

AWARNESS OF ISLAMIC BANKING PRODUCTS AND SERVICES AMONG THE NON-MUSLIMS IN SRI LANKA

S.I. Nimsith¹, F.H.A. Shibly² and A.H. Rifas³

^{1&2}Faculty of Islamic Studies and Arabic Language, South Eastern University of Sri Lanka

³Department of Islamic Studies, South Eastern University of Sri Lanka
sinimsith@gmail.com, shiblymis@gmail.com ahrifas@gmail.com

ABSTRACT

Sri Lanka is one of the non- Islamic countries to have legislated for Islamic banking. Islamic banking introduced within a shorter period than the conventional banks in Sri Lanka. It has been approximately fifteen years when the first Islamic financial institution makes its debut. Islamic banks have to compete with its rival, conventional banks which have a longer history than Islamic banks. For this competition, Islamic banks have to know the awareness, understanding and perceptions of Sri Lankans towards it. Islamic banks not only available for Muslims, but it also available for non-Muslims as well. In Sri Lanka, 91% of the population are non-Muslims as Buddhist, Hindus, Christians and others living. The main purpose of this study is to examine the level of awareness, understanding and perceptions of non-Muslims in Sri Lanka of Islamic Banking products and services. In addition to that, this study also aims to identify if any demographic influence in the awareness, understanding and perceptions of Islamic banking products and services among non-Muslims in Ampara district. A total of 200 respondents from different areas in Ampara district were selected and received the primary data from them by distributing the questionnaires for the purpose of this study. For the analysis, one way ANOVA and Pearson Correlation Coefficient was adopted to analyze the results. The results show that, more than 65% of the respondents are aware of the Islamic banking in Sri Lanka and some of the people are interested in Islamic banking products and services. But, they do not aware of most of the products and services offered by Islamic banks. Non-Muslims' understanding level towards Islamic banking concepts are at average level, but they do not understand most of the Arabic terms. The perceptions of non-Muslims towards Islamic banks are vary among themselves. And the demographic factors such as age, religion and occupation of the respondents are influencing in awareness, understanding and perceptions of Islamic banking products and services in Ampara district. This study also provides theoretical and managerial implications for the Islamic bankers to attract non-Muslims customers and recommendations for future research in Islamic Banking.

Keywords: *Islamic Banking, Awareness, perceptions of non-Muslims, and non-Muslims customers*

INTRODUCTION

An Islamic Banking is phenomenon concept that operates with the objective to implement and materialize the economic and financial principles of Islam in the banking arena. There are numerous definitions given to the Islamic banking. In accordance with Islamic Banking Act 1983 of Malaysia defines as “any company which carries on Islamic banking business and holds a valid license” (Nafees, 2011).

The Organization of Islamic Conference (OIC) defined as “a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic *Shari’ah* and to the banning of the receipt and payment of interest on any of its operations” (Hassan, 1999).

Islamic finance is growing concept in the all over the world. The modern Islamic banking practices can be traced back from four decades ago. However, in fact many principles of Islamic banking system have been generally accepted all over the world for centuries fairly than decades (www.islamic-banking.com). Islamic banking system is existed in Muslim society in different methods according to the era. Actually Islamic banking system has capacity to fulfill the society requirements in decent way. Islamic banking is fastest growing sector with its variety in different segments and field. It provides to Muslims as well as they are minority ethnically. In addition, it is a broad standard: non-Muslim individuals and communities that look for ethical financial solutions have also been fascinated to Islamic banking. It is clear from banking practice that Islamic banking is evenly well liked in all communities (www.hsbcamanah.com).

