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CONVERSION OF CONVENTIONAL BANKS TO ISLAMIC BANKS IN LIBYA: ISSUES AND CHALLENGES

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Abstract: *The process of conversion of conventional banks to Islamic banks commenced after the issuance of the Law No. 1 of 2013 which bans all interest transactions in the Libyan banking system. The purpose of this study is to explore the need for comprehensive guidelines for conversion to full-fledged Islamic banking in the country. The study adopts a qualitative approach to understand the phenomena of conversion of Islamic banking in Libya and the need for guidelines to facilitate the process. Open-ended interviews were conducted with six managers of Libyan banks to understand the need for guidelines for conversion to Islamic banking in Libya. The findings show that the interviewees have considerable understanding about the inadequacy of Law No. 1 of 2013 to achieve the conversion process. The interviewees also stressed their concern on the absence of guidelines and the adverse impact of this in the Libyan financial system. They also provided recommendations on how to overcome some of these problems. This research is one of few studies that focus on the concept of conversion to Islamic banking. The results of the study revealed the views of experts on the most prominent problems that face the Libyan banking sector regarding conversion to Islamic banking from a practitioners' perspective.*

Keywords: *Islamic Banking, Conversion, Banking and Finance, Libya, Issues And Challenges*

Introduction

The Libyan government introduced Islamic banking since the period of Gaddafi's Regime where few conventional banks offered limited Islamic products such as *murabahah* and *musharakah*. Since the new regime, there was an increased interest to transform the whole financial system to embrace Islamic banking and finance. However, the attempts faced significant challenges.

The first legislation introduced by the new regime to transform the financial system was the Law No. 1 of 2013, which strictly prohibited dealing in *riba* beginning 2015. With the immediate prohibition of interest-based activities among corporates in 2015, the financial system in Libya halted. Many banks were not able to cover their overhead costs and reported losses of over 60% due to the sudden implementation of the law. These critical losses led the Libyan House of Representative to postpone the law until 2020 by issuing the Law No. 7 of 2015 which states that all the provisions of Law No. 1 of 2013 will be effective by January 2020, particularly among corporates.

One of the major problems identified by studies (e.g. El-brassi, Bello, and Alhabshi 2017; Saaid 2016; Shafii, Shahimi, and Saaid 2016a) in the transformation process in Libya is the lack of a workable clear guidelines that banks need to convert to Islamic banking. Delay in issuance of guidelines is compounded with an absence of effective strategies, lack of skilled staff, resistance to change, etc.
In this study, we explore the need for a comprehensive guideline to facilitate conversion from conventional to Islamic banking with relevant guidelines. The next section is the literature review on conversion practices of conventional banks to Islamic banks. Subsequent sections are the methodology of the study, results and conclusion.

Literature Review

The Meaning of Conversion

The term commonly used to describe conversion in Arabic is "*at-tahawwul*". Studies in on the subject in English have different translations, which seem to have different connotations. *Al-tahawwul* may mean switching from one place to another and also from a present condition to a better condition (Ababneh, 2016). This meaning has been mentioned in the Qur'an, where Allah says: "Wherein they abide eternally. They will not desire from it any transfer (*hiwala*)" (Qur'an 18: 108). Authors, in describing the word *at-tahawwul*, used different English words such as conversion, transformation or switching. Although they may seem to be close in meaning, but they might not be suitable in all contexts.

The dictionary meaning of conversion is: "to change (something) into a different form or properties; transmute or transform". It also means "to turn from an original or intended use to another or a particular use or purpose" (Cambridge Dictionary 2013). From a technical perspective, conversion process denotes the operation of changing from one condition to a better – from a corrupt status to the right way. In the case of conversion to Islamic banking, it refers to avoiding "a shariah non-compliant status" that involves interest and other non-permissible practices and adopting banking practices based on the Shari'ah law, which is the system that is deemed appropriate in Islam (Al-Rabiaa 1989). According to Ababneh (2016), the concept of conversion to Islamic banking refers to switching or transforming the conventional forbidden activities to transactions which are compliant with Islamic law.

