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ISLAMIC BANKING: AWARENESS AND PERCEPTIONS (A STUDY WITH SPECIAL REFERENCE TO SOUTH INDIA, INDIA)

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ABSTRACT

Islamic Banks almost non-existent 30 years ago, has risen to become a trillion dollar industry to-day. The sector, though small in global terms, appears to have held up well in the present crisis, with the Asian Development Bank putting annual growth at more than 50% over the next 5-10 years. Long focused on a Potential global market of 2 billion Muslims, Islamic Banking is now drawing drastic attention from players all over the world. Now- a-days major establishments such as Al Rajhi Bank of Saudi Arabia, the Quwait Finance House and Malaysia's Islamic Bank may compete with western financial institutions such as Barclays, HSBC and Deutsche Bank. Islamic banking has been on the rise in the Asia – Pacific region which now accounts for 60% of the global Islamic banking market. It is no longer a novel experiment. They come in all shapes and forms. If London, Singapore, Hank Kong, Tokyo and Paris can become hub and house of Islamic finance and banking, why not Mumbai and Cochin? The success of Islamic banking in India lies in the awareness and perceptions of the people in India about this system, despite its proven utility in the present global scenario. The present study is an earnest attempt in this direction.

KEYWORDS

Islamic banking, Shari'ah, Shari'ah index, Shari'ah compliant.

INTRODUCTION

Islamic Banks almost non-existent 30 years ago, has risen to become a trillion dollar industry to-day. The sector, though small in global terms, appears to have held up well in the present crisis, with the Asian Development Bank putting annual growth at more than 50% over the next 5-10 years. Long focused on a potential global market of 2 billion Muslims, Islamic Banking is now drawing drastic attention from players all over the world. Now- a-days major establishments such as Al Rajhi Bank of Saudi Arabia, the Quwait Finance House and Malaysia's Islamic Bank may compete with western financial institutions such as Barclays, HSBC and Deutsche Bank.

Several banks have setup separate Islamic financial services departments in their home markets as well. In the UK, The Financial Services Authority has introduced regulatory standards for Islamic financial products and has a separate department dealing with Islamic Financial Institutions. Moreover, non-Muslims make up as much as half of Islamic banking customers in some cases. Similar developments have taken place in Singapore, Japan, Hong Kong and France. Recently, France has amended its laws to issue SUKUK – Islamic bonds based on assets of one billion Euros. Even Vatican has offered Islamic finance principles to western banks as a solution for worldwide economic crisis. 'The ethical principles, on which Islamic finance is based, may bring banks closer to their clients and to the true spirit which should mark every financial service'. (The Vatican's Official Newspaper L' Osservatore Romano).

Islamic banking has been on the rise in the Asia – Pacific region which now accounts for 60% of the global Islamic banking market. They are allowed mostly to operate in the form of Non-Banking Financial Corporation (NBFC).

Islamic banking is no longer a novel experiment. They come in all shapes and forms- banks and non-banks, successful and unsuccessful, prudent and reckless, strictly regulated and free-wheeling etc.

If London, Singapore, Hank Kong, Tokyo and Paris can become hub and house of Islamic finance and banking, why not Mumbai and Cochin?

The success of Islamic banking in India lies in the acceptability of people which largely depends upon their awareness and perceptions about this system, despite its proven utility in the present global scenario. The present study is an earnest attempt in this direction.

ISLAMIC BANKING – CONCEPTS AND MISCONCEPTION

Islamic banking refers to a system of banking or banking activity that is consistent with the principles of the Shari'ah (Islamic ruling) and its practical application through the development of Islamic economics. The principles emphasis moral and ethical values in all dealings have wide universal appeal. The Shari'ah prohibits the payment or acceptance of interest charges (Riba – an Arabic term for interest) for the lending and accepting of money, as well as carrying out trade and other activities that provide goods or services considered contrary to its principles. Islamic banks were formed to provide an alternative basis to Muslims although it is not restricted to Muslims.

Western bankers have argued that savings and investments would soon dry up if interest is not paid. But this is due to identifying "Rate of Interest" and "Rate of Return". In Islamic financial system, it is only the fixed, predetermined return on savings or capital that is forbidden, not an uncertain rate of return, such as making profit. The only difference between Islamic banking and Interest based banking is that the cost of capital in Interest based is pre-determined fixed rate, while in Islamic banking, it is expressed as a ratio of profit.

Thus, under an Islamic banking system, the cost of capital is not analogous to a 'Zero-Interest' as some people wrongly assume it to be.