This study focuses on the awareness, understanding, perceptions and demographic factors that influence the awareness of non-Muslims in Sri Lanka of Islamic Banking products and services. As we know that, Sri Lanka is a multi-racial country. Sri Lanka government statistics in 2014 noted that about 9.0 percent of the population was Muslim, which means that about 91.0 percent of the population in Sri Lanka was non-Muslims. Islamic banking not only available to Muslims but also non-Muslims, hence, non-Muslims market is equally vital to the survival of Islamic banks in Sri Lanka. Non-Muslims market is huge and has substantial potential for Islamic Bank. If non-Muslims keep on ignoring the existence of Islamic banks, Islamic banks will have difficulties to compete with conventional banks. By attracting non-Muslims customers, it can

enhance the long term survival of Islamic banks. By knowing the level of awareness of non - Muslims in Sri Lanka towards Islamic banks, Islamic bankers could actually design or set up different marketing campaigns for the non-Muslims based on their level of awareness. Besides this, by knowing the level of understanding of non-Muslims towards Islamic banks, the Islamic bankers could use simpler words when approaching non-Muslims potential customers if the non-Muslims customers do not have much understanding towards Islamic banks. In addition, by knowing the non-Muslims perceptions towards Islamic banks, Islamic bankers could maintain the perception if the perceptions are favourable to Islamic banks or otherwise, change the non-Muslims perceptions towards Islamic banks if the perceptions are not favourable. In short, Islamic bankers could use the findings from this study to enhance their knowledge on the Sri Lanka non Muslims banking users and the profiles of Sri Lanka non-Muslims potential customers. This study also can assist Islamic bankers in formulating different strategies and policies to attract more non-Muslims banking users by knowing the non-Muslims level of awareness, understanding and perceptions towards Islamic banks.

The majority of these principles are based on simple morality and regular sense, which form the bases of many religions, Including Islam. The Holy Quran undoubtedly mentions about prohibition of Riba. “Oh! You who believe, Eat no Riba(usury) doubled and multiplied but fear Allah that you may be successful (3:130).“The Messenger of Allah Prophet Muhammad (PBUH) cursed the one who takes Riba, the one who gives (pays) Riba the one who records the Riba transaction, and the two witnesses thereof. He said, they are all equally guilty” (Sahih Muslim). Not only in Islam, has even some other major religions including Christianity banned the interest. Moreover, some world“s influence people warned regarding the interest. One of the important quotes is said by Thomas Jefferson Third president of USA, “Banking establishments are more dangerous than standing armies” (Jefferson, 1779).

Prophet (PBUH) initiated his friends to perform Islamic banking activities. A Hadithnarrated by Abu Al-Minhal, “I asked Al-Bara Ibnu Azib and Ziyad Ibnu Arqam about practicing money exchange. They replied, we were traders in the time of prophet (PBUH) and I asked him about money exchange. He replied if it was from handto hand, there was no Haramin it, otherwise it was not permissible” (Sahi-Buhari).Moreover, first institutionalized Islamic financial institution

that found during the period of prophet Muhammad (PBUH) was „Bayt-al mal“. Thus, the Islamic banking concept initiated by few activities in the early days of Islam failed to develop into a complete system of banking owing to strange reasons.

Nowadays the Islamic banking industry has expanded its broad wings almost all over the world to provide its services to Muslim and non-Muslim customers. The Islamic banking industry is no longer a mere theoretical proposition. It has now taken practical nature with a full package of services. Islamic Banking in non-Muslim countries cannot grow on the strength of Muslims alone. It has to be made attractive for others too. In non-Muslim countries where governments are more or less sympathetic for Islamic sentiments and have permitted or even encourage Islamic banking to take off, most non-Muslim countries even those with substantial Muslim minorities, are still rather lackadaisical when it comes to facilitating the emergence of Islamic banking. There are presently only the few largely non-Muslim countries where Islamic banks enjoy an official status. Particular mention here must be made of the UK, Philippines and Sri Lanka. There remain a number of issues to address by Islamic banking operating in largely non-Muslim countries. The legal tax and accounting infrastructure in many countries for instance are still suited only for conventional banks.