The second term used is "transformation", which, according to the English dictionary means "to change completely the appearance or character of something or someone, especially so that thing or person is improved" (Cambridge dictionary 2016). Technically it can be defined "in an organizational context, [as] a process of profound and radical change that orients an organization in a new direction and takes it to an entirely different level of effectiveness. Unlike 'turnaround' (which implies incremental progress on the same plane), transformation implies a basic change of character and little or no resemblance with the past configuration or structure" (Business Dictionary 2016).

Similarly, according to the Business Dictionary (2016) transformation process refers to "changes made in a business or other organization which improve the company's employee and management participation in the development of the business. A transformation process can give a failing business new life and can improve the smooth operation of any company". Daszko and Sheinberg (2012) explains that the term transformation has become a popular concept among organizations in this century. The word has been heard in hundreds of organizations referring to change. Moreover, they concluded the meaning of transformation as:

> The creation and change of the whole past form to the new form, function or structure. Transformation is about creating something new that has never existed before and could not be predicted from the past. In fact, it is a "change" in mindset. It is based on learning a new system of profound knowledge and taking actions based on leading with knowledge and courage.

Additionally, they mentioned that with regards to the management and organization system, transformation must firstly take place at the individual level after that then at the organization level.

In the context of changing from conventional to Islamic banks, most of the studies reviewed used the term conversion to explain the meaning of changing to Islamic banking from conventional banking. The studies also majorly describe this process at a firm level, i.e. at the bank level (Abdalla, Aziz, & Johari, 2015; Alani & Yaacob, 2012; Shafii et al., 2016a; Shafii, Shahimi, & Saaid, 2016b; Siswantoro, 2012; Zaki & Hussainey, 2015). Among these studies, some of the studies show that both terms, conversion and transformation have the same meanings (Alani & Yaacob, 2012; Saaid, 2016; Shafii et al., 2016a; Zaki & Hussainey, 2015).

The term transformation was also used not as frequent as conversion but at different levels. For instance, Baej (2013) and Arshad Yusoff, and Tahir (2016) used the word of transformation while referring to a change in the whole financial system to an Islamic system. In contrast, Hassan (n.d.) used the term of transformation while referring to change of the Islamic banking model at a micro level i.e. at the level of the bank not the whole financial system. Rafay and Sadiq (2015) used the term transformation to refer to both changes to Islamic banking at both micro and macro level.

The last term that was used by the studies reviewed is switching, which literally means "An act of changing to or adopting one thing in place or another" (Oxford dictionary 2016). Abduh, Kassim, and Dahari (2012, 2013) used switching in describing the customers' behaviour to switch to Islamic banking. Ababneh (2016) also used switching in his title but instead used conversion all through the content of his paper.

From the discussions above, it can be observed that the terms of conversion, transformation and switching can be used to refer to change from conventional to Islamic banking and financial system. However, most of studies used the term conversion to describe change to Islamic banking at a firm level i.e. at the bank level while the studies show that the term transformation is more suitable for describing a change in the whole financial system. In addition, the studies that used the word switching were only describing an activity done by the customer when he stops using conventional banking and adopts Islamic banking. Another issue from several prior studies showed that the words transformation and conversion have the same meaning, which is why they used the term transformation in describing conversion and vice versa. This study considers the term conversion more appropriate in terms of the scope of the study.

Forms of Conversion to Islamic Banking

The process of conversion can take many forms depending on the motivation to convert or causes behind stopping the conventional banking system. There are three common types if conversion as explained in the following:

Full-Fledged Conversion to Islamic Banking

Full-fledged conversion refers to a comprehensive change of all the activities and operations to be compliant with rules of Shari'ah and leaving all forbidden dealings with all transaction that are contrary with the Shari'ah, especially dealing with usury (*riba).* This type of conversion is considered as most acceptable from the religious perspective because it strictly introduces a financial and banking system in accordance with the Shari'ah and avoids any form of financial activity that may lead to prohibited activities by the Shari'ah (Ababneh, 2016).

