

Examination and Elucidation of the Dimensions of a Fair Fee-Determination Model in Islamic Banking

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Abstract: The interest-free banking industry in Iran faces a serious challenge in determining service fees. Many current tariffs are based on historical practices and lack a clear relationship with actual costs and risks. This situation has reduced customer trust and is insufficiently consistent with the jurisprudential principles of justice and fairness. The present study aimed to design a computational model for determining fair fees in Islamic banking based on jurisprudential-economic foundations and to validate the model within Iran's banking system. The study employed an exploratory sequential mixed-methods approach. In the qualitative phase, the jurisprudential constraints and economic criteria governing fees were extracted through interviews with 12 experts and a review of jurisprudential documents. In the quantitative phase, these findings were converted into operational variables and tested on selected services provided by Bank "A" using activity-based costing and the analytic hierarchy process. The results showed that a fair fee is determined, in the first stage, through a combination of full cost, customary profit, and legitimate risk and, in the second stage, by applying an ethical adjustment coefficient based on service necessity and the customer's financial capacity. Application of the model to three sample services showed that the proposed fee for credit-related services was aligned with market tariffs, while the fee for basic services covered the bank's actual costs. Sensitivity analysis confirmed that full cost had the greatest effect on the model. The jurisprudential assessment also confirmed the model's conformity with the principles of the prohibition of usury, the no-harm rule, and fairness. The model provides a practical framework for achieving fee justice in Islamic banking.

Keywords: activity-based costing, fairness, fair fee, Islamic banking, justice.

1. Introduction

Islamic banking has emerged as an institutional framework intended to reconcile modern financial intermediation with the ethical, legal, and economic principles of Shariah. Unlike conventional banking, which commonly structures financial returns around predetermined interest rates, Islamic banking seeks to organize financial relationships through legitimate trade, partnership, lease, agency, service, and risk-sharing arrangements. The prohibition of *riba* constitutes the most visible distinction between the two systems; however, the Islamic character of banking cannot be reduced merely to the formal elimination of interest. Islamic banking is also expected to embody justice, transparency, mutual consent, accountability, avoidance of excessive uncertainty, protection of property rights, and equitable distribution of benefits and burdens. Consequently, the legitimacy of Islamic financial operations depends not only on the legal form of contracts but also on the economic substance of transactions and their consistency with the broader objectives of Shariah. A governance system

inspired by Islamic economic thought must therefore integrate legal compliance, ethical supervision, distributive justice, institutional accountability, and protection of stakeholders into banking decisions [1].

The development of Islamic banking has created a wide range of financial products and services, including deposit accounts, payment facilities, documentary credits, guarantees, financing contracts, investment instruments, digital services, and advisory activities. Each of these services involves administrative processes, human resources, technological infrastructure, operational risk, regulatory compliance, capital allocation, and other direct or indirect costs. Banks must recover these costs to maintain operational continuity, financial stability, and service quality. At the same time, the fees charged for these services must remain compatible with the prohibition of usury and other jurisprudential principles. The distinction between legitimate banking income and prohibited interest is therefore central to fee determination. Banking income is legitimate when it is linked to an actual service, asset, commercial activity, accepted risk, or productive contribution; it becomes problematic when the return is generated solely from the passage of time or from a guaranteed increase in debt without a legitimate economic basis [2].

The importance of fee income has increased as banks have attempted to diversify their revenue structures and reduce excessive dependence on financing margins. Non-interest and fee-based income can strengthen financial resilience, particularly when traditional credit activities are affected by economic volatility, regulatory restrictions, or deterioration in asset quality. Evidence from the Iranian banking system indicates that non-joint or non-participatory banking income is influenced by institutional, financial, and macroeconomic factors and constitutes an important component of bank revenue diversification [3]. Nevertheless, increasing fee-based income without a transparent and defensible pricing framework may expose customers to arbitrary charges, weaken public trust, and create a gap between the formal objectives of Islamic banking and its actual practices. Accordingly, fee diversification should not merely increase bank revenues; it should also be governed by a rational model that demonstrates the relationship among service costs, legitimate profit, risk, customer benefit, and ethical considerations.

Pricing banking services is inherently complex because a fee can be determined from several perspectives. A cost-based approach calculates the resources consumed in providing a service and adds an acceptable profit margin. A market-based approach considers prevailing tariffs, competitors' prices, customer demand, and the strategic position of the bank. A value-based approach estimates the economic or functional value that the service creates for the customer. Each approach has advantages and limitations. Cost-based pricing is transparent and facilitates cost recovery, but it may overlook differences in customer value and market conditions. Market-based pricing enhances competitiveness but may reproduce inefficient or unfair market practices. Value-based pricing reflects customer benefits but may be difficult to measure and may permit excessive charges when customers have limited bargaining power. Research on Islamic banking-service pricing has therefore emphasized the need to combine cost-, market-, and value-based strategies rather than relying exclusively on a single pricing logic [4].

The issue becomes more sensitive in markets where banking tariffs are administratively regulated or historically determined. In such settings, fees may not reflect the actual resources consumed by each banking activity. Some services may be underpriced and generate hidden losses, whereas others may be priced above their actual cost without a sufficiently clear economic or jurisprudential justification. The Iranian banking industry has experienced broader difficulties in applying fair-value concepts and translating economic realities into reliable accounting and valuation practices. Macro-level barriers include regulatory limitations, institutional resistance, inadequate information infrastructures, and inconsistencies between accounting requirements and the operational

characteristics of banks [5]. These challenges suggest that the determination of fair banking fees cannot be separated from the quality of accounting information and the capacity of banks to identify the actual cost of their services.