Islamic banking has experienced worldwide acceptance by early 2003. During that period, there were at least 176 Islamic banks around the world, and the deposits exceeded \$147 billion. (Rammal and Zurbruegg, 2006). Many of the non-Muslim majority nations such as United Kingdom and Thailand have introduced Islamic Finance into their financial system. In Malaysia, it is almost three decades now since Islamic banking was first gained its appearance in Malaysia, back in 1983, when Bank Islam Malaysia Berhad (BIMB) commenced its operations. The total Islamic bank deposits are increasing over the years. In Sri Lanka, Islamic banking system was introduced in 1997, which Amana Investment Ltd was the first Islamic Financial company. The total Islamic bank deposit is made up from Muslim and non-Muslims deposit. However, the total conventional bank deposits are still higher than Islamic bank deposits. The difference between the total bank deposits and total Islamic bank deposits will be the total conventional bank deposits. From this statistic, it is very obvious that the gap between conventional banks and Islamic banks are very huge as the difference in total deposits in 2010 is around 8,000,000 million. Even though Islamic

bank deposits are increasing over the years, but it is not great enough to catch up with the conventional banks or to smaller the gap between them. This also tells us that a majority of banking users still have not adopted or might not even aware of the Islamic Banking system particularly among the non-Muslims in Sri Lanka.

RESEARCH OBJECTIVES

Islamic banks have started to have marketing campaigns that targeted at non-Muslims market segment so that Malaysia could become a leading Islamic banking centre.

Main Objective

To examine the level of awareness of non-Muslims in Malaysia of Islamic banking products and services.

Secondary Objectives

- a) To examine the understanding of non-Muslims in Malaysia about the basic Islamic Banking products and services.
- b) To determine the perceptions of non-Muslims in Malaysia towards Islamic banking.
- c) To investigate if any demographic factors (age, religions, education, occupation and income) influence the awareness, understanding and perceptions of Islamic Banking products and services among non-Muslims in Malaysia.

Research Questions

Are the non-Muslims in Malaysia aware of Islamic Banking products and services?

Are the non-Muslims in Malaysia understood about the basic principles of Islamic banking principles?

What are the perceptions of non-Muslims in Malaysia towards Islamic banking?

Are the demographic factors (age, religions, education, occupation, income) influences the awareness of Islamic Banking products and services among non-Muslims in Malaysia?

METHODOLOGY

Data and Method of Data collection

In this research, primary data have been used and the data is collected specifically for a purpose to address the research objective in this study. Primary data is research information gathered from original sources: the data are gathered and assembled specifically for the result project at hand. It is the first hand data communication and interaction with a representative sample of individuals. The primary data was collected by distributing the questionnaires to the non – Muslims in representing areas of Ampara district. Therefore, self-administered questionnaires were the most ideal method used to collect the primary data in this study. According to Zikmund (2003), self-administered questionnaires refer to the survey in which the respondent takes the responsibility for reading and answering the questions. The questionnaires contain questions that are related to the awareness of the Islamic Banking products and services. The questionnaire is designed into two parts: part-1 is with demographic information (occupation status, age, education qualification, religion and income).

