

# The Awareness and Prospect of Islamic Banking and Finance in a Small Island Developing State

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## Abstract

*The early 1970's experienced the advancement of a surrogate banking system, the Islamic Development Bank (IDB), developed by the Organization of Islamic Countries, which officially became the first Islamic Bank. The elementary cliché of the IDB was to provide economic help and assist in profit sharing. In contrast, Islamic Finance, dated long back to the onset of Islam. Since the Islamic Banking and Finance has considerably evolved and is now apt of contesting modern financial techniques. Undeniably Islamic Banking and Finance has significantly impacted the world financial market. Since very few Islamic Financial Institution operates in Mauritius and not much literature is available for the local context, this paper attempts to scrutinize this innovative and flourishing means of finance. This might trigger the innovation to expand in the Island. By way of a survey, we evaluated the level of acceptance of this alternative financial system on the local market and the relevant controversies to be tackled before operating a parallel system in the present one. Findings demonstrated that there shall be demand for Islamic Financing as long as Islamic Banks are competitive in returns, if not higher. A similar attitude towards Islamic Banking, from Muslims and Non-Muslims, seems to be prominent for Islamic Banking and Finance.*

## 1.0 Introduction

Typically marketed for Middle-East and South-Asian countries, Islamic Banking and Finance (IBF) has crossed boundaries to reach new grounds such as Africa, East-Asia and the USA. This evolution gives way to a brighter future for Islamic Finance (IF). With more than 50 countries having settled an Islamic bank (IB) or Islamic window irrespective of being Muslim countries or not, total asset under Islamic management were worth USD\$60.2 billion in 2015. It is expected that the sector shall bloom in the near future to reach USD\$77 billion by 2019, marking a substantial 5.05% growth. Recent appraisal of the Islamic Financial Industry varies from \$1.66 trillion to \$2.1 trillion.

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IBF in substance, is based on 3 determinant features which are sharia compliance, interest-free and equity-oriented. Referring to Gunpath (2012), IB have a crucial aspect in the development of the financial sector in Mauritius, despite its blooming state. He further declared that IB could help reducing the level of unemployment of the country by providing finance to SME's, which are denied loans from conventional banks. Moreover, he stated "IB will inevitably contribute to fight against unemployment, improve the service sector and increase competition amongst the banking sector".

The IBF industry in Mauritius has witnessed several major improvements in year 2009. Firstly, the country has welcome an international seminar on capital markets, in collaboration with the BOM, IFSB and the FSC Mauritius. During this seminar, international specialists discussed the distinct controversies around IF and accentuate on the invulnerability of the IF sector against the great financial crisis of 2008.

Secondly, the HSBC an international bank started operating an Islamic Window in the country, targeting international investors. Likewise, the BOM granted its first Islamic Banking License to the Deen Banking Corporation LTD, which still is to start its operations.

Also Mauritius became the second non-Islamic country to integrate the IFSB as a full member after Singapore. Finally, the Public Debt Management Act 2008 was amended to empower the issue of sukuku by the government. Later in 2011, the BOM further licensed the Century Banking Corporation which became the first established IB in Mauritius. Also in the same year the ABMPCSL along with the Al-Huda Centre of Pakistan organised an international conference on IBF in Mauritius. In 2014, Habib Bank Ltd was granted its license to operate an Islamic window in Mauritius. Within the last decade Mauritius was gratified with a succession of events which paved the way to the proof that IB can cohabit in a non-Muslim economy. The country is genuinely a burgeoning market for IF.

Islamic Banking and Finance (IBF) is a rather new concept in Mauritius. This study aspires at assessing the awareness and prospect of IBF in Mauritius and enlightens the path to Islamic modes of Finance. Islamic laws are derived from the Holy Quran and Hadith. The study thus aims at discussing the awareness of Mauritians about Islamic Banking, the willingness of Mauritians to invest in Islamic Banks, if there is any market for Islamic financial services in Mauritius, how do opinions about Islamic Banking differs from Muslims and non-Muslims, make an assessment of the actual situation of Islamic banks in Mauritius and discuss the attitudes, perceptions and knowledge

of Islamic financial products and services. For this purpose a survey analysis will be carried forward.

## **2.0 Literature Review**

Islam has a predetermined set of principles and norms, which circumscribe all facets of human life. The body of Islamic law is the Sharia, which according to Denis J. Wiechman et al (2005), refers to the path to God's Law; it is the general approach to guidance in an individual's daily life. Sharia laws takes its fundamentals mainly from the Holy Quran and the Sunnah (the living tradition of Prophet Muhammad). As such Islamic financial system is also based on Sharia fundamentals. *One important thing is that the Holy Quran does not prohibit trading but only trading with usury is prohibited (2:275). Islam condemns interest and makes no distinction between interest and usury, as quoted in this verse of the holy Quran:*

“O you who believe! Remain conscious of God, and give up all outstanding gains from usury, if you are truly believers” (Al-Quran, 2:278).

### **2.1: Theoretical review**

#### **2.1.1: The basic principles of Islamic Banking and Finance**

Many transactions are permitted under IBF. Such contracts can broadly be branched in three main categories

### **2.2: Empirical review**

IBF was an unrecognised gem that was shaped in the early 1970's after the actualisation of the International Conference on Islamic Economies in Makkah, and the inauguration of the first CIB, in the UAE, the Dubai IB; pursued by the settlement of the IDB in Jeddah. These led the path to the establishment of many private and semi-private CIBs. IB are a good way to match the gap between surplus and deficit economic units. IB is not an insignificant anomaly, but there is much scope for its growth and survival (Ariff 1988). According to Al-Hayat Al-Iqtisadiyah (2005), IB have profuse across the 5 continents.

According to Ibrahim Warde (2010), IF has made huge advancements reaching an estimate of \$1,3 billion. Most financial Institutions now provides in one way or another Islamic financial services. Many non-Islamic countries such as France, south Korea and Australia, have adjusted their legislations to welcome IBF. Warde further pointed

out to that the increasing oil prices caused major interest in Islamic financial products. Whilst almost all conventional banks suffered adversely from the sub-prime crisis of 2007, IB corroborate a 33% growth.