Activity-based costing offers a potentially appropriate response to this problem because it assigns indirect costs to services according to the activities and cost drivers involved in producing them. Traditional costing systems may distribute overhead expenses through broad and sometimes arbitrary allocation bases, thereby concealing the true cost of individual banking services. By contrast, activity-based costing identifies the resources consumed by activities such as customer verification, document processing, risk assessment, account maintenance, technological support, regulatory reporting, and transaction monitoring. It can therefore provide a more accurate estimate of the full cost of each service. In Islamic banking, reliable cost measurement is especially important because the legitimacy of a fee depends partly on whether it corresponds to an actual service and a verifiable economic burden. Recent efforts to develop financial-reporting models specifically suited to Iranian Islamic banking have likewise emphasized the need to align accounting practices with fundamental theories, economic substance, and the distinctive requirements of Islamic financial institutions [6].

Although full cost constitutes an essential component of a defensible fee, a bank cannot ordinarily operate by recovering costs alone. It requires a reasonable return to finance innovation, maintain capital, invest in technology, absorb operational shocks, and ensure continuity. The central question is therefore not whether an Islamic bank may earn profit, but how a legitimate and customary profit should be defined and calculated. Shariah-compliant financing contracts generate returns through different legal and economic mechanisms, including sale margins, lease rentals, partnership profits, and service remuneration. The relationship between financing structures, returns, and sustainability illustrates that legitimate profitability is compatible with Islamic banking when it is grounded in actual transactions and accepted contractual responsibilities [7]. Nevertheless, the profit component of a service fee must be proportionate, transparent, and independent of a prohibited time-based increase in debt.

The determination of a reasonable return is also related to institutional efficiency. An inefficient bank should not automatically transfer all avoidable costs to customers under the label of service fees. A fair pricing model should distinguish between necessary costs and expenses arising from managerial inefficiency, outdated processes, redundant organizational structures, or weak technology. Comparative studies of Islamic and conventional banks have examined differences in efficiency and have highlighted the importance of institutional structure, resource utilization, and operational performance in evaluating banking models [8]. Stability policies may also affect the comparative efficiency of Islamic and conventional banking systems, indicating that regulatory arrangements can alter both the cost structure and performance of banks [9]. Thus, fair fees should cover efficient service costs rather than legitimizing any expenditure recorded by a bank.

Risk constitutes another important component of banking-service pricing. Some services, such as account opening or checkbook issuance, involve mainly administrative and operational risks, whereas credit-related services may expose the bank to default, liquidity, legal, compliance, and capital risks. A fee model that ignores risk may underprice services and threaten financial sustainability. Conversely, charging an unspecified or exaggerated risk premium may resemble an unjustified transfer of uncertainty to the customer. Islamic finance permits returns associated with legitimate risk-bearing, but such risks must be identifiable, measurable, and connected to the underlying transaction. Financial engineering in an interest-free banking system consequently requires mechanisms that reconcile risk management, contractual legitimacy, and financial viability [10]. Pricing mechanisms for Islamic financial derivatives and related instruments similarly demonstrate that valuation must

reflect contractual structures and permissible sources of return rather than simply reproducing conventional interest-based formulas [11].

The difficulty of distinguishing a genuine Shariah-compliant charge from a disguised interest payment is intensified when the legal form of a transaction differs from its economic substance. The phenomenon of sham or simulated contracts in Islamic financial markets shows that formal contractual labels alone cannot guarantee Shariah legitimacy. Transactions may comply superficially with contractual requirements while economically replicating prohibited financing arrangements [12]. This concern also applies to bank fees. A charge described as an administrative fee may become objectionable when it is calculated solely as a percentage of the debt, increases automatically with time, or substantially exceeds the actual service and risk costs. A fair-fee model must therefore make each component traceable to a legitimate economic basis and prevent fees from becoming instruments for circumventing the prohibition of usury.

Agency problems provide a further reason for requiring transparent fee structures. Depositors, bank managers, shareholders, borrowers, regulators, and Shariah boards may possess different levels of information and pursue partially conflicting interests. Under moral hazard, bank managers may have incentives to transfer costs or risks to customers who are unable to evaluate the underlying calculations. Comparative analysis of principal-agent relationships in Islamic and conventional banking demonstrates that contractual structure alone does not eliminate information asymmetry or opportunistic behavior [13]. Effective governance must therefore ensure that pricing decisions are subject to disclosure, internal control, Shariah oversight, and accountability. In this respect, fee determination is not merely an accounting task but a governance issue affecting the distribution of rights and obligations among stakeholders.

Customer protection is particularly important because banking contracts are generally standardized and drafted by institutions with greater legal, financial, and informational capacity than individual customers. Customers may accept terms without understanding the economic rationale for fees, available alternatives, or the consequences of contractual provisions. Research on unfair contract terms in Islamic banks has shown that Islamic financial literacy and ethical frameworks can empower consumers and strengthen protection against one-sided contractual arrangements [14]. However, consumer literacy alone is insufficient when pricing formulas are opaque or unavailable. Banks must also provide understandable explanations of how fees are calculated, which costs they cover, whether they include risk or profit components, and under what conditions discounts or exemptions apply.

Transparency and perceived honesty directly affect trust in Islamic banks. Customers evaluate Islamic financial institutions not only according to their legal status but also according to whether the institutions act consistently with declared ethical values. Perceptions of Islamic banking and brand honesty influence trust through perceived value and customer satisfaction, demonstrating that ethical credibility is a strategic asset rather than a purely normative concern [15]. When customers perceive fees as arbitrary, excessive, or inconsistent across similar services, their trust may decline even when the charges comply with formal regulations. Conversely, a transparent fee model can strengthen perceived value by showing that charges correspond to actual costs, legitimate risks, and reasonable returns.

Service quality and regulatory design are also connected to pricing. Excessive regulation may prevent banks from adjusting fees to changes in technology, inflation, and operating costs, while insufficient regulation may permit exploitative pricing and unequal treatment. A balanced regulatory framework should promote competition, disclosure, innovation, and consumer protection simultaneously. The role of regulation and deregulation in improving the quality of customer service in monetary and banking systems highlights the importance of designing

rules that neither immobilize banks nor leave customers unprotected [16]. A fair-fee model may support such regulation by providing an objective basis for tariff approval, comparison, and revision.