Population and Sample

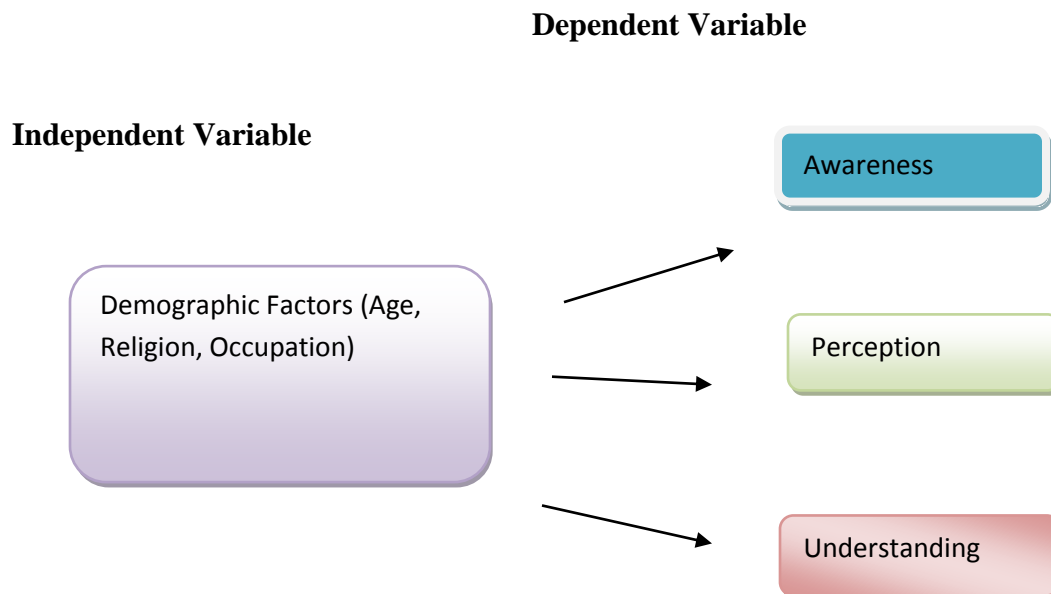
Sampling frame is the source from which sampling units are chosen in this research which consists of a list or a set of directions for identifying the target population. In this research, the sampling units consist of 200 sets of questionnaires and were distributed to the non-Muslims in Sri Lanka. The sampling locations were within Sri Lanka such as Kalmunai, Karaitivu, Addalaichenai, Akkaraipattu, Thirukkivil, Pottuvil and Sammanthurai in Ampara district.

Area	Respondents
Kalmunai	30
Karaitivu	30
Addalaichenai	25
Akkaraipattu	30
Thirukkivil	30
Pottuvil	25
Sammanthurai	30

METHOD OF MEASUREMENT

For data analysis descriptive analytical techniques such as column chart, pie chart, graphical illustration etc were used. For the strategical analysis the researchers applied MS Excel, strategical package for social sciences (SPSS) 16.0 and mini tab computer software packages to analyze the primary data. Primary data was option from the questionnaire. The reliability of data collected instrument was measured using cronbach's alpha coefficient.

The awareness of Islamic banking products and Services are taken fot the hypothesis testing. Non- Muslims' in Ampara district demographical factors are considered independent variables. Awareness, perception and understanding of Islamic banking products and services are cosidered as dependent variable.



HYPOTHESES OF THE STUDY

Awareness of Islamic banking products and services among non-Muslims in Sri Lanka

H0: There is no significant relationship between age and awareness of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between religion and awareness of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between occupation and awareness of Islamic banking products and services among non-Muslims in Sri Lanka.

Understanding of Islamic Banking products and services among non-Muslims in Sri Lanka

H0: There is no significant relationship between age and understanding of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between religion and understanding of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between occupation and understanding of Islamic banking products and services among non-Muslims in Sri Lanka.

Perceptions of Islamic banking products and services among non-Muslims in Sri Lanka

H0: There is no significant relationship between age and perceptions of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between religion and perceptions of Islamic banking products and services among non-Muslims in Sri Lanka.

H0: There is no significant relationship between occupation and perceptions of Islamic banking products and services among non-Muslims in Sri Lanka.

RESULTS AND ANALYSIS

Conclusion and recommendations

Awareness of Non-Muslims towards Islamic Banking

The results in chapter four show that more than half of the respondents are aware of Islamic banking in Sri Lanka. This study, non-Muslims in Sri Lanka, is aware of Islamic Financing facilities. In addition, the most common products that the respondents are aware of are deposits

products, insurance products and investment products. It was supported by Khan et al.(2008) as in their study, there is a high level of customer 65% percent non muslims have awareness of some general products such as current account and saving account. As for other different types of borrowing products such as Musharaka, Bai-Salam and Bai-Murabaha, customers do not have a high awareness for any of them.

