

AWARENESS OF ISLAMIC BANKING IN THE SOCIETY: A CASE STUDY OF HYDERABAD

Dr. Maria Aijaz Shaikh¹

Dr. Aisha Bashir Shah²

Ghazala Umer Bhaghal³

Abstract

The concept of Islamic banking is not new but the field of Islamic banking has not grown as fast as other financial service providers of Pakistan .This is because of lack of understanding of terms and operations of Islamic banks. Therefore this study has revealed the understanding and awareness of people of Hyderabad regarding Islamic banking, its operations, and products. This research is found very crucial keeping in view the importance and competition that prevails in the financial sector of Pakistan. Islamic banking is one of the important pillars of financial sector of Pakistan which is growing side by side and competing with conventional banks, insurance companies and mutual funds. The findings of this study are very much helpful to enhance the awareness and understanding of people regarding interest free products and services offered by Islamic banks. This research has been proved beneficial to the key officials of Islamic banks to improve their planning and understanding the need of advertisements and promotional campaigns about their products and services. The sample of this study is based on 120 people, which includes Business class, salaried class, and the key officials working in different banks operating in

¹ Assistant Professor, Institute of Business Administration, University of Sindh Jamshoro

² Assistant Professor, Institute of Business Administration, University of Sindh Jamshoro

³ Lecturer, Sindh Development Studies Centre, University of Sindh, Jamshoro

Hyderabad. The findings of this research suggests that the growth and development of Islamic banking industry is hugely dependent on awareness and understanding among the people , further in this study it has been identified that the slow growth in Islamic banking industry is due to lack information regarding products and operations of Islamic banks among the people ,less attractive products and services, low profits rates and people are less familiar and reluctant to avail services by this financial sector.

Keywords: *Islamic Banking, Conventional Banking, Musharikah, Mudarabah, Ijarah*

Introduction

According to state bank of Pakistan Islamic banking has been defined as:

“A Banking which is in consonance spirit, ethos and value system of Islam and governed by principles laid down, by Islamic Shariah” (State Bank of Pakistan, 1999-2010).

The explanation Islamic banking system doesn't only mean avoiding and ignoring interest instead it's a broader concept that incorporates and addresses many areas and issues such as avoiding unethical and unsocial practices. Islamic banking is not only abolition of interest from the economic system rather it's a complete shift from traditional money lending to the transactions in real assets and real services (Brown, K. 2003). The purpose of Islamic banking is to bring prosperity in economic system. In essence, Islamic banking is based on principles laid down by Islamic Shariah.

As defined by SBP “Shariah refers to the divine guidance and laws given by Holy Quran, Hadith (sayings) of the prophet (Muhammad peace be upon him) and supplemented by the juristic interpretations by Islamic scholars” (State Bank of Pakistan, 1999-2010). Therefore, the concept of Islamic banking can be summarized as an economic system developed for the Muslim countries and governed under the principles and guidance of Holy Quran (Hegazy, L. 1995).

Early History of Islamic banking in Pakistan:

The Islamization of financial and banking system began in the year 1977. Pakistan was among the pioneer countries of the world that has been making efforts to transform conventional banking system into Islamic banking system at

national level. The government of Pakistan took various steps to launch interest free banking in early 1980s (Noor, A. M. 2007). Subsequently, the Islamic banking system became evident in order to provide better financial solutions and appeared to be an important competitor to the conventional Islamic banking system. The Islamic banking is paced today at two different fronts in the Muslim world. To transform the whole financial system in compliance with Islamic laws (Shariah) the efforts are continued at one side and on the other hand individual Islamic banks are authorized to run similar to the conventional interest based banks. In order to have complete financial system based on Islamic laws (Shariah) at national level the government used presidential orders. The fruitful achievements couldn't be obtained by the overnight attempts made by government. Further developments came to an end and most of the efforts made by the government created hurdle in the process of Islamization (Athar, S. 2007). The worldwide upturn of Islamic banking and the islamization of financial system of Pakistan Co-existed in 1970s. The major countries of the world which made the initial efforts to execute the Islamic banking at national level Pakistan was the one out of those countries. . the complete process of Islamization began with the local council of Islamic ideology(CII) The local council of Islamic ideology was communicated through presidential orders to formulate the layout of interest free economic system in September 1977 (SBP, 1999-2010). In 1988 a report was formed and submitted by the council which was comprised of bankers and economics. The report was a beacon in the attempts of Islamizing the banking system of Pakistan as it includes adequate details to abolish the interest from the financial system.