Technological transformation further complicates banking-service pricing. Digital banking can reduce marginal transaction costs, automate customer service, and generate detailed data regarding customer behavior and service utilization. At the same time, it requires substantial investments in cybersecurity, artificial intelligence, data storage, regulatory technology, and digital infrastructure. Artificial intelligence can optimize pricing and recommend personalized banking services by analyzing customer profiles, transaction patterns, and demand sensitivity [17]. Personalized pricing, however, creates ethical concerns when customers with limited alternatives are charged more or when opaque algorithms reproduce discriminatory patterns. Therefore, the use of artificial intelligence in Islamic fee determination should be constrained by transparency, fairness, privacy, and Shariah governance.

Contemporary pricing research also demonstrates that fees may change dynamically according to congestion, demand, network conditions, and user behavior. Analysis of fee-market dynamics in the Bitcoin network illustrates how transaction fees evolve throughout the life cycle of a decentralized financial network and respond to shifts in demand and processing capacity [18]. Peer-to-peer service pricing models based on game theory likewise show that strategic interactions among providers and users can affect equilibrium prices [19]. Although Islamic banks operate within a different institutional environment, these studies reveal that service pricing is not necessarily static. Nevertheless, dynamic pricing in Islamic banking must remain bounded by ethical and jurisprudential principles and should not exploit urgency, vulnerability, or information asymmetry.

The social and developmental functions of Islamic banking provide another dimension of fair pricing. Islamic financial institutions are expected to contribute to financial inclusion, productive investment, equitable access to finance, and economic development. Evidence from Organization of Islamic Cooperation member countries suggests that the relationship between Islamic banking development and economic growth may be nonlinear and dependent on the level of institutional development [20]. Credit-guidance policies in Islamic banking also reveal tensions among profitability, risk control, and support for small and medium-sized enterprises [21]. If essential banking services are priced beyond the capacity of low-income customers or small businesses, the developmental function of Islamic banking may be weakened. A fair-fee model should therefore recognize distributive considerations and allow ethically justified adjustments for essential services, vulnerable customers, and socially prioritized activities.

These distributive considerations are consistent with the distinction between justice and benevolence in Islamic ethics. Justice requires that parties receive their rights and that fees remain proportionate to the service, cost, risk, and benefit involved. Benevolence goes beyond strict equivalence by encouraging concessions, discounts, or waivers when customers face hardship or when a service is socially necessary. A performance-measurement system based on Islamic principles should consequently evaluate institutions through financial and nonfinancial criteria, including justice, stakeholder welfare, ethical conduct, and social responsibility [22]. Integrating an ethical adjustment coefficient into fee calculation can operationalize these principles rather than leaving them as general declarations.

The practical significance of fair pricing is reinforced by the relationship between facility returns and the broader performance of Islamic banks. Changes in profit rates and financing returns can affect resource allocation, customer demand, and the financial position of banks [23]. Yet, service fees should not simply become substitutes for financing profits when restrictions are imposed on profit rates. Such substitution could undermine the substantive

distinction between Islamic and conventional banking. A defensible fee must instead be based on the actual activity performed, the efficient cost of providing it, a reasonable return, and a legitimate measurable risk.

Despite the growing literature on Islamic banking governance, efficiency, financial reporting, customer trust, Shariah-compliant returns, financial engineering, and service pricing, an important methodological gap remains. Existing studies frequently address individual dimensions of the problem in isolation. Cost studies focus on accounting allocation; jurisprudential studies focus on the permissibility of fees; marketing studies emphasize perceived value and competition; risk studies examine expected loss; and ethical studies discuss fairness and customer protection. Few frameworks integrate these dimensions into a transparent computational model that can be implemented at the service level. In particular, there is a need for a two-stage framework that first calculates a financially sustainable base fee from efficient full cost, customary profit, and legitimate risk and then applies an ethical adjustment based on service necessity, customer financial capacity, and social priority. Such a framework can also help address the gap between formal Islamic banking principles and operational practices by translating jurisprudential requirements into measurable variables.

Accordingly, the aim of the present study was to design and validate a computational model for determining fair fees in Islamic banking by integrating jurisprudential constraints, full service costs, customary profit, legitimate risk, market considerations, and ethical adjustments within the Iranian banking system.

2. Methodology

The present study was conducted within the post-positivist paradigm. This paradigm considers objective reality to exist independently of the researcher's mind, while acknowledging that complete access to such reality is difficult because of the limitations of human cognition. Accordingly, an exploratory sequential mixed-methods approach was employed. In the first phase, the jurisprudential and economic foundations of bank fees were identified through qualitative methods. In the second phase, these findings were converted into operational variables and tested quantitatively. The study primarily followed deductive reasoning, moving from general jurisprudential rules, such as the prohibition of usury, the no-harm rule, and benevolence, toward the design of a specific model. The principal research strategy involved developing a conceptual-computational model through a case-study approach. Bank "A," a private Islamic bank with an active Shariah compliance board, was selected as the case. Following the literature review and the design of a conceptual framework incorporating jurisprudential constraints and economic criteria, the concepts were converted into operational variables, and the corresponding mathematical model was developed. In the final stage, the model was applied to selected services provided by Bank "A," and its results were compared with actual tariffs, subjected to sensitivity analysis, and evaluated jurisprudentially.

The study population consisted of university professors specializing in jurisprudence and banking, jurists serving on Shariah compliance committees, and senior banking executives, totaling approximately 50 individuals. Purposive sampling combined with the snowball technique was used to select participants, and sampling continued until theoretical saturation was reached. The final sample consisted of 12 experts, including six jurists specializing in *fiqh al-mu'āmalāt* and six economists or banking executives. Bank "A" was selected for the case study because of the researcher's adequate access to the bank and its relative representativeness of private Islamic banks. Three banking services were also selected as sample services: the issuance of a checkbook as a non-credit service, the opening of a domestic letter of credit as a credit service, and the opening of a current account as a basic service.

