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**ISLAMIC FINANCE AWARENESS IN PUBLIC AND FINANCIAL SECTOR**

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**ABSTRACT**

*History of Islamic finance is not much old, it began only three decades ago, but its growth has been remarkable. The growth of Islamic finance has been very strong over the past few years. In 1975, in one country there is only single Islamic financial institution but now 300 Islamic financial institutions in more than 75 countries and reach US\$1.3trillion in total asset in 2011. Islamic finance is gaining popularity in Europe and the United States day by day, but they are mainly concentrated in the Middle East and Southeast Asia. The annual growth rate is estimated of Islamic finance is 20% per year. The one main hurdle in the way of Islamic finance growth is public awareness, Pakistan is a Muslim country but a person here believes there is not much difference between Islamic and conventional banking. The purpose of this study to analyzed public awareness about Islamic finance. The present study also discussed the brief introduction of Islamic finance and its principles and advantages. For this purpose questionnaire is disturbed among financial institution professional and customers who are connected with financial institution on daily basis. The researcher personally connected with respondent and collected the data. After analyzing the whole data researcher come to conclusion public awareness is main issue in the way of growth of Islamic finance. The paper is end by offering different useful recommendations for the improvements of public awareness about Islamic finance.*

**KEYWORDS**

Islamic Finance, Public Awareness.

**1. INTRODUCTION**

**I**slamic finance, which starts single institution named Bank Faisal in Egypt in 1975, is developing at an extraordinary pace. El- Qorchi (2005) revealed that the number of Islamic financial institute indicate an increasing trend in their role globally, which has risen over 300 Islamic financial institutions in more than 75 countries though they are mainly focus in the Southeast Asia and middle east, but growth rate in Europe and the United States is also remarkable. Islamic finance industry will grow at a rate of 20 percent per year, from current assets of US\$300 billion (Al-Salem, 2008).

In a study, Princeton University (United States) published in 2005, the economist Timur Kuran has shown that the theoretical principles of Islamic finance, which have relatively short history. According to this publication the first modern Islamic bank was founded in Egypt, Mit Ghamr in 1963.

The Islamic finance, in accordance with Islamic law, is based on two principles: the prohibition of interest. Islam prohibits both commercial and civil transactions by based to interest (riba), the speculation (gharar) or random (maysir). Islamic finance is \$ 700 billion global market (Princeton University USA). The verse 275 of the second sura of the Qur'an explains the prohibition of interest: God hath permitted trade and forbidden usury. To explain this verse, a hadith of Muhammad explains the rules of legitimate trade. This hadith is general in scope because it has six products labeled "ribawi" gold, silver, corn, wheat, dates, and salt. Any exchange of identical product corns, gold, golden, wheat against wheat with a benefit to a person constitutes a usurious transaction, except as regards the benefits resulting from the exchange of products of different nature cons, golden and wheat.

The general principles of Islamic finance are as follows:

- The prohibition of riba and the removal of debt-based financing from the economy.
- The prohibition of gharar, provide full information and removal of any asymmetrical information in the contract.
- The exclusion of financing and sealing in irresponsible social activities and commodities such as production of alcohol and gambling.
- Risk sharing, the provider of financial funds and the entrepreneur share business risk.
- Materiality, a financial transaction need to have a material finality, it links to real economic transaction.
- Justice, a financial transaction must not lead to one side benefit of one party.

Source: Gait and Worthington 2007

Islamic principles of interest are deals with issues of fairness and justice rather than efficiency narrowly defined. These principles focus on sharing risk, justice which is necessity for stable economy. Islamic finance is convincing the world that is not only covers the ethical aspect of the society but also give economics benefits. In the economic model each individual is involved in economic activity. Islamic finance as a concept is based on theme of justices and fairness, risk sharing, socially responsible investment and affinity marketing. Islamic principles themselves are based on core ideas, which include individual responsibility, commitment to economic and social justice and mandatory care for the environment. Islam believes an ethical value that leads toward justice and economic stability. One of the recent examples of strong Islamic financial system, when the international financial market rattled by sub-prime crises, Islamic banks has not yet felt it. Islamic finance has no problem with fluctuations in asset value instead it diverges according to actual business trend. The current credit crises is the result of excessive lending and pure speculation and many financial analyst and experts believe and confirmed Islamic banks are untouched by the global financial crisis. Many experts also believe more and more peoples are coming toward ethical based banking.