ISLAMIC BANKING IN INDIA – OPPORTUNITIES AND CHALLENGES

Islamic Banking may be a non-starter in India, it has been gaining momentum after the recent global economic meltdown, and many countries, including India, are opening their doors for it. The first Islamic bank in the country is about to be set up in Kerala with the active involvement of the Kerala Government through the Kerala State Industrial Development Corporation (KSIDC), which is the designated agency for the formation of the bank, would hold an 11% stake in the proposed bank.

There are also moves in Jammu and Kashmir State, where Jamat Ahladith is planning to launch, Islamic banking and seeking permission of the Central Government.

Indian may soon get its first foreign Islamic bank with the RBI seeking Government approval to allow Turkey's Bank Asya to offer Shari'ah complaint lending in the country.

By eyeing scores of rich and religious Muslims who do not invest in interest yielding instruments, Tagwaa Advisory and Shari'ah Investment Solutions (TASIS) had launched a Shari'ah Index with 50 Shari'ah Compliant companies within the BSE 500. The index will be known as BSE TASIS Shari'ah 50. The four asset management companies – Reliance Mutual Fund, UTI Asset Management, Way & Wealth and Edelweis Mutual Fund have already launched Shari'ah-compliant Mutual funds and others are also planning to do so.

With a good financial structure and a strong presence of 150 millions Muslims, Islamic banking has a tremendous scope in India. Despite its rise in the rest of the region, however, the penetration of Islamic banking in India has been low. There is no doubt that a huge potential for Islamic banking in India exists, but will need some strong policy decisions to make it a reality. There is also a fear that Muslims may come to dominate the Islamic banking industry in India. Islamic banking, however, requires a professional expertise beyond religious belief, because it deals with commercial projects not just monetary credit and debit transactions. While Indian Muslims may have an edge in terms of Islamic ethics, they lack the professional expertise to manage modern commercial banking based on Islamic ethics, so perhaps this fear is misplaced.

Now, the ball is in Government's court and it is up to come up with appropriate measures to introduce Islamic banking in the country. In addition to regulations, some experts feel that the infrastructure for Islamic banking is not yet in place and steps must be taken in this regard. Last but not least, considering the pluralistic nature of the Indian society, the Islamic banking has to be positioned as professional banking and not religion-based banking, which can have serious socio-religious and political ruptures which will be much more difficult to address.

LITERATURE REVIEW

Joseph Divanna & Antoine Sreith (2009) stated in their book that Corporations such as Tesco (UK) and Toyota (Japan) had met their capital requirements through Islamic financial instruments mostly subscribed by non-Muslims. David Testa (2010), CEO of Gatehouse Bank (one of the famous Islamic banks in UK) said that the current global market conditions had generated a great interest among non-Muslims especially Christians believed that Islamic Banks could do – help to fill the liquidity gap. Abdur Raqeeb (2011) stated that as trust in conventional markets continued to erode, Islamic finance as an industry was rapidly evolving into a viable alternative conventional sources and forms of capital for Muslims and non-Muslims business. A Euro money Publication (1997) observed that the propaganda by Western banks and media that savings and investments would soon dry up if interest not paid, had adversely affect the sentiments of the people of 21st century, as a result majority of them were not even care about knowing what Islamic banks could offer to them. Yusuf Talal Datorengo (2011), a well-known and respected Shari'ah advisor, cautioned the clients of Islamic banks that it was their responsibility to determine whether the banking products complied with the principles of Shari'ah till a competent Shari'ah Supervisory Board took its shape at global level. A Study undertaken among the customers of Islamic banks in UK (2010) revealed that the major drawback of Islamic banking system was the lack of uniformity in their practices and further, a majority of respondents doubted its ability of integrating its operations into to-day's world financial information and technology. AAOIFI (Accounting and Auditing Organisations of Islamic Financial Institutions) (2011) observed that unless the Islamic banks come out with clear cut ideas on banking products, securitization of assets, recovery/payment system, standards and risk management tools to hedge against high volatility in markets and on alternatives for public debts and tools of monetary management, they could not stand as a potential alternative to conventional banking.

RESEARCH OBJECTIVES

1. To study the awareness and knowledge of people about Islamic banking in India.
2. To know the challenges and opportunities of Islamic banking in India.
3. To know the perception of people in terms of advantages, disadvantages, apprehensions and expectations over Islamic banking.
4. To analyze the willingness of people in India to use Islamic Banking.

METHODOLOGY

Sample selection and data collection that followed had become a rocky road for the present study. The study is restricted to south India and based on both primary and secondary data.

A sample of 500 respondents from the 16 major cities of south India was selected using a 'Purposive Convenience Sampling Method'. The sample comprises of 168 on line and 332 direct respondents. For the online selection of respondents, initially over 1000 email addresses of prominent personalities in Business and Industry, Politics, Education and different professions were collected by visiting the following websites.

<http://www.niir.org/books/book-pdf/272/niir-business-directory-southindia-andhrapradesh-karnataka-kerala-tamilnadu>.