The research data were collected through qualitative and quantitative components. In the qualitative component, semi-structured interviews lasting an average of 45–60 minutes were conducted with 12 experts. The interview

questions focused on identifying jurisprudential constraints, determining Shariah-compliant profit ceilings, and assigning weights to ethical criteria. To complement the findings, an AHP questionnaire was designed using three criteria: service necessity, the customer's financial capacity, and social priority. Its inconsistency ratio was calculated as 0.04. The review of jurisprudential documents included an examination of verses such as Qur'an 2:275 and Qur'an 2:195, as well as the opinions of contemporary jurists. In the quantitative component, the accounting data of Bank "A" for one financial year were analyzed using activity-based costing. To determine the customary profit rate, the financial statements of 10 listed Islamic banks over three years were examined. The average return on equity was calculated as 12.5%, which was capped at 12% following consultation with the experts. Risk data, including probability of default, loss severity, and exposure at default, were obtained from the risk-management unit of Bank "A." Data on current tariffs were also collected from Central Bank circulars and from Bank Melli Iran, Bank Mellat, and Bank Saderat Iran.

The content validity of the study was established through approval by the advisory committee and relevant specialists, as well as through feedback from key interviewees. Construct validity was achieved through the meaningful convergence of the qualitative findings with the results of the ABC and AHP calculations. In terms of reliability, the ABC calculations demonstrated high reproducibility, while the AHP weights showed satisfactory consistency, with an inconsistency ratio of 0.04. Complete transparency in the formulas and algorithmic stages further strengthened the reliability of the study. Finally, the jurisprudential validity of the model was examined by three jurists specializing in Islamic economics, who confirmed its conformity with Shariah principles.

Several specialized tools were used to analyze the data. Expert Choice software was employed to implement the analytic hierarchy process and assign weights to the criteria. Excel and SPSS were used for activity-based costing calculations and sensitivity analysis. The qualitative approach was based on content analysis and thematic coding, through which jurisprudential documents were systematically examined and the principal themes were identified. In the quantitative component, the base-fee and fair-fee formulas were calculated as key indicators, and one-way sensitivity analysis was performed on the model variables. To ensure the credibility of the findings, triangulation was applied by integrating jurisprudential data, accounting information, and expert opinions, thereby enhancing the study's internal and external validity.

3. Findings and Results

In the economic literature, a bank fee is defined as the price of a financial service. In a competitive market, this price results from the equilibrium between supply and demand. However, the Iranian banking-services market has two distinctive characteristics. First, it is monopolistic and based on administratively determined tariffs. Second, it is subject to the Shariah requirements of justice and the prohibition of usury. Accordingly, the research problem was formulated as the design of a fee function capable of simultaneously fulfilling four objectives. The first objective was to ensure the bank's financial sustainability by covering full costs. The second was to generate legitimate and customary profit within the framework of the prohibition of usury. The third was to compensate for actual risk without involving *gharar*, or excessive uncertainty. The fourth was to observe fairness and benevolence toward customers. Given the multi-objective nature of the problem, a two-stage computational function was designed instead of solving a complex optimization model. The general form of this function is presented in Equation (1):

$$F_{\text{fair}}(s) = f(C_s, \pi_s, R_s, \beta_s) \quad (1)$$

In this equation, C_s represents the full cost of service s , π_s represents the customary profit associated with the service, R_s represents its legitimate risk burden, and β_s represents the ethical adjustment coefficient for the service.

To ensure the model's conformity with Shariah, the jurisprudential constraints governing the imposition of fees were extracted from Qur'anic verses, traditions, and jurisprudential rules. These constraints were classified into two categories. The first category was designated as exclusionary constraints, which are mandatory and may not be violated. The second category was designated as adjustment constraints, which are recommended and ethical in nature. The exclusionary constraints comprised four elements. The first was the prohibition of usury, based on Qur'an 2:275, which prevents customary profit from being determined solely as a function of time or the nominal amount of debt. The second was the prohibition of *gharar*, which requires the fee formula to be transparent and fully predictable. The third was the prohibition of unjustly consuming another person's property, based on Qur'an 4:29, which requires every component of the fee to correspond to an actual activity or legitimate risk. The fourth was the no-harm rule, which limits the final fee to an upper threshold proportionate to the customary benefit of the service. The adjustment constraints comprised two elements. The rule of justice and fairness requires the fee to be proportionate to the benefit received by the customer. The rule of benevolence, based on Qur'an 2:195, recommends waiving part of the fee under specific circumstances. In addition to these jurisprudential constraints, five economic criteria were identified to ensure the appropriateness of the fee: full cost, customary profitability, compensation for credit and operational risks, efficiency and competitiveness, and distributive justice. The combination of these jurisprudential constraints and economic criteria formed the basis for designing the model's operational variables.

A critical stage in designing the model was the selection of quantitative variables that could simultaneously represent jurisprudential-economic concepts and be objectively measured. Table 1 illustrates the mapping between the study's theoretical foundations and the model's operational variables. The table presents the five principal variables of the model, together with their symbols and measurement methods.