The current position is that there are more than 300 Islamic financial institutions all over the world with US\$1.3 trillion in assets. The growth rate of Islamic banking industry world-wide is 20% per year. In UK and USA trend has rise day by day of Islamic banking, and now in some Muslims countries partial or total transformation taken place in favor of Islamic banking. Islamic finance concept also rise in universities, in majority Muslim countries Islamic banking now consider a separate subject for public awareness.

Islamic banking has established its identity, Alhamdulillah it is here to stay, grow and develop into a competitive alternative to interest-based financial structure. Central banks of several Muslim countries have joined hands in order to give it an international standard. One of major issue identified here that may help consolidation and growth of Islamic banking is public awareness.

Pakistan is a Muslim country where a person believes on Islam and its values but in UK more strong Islamic financial system than the Pakistan, reason behind this peoples are not familiar about Islamic financial system. This study is conducted to aware the peoples about Islamic financial system and the key advantages on conventional financial system.

This paper contains four sections. Section 1 contain introduction of Islamic finance its principles, advantages and problem awareness issue. Section 2 contains review literature on Islamic finance, benefits on conventional system and problem awareness issue. Section 3 contains data collection techniques, methodology. Section 4 contains Empirical analysis. Section 5 contains conclusion and recommendations.

## 2. REVIEW OF LITERATURE

Islamic finance based on religious beliefs and cultural characteristics and ethical value of Muslim societies. According to Shariah (Islamic law), the Islamic mode of finance based on profit and loss sharing and prohibit fixed-returns. The Shariah also prohibits activities related to speculation, risk and uncertainty. Interest may be paid only for taking investment risk but not for time value risk-free investment. As such, Paper- or financial-based lending is not allowed in Islam but asset based lending is allowed. The law also prohibits investment in irresponsible society activities, such as lending for trading of alcohol.

According to Aziz Tayyebi (2008) "Islamic finance is any finance that is compliant with the principles of Islamic law" Islamic laws (Shariah) in terms of finance explains in detail the ethical concept of capital and money, relationship between profit and risk and ethical responsibility of institutions.

Islam is a complete way of life that has set of goals and values which covers all aspect of human life (Al-Tamimi & company 2004). For clear understanding of Islam it is necessary to have certain knowledge about the history of financial system of Islam. It is not easy for individuals who are used to western tradition to understand the teaching of Islam (Ibrahim 2000).

In the early days when Islamic banking appeared with its ethical values, it is assumed it has no space in strong financial system. But last few years attitude has changed gradually, many new Islamic banks opened in recent years and Islamic financial system attract a large number of customers (Haqiqi and pomeranz 2000).

The time when international financial market rattled by sub-prime mortgage crises, Islamic banks have not yet felt it. Middle East online explained there are two main causes that Islamic financial institutions remain unaffected by sub-prime crises. First reason is their security from the liquidity problem and second reason can be attributed to the rating of complete investment risk. According to the rating of investment risks, Islamic finance has no problem with fluctuation of risks.

Many experts believe more and more customers come toward Islamic financial system. This can be credited to the ethics and values inherent within the Islamic banking system (Ahmed 1992).

Islamic principles are deals with justice and fairness rather than efficiency narrowly defined. These principles focus on the risk sharing which leads towards stable economy (Siddiqi 2000).

Adam smith is 1776 argued that even self interest is the prime interest of economic activity; the result is utilization of resources that serves economy collective interest in best manner. But if good and services produces too little or too much, profit opportunities move towards entrepreneur that got incentives by change the line of production. In other words the system based on profitability will ensure economic efficiency but lead toward fluctuation and speculation of product, recent sub-prime crises is best example. Second profit sharing is more conducive to economic growth leads toward economic prosperity by increasing the investment and share the risk.