Conventional banks that choose the full-fledged conversion also believe that this type of conversion is the most appropriate in gaining the trust of customers particularly those who prefer dealing with the Islamic banking system. It attaches a more important role to the Shari'ah board in the banks in terms of compliance with the Shari'ah rules. Stakeholders are more guaranteed that all activities in regard to funds acceptance and investment are mobilised based on Islamic law in order which perhaps retains the credibility of the bank (Saaid, 2016). The Accounting and Auditing Organization for Financial Institutions (AAOFI) has issued the Standard No. 6 on the conversion of a conventional bank into an Islamic bank on the basis of a full-fledged conversion to Islamic banking.

The AAOIFI does not recognise Islamic branches or windows as entities operating in accordance with Shariah principles and that is why they encourage conventional banks to converted to full -fledged Islamic banking to be considered as Shariah compliant institutions. Full-fledged conversion has been applied in many countries such as UAE, where several banks converted to Islamic banking, like Al-Jazeera Bank, Bank of Sharjah Emirates and Kuwait International Bank (Ababneh, 2016).

Gradual Conversion

Another type of conversion is the gradual conversion, which has been adopted in some GCC banks. The gradual process be considered at either the bank level or the whole financial system of a country. The first type of gradual conversion is that the conventional bank converts gradually to Islamic banking. In this type of conversion, it is difficult to determine the steps the bank will follow until it finally cuts-off with conventional banking. This may even lead to a delay in the conversion process due to ambiguity and confusion in the kind of strategy the bank may follow (Saaid, 2016). The second type is where new Islamic banks will be established or existing conventional banks will be converted side by side with the conventional banks. The aim at the end will be to move gradually to a full-fledged Islamic banking system or combine the two systems (Baej, 2013).

However, for banks to take a gradual conversion process, there are three phases as identified by Baej (2013). The first stage is known as the introduction phase. At this stage, the plans, steps and timeline for completion of the conversion will be made. This will include the development of human resources to deal with Islamic banking, establish supervisory committees to organize the conversion process, and also accurately choose the branches and staff that would actualize the conversion to an Islamic banking system. The second stage is to start the implementation of the conversion prosses, which includes getting permission to operate Islamic banking from the central bank. In the same context, for facilitating and controlling the process, the central bank should establish a particular department to carry on to the role of supervision and regulation of the Islamic banking activities as the new system. Also, the central bank should appoint a Shari'ah Advisory Board in order to make sure that all the activities of the branches converted to Islamic banking are compliant with the Shari'ah. The last stage will be the evaluation phase, which involves evaluating the progress of implementation of the conversion process as well as the economic and social performance of the branches that have been converted to Islamic banking. The success of the branches will permit the application of Islamic banking in other banks. (Baej 2013). This type of conversion could also be applicable to the whole financial system by the decision of the political or financial authorities such as what happened in Sudan, Pakistan and Iran or it could be by gradually adopting plans to introduce the Shari'ah financial products in place of the conventional products (Ababneh 2016).

In Libya, the conversion to Islamic banking is a full systematic conversion of all the financial sector. This is a very complex and difficult process which is why the gradual process may be the most appropriate in Libya. Studies have suggested that this is the most appropriate and compliant with the principles of the Shari'ah (Ababneh 2016; Baej 2013; Shafii et al. 2016; Zaki and Hussainey 2015).

Literatures also stress on the importance of a framework that will guide the future of banks towards moving to Islamic banking. This framework will help the banks as well the financial institutions to determine the most appropriate type of conversion for them. Other contingent issues that may arise during the conversion process could also be resolved with a comprehensive conversion framework. According to Shafii et al. (2016), the gradual conversion process is considered as the most appropriate type to achieve a successful conversion process especially in the case of Libya as this will give enough time to the boards of directors of Libyan conventional bank to prepare and make appropriate plans for staff training and increase the knowledge about the adoption and operations of the Islamic banking system. Also, the gradual conversion will help the banks and financial institutions to make the formation of their financial statement to be compliant with AAOIFI in general and its Shari'ah standard number 6 on conversion to Islamic banking system in particular. Moreover, in order to succeed in the conversion process, several policies, legislations and regulations related to commercial law and taxation must be established to suit a new financial system. In addition, there is a need to establish a stock market that is appropriate for Islamic financial transactions including investment and takaful insurance companies (Baej, 2013). Banks could hence convert to Islamic banking whether by full-fledged or by gradual process. If this is not possible then a partial conversion of some branches of conventional to Islamic banking or by establishing Islamic banking windows could be adopted, which will allow the bank to adopt the Islamic system side by side with conventional system.