Table 1. Conversion of Jurisprudential-Economic Foundations into the Model's Operational Variables

Foundation/criterion	Operational variable	Symbol	Measurement method and data source
Full cost	Sum of direct costs and allocated overhead costs	C_s	Activity-based costing method using the accounting data of the sample bank
Legitimate and customary profit	Normal profit margin	π_s	Based on the customary return on equity or a percentage of cost as reasonable remuneration, subject to a jurisprudential ceiling
Legitimate risk burden	Expected loss	R_s	Product of the probability of default, loss percentage, and exposure at risk, subject to jurisprudential approval
Competitive adjustment	Market-conformity coefficient	α_s	Deviation of the base fee from the average market fee; optional
Fairness and benevolence adjustment	Ethical coefficient	β_s	Scoring system based on service necessity, the customer's financial capacity, and social priority, weighted through AHP

The results presented in Table 1 show that, among the five model variables, C_s , π_s , and R_s constitute the core components of the base fee. The variable α_s has only an optional regulatory role and is not required for every service. The variable β_s is applied only in the second stage of the model and under circumstances in which economic ethics necessitate its use. Based on these variables, the computational model was designed in two stages. In the first stage, the equitable base fee is calculated using Equation (2):

$$F_{\text{base}}(s) = C_s + \pi_s + R_s \quad (2)$$

In this equation, C_s represents the full cost of the service, calculated using the ABC method. The variable π_s represents customary profit, which is calculated as a percentage of cost for non-credit services and as a percentage

of allocated capital for credit services. The variable R_s represents the expected loss associated with the service and is set equal to zero for services without risk exposure. The additive and linear form of this function was preferred over nonlinear forms because of its high transparency and the jurisprudential interpretability of each component. In the second stage, the ethical adjustments of fairness and benevolence are applied to the base fee using Equation (3):

$$F_{\text{fair}}(s) = F_{\text{base}}(s) \times (1 - \beta_s) \quad (3)$$

In this equation, β_s is a value between zero and β_{max} . The maximum ethical discount in the present study was set at 0.30. The value of β_s for each customer is obtained using Equation (4):

$$\text{Score}_s = w_1X_1 + w_2X_2 + w_3X_3 \quad (4)$$

In this equation, X_1 represents the score for service necessity, X_2 represents the customer's financial-capacity score based on income decile, and X_3 represents the score for social priority or emergency circumstances. The weights w_1 , w_2 , and w_3 were determined through the analytic hierarchy process based on the opinions of 12 experts. The resulting weights were 0.54 for service necessity, 0.30 for the customer's financial capacity, and 0.16 for social priority. The inconsistency ratio for this weighting was 0.04, which was within the acceptable range. After calculating Score_s , the value of β_s is obtained by normalizing the score within the interval from zero to β_{max} . In the final step, the fee derived from Equation (3) is compared with the jurisprudential ceilings established under the no-harm rule. When the calculated fee exceeds the jurisprudential upper bound, it is capped at that threshold.

To test the model in practice, three services of different types were selected: the issuance of a checkbook as a non-credit service, the opening of a domestic letter of credit as a credit service, and the opening of a current account as a basic service. The base fee and fair fee for each service were calculated using Equations (2) and (3). Table 2 presents the results of these calculations, disaggregated by cost, profit, risk, and ethical coefficient.

Table 2. Results of the Base-Fee and Fair-Fee Calculations for the Sample Services

Service	Cost (C_s)	Customary profit (π_s)	Risk (R_s)	Base fee (F_{base})	Ethical coefficient (β)	Fair fee (F_{fair})
Issuance of a 50-leaf checkbook	IRR 120,000	IRR 6,000	Zero	IRR 126,000	0.099–0.252	IRR 94,200–113,500
Opening of a domestic LC valued at IRR 5 billion	IRR 4,200,000	IRR 210,000	IRR 2,400,000	IRR 6,810,000	0.099	IRR 6,135,800
Opening of a current account	IRR 80,000	IRR 4,000	Zero	IRR 84,000	0.099–0.252	IRR 62,800–75,700

The results in Table 2 show that the fair fee for all three services is directly influenced by the ethical coefficient β . For the checkbook-issuance service, the fair fee was calculated as IRR 113,500 for a customer with high financial capacity and IRR 94,200 for a low-income customer. This difference indicates that the model automatically differentiates among customers in different income deciles. For the opening of a domestic letter of credit, the largest shares of the base fee were attributable to full cost and the risk burden. The final fair fee for this service was calculated as IRR 6,135,800, which falls between the Central Bank's former and revised tariffs. For the opening of a current account, the fair fee was reduced to IRR 62,800 for a low-income customer. Collectively, these results demonstrate that the proposed model simultaneously ensures the coverage of the bank's costs and the observance of fairness toward customers.

After calculating the fair fees for the three sample services, the model's results were compared with prevailing market tariffs. This comparison made it possible to assess the extent to which the proposed model conformed to, or deviated from, current banking practices. Table 3 presents this comparison for each service, together with the percentage deviation from the current tariff.

Table 3. Comparison of the Fees Generated by the Proposed Model with Prevailing Market Tariffs

Service	Current tariff: market average	Model base fee	Fair fee	Percentage deviation from the tariff
50-leaf checkbook	IRR 100,000	IRR 126,000	IRR 94,200–113,500	–5.8% to +13.5%
Domestic LC valued at IRR 5 billion	IRR 5,000,000–10,000,000	IRR 6,810,000	IRR 6,135,800	+22% relative to the lower bound and –38% relative to the upper bound
Opening of a current account	IRR 0–20,000	IRR 84,000	IRR 62,800–75,700	Substantially higher than the current tariff

The results presented in Table 3 indicate that, for credit services, the proposed model is close to actual market tariffs. The fair fee for opening a letter of credit falls between the lower and upper limits of the existing tariff range. For the checkbook-issuance service, the deviation of the model from the current tariff is also limited, ranging from –5.8% to +13.5%. In contrast, for the opening of a current account, the model proposes a fee substantially higher than the current tariff. This increase is justifiable because the current tariff for this service often fails to cover the bank's actual costs. Nevertheless, the benevolence coefficient incorporated into the model moderates this increase for low-income groups. Overall, these results show that the proposed model operates consistently with the market for credit services and, for basic services, ensures the bank's financial sustainability without imposing unfair burdens on low-income customers.