### **2.2.1: Islamic Banking v/s Conventional Banking (ConvB)**

The uniqueness of IB resides on its features different from ConvB. According to Zineidin (1990), IB are a good substitute to ConvB. Ali (1996) in his studies found that IB are more efficient than ConvB in Bangladesh. Samad (1999) in his study about the Bank Islam Malaysia's efficiency also concluded that the IB was more prominent to efficiency than ConvB. Samad and Hassan (2000) found that Bank Islam Malaysia enjoyed less liquidity risk than their counterparties.

Haffernan (2005) in his book about modern banking distinguishes IB from its western counterparts. Firstly, he pointed out the safeness of IB, for no interest are given to depositors and these can represent a good source of income. Secondly, the shareholding relationship in a unit trust is effective. Thirdly, IB constitutes of a larger equity base. Being equity based, IB equally shares risks with its customers dwindling customer's willingness in taking more risks.

### **2.2.2: Risk in Islamic Finance**

All financial institutions have to face risks to prosper and IB are no exception to the rule. There are some risks solely associated to IF. According to Faleel Jamaldeen from Islamic finance for Dummies, since IF is majorly based on equity investment vehicles, equity risks emanates from a reduction in the par value of the equity. In case of falling equity value, a firm can lose its potential investment returns and capital invested. Thus leading to credit and liquidity risk.

Secondly due to the PLS nature of Islamic contracts, customers indirectly expect returns on their investments. Failure to pay returns might lead customers to shift to other IFI. Displaced commercial risk arises since IFI have to pay returns though no profits are being made on underlying assets.

Also IFI face rate of return risks, whereby unforeseen alterations in market rate of return adversely affects earnings. Since returns are uncertain and customers share both profit and losses, such a case may cause massive withdrawals causing liquidity risk.

McNeil et al. (2005) in their studies defined credit risk as being a change in the portfolio due to abrupt deviations in the quality of the IFI. Furthermore, Khan (2003) postulates

that credit risk is the major hazard of the banking system. However, Arunumar and Kotreshwar (2005) declared that credit risk accounts for only 70% of total banking risk and the remaining is shared amongst market and operational risks.

Abedifar et al. (2012) in their study found that small IBs are more stable and less responsive to interest rate changes. Due to the special features of IB, operational risk is very complex but yet important (Martiana et al. (2011)).

In contrast, Srairi (2009), conveys that IB have higher risks than their western counterparts due to a lack of knowledge in financial tools. Portfolio diversification can be a way of suppressing risks (Khan (1991)).

### **3.0 Research Methodology**

According to Prof. Dr. Samy Tayie, to have an impartial and accurate research, one must pursue eight arbitrary steps (shown in fig.3.0); a deviation of this method has been adopted in this study.

#### **Figure 3.0: steps in the development of a research project**

Source: “Research Methods and Writing Research Proposals” by Prof. Dr. Samy Tayie (2005)

### **3.1: Research Problem**

The booming interest of the world towards IBF arises curiosity about this phenomenon in the financial market of Mauritius. Investigations in this study will be based on the aims and objectives of the study.

#### **Aims and objectives:**

- *Assess the knowledge, attitudes and perceptions of Mauritians about IBF*
- *Willingness of Mauritians to invest in IB*
- *If there is a market for IBF in Mauritius*
- *How opinions about IBF differs from Muslims and non-Muslims*
- *Assessment of the actual situation if IBF in Mauritius*
- *Assess the potential demand for IBF products in Mauritius*

### 3.2: Review of existing research and theory

Prior researches have been conducted on IBF grounds. These aimed at not only gaining knowledge but also at accessing the available information from previous researches, how it was carried and the outcomes of these researches.

#### 3.2.1: Sources of data

Generally, data emanates from two main sources, primary and secondary data. Donald Currie in his book “developing and applying study skills” (2005), precisely defined primary data as being data which have been collected fundamentally by the researcher for a specific research project. On the other hand, according to Ken Browne, “sociology for AQA volume 1” (2015), secondary data refers to existing data and which the researcher haven’t collected for his study. Secondary data are those data which were collected for other studies which the researcher uses for a critical assessment.

For this research, primary data was mainly used since the limited secondary data available was either not relevant to the study or not in the Mauritian context. Secondary researches used were mainly from academic journals and books.

### 3.3: Statement of Hypothesis

Post study of literatures and considering the suggestions of past researchers, hypotheses was developed and the relationships between different variables were evaluated. The following hypotheses will be tested in this study:

- $H_{o1}$ : *There is a significant difference between awareness of Muslims and Non-Muslims about IB.*
- $H_{11}$ : *There is no significant difference between awareness of Muslims and Non-Muslims about IB.*
- $H_{o2}$ : *There is a significant difference in knowledge of IBF between Muslims and Non-Muslims.*
- $H_{12}$ : *There is no significant difference in knowledge of IBF between Muslims and Non-Muslims.*
- $H_{o3}$ : *Muslims are more keen than Non-Muslims about the settlement of an IB in Mauritius.*
- $H_{13}$ : *Muslims are more keen than Non-Muslims about the settlement of an IB in Mauritius.*

- $H_{04}$ : *There is a significant difference between Muslims and Non-Muslims as potential Islamic Equities investors.*
- $H_{14}$ : *There is no significant difference between Muslims and Non-Muslims as potential Islamic Equities investors.*
- $H_{05}$ : *Males rather than females significantly prefers to deal with an IB because of no risk.*
- $H_{15}$ : *Males rather than females do not significantly prefer to deal with an IB because of no risk.*

For this study, survey questionnaires were used to gather primary data from the general public.

### **3.5.2: The Sample**

Since the study aspires at assessing the awareness and prospect of IBF amongst the Mauritian population, stratified random sampling was chosen. Stratified random sampling refers to a case where the population is divided into smaller strata (Muslims and Non-Muslims for this study); and members have equal chance of being selected in the different groups. The questionnaire was distributed to respondents randomly. However, it was ascertained that respondents were above 18 of age and have a small knowledge about banking practices. To be more relevant a manageable sample size of 232 respondents were chosen with equal number of Muslims and Non-Muslims.