Partial Conversion (Institutions Offering Both Conventional and Islamic Financial Services)

The partial conversion involves introducing Islamic units, windows or branches or by involving Islamic investment funds (Ababneh, 2016; Saaid, 2016). The bank will hence be dedicated to provide Islamic banking services and products within a conventional bank. This type of conversion is preferred for banks that do not have plans or intention for conversion to Islamic banking but at the same time they want to keep their customers who need Islamic banking services. Accordingly, the main motivation behind adopting this type of conversion is primarily profit-oriented. This type of conversion has been adopted by several conventional banks across the world (Saaid, 2016). The various forms of partial conversion are further explained below.

Islamic Branches

The first form of partial conversion is the Islamic branches which takes two forms. Firstly, by transforming one branch or more of a conventional bank into one which provides Islamic banking services. Secondly is by the establishment of new branches specialized on providing specific Islamic banking services that will be alternative to conventional services (Saaid, 2016).

The main aim to adopt and establish Islamic banking branches within the conventional bank is the desire of those banks to attract Muslims traders and businessmen along with other customers as well as to acquire the part of Islamic banking market which has grown remarkably in the past few years especially banks in Saudi Arabia and other Arabian Gulf countries (Ababneh, 2016). There are examples of banks that have adopted partial conversion to Islamic branches, in Arabian Gulf and the Middle East such as Saudi National Commercial Bank, the National Bank of Kuwait and Banque Misr, which established Islamic banking branches in Egypt (Alani & Yaacob, 2012).

Islamic Windows

These are the banking windows established within conventional banks in order to offer Islamic banking activities to customers whether individual, small or medium companies by using only Shari'ah compatible instruments (Sole, 2007). The Islamic banking window system is considered a better alternative to the banks that do not seek to convert to full-fledged Islamic banking and at the same time want to avoid losing clients who have interest in financial activities according to Islamic law. Also, the success of the Islamic systems in those banks may attract them to adopted the idea of full-fledged conversion to Islamic banking in the future (Ababneh 2016; Zaki and Hussainey 2015).

Islamic Investment Fund

The last form of partial conversion is Islamic investment fund. In this approach, the conventional bank establishes an investment fund according to Shari'ah to collect the money of investors to be invested in Islamic portfolio for fulfilling the contract between the conventional bank and fund management company which will be managed with distinct expertise and efficiency. They undertake to invest savings of the portfolio according to Shari'ah rulings and then share the profit derived from the investment process to investors according to terms of the establishing prospectus of the fund (Alani & Yaacob, 2012). This approach is also suitable to conventional banks that offer the Islamic banking activities as part of their activities without any intention to convert to full-fledged Islamic banking. Therefore, the reason behind adopting these Islamic funds is purely commercial (Saaid, 2016).

Issues on Conversion to Islamic Banking

Even though the practice of Islamic banking windows and branches are common, globally and in the GCC and the Middle East in particular, AAOIFI under its Shari'ah standard number (6) does not recognize Islamic branches and windows established by conventional banks because of the absence of a Shari'ah committee that ensures all the activities are in accordance with Islamic law or at least ensure that the conversion process meets the requirements of the Shari'ah (Zaki & Hussainey, 2015).

There are other Shari'ah issues related to converting Islamic branches and windows in the conventional banks raised by Shari'ah scholars. These include issues regarding separating the financial records of Islamic units operating under conventional banks. The important question is that what is the legality of Islamic branches, windows and funds from the Shari'ah perspective? This is important because these Islamic units operate under the conventional banks and the savings invested are a part the conventional bank capital. Thus it cannot be confirmed that the financial resources of conventional banks used in Islamic units are purely Shari'ah compliant resources and as such Islamic units operating under the conventional banks may be unacceptable according to Shari'ah rules (Saaid, 2016).