To evaluate the robustness of the model, a one-way sensitivity analysis was conducted on the key parameters associated with the letter-of-credit service. The analysis examined the effects of a 10% change in cost, a change in the customary profit rate, and a change in the ethical coefficient on the final fair fee. Table 4 presents the results of this analysis and the percentage change relative to the baseline scenario.

Table 4. Effects of Changes in Key Parameters on the Fair Fee for the Letter-of-Credit Service

Scenario	New fair fee, million IRR	Change relative to baseline
Baseline scenario	6.136	—
10% increase in cost (C_s)	6.558	+6.9%
10% decrease in cost (C_s)	5.714	–6.9%
Increase in the profit rate from 12% to 15%	6.165	+0.5%
50% increase in the ethical coefficient (β)	5.820	–5.1%
50% decrease in the ethical coefficient (β)	6.476	+5.5%

The results in Table 4 demonstrate that the model is most sensitive to the actual cost of the service. A 10% change in cost changes the final fair fee by approximately 7%. The ethical coefficient also has a substantial effect on the final result. A 50% change in this coefficient shifts the fair fee by approximately 5%–6%. By contrast, changes in the customary profit rate have only a limited effect on the final fee. This limited effect is attributable to the relatively small share of profit in the overall structure of the base fee. These findings indicate that accurate cost determination and transparency in applying benevolence-based discounts constitute the most important mechanisms for achieving fee justice under the proposed model.

The model's outputs were evaluated from four jurisprudential perspectives based on interviews with specialist jurists. First, conformity with the prohibition of usury was examined. All fee components in the model correspond to actual costs, customary profit from the activity performed, or compensation for risk, and no independent time-based component is included. Second, conformity with the no-harm rule was assessed. The maximum proposed fees were substantially lower than the customary benefit received by the customer from the service and were therefore not considered harmful. Third, the absence of *gharar* was examined. The model's formula is transparent and deterministic, enabling customers to predict their fees in advance. Fourth, adherence to fairness was assessed. Differentiating fees according to the customer's financial capacity constitutes an objective application of the principle of fairness and is compatible with the spirit of Shariah. The only ambiguous issue in this evaluation concerned the legitimacy of the risk premium calculated on the basis of the cost of capital. After it was clarified that this amount merely compensates for the actual cost of maintaining capital and does not constitute an advance payment of profit, the jurists' opinions tended toward its permissibility.

4. Discussion and Conclusion

The present study aimed to design and validate a computational model for determining fair fees in Islamic banking by integrating jurisprudential constraints, economic criteria, actual service costs, legitimate risk, customary profit, and ethical adjustments. The findings indicated that a fair banking fee cannot be determined through a single conventional pricing criterion. Instead, it should be calculated through a two-stage process. In the first stage, the base fee is obtained from the sum of the full cost of the service, customary profit, and legitimate risk burden. In the second stage, the calculated fee is adjusted through an ethical coefficient reflecting the necessity of the service, the customer's financial capacity, and the social priority of the transaction. The results further showed that the proposed model was able to cover the actual costs of banking services while maintaining conformity with the jurisprudential principles of the prohibition of usury, the prohibition of *gharar*, the no-harm rule, fairness, and benevolence. This combination of financial sustainability and ethical differentiation constitutes the principal contribution of the study.

The first major finding was that the full cost of each banking service constituted the central component of the base fee. The sensitivity analysis confirmed this result by showing that a 10% change in service cost produced an approximately 6.9% change in the final fair fee, which was greater than the effect of changes in the customary profit rate or ethical coefficient. This finding indicates that the accuracy of cost identification and allocation is the most important technical condition for establishing fee justice. When banks use historical tariffs or broad overhead-allocation methods, the resulting fee may not correspond to the resources actually consumed by the service. Consequently, some services may be underpriced and subsidized through other banking activities, whereas other services may generate unjustified income. This result is consistent with the argument that Islamic banking requires financial-reporting and accounting models capable of representing the economic substance of banking operations rather than merely reproducing conventional accounting structures [6]. It also corresponds with findings concerning barriers to the application of fair-value principles in the Iranian banking industry, where deficiencies in information systems, valuation practices, and institutional arrangements can prevent financial figures from accurately reflecting economic reality [5].

The importance of full cost also supports the use of activity-based costing in banking-service pricing. Banking services consume heterogeneous combinations of employee time, technological resources, document-processing activities, risk-control procedures, regulatory reporting, and administrative support. Therefore, allocating costs

through a single general basis may conceal major differences among services. The present model addressed this problem by connecting each fee to identifiable activities and cost drivers. Such transparency is particularly important in Islamic banking because every fee component should correspond to an actual service, legitimate effort, or accepted economic burden. This result aligns with the broader literature on Islamic banking-service pricing, which emphasizes that cost-based pricing provides an essential foundation for fee determination, although it should be combined with market- and value-based considerations [4]. The finding also implies that fair pricing requires banks to improve efficiency rather than automatically transferring all recorded expenditures to customers. Comparative assessments of Islamic and conventional banking have similarly emphasized operational efficiency and optimal resource utilization as important dimensions of institutional performance [8].

The second major finding was that customary profit formed a legitimate but relatively limited component of the base fee. In the proposed model, the profit margin was capped at 12%, based on the average return on equity of selected listed Islamic banks and expert judgment. The sensitivity analysis showed that increasing the profit rate from 12% to 15% changed the final fair fee by only 0.5%. This limited effect resulted from the comparatively small share of profit in the total fee structure. The finding is important because it demonstrates that the model does not rely on profit maximization as the primary basis for fee determination. Rather, profit functions as reasonable compensation for the bank's productive contribution, organizational investment, capital maintenance, and continuity of service. This interpretation is consistent with the distinction between legitimate Islamic banking returns and usurious income. Banking returns are permissible when they arise from an actual service, asset, activity, or accepted contractual obligation rather than from the mere passage of time or a guaranteed increase in debt [2].