### **3.5.3: The Questionnaire**

The questionnaire was designed with a set of both open and closed ended questions to have a better and precise insight of the awareness, perceptions and attitudes towards IBF amongst the Mauritian population. The questionnaire was segregated in 5 sections as follows:

- *Section A: Banking Activities*

*This section consists of 5 questions which aim at determining the respondent's banking activities.*

- *Section B: Banking Criteria*

*This section includes a table whereby respondents are asked to rate certain criteria required for them to choose a bank. Responses vary from "Very important" to "No importance"*

- *Section C: The Alternative Banking System*

*In this section, IBF was disguised under the name of an alternative system, so as not to create any biasedness in the responses. Respondents were presented an alternative bank compared to a common bank whereby similarities and distinct features were presented to the respondents. It aimed at assessing the willingness of Mauritians to invest in a different banking system. Also respondents were asked to rate the alternative system and were asked about their views whether the alternative system will work in Mauritius.*

- *Section D: IBF*

*A set of 11 questions specifically based on IBF was set to assess the respondents' knowledge about the topic.*

- *Section E: General Information*

*This section is solely based on demographic questions like age group, gender and education level, religion, occupation and wage category. This section also comprises of a question to know if the respondent is a financial services professional, since such responses are to be separately treated.*

Note: a copy of the questionnaire is annexed in annex 1

### **3.5.4: Pilot-Testing**

A first draft of the questionnaire was submitted to the supervisor, modifications were made as per required and a pilot test was executed among 10 respondents of different religions while still meeting the basic criteria mentioned in section 3.5.2. The lacunas discovered were amended.

### **3.5.5: Limitations of the Questionnaire.**

As per the pilot study, almost all respondents were unable to identify the Islamic terms used, thus the analogue of these were included to facilitate the identification of Islamic terms. Also errors were found in the completed questionnaires whereby some respondents did not fully complete the questionnaires. Similar questions were presented in different forms and biasedness of respondents were noted since the latter answered differently to similar questions. These biased questionnaires were rejected and only reliable questionnaires were selected. Many respondents aged 60+ had to be rejected for almost all did not fill in the required requirements. Also respondents, having no bank account, responses were rejected since they were not amongst the targeted population.

## 4.0 Analysis and Interpretation

This chapter conceives at evaluating and portray the findings. The results were presented in a subsequent order with regards to the different sections of the questionnaire. The first part of this chapter consists of the descriptive analysis, whereby cross-tabulations assists in presenting and comparing behaviours and attitudes of Muslims and non-Muslims towards IBF. On the other hand, the second part of this chapter aims at testing the pre-mentioned hypotheses.

### 4.1: Descriptive Analysis

This section depicts and summarises the collected data for analysis purposes

#### 4.1.1: General Information (Section E)

- *Age Group*

	Frequency	Percentage	Cumulative Percentage
18 – 25	172	74.1	74.1
26 – 40	50	21.6	95.7
41 – 59	10	4.3	100
60 and above	0	0	100
Total	232	100	

The above table shows that amongst the 232 respondents, 172 are aged from 18-25 years representing 74.1% of the sample and being the majority. 21.6% representing a count of 50 respondents were aged from 26-40 years; those aged between 41-59 years represent a sum of 10 respondents and a percentage of 4.3%. Unfortunately, no participant was aged 60 and above.

- *Gender*

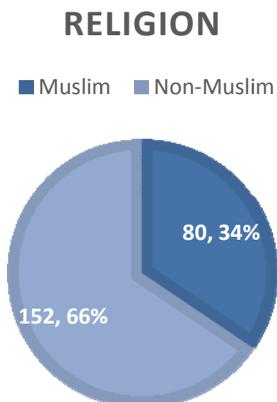
*Figure 4.2: Gender (By Authors)*

The pie chart demonstrates the sample in terms of male and female participant. Males amounted to 108 participants (47%) while females represent 124 participants (53%). The data represents an approximation of the Mauritian population in gender terms.

- *Religion*

For the purpose of this study respondents were classified as either Muslims or non-Muslims, to differentiate their opinions. Muslims amounted to 80 participants (34%)

while non-Muslims to 152 participants (66%). These represents the parity of the ethnical population of Mauritius.



*Figure 4.3: Religion (By Authors)*

- *Educational Level*

	Frequency	Percentage	Cumulative Percentage
Primary	0	0	0
Secondary	12	5.2	5.2
Tertiary or higher	220	94.8	100
Total	232	100	

The majority of the participants (94.8%) attained tertiary or a higher level of education, indicating proper understanding skills and a basic knowledge of banking practices. Furthermore, the remaining respondents reached secondary level, which is considered as a good level of education.

- *Occupation*

For distinction purposes, respondents were classified as being in employment or not. As shown in the following diagram, 39.2% of respondents were in employment whereas 60.8% were not in employment.

		Frequency		Percentage		Cumulative Percentage
Employed	In Employment	83	91	35.8	39.2	35.8
Self-Employed		8		3.4		39.2
Unemployed	Not in Employment	5	141	2.2	60.8	41.4
Retired		0		0		41.4
Student		136		58.6		100
Total		232	232	100	100	

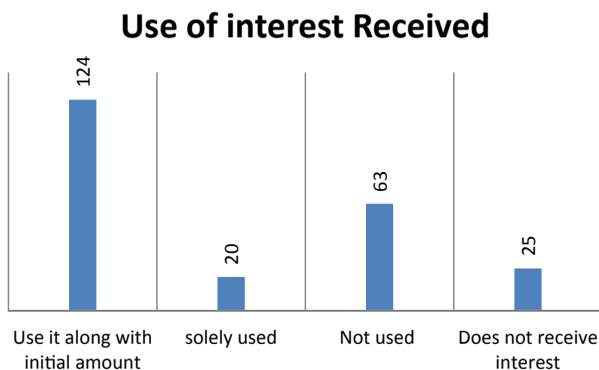
It can further be analysed that out of these respondents in employment 9.1% were banking/financial services professionals, thus having a good knowledge of banking/financial products and services. (table 4.6)

Occupations:	Banking Professionals		Total
	Yes	NO	
Employed	21	62	83
Self-Employed	0	8	8
Unemployed	0	5	5
Retired	0	0	0
Student	0	136	136
Total	21	211	232
%	9.1	90.9	100

#### 4.1.2: Banking Activities (Section A)

- *Interest Received*

This section aimed at determining the activities of respondents with banks. Respondents were asked the use of the interest they receive on their bank accounts. Chart 4.7 summarises the results.



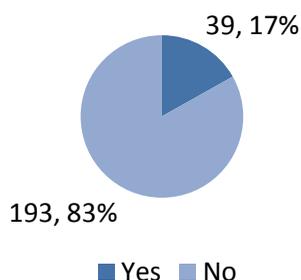
*Figure 4.7: Use of interest Received (By Authors)*

From the above we note that 53.4% of respondents does not distinguish between interest received and their initial savings. Out of the 232 respondents, only 20 (8.6%) claimed to be using interest received solely and leaving their initial savings intact, while 25 respondents (10.8%) held that they do not receive any interest, these might be having savings account in an IB. Moreover, 63 respondents asserted not using the interest they receive.