However, the partial conversion to Islamic banking will require that the core principles of the Shari'ah to be fulfilled and not violated. This may not seem to be easy particularly since the partial conversion will imply operating under the umbrella of a non-permissible conventional system. This will also imply that complete conversion will be more compliant with the Shari'ah (Arshad et al. 2016; Rafay and Sadiq 2015).

Another issue observed is that most of the Islamic financial activities are based on PLS. Thus, the conventional bank regulation needs to modify its regulatory framework to achieve the roles of supervisory of Islamic financial institutions and to ensure that the application of some Islamic financial contracts that are similar to the conventional banks contracts conform with the Shari'ah (Arshad et al., 2016).

In addition, Rafay and Sadiq (2015), Arshad, Yusoff, and Tahir (2016) and Zaed, Garoum, and Aldaif (2016) highlighted that the major issue that prevents the development and conversion to Islamic banking is the absence of comprehensive framework for the Islamic banks. However, Libya is not an exception to these issues. According to Saaid 2016, Shafii, Shahimi, and Saaid (2016a,) the obstacles facing the transformation process in Libya include lack of Shariah compliance rules, inadequate human resources, lack of regulations and legislations that support Islamic banking and resistance from the leaders of financial institutions to Islamic banking and conversion process. They confirm that most of these issues are due to the absence of a comprehensive framework for Islamic banking that will facilitate conversion process.

The Status of Islamic Banking in Libya

Islamic financial system is new in Libya even though it has a 100 percent populace. It is from 2009 that the country showed a strong interest to Islamic banking. According to Gait (2009), Libya showed a great potential of establishing a vibrant Islamic finance market. In the same year, the CBL issued the guidelines number A.R.N.M. No. 9, which allowed the commercial banks to offer Islamic banking services and products. The CBL based on this, introduced *murabahah* and *musharakah* and mudharabah. It should be noted that at this period there was no law or legislation for an organized Islamic banking system in Libya (Saaid, 2016). The first bank to introduce Islamic banking in Libya was Goumhoria bank by offering *murabahah* products and then other banks followed.

More also, after the change of the political regime in 2011, there was increased demand for Islamic banking from Libyan community (Alhajam, 2013). In response to this, the National congress transition issued the law No. 46 that replaced the banking law no 1 of 2005. The law no 46 gave the provision for the establishment of Islamic banking system in Libya within the laws and legislations that govern the financial sector in Libya (El-brassi et al., 2017). The law no 46 of 2012 paved the way for to practicing Islamic banking side-by-side with the conventional banking system. This implied the Libyan interest to adopt a dual banking system to allow both conventional and Islamic banking system working within Libyan financial system.

In January 2013 the General National Congress (GNC) issued the law no 1 2013 which strictly prohibited dealing with riba in the financial system of Libya (Saaid, 2016). The law consisted eight articles:

Article 1: Beginning from the day of enforcement of the law, interest banking is prohibiting among all individuals.
Article 2: All financial transactions that involving interest banking that will be effective after enforcing this law shall be prohibited
Article 3: Debtors have obligation to pay the principal amount only
Article 4: Banks are required to establish a fund for Islamic loans or *qard al-hassan* instead of using charging of interest on loans that were issued before enforcing this law.
Article 5: All the legislations and law that contradict these provisions of law no 1 2013 are canceled. In addition, it is necessary that all corporate government bodies related to the Libyan financial system shall be replaced with transactions compliant with Islamic law.
Article 6: This article set has penalties and fines in case of violation of the law which may involve imprisonment of not more than two years.
Article 7: This is the last article and may be considered one of the most important article states that this law will be enforced on corporate bodies by January 2015 (Central Bank of Libya, 2014).