The limited role assigned to profit is also consistent with studies of Shariah-compliant financing structures, which show that lawful returns can be generated through trade, leasing, partnership, and service contracts when the return reflects the economic substance and risks of the transaction [7]. At the same time, the finding addresses concerns that fee income could become an indirect substitute for prohibited interest. If a bank were permitted to define the profit component without an observable benchmark or jurisprudential ceiling, the service fee could be used to reproduce the economic effects of an interest-bearing arrangement. The proposed model reduces this risk by separating profit from cost and risk, requiring each component to be measurable, and preventing the profit margin from being determined merely by the amount or duration of the customer's debt. This substantive approach is particularly relevant in view of evidence concerning sham contracts in Islamic financial markets, where the formal appearance of Shariah compliance may conceal transactions that economically replicate prohibited arrangements [12].

The third major finding concerned the inclusion of legitimate risk in the pricing of credit-related banking services. In the domestic letter-of-credit service, the risk burden constituted a substantial component of the base fee, whereas it was set to zero for the checkbook-issuance and current-account-opening services. This differentiation indicates that the model avoids imposing a generalized risk premium on all customers and services. Instead, risk is charged only when an identifiable exposure exists and is measured through probability of default, loss severity, and exposure at default. This finding is compatible with Islamic financial principles because legitimate return may be associated with actual risk-bearing, but not with vague, speculative, or artificially inflated risk claims. Research on financial engineering in interest-free banking likewise emphasizes the need to develop structures that reconcile risk management, contractual legitimacy, and financial sustainability [10]. Studies of pricing mechanisms in Islamic financial instruments similarly indicate that valuation should reflect the specific contractual structure and permissible sources of return rather than merely imitating conventional interest-based formulas [11].

Nevertheless, the jurisprudential evaluation revealed that the legitimacy of a risk charge based on the cost of capital was the most debatable component of the model. The jurists were more inclined to approve this component after it was clarified that the charge compensated for the actual cost of maintaining capital and did not represent an advance or guaranteed profit. This result demonstrates the importance of distinguishing between compensation for an actual economic burden and income derived from the passage of time. It also shows that technical terminology alone is insufficient to establish Shariah legitimacy; the economic substance of the charge must be explained clearly. This need for substantive scrutiny is consistent with governance models that place Shariah oversight, accountability, and transparency at the center of Islamic banking operations [1]. It also reflects the principal-agent challenges present in Islamic banking, where managers may possess more information than customers and may characterize certain charges as legitimate costs without sufficient disclosure [13].

The fourth major finding was that the ethical coefficient effectively differentiated fees according to service necessity, customer financial capacity, and social priority. The AHP results assigned the greatest weight to service necessity, followed by financial capacity and social priority. This weighting suggests that the experts regarded access to essential banking services as the most important ethical consideration. The ethical coefficient reduced the final fee by between approximately 9.9% and 25.2%, depending on the customer and service characteristics. In the case of checkbook issuance, for example, the model generated a lower fee for a low-income customer than for a customer with high financial capacity. Similarly, the fee for opening a current account was reduced substantially for low-income customers. These findings show that distributive justice can be incorporated into an operational pricing formula rather than being treated merely as a general ethical aspiration.

The ethical adjustment is consistent with Islamic performance-measurement approaches that evaluate financial institutions through both financial and nonfinancial criteria, including justice, social responsibility, stakeholder welfare, and ethical conduct [22]. It also supports the argument that Islamic banking should serve developmental and inclusive functions rather than focusing exclusively on profitability. Research in member countries of the Organization of Islamic Cooperation indicates that Islamic banking development may contribute to economic growth when the institutional environment reaches an appropriate level of maturity [20]. However, such developmental effects may be weakened when low-income individuals and small enterprises cannot afford basic banking services. Studies of credit-guidance policies in Islamic banking similarly demonstrate the need to balance profitability and risk control with support for small and medium-sized enterprises and socially prioritized sectors [21]. Accordingly, the ethical coefficient in the present model may be interpreted as a practical mechanism for aligning fee policy with financial inclusion and the social objectives of Islamic banking.

The incorporation of customer financial capacity also strengthens consumer protection. Standardized banking contracts are generally prepared by banks, while individual customers have limited bargaining power and incomplete information about fee structures. Under these conditions, uniform tariffs may appear formally equal while producing unequal burdens across income groups. A fee that is negligible for a high-income customer may constitute a significant obstacle for a low-income customer. The present model addresses this problem by recognizing that fairness does not always require identical treatment. Instead, fairness may require proportionate differentiation based on ability to pay and the necessity of access to the service. This interpretation is consistent with research showing that ethical frameworks and Islamic financial literacy can empower bank customers against unfair contractual terms [14]. However, the present findings extend that argument by suggesting that consumer protection should be embedded in the pricing formula itself rather than depending solely on customers' ability to interpret contractual provisions.

The proposed ethical adjustment may also enhance customer trust. The legitimacy of Islamic banking depends substantially on whether customers perceive that institutions act consistently with their stated religious and ethical commitments. Previous research has shown that perceptions of Islamic banking and brand honesty influence trust through perceived value and customer satisfaction [15]. A transparent fee model can strengthen these perceptions because customers can understand how the fee was derived and why different customers may receive different discounts. Conversely, arbitrary or unexplained fees may lead customers to conclude that Islamic banking differs from conventional banking only in terminology. The present model may therefore contribute not only to distributive fairness but also to institutional credibility and long-term customer relationships.

The fifth major finding was that the proposed fees were generally consistent with prevailing market tariffs for credit-related services but differed considerably from existing tariffs for basic services. The fair fee for the domestic letter of credit fell within the current market range, while the deviation for checkbook issuance remained relatively limited. These findings indicate that the model does not produce economically unrealistic results when applied to services whose tariffs already incorporate substantial cost and risk considerations. This result is consistent with the view that Islamic banking-service pricing should integrate cost, market, and customer-value considerations [4]. The market conformity of the credit-service fee also suggests that existing tariffs in some areas may already reflect the main economic components identified by the model, even when those components are not transparently disclosed.