Finally with the argued of Adam smith Islamic system promotes the economic development. It is likely to be more stable for economy and is less vulnerable to financial crisis that can be caused by speculative activities.

It explains the Islamic financial system and its benefits over conventional financial system. The aim of this study to discussed one of major issue regarding Islamic finance is public awareness.

According to State bank of Pakistan repot on Islamic banking current issues 2012, one on of major issue is public awareness. Peoples even don't know there is any concept of finance prevails in Islam.

Pakistan is a Muslim country, our religion and concepts based on Islamic values. A report by the international financial services, London, in Britain now Islamic financer sectors is larger than Pakistan.

According to information from a publication by New Millennium publishing (2004), a survey of 503 Muslims in ten cities throughout England, undertaken by Humayon Dar, showed that many respondents had little knowledge of shariah-complaint finance.

Islamic finance is feasible no doubt about it but there is need to public awareness about mode of Islamic financing and need to implementation of Islamic financial structure in Islamic countries.

## 3. OBJECTIVE OF THE STUDY

1. Briefly introduction of Islamic finance and its principles.
2. Islamic financial system is more economically beneficial than conventional financial system.
3. To study the awareness of Pakistan peoples about Islamic Finance.
4. To increase the awareness of Islamic finance in Pakistani peoples.

## 4. DATA COLLECTION & METHODOLOGY

This study is design to measure the public awareness about Islamic finance. The peoples used for this research were all banking professional and the customer who are attached with financial sectors on daily basis. The professional have good knowledge about financial sectors and the customers who are selected for this purpose not only have goof financial record but also have great knowledge about financial sectors. In this study the researcher selected all respondent on the basis of judgmental sampling and use non probability random sampling for respondents. After a favorable response, the researcher preceded to a survey a population of 150. The first part of the questionnaire is related to public awareness about Islamic finance consist of six question, based on a five scale rating from Strongly Agree (SA) to Strongly Disagree (SD). The purpose of this part was to assess the perception of banking professional and expert customers about How much they aware about Islamic Financial system. The second part consists of demographic type of questions, like income, age and experience. In total ten questions were asked to analyze the public awareness about Islamic Financial system.

As the study aim to analyze public awareness about Islamic Finance, the research was personally connected with all the professionals and fills the questionnaire and was analyze by using various software's with good analytical capability. The analysis of the questionnaire offers insight about banking professionals and customers of the Islamic financial system and its principles.

## 5. EMPERICAL ANALYSIS

There were a total of 150 questionnaires distributed because the researcher calculated that this was an appropriate sample. Data provided in table 5.1 about demographic variables and Table 5.2 about public awareness of Islamic Finance.



TABLE 5.1: DEMOGRAPHIC VIEW OF RESPONDENT

Demographic Variables	Number of Respondent	Percentage
Age	20-30	47
	30-40	37
	40-50	39
	50 and above	27
		18
Attachment With Financial Institution	1-10 years	51
	11-20 years	27
	21-30 years	40
	31-40 years	32
		21.33
Income	20,000-50,000	45
	51,000- 80,000	30
	81000- 120,000	12
	121000 and above	63
		42

Table 5.1 shows the profile of all respondent. More experience shows peoples have strong background of experience with financial institution. Income level shows peoples belong to both categories; they are professionals and businessmen too.

TABLE 5.2 AWARENESS ABOUT ISLAMIC FINANCE

Demographic Variables	Number of Respondent	Percentage
Do you believe ethics must be Part of financial system	strongly agree	77
	Agree	53
	Neutral	10
	Disagree	8
	Strongly Disagree	2
Do you believe justice, materiality And risk sharing more beneficial	strongly agree	80
	Agree	36
	Neutral	27
	Disagree	5
	Strongly Disagree	2
Noninterest-based financial System is better than Interest-based	strongly agree	93
	Agree	36
	Neutral	10
	Disagree	1
	Strongly Disagree	10
Do you want to see Islamic Financial system in Pakistan Economy	strongly agree	77
	Agree	53
	Neutral	5
	Disagree	5
	Strongly Disagree	10
There is little or no difference Between two financial system	strongly agree	68
	Agree	31
	Neutral	10
	Disagree	13
	Strongly Disagree	28
There is great awareness about Islamic Financial system in Pakistan	strongly agree	4
	Agree	10
	Neutral	15
	Disagree	57
	Strongly Disagree	70

Table 5.2 shows that 86.66% believe that ethics is must be part of financial system while 6.67% are neutral and 6.67% peoples believes ethics and financial system are two different things. The result shows mostly peoples believes ethics is a compulsory part of the financial system. This behavior clearly identify why peoples moves towards ethical banking.