- *Interest Paid*

Subsequently, we can notice that 83% respondents have had recourse to debt financing (chart 4.8)

### Loan financing



*Figure 4.8: Loan Financing (By Authors)*

It can be clearly seen that the majority of respondents did not have recourse to debt financing and the reasons why are shown below (figure 4.9).

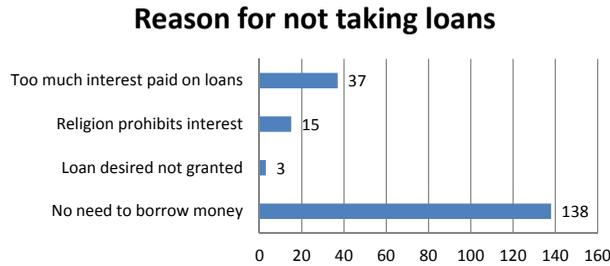


Figure 4.9: Reason for not taking loan (By Authors)

Out of those not having had recourse to debt financing, the majority of respondents answered not demanding loans for the reason that most respondents were not in employment. Only 3 respondents did not take loan because their desire loan was not granted. Only 15 respondents answered not desiring loans because of religious issues concerning interest and 37 claimed not having recourse to loan because of too much interest to be paid.

- *Interest Received v/s Interest Paid*

Respondents were asked their views about the amount of interest to be paid on loans and 79% thinks that it’s very high and high, 19% thinks it’s fair and 2% thinks it’s low (figure 4.10).

### Amount of Interest charged on loans

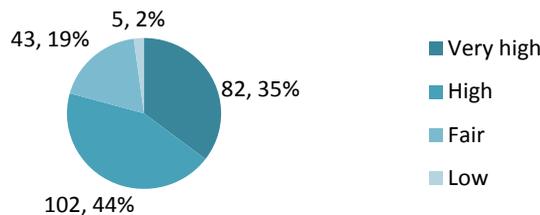


Figure 4.10: Interest charged on loans (By Authors)

#### 4.1.3: Banking Selection Criteria (Section B)

In this section respondents were asked to rate 15 statements, about criteria for choosing a bank, from ‘Very Important’ to ‘No Importance’. The table below resumes the analysis of mean and the latter was ranked from lowest to highest indicating ‘Very Important’ for means closer to 0 and ‘No Importance’ for means closer to 3. Also for this section no distinction was made between Muslims and Non-Muslims.

Statement	Mean	Rank
Confidentiality of the bank	0.16	1
Provision of fast and efficient services	0.34	2
Confidence in bank management	0.39	3
Bank's reputation and image	0.45	4
Lower interest charged on loans	0.59	5
Lower charges on bank services offered	0.66	6
Financial counselling services provided	0.73	7
Wide range of services offered	0.78	8
External reputation of bank	0.81	9
Higher interest payments on savings	0.84	10
Credit availability on favourable items	0.96	11
Location near my place of work/home	1.01	12
Overdraft privileges on current account	1.24	13
Mass media and advertising	1.62	14
Recommendation of friends	1.64	15

The top 4 most influential factors are confidentiality of the bank, followed by the provision of fast and efficient services and confidence in bank's management and finally the bank's reputation and image. This implies that the expertise and notoriety of the bank plays an important role in determining its acceptability on the market. Lower interest payments on loans was ranked 5<sup>th</sup>, explained by the perceptiveness of respondents that cost of debt is high. Respondents favour paying less than having more returns which is explained by the 5<sup>th</sup> and 6<sup>th</sup> factors and the low rank of higher interest on savings (10<sup>th</sup>). Thus, these ranks provide a benchmark on banking selection criteria to banks.

#### 4.1.4: Alternative Banking System (Section C)

In this section, respondents were given a scenario whereby a normal bank was compared and contrasted with an Alternative bank having the criteria of an IB. The term 'Alternative Bank' was used instead of 'IB', so as not to create any sort of biasedness in the respondents' views. Were also given to them a set of 10 statements which they had to rate from 'Strongly Agree' to 'Agree'. These intended at assessing the willingness of Respondents to deal with a new banking system and determine its market.

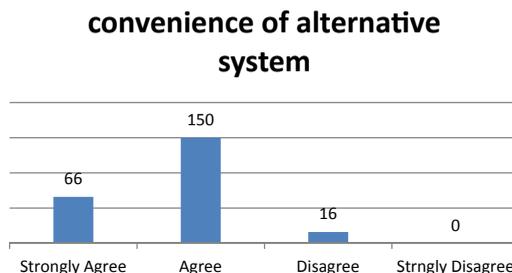


Figure 4.12: Convenience of alternative Banking system (By Authors)

From the above chart we note that only 15 respondents out of 232 were not in favour of the alternative banking system. These statistics could infer that there might be a potential for the alternative banking system in Mauritius. As shown in chart 4.13 below, 72% of the sample thinks the alternative bank would be fruitful in Mauritius.

**Alternative Bank will work in Mauritius**

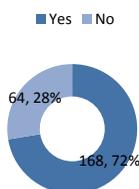


Figure 4.13: Potential of Alternative Bank in Mauritius (By Authors)

The responses to questions 7.7,7.8,7.9 and 7.10, reflecting the features of an IB; were tested and the results are shown in table 4.14.

	No uncertainty		Interest-free loans		No interest on savings account		Investment account with profit sharing	
	Count	%	Count	%	Count	%	Count	%
Agree (strongly agree + agree)	146	63	207	89.2	126	54.3	171	73.7
Disagree (strongly disagree + disagree)	86	37	25	10.8	106	45.7	61	26.3

Irrespective of religions, 63% of respondents preferred the alternative bank for not dealing with uncertainty showing that respondents are risk averse; 89.2% agreed to take interest-free loans and 73.7% would be tempted by investment account. As for savings account not offering interest the responses tend to be more symmetrical. Respondents value more the interest received on savings accounts than interest paid on loans and that respondents tend to value profitability.