In contrast, the model proposed a significantly higher fee for opening a current account than the prevailing tariff. This result suggests that some basic services may currently be underpriced and that their costs are being subsidized through other income sources. Although low or zero tariffs may appear favorable to customers, persistent underpricing can reduce service quality, encourage inefficient resource consumption, and compel banks to recover costs through less transparent channels. The finding therefore highlights a tension between affordability and financial sustainability. The ethical coefficient partially resolves this tension by allowing the bank to recover a greater proportion of the actual cost from customers with stronger financial capacity while reducing the burden on low-income customers. This differentiated approach is more consistent with fairness than either universal underpricing or uniform full-cost pricing.

The comparison with market tariffs also underscores the role of regulation. In administratively regulated banking markets, tariff ceilings may remain unchanged despite inflation, technological investment, and rising compliance costs. Conversely, deregulation without transparent cost criteria may expose customers to excessive charges. The proposed model offers a middle path by providing regulators with a measurable basis for setting and revising tariffs. This result corresponds with research emphasizing that regulation and deregulation should be balanced to improve service quality while protecting customers in monetary and banking systems [16]. It also relates to findings that banking-stability policies can influence the efficiency of Islamic and conventional banking systems [9]. A stable fee framework should therefore protect both customer welfare and the operational viability of banks.

Another important implication of the findings concerns the use of digital technologies in fee determination. The proposed model requires detailed information about customer characteristics, service costs, risk parameters, and operational activities. Artificial intelligence and data-analytics systems could facilitate real-time cost allocation, customer segmentation, risk estimation, and personalized ethical discounts. Research has shown that artificial intelligence can optimize pricing and recommend personalized services in digital banking [17]. However, personalization should not become a mechanism for extracting the maximum possible fee from each customer. In Islamic banking, algorithmic pricing should remain constrained by fairness, transparency, explainability, and

nondiscrimination. The ethical coefficient designed in this study provides a normative structure within which technological personalization can be used to reduce rather than intensify customer vulnerability.

The findings are also relevant to emerging dynamic-pricing environments. Studies of Bitcoin transaction-fee markets demonstrate that fees may vary according to network congestion, demand, and processing capacity [18]. Game-theoretical analyses of peer-to-peer service pricing similarly show that strategic interactions among users and providers can influence equilibrium prices [19]. Although the present model is not a dynamic market-clearing mechanism, it allows periodic adjustment of cost, risk, and ethical parameters. This flexibility is valuable in environments characterized by inflation, technological change, and fluctuating demand. Nevertheless, the jurisprudential constraints embedded in the model prevent dynamic pricing from becoming exploitative, particularly when customers require urgent or essential services.

Overall, the study demonstrates that fair fee determination in Islamic banking requires the integration of accounting accuracy, legitimate profitability, measurable risk, ethical differentiation, governance, and regulatory oversight. None of these elements alone is sufficient. Cost-based pricing without ethical adjustment may burden vulnerable customers; ethical discounts without accurate costing may threaten banking sustainability; market-based pricing without jurisprudential constraints may reproduce unfair industry practices; and Shariah compliance without transparent measurement may remain merely formal. The proposed model addresses these limitations by translating broad jurisprudential principles into operational variables and a reproducible computational procedure. In this respect, it contributes to the development of an Islamic banking framework in which efficiency, legitimacy, customer protection, and social responsibility are treated as mutually reinforcing rather than competing objectives.

The present study had several limitations. First, the empirical implementation of the model was restricted to one private Islamic bank and three sample services; therefore, the results may not fully represent state-owned banks, specialized banks, digital banks, or institutions operating under different cost structures. Second, access to detailed accounting and risk-management data was limited, and some operational costs may have been estimated through internal allocation procedures. Third, the jurisprudential evaluation was based on the opinions of a small number of specialist jurists, and alternative jurisprudential schools may interpret particular components, especially the risk charge and cost-of-capital compensation, differently. Fourth, the customer financial-capacity variable was operationalized primarily through income deciles, although actual ability to pay may also depend on household size, debt obligations, geographic location, and financial vulnerability. Finally, the model was tested using data from a limited period and did not fully capture the effects of inflation, technological change, regulatory revisions, or shifts in customer behavior over time.

Future studies should test the model across a broader sample of private, public, specialized, and digital banks and apply it to a wider range of services, including guarantees, electronic transfers, mobile-banking services, remittances, investment accounts, and financing contracts. Longitudinal research should examine how the model performs under inflation, regulatory change, and technological transformation. Researchers should also compare alternative costing methods and evaluate whether time-driven activity-based costing improves accuracy and ease of implementation. Further studies could refine the ethical coefficient by incorporating multidimensional indicators of financial vulnerability and by examining customer perceptions of differentiated fees. Comparative jurisprudential research involving scholars from different Islamic legal traditions would also strengthen the legitimacy of the model. In addition, experimental and behavioral studies could assess whether transparent disclosure of fee components increases customer trust, perceived fairness, and willingness to use Islamic banking services.

Banks should establish integrated cost-accounting systems capable of identifying the direct and indirect costs of each service and should revise these calculations periodically. Fee schedules should disclose the principal components of cost, profit, and risk in clear language, enabling customers and regulators to understand the basis of each charge. Shariah compliance boards should participate in fee design from the initial stage rather than evaluating tariffs only after implementation. Banks should also develop transparent criteria for ethical discounts, particularly for essential services, low-income customers, small businesses, and individuals facing emergency conditions. Regulatory authorities should permit periodic tariff revision based on documented costs while imposing ceilings against excessive or unjustified charges. Finally, digital banking systems should be designed to calculate fees automatically, apply approved ethical adjustments consistently, and provide customers with a clear pre-transaction explanation of the final amount.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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