<http://www.4shared.com/document/ZATe3rtte/company-email-id-list.htm>

<http://www.4shared.com/get/b6a5tg/n/emai.mailing-list-10000000-men.html>

The contact yielded responses only from 168 respondents and a further 332 were contacted in person by paid interviewers. As the online respondents are scattered throughout south India, they are classified based on the nearness of their locations to the cities selected for the study. A structured questionnaire/schedule was used for eliciting information from the respondents. The Survey was conducted during the period of January - June 2013.

Statistical tools like percentage analysis and Chi-Square test were used for analyzing the data. To find the socio demographic characteristics of respondents and their awareness and perception on Islamic banking, percentage analysis was used.

To study the association between theselect socio demographic characteristics of the respondents' andtheir willingness to use Islamic banking, relevant null hypotheses were framed and tested with the help of Chi-Square Test. The formula used for the study is,

$$\chi^2 = \sum \left(\frac{(O-E)^2}{E} \right)$$

Chi-square Value =

With (c-1) (r -1) degrees of freedom

Where,

O = Observed Value

E = Expected Value

$$E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

DATA ANALYSIS AND FINDINGS

The Socio – Economic background of Survey participants was analyzed and presented in Table.1.

TABLE – 1: SOCIO – ECONOMIC BACKGROUND OF SURVEY PARTICIPANTS

Attributes	Number	Percentage
Age		
Upto 35	168	33.6
35 and 50	187	37.4
Above 50	145	29.0
Gender		
Male	364	72.8
Female	136	27.2
Educational Qualification		
Undergraduates	182	36.4
Graduates	113	22.6
Post graduates	145	29.0
Others	060	12.0
Religion		
Hindus	287	57.4
Muslims	143	28.6
Christians	070	14.0
Income		
Less than Rs.5 lakh	087	17.4
Between Rs. 5 lakh and 10 lakh	201	40.2
Above Rs. 10 lakh	212	42.4
Occupation		
Business and Industry	191	38.2
Professional	084	16.8
Academicians	156	31.2
Others	069	13.8

Source : Primary data

TABLE 1A: DISTRIBUTION OF SAMPLE RESPONDENTS ACCORDING TO THEIR PLACE

Cities selected for the study	Direct	Online	Total
Chennai	48	13	61
Coimbatore	33	7	40
Madurai	26	6	32
Trinelveli	15	5	20
Thiruvanthapuram	212	13	35
Kottayam	22	16	38
Cochin	16	18	34
Calicut	15	12	27
Bangaluru	22	16	38
Mysore	33	7	40
Mangalore	14	18	32
Hubli	13	4	18
Hyderabad	17	15	32
Kurnool	12	7	19
cudappah	12	8	20
Kammam	11	3	14
Total	332	168	500

Source: Primary data

The results of descriptive and multi- dimensional analysis used to measure the respondents' awareness, knowledge, perception of Islamic banking are furnished in Tables 2, 3 and 4.

TABLE – 2: RESPONDENTS' AWARENESS OF ISLAMIC BANKING

Descriptive Variable	Percentage Response
1. General awareness of Islamic banking	
Fully Aware of	17
Somewhat	74
Very a little	09
2. Source of information about Islamic banking	
Print Media	54
Online	32
Muslim Friends	11
Others	03
3. Years of knowing the existence of Islamic Banking	
Long years	16
Past Few years	53
Very Recently	31
4. Presence of Islamic banking	
Muslim Countries only	67
All over the world	24
Do not know	09
5. Viability of Islamic banking in India	
Viable	21
Doubtful	40
Do not know	39
6. Liking to use Islamic banking	
Yes	25
No	31
Do not know	44

Source: Primary data

TABLE -3: KNOWLEDGE OF RESPONDENTS ABOUT ISLAMIC BANKING

Descriptive variable	Yes	%	No	%	Do not know	%
a) Interest free banking system	385	(77)	56	(11.2)	59	(11.8)
b) Based on Islamic principles	401	(80.2)	80	(2.0)	89	(17.8)
c) Based on profit sharing model	47	(9.4)	167	(33.40)	286	(57.2)
d) Moral and ethical way of banking	62	(12.4)	183	(33.6)	255	(54.0)
e) Depositors treated as providers of funds and banks as managers of such funds	49	(9.8)	281	(56.2)	170	(34)
f) Only in experimental stage	231	(46.2)	47	(9.4)	222	(44.4)
g) Customers base is very limited	308	(61.6)	176	(35.2)	16	(3.2)
h) Potential alternative to conventional Banking	282	(56.4)	153	(30.6)	65	(13)
i) Loss if any, many reduce principal	33	(6.6)	403	(80.6)	64	(12.8)
j) Mostly functioning as Non-banking form	21	(4.2)	183	(33.6)	296	(59.2)