Moreover, respondents were asked to rate the alternative concept. Table 4.15 shows the ratings grouped under three categories as follows:

Table 4.15: Evaluation of Alternative Banking System (By Authors)		
	Low (1-5)	High (6-10)
Count	67	165
%	28.9	71.1

71.1% of the sample considers that the alternative banking system will be fruitful in Mauritius. Hence this confirms that there is a local potential market for IB. The responses to question 15 supports this conclusion for 79% (183 respondents) of the sample would welcome an IB in Mauritius (see chart 4.16).

### Establishment of IB

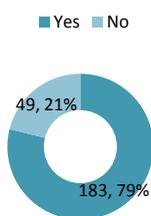


Figure 4.16: Establishment of IB in Mauritius (By Authors)

#### 4.1.5: Awareness and Attitudes towards IBF (Section D)

This section aimed at assessing the awareness of Mauritians towards IBF and evaluate the potential of IF in the country irrespective of religious beliefs.

- Knowledge Rate of IBF

Table 4.17 shows that only 20.3% of the sample have a proper knowledge about IBF; 38.4% scarcely knows IBF and 8.6% need to know while 32.7% don't have any knowledge about IBF.

	Count	%
Yes	47	20.3
Not much	89	38.4
No	76	32.7
Need to know	20	8.6

Furthermore, respondents were asked if they knew any financial institutions offering IF services and inevitably only 40% knows any (Figure 4.18).

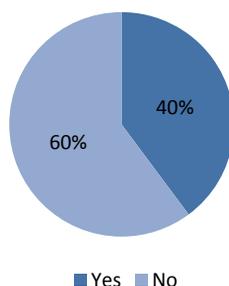


Figure 4.18: knowledge of any financial institution offering IF services (By Authors)

Only few respondents could identify any IB or IW operating in the country. The following institutions' names came out from the few responses.

- *Habib Bank Limited.*
- *Al-Barakah Multipurpose Corporative society.*
- *Century Banking Corporation.*

### Knowledge of IBF terms and concepts

A list of terms and concepts related to IBF were given to the respondents to assess their knowledge of it. The results obtained reflect the above conclusions that few Mauritians have a proper knowledge of IBF. The results are shown below (table 4.19). A mean approaching 0 would imply a higher degree of knowledge of the term/concept and a mean approaching 1 would imply a lower degree of knowledge.

The most popular IBF terms/concepts known to Mauritians are Interest free banking and Haram; followed by Sharia and Zakat. These 4 terms/concepts are the most known ones with a mean of below average. This can be explained by the fact that Mauritius is a multi-cultural country and that the terms are common ones to the Muslim religion. Beneath in the list are the terms/concepts singular to IBF, having a low degree of knowledge, which can be explained by the amount of respondents having a proper knowledge of IBF.

Statement	Mean	Rank
Interest free banking	0.34	1
Haram	0.38	2
Sharia	0.43	3
Zakat	0.49	4
Riba	0.61	5
Profit and loss sharing	0.69	6
Prohibition of trading in debt	0.72	7
Mudarabah	0.81	8
Prohibition of uncertainty	0.82	9
Musharakah	0.86	10
Partnership and joint stock ownership	0.86	11
Sukuk	0.87	12
Ijarah	0.91	13
Murabah	0.91	14
Ghirar	0.93	15
Istisna	0.96	16

## Equities

The Stock Exchange of Mauritius (SEM), plays a major role in the investment process. It operates 2 markets namely the official market and the Development & Enterprise Market (DEM); consisting of simultaneously 51 companies and 43 companies. These represent a market capitalisation of US\$ 5.6 billion for the Official market and US\$1.2 billion for the DEM. 60% of daily trading activities emanate from local investors.

In our study 18.1% of respondents held investments in equities. Likewise, IF also offers equity investments as far as they are in compliance with sharia. Respondents

knowledge about IF equities were gauged; and only 19% knew about sharia compliant equities.

To estimate the potential market of IF equities amongst Mauritians, the respondents were asked if they would invest in Islamic equities. Surprisingly 44% of the respondents intend to invest in Islamic equities. Thus we can conclude that there is potential for Islamic Equities in Mauritius since the equity market is an ever-growing one.

## 4.2: Cross Tabulations

### 4.2.1: Banking Activities

From the responses discussed in section 4.1.2, about the use of interest received by respondents, we can make further analysis to determine the perceptions of Muslims and non-Muslims to interest received and paid.

Religion	Interest Received									
	Used without distinction		Solely used		Not used		Don't receive any		Total	
	Count	%	Count	%	Count	%	Count	%	Count	%
Muslims	26	32.5	7	8.8	37	46.2	10	12.5	80	34
Non-Muslims	98	64.5	13	8.5	26	17.1	15	9.9	152	66
Total	124	53.4	20	8.6	63	27.2	25	10.8	232	100

From the above table we can notice that 53.4% of the sample use interest without making any distinction, out of these is 32.5% Muslims and 64.5% non-Muslims. 8.6% of the respondents used interest solely, of which 8.8% Muslims and 8.5% non-Muslims. 27.2% of the respondents claimed not using interest received on bank accounts and 10.8% claimed not receiving any interest. Out of these 46.2% Muslims and 17.1% non-Muslims claimed not using interest and 12.5% Muslims and 9.9% non-Muslims asserted not receiving any interest. The latter reveals that 62% of the sample were consuming interest, amongst which were 41.3% Muslims. 38% of the sample doesn't consume interest, including 58.7% Muslims, showing that the latter have a proper knowledge of the prohibition of interest in Islam.

With a Chi-square P-value of 0.000, we can conclude that religion has some repercussion upon the use of interest received.

We have noticed that 83% of the sample had not had recourse to debt financing (section 4.1.2), irrespective of religious beliefs. Further analysis shall determine the

relationship between religious beliefs and the reason for not taking loans as shown below (chart 4.21).

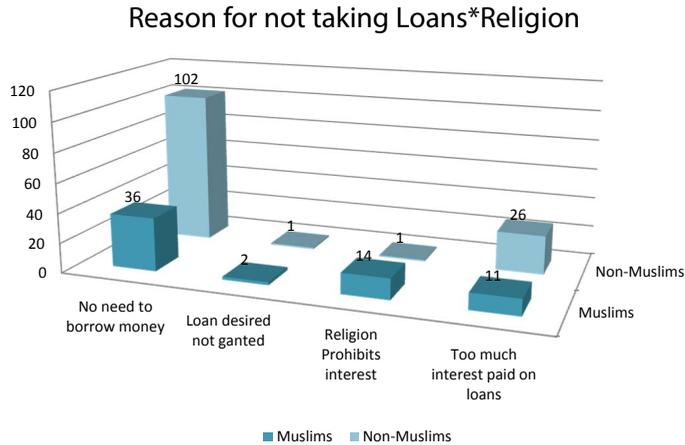


Figure 4.21: Reason for not taking loans\* Religion (By Authors)

We can also note that 15 respondents amongst which 14 are Muslims replied not having taken loans because of their religious beliefs, which postulates that these people strictly abide to the absolute restriction of interest as per the Sharia. Statistically, it can be concluded that there is a relationship between religion and the reasons why respondents abstain from taking loans (chi-square p-value= 0.000).