Steps Taken to Implement Islamic Banking System in Pakistan:

The transformation of entire banking system was widespread and comprehensive; therefore the organization of Islamic banking in Pakistan was executed in steps. The initial stage certain specialized financial institutions such as process began with changing the operations of specialized financial institutions such as House building Finance Corporation of Pakistan (HBFC) ,National investment Corporation(ICP),and national investment trust (NIT) were ordered to change their operations and make to the system in accordance with Islamic principles from July 1979 (Economic Survey 2013-2014). In the next phase certain foreign banks and all nationalized commercial were bound to have and operate Individual interest free counters in 1981. In 1985 in order to deploy deposits on the basis of gains and losses all the operations of commercial banks were made "interest free" in the year. Since that all the commercial and foreign banks were bound to accept only interest free deposits. All prevailing deposits in banks were ministered to be on the basis of sharing profit and Loss (Muhammad, T. U. 1998).

Development and Growth of Islamic Banking in Pakistan:

Detailed plans and strong commitments were needed in order to introduce new Islamic financial system and for the management of these huge changes as it was a sophisticated job. Today, the only thing that can lead to success and can achieve the desired goals is a well-developed plan and sincere efforts made to implement it. As today the interest of shareholders is on top priority and considered to be essential ingredient. Due to the lack of interest of economists and managers the system lost the path of success as the continuous efforts could not be maintained as a result today unfortunately no any transaction including interbank or government financial activities can be known as Islamic transactions. The banks in the system exhibited some anxiety too in order to accommodate them in to the new system as a result of adopting new methods at the initial stage which could not be maintained for a longer period of time. Today the financial system of Pakistan is mainly based on mark-up techniques (Kazmi, A. 2001). The BCD circular no.13 issued in June 1984 permitted banks to provide finance on interest and buy back agreement bases; the buyback agreement is nothing but the hidden shape of interest. The Musharikhah, Mudarabah, Ijara, Waiktina which are the major forms of Islamic finance couldn't be fully adopted or implemented in majority of cases, moreover by using different and new terms many financial institutes continued practicing same traditional interest bearing financing methods. The federal Shariat court declared all such practices un-Islamic in November 1991. The Supreme Court further directed that all the laws which involve interest should be ceased to have any effect by June 2001. The Supreme Court also recommended to the government to take certain steps to set-up a commission or taskforce in order to transform the financial system and to achieve the set objectives.

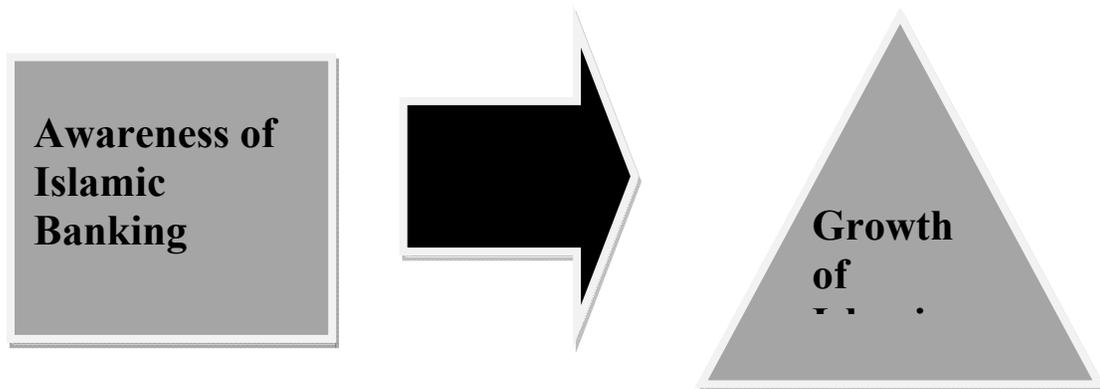
At present two task forces are working as recommended by the commission for transformation of financial system (CTFS) set-up in the state bank of Pakistan. One of the taskforce is working to suggest methods to eliminate the interest from the government operations and from the economy as a whole. On the other hand another task force is working in the ministry of law to make amendments in the legal framework in order to implement the judgments of Supreme Court.

