

Awareness, understanding and behaviour of Islamic banking: Results of a special study



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ABSTRACT Islamic banking is a growth industry in Malaysia. This research aims to determine the current awareness, understanding and behaviour of a specific bank's customers towards Islamic financing. Findings indicate that race and religion are significant for all variables (awareness, understanding, use and recommendation) while monthly income and education for understanding only. Employment, deposit type and having an Islamic facility show significant differences for understanding, use and recommendation. Findings also indicate a positive correlation between awareness, understanding, use and recommendation. The paper concludes with a discussion of the academic and managerial implications which may be used as a guide for future research.

ISLAMIC BANKING FACILITIES, or interest-free banking facilities, have gained prominence since its emergence onto the financial scene in the 1970s. From an initial USD1 billion with only 10 Islamic banks in 1975, Islamic banks now command an asset base of USD160 billion spanning Asia, Europe and Africa (Martin, 1997). Currently, approximately US\$1 trillion in Islamic wealth is being circulated via the global financial system and these assets are expanding at the rate of between 12% and 15% annually (Fernandez & Shamsudin, 2004). Islamic banking is not limited to Muslims, for as long as the business is *halal* (legitimate) in substance or form, usage of Islamic banking products and services are not confined to Muslims (Bank Negara Malaysia, 2004a).

Islamic banking is different from conventional banking (Naser & Moutinho, 1997). As the Shariah principles strictly prohibit the charging of *riba* (interest), Islamic banking operates on a profit-loss sharing basis whereby the provider and borrower of capital share the risk (Ebrahim & Tan, 2001). Islamic banking is also differentiated by its ability to support lending to promising entrepreneurs with viable projects that are cash-poor. In contrast, conventional banking usually involves collateralised-based lending and is seen to favour established businesses (Siddiqui, 1985). In terms of returns, a study suggests that returns from Islamic and non-Islamic banks are similar (Metwally, 1997a).

Malaysia has actively been promoting Islamic banking since 1983 following the implementation of the Islamic Banking Act (IBA) in 1983 (Bank Negara Malaysia, 2004a). The growth of Islamic banking assets in Malaysia is shown in Table 1. However, the growth in business and interest in Islamic banking in Malaysia has generated only limited academic studies, and this research specifically aims to determine the current awareness, understanding and behaviour of a particular bank's customers towards Islamic financing. This paper is organised as follows; first an overview of the various literature is presented. Second, a brief discussion of the methodology is presented. This is followed by the findings of the study. The paper concludes with a discussion of the academic and managerial implications which may be used as a guide for future research.

LITERATURE REVIEW

Islamic banking is defined by its conduct of banking operations in compliance with Islamic teachings (Ebrahim & Tan, 2001). When the first Islamic banking transaction was conducted in Mit Ghamr in Egypt in 1963, it was done to meet the demand for an alternative channel to conventional (western) banking and which would satisfy Islamic principles (Ahmad, 1994). In an Islamic society, the belief is that trade and commerce should be guided by Shariah law (Islamic law on human conduct). This involves the sharing of wealth and prosperity within the community through morally acceptable business activities (Bank Negara Malaysia, 2004a, 2004b; Gray, 2004).