Consequently, the sudden enforcing of the law caused serious problems to the Libyan financial system. The law canceled the dual system as provided by the law no 46 of 2012 to introduce Islamic law in the system. It should be stressed that the law did not mention how financial institutions should transformation to be full-fledged Islamic financial institutions. According to article 5, financial authorities which include the Ministry of Finance and CBL should support this law with appropriate guidelines for the enforcement of the law. Regrettably, until now there is are no guidelines that will serve as a blueprint for banks to take steps to convert to Islamic banking. Another issue is that article 7 provided a very a narrow timeframe of two years for implementation, which caused great dilemma to the banking sector. The law also failed to clarify the form of transformation to Islamic banking, whether it is an immediate transformation or gradual transformation to Islamic banking system. As a result, no bank in Libya until now could transform to Islamic banking system and confirmed as one of the reasons for deterioration of the Libyan banking sector (El-brassi et al., 2017). In a nutshell, the major reason for the condition could be attributed to the lack of proper guidelines that will clarify how the transformation process should be implemented.

Research Methodology

This study adopts a qualitative method which is found to be more suitable for addressing the objectives of the study. According to Zikmund, Babin, Carr, and Griffin (2009) a qualitative approach addresses the research objectives by using techniques whereby the researcher could use data that is not in the form of numerical instruments to explain certain phenomenon. It is as such a good tool for generating information in business settings. Echchabi and Abd. Aziz (2014) used a qualitative approach to explain the Shari'ah issues surrounding Islamic banking in Malaysia.

In this study, a total of six interviews were conducted from the management staff of five banks in Libya. These were selected purposely from major banks in Libya because they were very conversant with the situation in Libyan transformation and are fully attached to the process of conversion to Islamic banking. They also have the ability to provide judgemental facts on the phenomenon being investigated. All of them were males with 25-30 years of experience in the industry.

According to Polit and Beck (2013 p. 267) a total of 10 or fewer sample size is enough to conduct a study on a phenomenon. Previous studies (e.g. Echchabi and Abd. Aziz 2014; Tijjani, Fifield, and Power 2009) have similarly used the recommendations of Polit and Beck (2013) in their studies. The interview was conducted using open-ended question, using a voice recording device and later transcribed. The duration of the interview sessions ranged from 20-30 minutes.

The analysis of the study is based on a phenomenological approach which attempts to explore experiences of people and their perceptions or an account regarding an event or object (Smith & Osborn, 2003). The interviews were hence interpreted based on the information provided by the individuals on the dearth of guidelines for conversion of Islamic banks. The results hence represent the personal experiences and opinions of the interviewees in the study.

Results

The results in this section are based on the responses of the interviewees on the need for guidelines for conversion of conventional banks to Islamic banks. Four themes were identified from the interview discussions, which are the need for comprehensive guidelines, effects of the lack of guidelines, adequacy of the Law No. 1 of 2013 and the type of conversion that is most suitable for the Libyan case.

Need for Comprehensive Guidelines

The study is centered upon understanding the dire need for comprehensive guidelines that could facilitate banks to convert to Islamic banking in Libya. From the interviews conducted, there is evidence on the need for guidelines for conversion. All the interviewees stressed on the urgent need for the guidelines. However, the interviewees have explained the need from different perspectives. Interviewee B expresses that:

> I believe that most of the Libyan banks are in dilemma due to conversion process as they have no experience of Islamic banking even as a branch or window. As such, they need guidance on how they could convert.

The above response is also in line with the findings of Shafii et al. (2016). But according to interviewee D, he asserts that the guidelines supposed to come much earlier:

> I believe that the law should have been accompanied with a comprehensive guideline on how banks can convert to Islamic banking

In a similar note, interviewee E attributes the responsibility for developing the guidelines to several stakeholders of the financial sector:

> The provision of a framework or guideline for conversion is the duty of academics, researchers, bankers and Central Bank of Libya (CBL).