From the chart below (Figure 4.22), we can note that 17 Muslim respondents have contracted a loan and were paying interest on it. This indicates a misconception on the prohibition of interest from those Muslims.

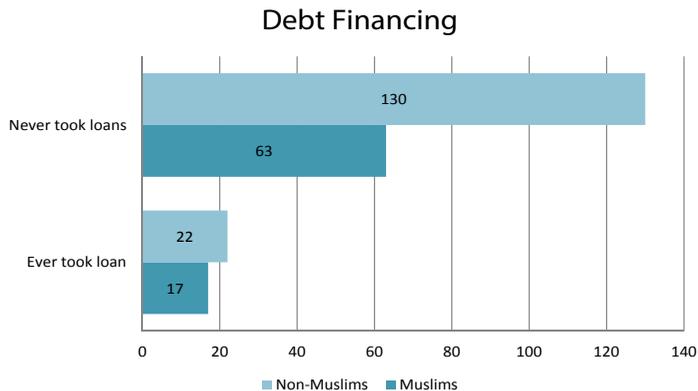


Figure 4.22: Debt Financing (By Authors)

Respondents were asked in the next question to rate from very important to not important their criteria for choosing a bank. It was noted that 79.7%(44.4% + 35.3%) respondents find it either very important or important to deal with banks offering higher interest on savings and 90%(53.4% + 36.6%) sharing the same opinion about paying lower interest on loans. 58.8% (28.8% + 30%) Muslims find interest received on savings either very important or important and 86.3% (58.8% + 27.5%) Muslims find paying lower interest charges on loans either very important or important in deciding to deal with banks. It can be concluded that Mauritians are more keen to save when it comes to higher returns while at the same time desiring lower interest on their borrowings. At the same time, we note that Muslims too do regard interest as an important criterion for choosing a bank. A small percentage (18.7% for interest received and 6.2% for interest paid), of Muslims strictly abide to Islamic principles on the absolute restriction of interest. Much importance is being given to interest in the country thus an IB shall offer competitive returns on savings and investments to attract customers, indifferent of their religions.

Religion			Muslims	Non-Muslims	Total
Higher Interest Received	Very Important	Count	23	80	103
		%	28.8	52.6	44.4
	Important	Count	24	58	82
		%	30	38.2	35.3
	Of Relative Importance	Count	18	11	29
		%	22.5	7.2	12.5
	No Importance	Count	15	3	18
		%	18.7	2	7.8
	Total	Count	80	152	232
		%	100	100	100
Lower Interest Paid	Very Important	Count	47	77	124
		%	58.8	50.7	53.4
	Important	Count	22	63	85
		%	27.5	41.4	36.6
	Of Relative Importance	Count	6	11	17
		%	7.5	7.2	7.4
	No Importance	Count	5	1	6
		%	6.2	0.7	2.6
	Total	Count	80	152	232
		%	100	100	100

Chi-square analysis revealed that religious beliefs influence the choice of both receiving higher interest on savings (p-value = 0.000) and paying lower interest on loans (p-value =0.021).

### 4.2.2: Alternative banking system

Discussions about the level of agreement of respondents about the scenario of the alternative banking system (section 4.1.4), shall be further analysed with respect to religious beliefs so as to determine the enthusiasm of Muslims and non-Muslims to the scenario.

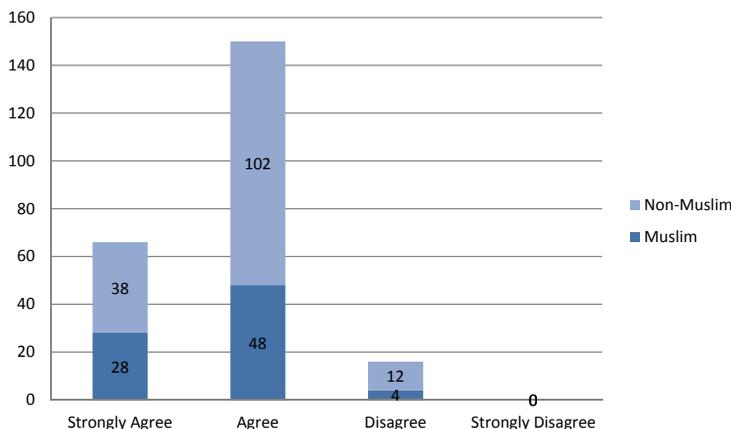


Figure 4.24: convenience of Alternative Banking (By Authors)

From the above figure we can note that 216 (38+28+48+102) respondents (out of 232), irrespective of their religious beliefs, strongly agreed and agreed, that the alternative banking system was more advantageous than the normal bank. From the Muslim population (80 respondents), we notice a high level of agreement since 95% Muslims agreed to the convenience of the alternative system. The alternative banking system, reflecting the features of an IB vis-à-vis a normal banking system, has its potential on the Mauritian market.

		Potential Movement		Account in both Banks	
		Count	%	Count	%
Strongly Agree	Muslims	29	12.5	24	10.3
	Non-Muslims	24	10.3	33	14.2

Agree	Muslims	43	18.5	42	18.1
	Non-Muslims	98	42.3	99	42.7
Disagree	Muslims	7	3.1	11	4.8
	Non-Muslims	29	12.5	19	8.2
Strongly Disagree	Muslims	1	0.4	3	1.3
	Non-Muslims	1	0.4	1	0.4
Total	Muslims	80	34.5	80	34.5
	Non-Muslims	152	65.5	152	65.5

The sample above consist of 34.5% Muslims and 65.5% Non-Muslims, as an approximate representation of the Mauritian population. From the above table, we note that 83.6% (12.5%+10.3%+18.5%+42.3%) of the respondents strongly agreed and agreed to move to the alternative bank irrespective of their religious beliefs and 85.3% (10.3%+14.2%+18.1%+42.7%) might concede to having an account in both banks. We can also note that only a small percentage of the respondents would mind dealing with the alternative bank.