Conceptual Model:

Asyraf Wajidi Dusuki and Nurdianawati Irwani Abdullah, (2007) conducted a research study on Malaysian customers in order to identify the major drivers which influence the Malaysian customers to patronize Islamic banking, In their major findings they concluded that quality of service provided by Islamic banks is one of the important factor and they further explained service quality as a mix of

various factors such as courtesy and respect of customers, transaction effectively, and knowledge of staff members in order to provide solutions and answers concerning Islamic bank's products and services.

Rammal, H. & Zurbruegg, R. J. (2007) carried out a research on (Awareness of Islamic banking among muslims) A sample of 300 Australian muslims were taken to study. The specific emphasis of this study was on understanding the willingness of respondents to purchase profit-and-loss sharing products offered by Islamic banks. The findings of this study shows that majority of the respondents were interested and were keen to purchase Islamic banking products but they lack the understanding of principles of Islamic finance and had no understanding regarding how Islamic banks product's functioning. This study further concluded that for Australian muslims an effective communication plan is needed that is more than just advertising or marketing in order to make the populace aware how Islamic banking products operate.



Research Methodology:

This study is based on primary data. The data will be collected through survey and a research questionnaire will be used to collect the data. Data will be analyzed by tabulation, standard deviations and percentages. The sample size will be of 200 respondents (male and female) who are working individuals and maintain their own bank accounts and avail financial services.

Analysis of data regarding awareness of Islamic Banking in Pakistan:

The following data was collect through survey and summarized below.

Description/ Item	Yes %	No %	Mean	St. Deviation	
Q # 1	have you ever heard about Islamic Banking?	98%	2%		
Q # 2	your awareness about Islamic system as a whole.	85%	15%	2.2	7.1
Q # 3	Do you have any idea about Islamic Banking products	65%	35%		
Q # 4	Islamic Banking is one of the important part of banking industry of pakistan			2.2	0.7
Q # 5	your awareness about steps taken by SBP for Islamization in Pakistan	23%	23%	1.4	4.5

SA=strongly Agree A=Agree NAD=neither agree nor disagree D=disagree SA=strongly disagree.

Results and Discussions:

According to the data collected in this study the data in (table-1) indicates the awareness and understanding of people about Islamic banking its products and operations. The data collected in this study indicates 98% of the total respondents who are working in different organizations of Hyderabad know that Islamic banks exist and are separate and different type of financial service providers. 85% of the sampled population respondents indicated that they have some moderate level of understanding about Islamic banks operating in Pakistan awareness about Islamic banks operating in Pakistan, on the other hand 15% of respondents indicated that they know nothing about Islamic banking system.

65% of the total populations answered “yes” that they know about the products of Islamic banks and 35% of the respondents indicated that they have no information regarding products and services. Furthermore majority of the people were agreed on the point that Islamic banking is an important part of financial system additionally the value of standard deviation (SD) in this question is 0.7 this shows consensus of the respondents in their answers.

While answering the question regarding steps taken by SBP for Islamization in Pakistan, 50% of respondents replied “yes” and 50% of answers were “No”. The mean value of this question is 2.2 which show respondents those who answered “yes” were strongly agreed on the point that SBP has really made efforts to bring Islamization in Pakistan.

Table:II

	Description/ Item	Yes %	No %	Mean	St. Deviation
Q # 1	Do you have a bank account in Islamic Bank	11%	89%		
Q # 2	Do you know how Islamic Banks operate	50%	50%		
Q # 3	I prefer to have business transaction with a Islamic banks as compared to conventional banks			2.7	0.8
Q # 4	The profit rate on Islamic products is variable and less attractive as compared to products of conventional banks			2.6	0.8
Q # 5	The products & services offered by Islamic Banks are less attractive as compared to conventional banks			2.6	0.8

SA=strongly Agree A=Agree NAD=neither agree nor disagree D=disagree
SD=strongly disagree.

Interpretation of Results (Table –II)

The data summarized in table-II indicates the use and preference of sampled population for Islamic banking and its products over conventional banking. The table shows that only 11% of total population indicated that they maintain a bank account with Islamic banks and 89% of the remaining people are having their account with conventional banks. This indicated that people have very less awareness about Islamic banks. 50% of respondents replied that they know how Islamic banks operate and 50% people replied “No”. They had no information regarding operations of business of Islamic banks in Pakistan. Majority of the respondents were agreed on the point that the profit rate on Islamic products is less attractive as compared to conventional banks as the mean value of this question is 2.6. Furthermore the standard deviation of this question is 0.8 indicating a significant consensus among the responses of respondents. The same results are obtained when respondents were inquired about the attractiveness of Islamic products as compared to products and services of conventional banks.