Effects of Lack of Guidelines

The lack of guidelines for conversion has left the Libyan banks into serious dilemma especially with the deadline approaching. Some of the specific effects that were mentioned by the interviewees are given below. Interviewee C highlights that:

> The banks are in critical problems and without some guidelines it will be impossible to address the problems they are into. These include the finding appropriate ways to substitute non-Shari'ah activities and investment tools. This is why the conversion process could not be done until now.

The above response is also in line with the findings of Shafii et al. (2016). Interviewee D, A and F mention that due to the lack of these guidelines, banks are now in confusion and recording heavy losses everyday:

Interviewee A: Banks are suffering because of the negative effects on the financial position of banks due to lack of procedures to convert to Islamic banks.in line with.

Interviewee D: Libyan banking sector is in confusion, losses of revenues and the opportunity for investment.

Interviewee F: I think the absence of guidelines for conversion to Islamic banking in a lead to the concerns and confusion among the banks.

The above are also in line with other studies (Saaid, 2016; El-brassi, Bello, and Alhabshi, 2017). Overall, the interviewees in the study show high concern about the effects of the lack of comprehensive guidelines, which even has tremendous effects on the current conventional system. Bankers are confused and unaware of what they are actually required to do in order to implement the Law No. 1 of 2013.

Adequacy of Law Number 1 Of 2013

The findings from the interviews conducted revealed that the law on the ban of *riba* transactions is not enough to achieve a successful transformation to Islamic banking in Libya. The current law was meant to only declare the prohibition of *riba*-based transactions without any practical steps to achieve the conversion process to Islamic banking system. Similarly, the law did not give a detailed timeline for implementation. The interviewees showed serious concern on coming up with such a law that may be to the disadvantage of the financial system. Interviewee A and G stressed that the timeframe was too narrow a hence, there is a need for more time:

Interviewee A: The law is just on the banning of *riba* and identified two years as the timeframe for conversion which is impossible to achieve.

Interviewee G: I believe the law does not help the conversion process in general.

Interviewees C and D mention the failure of the law to clarify the nature and type of conversion that should be applied in the banking system. This is also in line with Saaid (2016):

Interviewee C: The law has left the banks to determine how they should convert and which kind of conversion should follow.

Interviewee D: The law is not enough to the conversion of Islamic banking, due to some reasons. Firstly, it didn't identify the kind of conversion, is it gradual or one-time conversion? Secondly, the law did not mention the procedure that banks should follow to implement the conversion.

The interviewees D and G opined that the law did not in any way better the Libyan financial system. This finding is also consistent with Saaid (2016):

Interviewee D: The law for banning the interest did provide any alternative, therefore the banking system became disabled.

Interviewee G: Giving a narrow timeframe, there is a problem in understanding what kind of alternative to the interest banking system could be applied. This is what led to the freezing of the Libyan banking system. This law will indeed just bring damage to the banks.

All the interviewees have gathered on the fact that the law is not sufficient at all for conversion. On the contrary, the law has banned all the interest banking activities and failed to clarify how the banks should convert to full-fledged Islamic banking within two years. The interviewees showed great concern about the negative effects of the law on the financial system as well as the disadvantages that arise as a result of enforcing the law on the conversion process. In fact, the full-fledge conversion needs several unique procedures and strategies. The most notable procedures are issuing detailed guidelines for conversion process to Islamic banking which include developing an appropriate timeframe for conversion and the clear steps that should be followed. Such guidelines should also explain on addressing some necessary requirements such as how to treat of non-Shari'ah activities. The next section will present the suggestions of the interviewees on the most suitable kind of conversion for the Libyan financial system.

Type of Conversion Suitable for The Libyan Financial System

There is a pertinent question that seems not to be addressed, which is, what kind of conversion to Islamic banking should the Libyan banks adopt? Most of the interviewees believe that the provisions of law impliedly refer to a one-time complete conversion to Islamic banking model. Only interviewee D states that the Law did not clarify which kind of conversion to full-fledged should apply in Libya is its gradual conversion or immediate.

In the same context, in order to get more understand about type of conversion in Libya, the interviewees were asked to suggest what type of conversion is suitable for Libya? In this regard, the interviewees revealed two different approaches to this issue. Interviewees B, C, G and F hold that a gradual conversion to full -fledge to Islamic banking more suitable.