Level of Understanding of Non-Muslims towards Islamic Banking

The non Muslims still could not understand the concept of Islamic banking even though there are a lot of advertising campaigns that targeted at them. However in this study, it was found that the level of understanding on the concept of Islamic banking is at the average level. For some basic concept such as Islamic is available for Muslims as well as non-Muslims, more than 65% of the respondents have chosen 'agree' and 'strongly agree'. This might due to most of the respondents are university students and they have learnt Islamic banking in their studies. Thus, they have certain basic knowledge about the concept of Islamic banking. Besides concepts, the respondents were being tested on their level of understanding of the Arabic terms used by Islamic banks. Basically, there is a lack of understanding of the Arabic terms. Most of the respondents only know two terms which are 'Takaful' and 'Sharia'. Other terms, less than 40% of the respondents know their meaning they are Islamic banking terms such as Mudarabah, Musharakah, and Bai' Bithman Ajil is less popular among the banking customer.

Perception of Non-Muslims towards Islamic Banking

In this study, 45% of the respondents perceive that Islamic Banking products in Sri Lanka are not similar to the products of conventional banks. This result is supported by Ahmad and Haron (2002). In addition, 80 respondents perceive that Islamic banks could provide lower cost products and services compared to conventional banking. 76 of respondents perceive that returns on Islamic banks deposits account are higher than returns on conventional banks deposits account.

Relationship between Age and Awareness, Understanding and Perception

In this study, it shows that age do have significant relationship with age and understanding (concept). These results show that age do affect the level of awareness of respondents. On the

other hand, age has significant relationship with understanding (Arabic terms) at 10% significant level and perception at 1% significant level. This result is similar Loo (2010), where she found that there are significant differences between non-Muslim X-Gen and Baby Boomers. First, Baby Boomers perceived a disadvantage with Islamic banking significantly higher than X-Gen.

Relationship between Religion and Awareness, Understanding and Perception

In many studies, it was found that religion will be affecting the awareness and understanding for Islamic banking products and services (Run and Yeo, n.d.). However, this study reveals that religion does not have significant relationship with awareness and understanding (Arabic terms). This might be due to the respondents from this study are all non-Muslims but the respondents for the other studies comprised of Muslims and non-Muslims. In Loo's (2010) study shows 100% of Muslim respondents agree that Islamic banking does not conflict with their religious belief but only over two-thirds of non-Muslims agreed Islamic banking does not conflict with their religious belief. Hence, there is difference between Muslims and non-Muslims but not non-Muslims itself. However, perception has significant relationship with religion at 10% significant level. This result is similar to Haque, Osman and Ismail (2009) and Loo (2010). Non-Muslims comprised of different races, thus they might grow up from different backgrounds and hence, influence their perceptions towards Islamic banking.

Relationship between Occupation and Awareness, Understanding and Perception

In this study, it shows that occupation has significant relationship with awareness at 5% significant level. This result is similar to the results in the study done by Haque, Osman and Ismail (2009). Occupation has significant relationship with understanding (concept) and perception at 1% significant level. This is similar to the results of Run and Yeo (n.d.) as they found that employment will affect the level of understanding. However, according to Haque, Osman and Ismail (2009), occupation will not affect the perceptions of Malaysians with different occupation towards the Islamic Banks. This might be due to most of the respondents from this study are students and hence students will have a different perception from those who are working. However, occupation has no significant relationship with the level of understanding on the Arabic terms. This may be due to most of the occupations in Malaysia seldom deal with Arabic

terms and hence, although the respondents are from different fields, they still lack of understanding about the Arabic terms.

The main objective of this research is to determine the level of awareness, understanding and perception of Islamic banking products and services among non-Muslims in Sri Lanka. This study has a total of 200 respondents and data collected was being analyzed by using SPSS 16. The level of awareness towards Islamic banking is considered as high however the level of understanding is just at moderate level. As for perception, it is varied among the respondents. Some of the demographic variables have significant relationship with awareness, understanding and perceptions. Educational level has the most significant relationship with all the variables.