Chi-square analysis revealed that religious beliefs would impact on the potential movement of respondents towards the alternative bank (P-value 0.002); while on the other hand showing no significance between religion and the desire of respondents to possess a bank account in both the normal and the alternative bank.

The following table shows the willingness of respondents to deposit their money in the alternative bank. 70.2%(15.5%+54.7%) of the sample are keen to depositing their money in the alternative bank out of which are 40.9%(6.9%+34.0%) non-Muslims and 29.3%(8.6%+20.7%) Muslims. There is significance between the desire to deposit money in the alternative bank and religion, which could edge investment potential to the alternative bank.

Table 4.26: Potential Depositor\*Religion (By Authors)

	Muslims		Non-Muslims		Total	
	Count	%	Count	%	Count	%
Strongly Agree	20	8.6	16	6.9	36	15.5
Agree	48	20.7	79	34.0	127	54.7
Disagree	11	4.8	57	24.6	68	29.4
Strongly Disagree	1	0.4	0	0	1	0.4
Total	80	34.5	152	65.5	232	100

From table 4.27 below we note that 16.4% and 46.6% of the respondents irrespective of their religions simultaneously strongly agreed and agreed that they prefer to deal with an IB because of no uncertainty. On the other hand, 32.3% and 4.7% simultaneously strongly disagreed and disagreed upon their preference to deal with an IB because of no uncertainty.

			Religion		Total
			Muslims	Non-Muslims	
Preference of IB because of no Risk	Strongly Agree	Count	20	18	38
		% within Religion	25.0%	11.8%	16.4%
		% within Total	8.6%	7.8%	16.4%
	Agree	Count	41	67	108
		% within Religion	51.2%	44.1%	46.6%
		% within Total	17.7%	28.9%	46.6%
	Disagree	Count	17	58	75
		% within Religion	21.2%	38.2%	32.3%
		% within Total	7.3%	25.0%	32.3%
	Strongly Disagree	Count	2	9	11
		% within Religion	2.5%	5.9%	4.7%
		% within Total	0.9%	3.9%	4.7%
Total		Count	80	152	232
% within Religion		100%	100%	100%	
% within Total		34%	66%	100%	

From the above table (table 4.27), we assert that 76.2% (25%+51.2%) Muslims are agreeable to deal with an IB because of no uncertainty while 23.5% (21.2%+2.5%) of them are not agreeable. As far as Non-Muslims are concerned, 55.9% (11.8%+44.1%) are agreeable while 44.1% (38.2%+4.7%) are non-agreeable to dealing with an IB because of no uncertainty. We can conclude that Muslims are more risk-averse than Non-Muslims since more Muslims would prefer dealing with a risk-less bank rather than a conventional one. Even though a higher percentage of Non-Muslims prefers dealing because of no uncertainty, we cannot conclude that Non-Muslims are risk-averse since the latter are almost equally agreeable and not agreeable. Further analysis shall be made to determine the riskiness of Muslims and Non-Muslims.

Chi-Square analysis showed that religion does have some impact upon the willingness of respondents to deal with an IB because of its risk-free nature (P-Value = 0.007).

### 4.2.3: IBF in Mauritius

Further analysis pertaining to the assessment of Mauritians towards IBF shall be carried out. This section would also consider the potential of IBF in Mauritius amongst Muslims and non-Muslims. Respondents were asked the reasons for which they would deal with an IB/IF Institution.

Table 4.28: Reason to deal with IB/IF institution\* Religion (By Authors)

Religious Belief		Reason					Total
		Better Returns	Both Religious Belief and Better Returns	No Idea			
R E L I G I O N	Muslims	Count	27	3	35	15	80
		% within Religion	33.75	3.75	43.75	18.75	100
		% within Reason	93.1	5.7	89.7	13.5	34.5
		% within Total	11.6	1.3	15.1	6.5	34.5
	Non-Muslims	Count	2	50	4	96	152
		% within Religion	1.3	32.9	2.6	63.2	100
		% within Reason	6.9	94.3	10.3	86.5	65.5
		% within Total	0.9	21.5	1.7	41.4	65.5
T O T A L	Count	29	53	39	111	232	
	% within Reason	100	100	100	100	100	
	% within Total	12.5	22.8	16.8	47.9	100	

Chi-square analysis postulates that indeed religious beliefs are influential upon the choice of dealing with an IB (p-value= 0.000).

77.5%(33.75%+43.75%) of Muslims would deal with an IB/IF institution because of their religious beliefs against 3.9%(1.3%+2.6%) non-Muslims. This shows that almost 3/4 of the Muslim population would be willing to invest in Islamic institutions. As such non-Muslims would tend to be more return oriented for 32.9% would deal with an IB/IF institution just for better returns while the majority of them (63.2%) have no idea of the reason they would deal with such an institution. It can be extrapolated that, those people having no idea of the rationale for dealing with such institutions, are unwilling to have such transactions. 47.9% of the total respondents are unwilling to deal with Islamic institutions, even though slightly inferior to half of the sample,

it is a considerable amount. IB/IF institutions shall attract such people to be able to survive in the financial industry. In the forefront we pointed out the attractiveness of Mauritians to better returns, which could be a useful tool for IF institutions to attract potential customers. Informative advertising campaigns shall be carried out to sensitise the population about the operations and advantages of dealing with an IF institutions.

### 4.3: Hypothesis Testing

So far analysis has been done with the aid of cross-tabulations and consequently conclusions have been drawn. The need to support some conclusions with the help of hypothesis testing, arises.

#### 4.3.1: Hypothesis

According to the Oxford learner's dictionary, a hypothesis can be referred to as presumption made upon absolute facts for the purpose of investigation. After the null hypothesis ( $H_0$ ) has been devised, a mutually exclusive conjecture to the null hypothesis has to be formulated. The alternative hypothesis ( $H_1$ ) must accommodate for all surrogate outcomes.

Due to the categorical nature of variables, for this study only non-parametric statistical tests were used. The Mann-Whitney U test and the Wilcoxon W were used in this section. Mann-Whitney U, alike the Wilcoxon W, tests that 2 samples population are mutually exclusive. A small P-value ( $<0.05$ ) would indicate difference in the 2 samples while at the same time a significant value ( $>0.05$ ) would denote similarity in the 2 samples.