Interviewee B: The experience of Jumhoria bank proved that the most suitable approach that to converted to full fledge Islamic banking is the gradual conversion approach.

Interviewee C: I think the gradual conversion to Islamic banking is better, Libyan banking system needs more time and full support from government and CBL to achieve goal of conversion.

Interviewee G: I believe the gradual conversion to Islamic banking is the best option for banks in Libya because we are not ready for immediate conversion. We need more time. Also, the deteriorating political and economic position is inversely affecting our effort for conversion to Islamic banking.

Interviewee F: I believe the gradual conversion is more suitable rather than the immediate conversion which created several problems that negatively affected the acceptance of the Islamic banking model among the Libyan banking stakeholders.

On the other hand, interviewees A and D argue that the Libya financial system is not ready for full-fledged conversion to Islamic banking. Therefore, a dual financial system is the best choice for the growth of the Islamic banking sector without causing damage to the banking sector.

Interviewee A: I believe adopting a dual financial system is the best option at the first stage. Later on, may be in the next one to two decades, the biggest public banks will convert gradually to fully Islamic banking, and this will facilitate the establishment of Islamic banks by the private sector.

Interviewee D: I think the dual financial system is more appropriate in the case of Libya due to many reasons such as lack of experience on practicing Islamic banking model. So, it is better to let the Islamic banking to work side-by-side with the conventional system.

From the above, the interviewees have agreed on the inappropriateness of a one-time complete conversion to Islamic banking in the case of Libya. The majority of the interviewees recommend a gradual full-fledge conversion to Islamic banking model which is in line with the studies of Saaid (2016) and Shafii et al. (2016a). Two of the interviewees did not believe in possibility of Libya to convert to Islamic banking, which is why they recommend the dual financial system.

Discussion and Conclusion

The sudden introduction of the Islamic banking system in Libya in 2013 after a long period of its absence will certainly be coupled with several problems that will need to be addressed. In fact, conventional bank faced significant challenges to convert to a full-fledged Islamic bank in Libya. One of the most prominent problem is lack of comprehensive guidelines for the conversion process. This study explored the need for comprehensive guidelines for the conversion process in Libya.

The results from the interviews indicated that the Law No. 1 2013 is inadequate for conversion process. Also, they mentioned the consequences of the failure of the banks to convert to Islamic banking on the economic and financial system in the country, which include loss of opportunities, liquidity crisis and even freezing of the whole financial system in early 2015. They are also not clear about the kind of conversion that is expected to be applied in Libya since the law did not make any provision for that. The study also finds that there is lack of the roles of CBL to support and clarify the process of conversion to stakeholders. Most of the banks did not take any proactive step towards the conversion to Islamic banking until which is a result of the previous problems identified.

From this standpoint, the study has observed that without guidelines, the conversion process may not be possible, even with the postponement of the implementation of the interest banning law to 2020 in its Law No. 7 2015. It is worth mentioning that the postponement may not seem to be a solution to the problem, but instead providing a set of guidelines to allow the banks easily follow the technical steps required for converting to Islamic banks. This would also be coupled with providing a conducive environment or conversion. Therefore, the findings confirm the need of Libyan banks to urgently introduce guidelines for achieving the goals of conversion.

It is recommended that policy makers, regulators and the CBL should take the duty of issuing the guidelines and regulations for conversion as an urgent matter. In order to achieve that, they may wish to adapt some models, such as the Pakistan guidelines for conversion to full-fledged Islamic banking in Libya. As the findings from interviews show the suitability of the gradual approach to full-fledged Islamic banking in case of Libya, the study further recommends that the guidelines should as well include a tracking mechanism for a gradual conversion and identify a more feasible timeframe for implementation. The CBL should have a closer coordination with commercial banks, supervision and control on implementing the conversion process. The guideline of conversion to full-fledge Islamic banking must be more comprehensive not for the sake of the banking sector only, but also for the sake of the whole financial sector which includes the banking, capital market and insurance sectors.

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