Table 5.2 shows that 77.34% believe that justice, risk sharing and materiality are more beneficial for economy while 18% are neutral and 4.67% peoples believes there is no space of justice, risk sharing and materiality in financial system. The result shows mostly peoples believes not only ethical banking they believes on all Islamic financial principles. This behavior clearly identifies behavior of peoples towards Islamic financial system.

Table 5.2 shows that 86% believe that non-interest financial system are more beneficial for economy while 6.67% are neutral and 7.34% peoples believes interest-based financial system is more beneficial. The result shows mostly peoples prefer non-interest based financial system. This behavior clearly identifies behavior of peoples towards Islamic financial system.

Table 5.2 shows that 86.67% want to see Islamic financial system in Pakistan while 3.33% are neutral and 10% peoples believes conventional financial system is more beneficial. The result shows mostly peoples prefer non-interest based financial system. Here, difficult to describe peoples prefer Islamic financial system due to religious attachment or due to any logic but hard to find.

Table 5.2 shows that 66% respondent believes that there is very little or no difference between Islamic and conventional financial system, while 6.67% respondent are neutral and 27.33% respondent believes there is much difference between Islamic and conventional financial system. the result shows mostly respondent believes both system are same, its make the picture more clear of very last question may be respondent want to see Islamic financial system in Pakistan due to his religious attachment, but they have not much awareness about Islamic financial system.

Table 5.2 shows only 9.33% respondent believes there is much awareness of Islamic financial system in Pakistan while 10% are neutral and 81.67% peoples believes there is not much awareness of Islamic financial system in Pakistan.

This question make the clear picture of the analysis peoples are not aware of Islamic financial system, they believes it quite similar to conventional financial system. But they want to follow all financial system principles in system while they were not much similar with these principles. They believe on ethical banking, it shows there is great positional of Islamic financial system in Pakistan, but there needs to aware the public about Islamic financial system.

## 6. CONCLUSION AND RECOMMENDATIONS

The future is definitely bright and glorious for Islamic Financial system, because it is a concept based on theme of community banking, justice and materiality, ethical and socially responsible investment and the concept of share the risk. These concepts are based on core idea which includes individual responsibility, commitment to economic and social justice, and mandatory care for the environment. After detailed study of available literature and analyzing responses from

respondents, researcher come to conclusion that Islamic finance is convincing the world that is not only cover the ethical aspects of the society but also give the economic benefits. Many experts believe more and more customers come toward Islamic financial system. This can be credited to the ethics and values inherent within the Islamic banking system (Ahmed 1992).

This study shows lack of public awareness do not offer strong growth potential for Islamic Finance industry within the Republic, According to State bank of Pakistan report on Islamic banking current issues 2012, one on of major issue is public awareness. Peoples even don't know there is any concept of finance prevails in Islam.

Pakistan is a Muslim country, our religion and concepts based on Islamic values. A report by the international financial services, London, in Britain now Islamic financer sectors is larger than Pakistan. So lack of awareness is the main hurdle in the way of growth of Islamic finance in Pakistan. This study shows the potential of Islamic Finance in Pakistan just need to aware peoples about the foundation, principles and products of Islamic Finance.

This problem is likely to be solved with the passage of time. But pace of development of Islamic banking can be expanded through the following: (1) public education campaigns about Islamic finance, (2) inclusion of Islamic banking concepts in school curriculum, make Compulsory For commerce student (3) making Islamic financing course a part of business administration programs and specialized products subjects must be introduced (4) offering degree programs in Islamic financing and conduct seminars for professionals, businessmen and for students on monthly basis.

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