Source: Primary data

TABLE 4: RESPONDENTS' PERCEPTION OF ISLAMIC BANKING

Descriptive Variable	Percentage Response
1. Advantages of Islamic banking	
Free from interest and speculation	56
Making finance available at free of cost	10
No reward without risk – taking	28
Value based socio – economic system	06
2. Disadvantages of Islamic banking	
Ethical banking is an utopian concept	25
Fixed return not guaranteed on deposits	33
In sufficient local expertise to sustain the industry	22
More statutory and regulatory problems	20
3. Apprehensions over Islamic banking	
Dominated by Muslims	48
Opposed by people of other faiths	17
Savings and Investments would soon dry up, if interest not paid	32
More dependence on integrity and honesty of borrowers	14
4. Expectations of the respondents	
Arabic words be suitably presented in the prevailing banking terms	25
Awareness programmes to remove misconception	40
Success stories be given wide publicity	29
More literature be made available	16

Source: Primary data

The respondents' perception of Islamic banking presented in Table – 4, is discussed below:

1. ADVANTAGES OF ISLAMIC BANKING

56% of survey participants were of the opinion that the 'Free from interest and speculation' is the main advantage that Islamic banking can offer to them. 28% viewed that 'no return without risk taking' is another major advantage of this system.

2. DISADVANTAGES OF ISLAMIC BANKING

When respondents were asked to select the disadvantages, 33% considered the 'no fixed return guaranteed on deposits' was one of the major disadvantages of the system. It is closely by other three disadvantages, which are 'Ethical banking is an utopian concept' (25%), 'insufficient local expertise to sustain the industry' (22%) and 'more statutory and regulatory problems' (20%). As all the four disadvantages received more or less equal opinion, it could be concluded that all of them are the major drawbacks of this system. They require serious consideration and rectification.

3. APPREHENSIONS OVER ISLAMIC BANKING

47% respondents fear that the banks may be 'dominated by Muslims' indicated that these banks may become more religion based. Another major concern of the 32% respondents is that 'the savings and investments would soon dry up, if interest not paid' raised a serious doubt over the very existence of Islamic banks. It is the responsibility of experts who advocate this system, to allay these major apprehensions of the people.

4. EXPECTATIONS OF THE RESPONDENTS

40% of respondents expected that 'more awareness programmes be undertaken to remove misconception among non-Muslims'. It clearly indicates that the acceptance of Islamic banking in India lies in fulfilling this expectation of the people. 'Success stories be given wide publicity (29%) and 'Arabic words be suitably presented in prevailing banking terms' (25%) are another two major expectations, for which series of steps satisfying the people to be undertaken. **Statistical**

ANALYSIS

Statistical analysis using Pearson's chi-square test was carried out at 5% significance level to check the willingness of respondents to use Islamic Banking by framing relevant null hypotheses for the socio-economic attributes of respondents. The results are given in Table 5.

TABLE -5: THE RESULTS OF CHI-SQUARE TEST

Attribute	Chi-square Value	Table Value	Remarks
Age	5.428	5.99	Accepted
Gender	3.40	3.84	Accepted
Religion	88.55	5.99	Rejected
Educational Qualification	8.474	12.6	Accepted
Income	4.124	5.99	Accepted
Occupation	8.474	12.6	Accepted

Source: Computed data

Except 'Religion', the null hypotheses for the remaining attributes were accepted, leading to conclude that the attributes like age, gender, educational qualification, income and occupation of respondents did not influence their willingness to use Islamic banking.

RECOMMENDATIONS

To bring interest free Islamic banking, misunderstanding and misinformation among the Muslims as well as non-Muslims have to be removed, for which awareness programmes have to be undertaken on a mass – scale. Further, Islamic banks like Al Barakah, an Islamic Investment company in Kerala is allowed to function under Non-Banking Finance Corporation (NBFC) banner. As an initial step towards starting Islamic Banks in the country, conventional banks may be allowed to have Islamic windows. To make Islamic banking a reality the recommendations given by the Committee on Financial Sector Reforms (CFSR) headed by Dr. Raghuram Rajan and the Committee headed by Deputy Governor Dr. K. C. C Chakrabarty, regarding interest-free banking a suitable legislative amendment in the Banking Regulations Act, has to be made by the Central government.

CONCLUSION

We need to offer an alternative in the form of Islamic finance free of interest and speculation, as all other strategies to promote world prosperity and peace are likely to fail if adequate finance is not available free of cost. It is the need of the hour to develop a practical mechanism to implement Islamic banking in the country. For which, the impediments and obstacles on the way to Islamic banking have to overcome ensuring the 21st century a worth living.

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