of emergence of Sharia Compliant Banking in Kenya.