The summary of statistical analysis, discussion of major findings and implications of the study have included in this chapter. Limitation faced during the whole research and recommendations for future research have been discussed in this chapter as well. Lastly, this research has met its objective by knowing the level of awareness, understanding and perception of Islamic banking product and services among non-Muslims in Sri Lanka..

REFERENCES

- Ahmad, N, & Haron, S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services. *International Journal of Islamic Financial Services*, 3(1), 13-29.
- Aliaga, M. & Gunderson, B. (2005). *Interactive statistics*(3rded.). New Jersey:Pearson Prentice Hall.
- Amin, H. (2007). Borneo Islamic automobile financing: do demographics matter? *Labuan e-Journal of Muamalat and Society*, 1, 73-87.
- Bley, J., & Kuehn, K. (2004). Conventional versus Islamic finance: student knowledge and perception in the united Arab emirates. *International Journal of Islamic Financial Services*, 5(4)
- .Branch, M. C. (1990). *Planning Universal Process* (1sted.). New York: Praeger
- Cooper, D. R. & Schindler, P. S. (2006). *Business research methods*. New York: McGraw –Hill.
- Hair, J. F., Anderson, R. E., Tatham, R. L. & Black, W. C. (1998). *Multivariate data analysis with reading*. New Jersey: Prentice Hall.
- Hair, J. F. Jr. Black, W. C., Babin, B. J. Anderson, R. E. & Tatham, R. L. (2006). *Multivariate data analysis* (6th ed). New Jersey: Prentice Hall
- Haque, A., Osman, J. & Ismail A. Z. H. (2009). Factor influences selection of Islamic banking: A study on Malaysian customer preferences. *American Journal of Applied Sciences* 6(5),922-928

- Karbhari, Y., Naser, K. & Shahin, Z. (2004). Problems and challenges facing the Islamic banking system in the West: the case of the U. Thunderbird International Business Review, 46(5), 521-543
- Karim A.A. & Affif A. Z. (2005). Islamic banking consumer behaviour in Indonesia: A qualitative approach. International Journal Islamic Finance, 5
- Karweit, N. and Meyers, E.D. Jr (1983). Handbook of survey research. New York: Academic Press
- Khan, F. (2010). How 'Islamic' is Islamic banking? Journal of Economic Behavior & Organization 76, 805–820
- Khan, M. S. N., Hassan M. K. & Shahid A. I. (2008). Banking behavior of Islamic bank customers in Bangladesh. Journal of Islamic Economics, Banking and Finance, 159–194.
- Khattak, N. A., Rehman, K. U. (2010). Customer satisfaction and awareness of Islamic banking system in Pakistan. African Journal of Business Management 4(5), 662-671.
- Khair, K., Gupta, L. & Shanmugam, B. (2008). Islamic banking: A practical perspective. Malaysia: Pearson.
- Lateh, N., Ismail, S. & Ariffin, N. M. (2009). Customers' perceptions on the objectives, characteristics and selection criteria of Islamic bank in Thailand. Gadjah Mada International Journal of Business, 11(2), 167-189
- Loo, M. (2010). Attitudes and perceptions towards Islamic banking among Muslims and non-Muslims in Malaysia: implications for marketing to baby boomers and x-generation. International Journal of Arts and Sciences 3(13): 453-48
- Muniurrun, R. P. & Naidoo L. B. S.y. P. (2010). Service quality in the public service. International Journal of Management and Marketing Research, 3(1), 37-50.
- Nanava, R. (2007). Islamic banking and Islamic financial products: comparative study of UK, US and Malaysia. Unpublished thesis, Central European University.
- Okumus, H. S. (2005). Interest-free banking in Turkey: a study of customer satisfaction and bank selection criteria. Journal of Economic Cooperation 26(4), 51-86.
- Rammal, H. & Zurbrugg, R. (2007). Awareness of Islamic banking products among Muslims: The case of Australia. Journal of Financial Services Marketing, 12(1), 65-74.
- Rubin, A. & Babbie, E., R. (2010). Research Methods for Social Work (7th ed.).