The Current Share of Islamic Banks in Banking Industry of Pakistan:

(Figure 1.1) (% in banking industry)



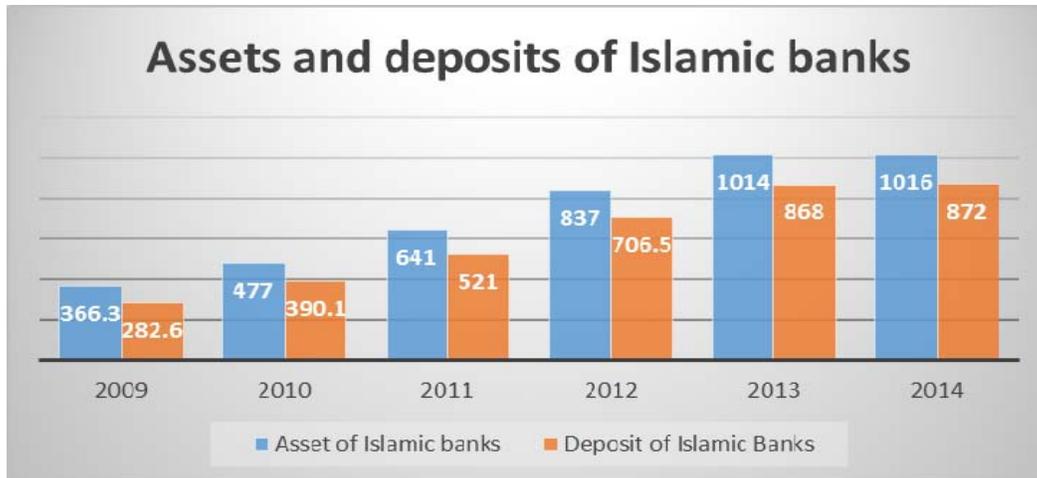
(Source:

Islamic banking department.SBP)

The figure 1.1 and 1.2 indicates the share % of Islamic banking assets and deposits in the total banking industry of Pakistan from 2009 -2014. The share of Islamic banking in the total assets of banking industry of Pakistan was 5.61% in 2009 (Rs.366.3 billion) which increased to 6.7% in 2010. In 2011 the share of Islamic banks assets further indicated a 1% increase as shown in the chart and thereafter a continuous growth is recorded in the Islamic banking assets and its share in the banking industry of Pakistan. The current share of Islamic banking assets (march- 2014) is 9.4% (Rs.1016 billion) which indicates Islamic banking sector of Pakistan is a growing industry. On the other hand as shown in the above figure the deposits of the Islamic banks are also growing the total % of Islamic banks deposits 5.9% (Rs.282.6 billion) in 2009 which increased to 7.2% in 2010 . After that a continuous increase is observed in deposits of Islamic banks and from (December 2010) to (march 2014) a total increase in the share of Islamic banks deposits in the banking industry of Pakistan around 3.5% is recorded and the total deposits of Islamic banks reached to (Rs.872 billion). Its growth can be further increased by making people more aware about the products and services of Islamic banks.

(Figure 1.2)

(Rs.in billions)



Source: Economic Survey of Pakistan (2013-14)

Conclusion

The findings of this study suggests that in a country like Pakistan and specially in small cities like Hyderabad there is a lack of awareness and understanding of Islamic banking among the people. The Government of Pakistan needs to take further serious steps to fully implement the Islamic banking system in each corner of the country as the Islamic banking can be the important part of banking Industry. According to the data collected in this study only 11% people maintained their bank accounts with Islamic banks which is a very meager (%) of people. Two major reasons were identified one was the lack of understanding and secondly the products and profit rate of Islamic banks are less attractive as compared to conventional banks. The study indicates that many of the customers were unaware of different Islamic products Ijara financing, Murahaba financing. It indicates Islamic banking industry along with collaboration of government of Pakistan needs to arrange seminars, workshops in order to make (IBS) Islamic banking system's Customers aware. Therefore it is concluded that (IBS) needs to consider various factors in order to make people aware such as awareness regarding products, branch locations, profit rates, and the most important thing is to highlight the difference between conventional and Islamic banks.

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