#### 4.3.2: Hypothesis Testing

- 0  $H_{01}$ : There is a significant difference between awareness of Muslims and Non-Muslims about IB.
- 0  $H_{11}$ : There is no significant difference between awareness of Muslims and Non-Muslims about IB.

In table 4.29 below, the asymptotic significance value (0.000) demonstrates that there is no difference in awareness between the 2 groups. Since a small P-value ( $<0.05$ ) indicates difference in attitudes, the alternative hypothesis  $H_{11}$  is accepted. This could be reinforced with analysis made from table 4.18 whereby only few respondents had any knowledge about any institution offering IF services in the island. However, since both groups seem to be unaware of IBF in Mauritius, proper informative advertising campaigns shall be carried out.

Table 4.29: Test statistics (a) (By Authors)	
	Awareness about IBF
Mann-Whitney U	4464.000
Wilcoxon W	7704.000
Z	-3.918
Asymp. Sig (2-tailed)	0.000
a. Grouping variable: Religion	

- 0  $H_{02}$ : There is a significant difference in knowledge of IBF between Muslims and Non-Muslims.
- 0  $H_{12}$ : There is no significant difference in knowledge of IBF between Muslims and Non-Muslims.

From previous analysis made from table 4.17 we found out that the 2 groups lack proper knowledge about IBF. The asymptotic significance value of 0.000 (<0.05) in table 4.29 below supports the fact that there is no significant difference in knowledge of IBF between the 2 groups. Thus the null hypothesis  $H_{02}$  was rejected and alternative hypothesis  $H_{12}$  was accepted bearing the fact that both groups lack proper knowledge. Thus making it imperative to have an informative campaign.

Table 4.30: Test statistics (b) (By Authors)	
	Knowledge rate of IBF
Mann-Whitney U	3804.00
Wilcoxon W	7044.00
Z	-4.939
Asymp. Sig (2-tailed)	0.000
a. Grouping variable: Religion	

- 0  $H_{03}$ : Muslims are more keen than Non-Muslims about the settlement of an IB in Mauritius.
- 0  $H_{13}$ : Muslims are more keen than Non-Muslims about the settlement of an IB in Mauritius.

With asymptotic significance value of 0.000 (<0.05) as shown in table 4.30, the null hypothesis  $H_{03}$  is rejected as no distinction is made between the 2 groups pertaining to the

settlement of an IB in Mauritius. Both groups would welcome the establishment of an IB in the country. This confirms the conclusions made from chart 4.16 that irrespective of religious beliefs, respondents are agreeable to the settlement of an IB in Mauritius. This shall also create more competition in the financial section, rendering it more efficient.

Table 4.31: Test statistics (c) (By Authors)	
	Establishment of an IB in Mauritius
Mann-Whitney U	4700.00
Wilcoxon W	7940.00
Z	-4.017
Asymp. Sig (2-tailed)	0.000
a. Grouping variable: Religion	

- 0  $H_{04}$ : There is a significant difference between Muslims and Non-Muslims as potential Islamic Equities investors.
- 0  $H_{14}$ : There is no significant difference between Muslims and Non-Muslims as potential Islamic Equities investors.

Recall from section 4.1.5 that only a small percentage of the sample held investments in terms of equities and that 44% of the sample intended to invest in Islamic equities, which proved a less than proportionate potential for Islamic Equities compared to conventional securities.

The asymptotic significance value (table 4.32) of 0.000 ( $<0.05$ ) proved that there is no significant difference between Muslims and Non-Muslims in terms of potential investors in Islamic Equities. This has shown that respondents irrespective of their religious beliefs are keen to investment in Islamic Equities thus the alternative hypothesis  $H_{14}$  was accepted.

Table 4.32: Test statistics (d) (By Authors)	
	Potential Investors in Islamic Equities.
Mann-Whitney U	3432.00
Wilcoxon W	6672.00
Z	-6.339
Asymp. Sig (2-tailed)	0.000
a. Grouping variable: Religion	

As a matter of fact, an IB willing to set up in Mauritius shall target both Muslims and Non-Muslims as potential clients. Irrespective of their religious beliefs, respondents have shown that religious beliefs are not the most important criterion for dealing with a bank. Mauritians are rather more enthusiast about better returns and good and efficient services.

- 0  $H_{05}$ : Males rather than females significantly prefers to deal with an IB because of no risk.
- 0  $H_{15}$ : Males rather than females do not significantly prefer to deal with an IB because of no risk.

Following the conclusions that religion does have an impact upon riskiness of respondents we shall now conduct further analysis to determine whether gender has an impact upon riskiness of respondents.

From the following table 4.33, we clearly see that gender does t affect the preference of respondents to deal with an IB because of its risk-free nature.

Table 4.32: Test statistics (e) (By Authors)	
	Riskiness of respondents.
Mann-Whitney U	6007.00
Wilcoxon W	13757.00
Z	-1.456
Asymp. Sig (2-tailed)	0.145
a. Grouping variable: Gender	

Thus conclusions can be drawn that the null hypothesis is accepted ( $p\text{-value} > 0.05$ ) and that males prefer to deal with an IB for its risk-free nature rather than females.

## 5.0 Conclusion

This study has demonstrated the low awareness of Mauritians irrespective of their religious beliefs concerning an alternative banking system, that is IBF. However, we also established the likely prospect of IBF in Mauritius. Theories, in chapter 2, showed the benefits of introducing an alternative financial system in Mauritius, yet much incentive are needed from the government. Reasonable grounds, pertaining to the achievement of macroeconomic objectives, have been given for the settling of an IB in Mauritius. Besides, an IB shall boost the Mauritian financial sector to new heights with the latest developments.

Empirical evidence of the implications of having an IF sector has been highlighted in this study to break through the potential of IBF in Mauritius. Inductive results showed the level of acceptability of an alternative financial system for Mauritians without neglecting Non-Muslims, which forms the majority of the Mauritian population. The paper also lightened the arguments to consider before settling an IB in Mauritius. Moreover, this study also showed us the misconceptions of Mauritians, especially Non-Muslims, about IBF. An IB could benefit widely from regional agreements and would have scope for expansion if settled in Mauritius and at the same time boosting the Mauritian financial economy. Furthermore, this paper shed light upon legal reforms to be undertaken for a prospering IF sector, such as the establishment of an IBFSC, IBFSA and SSB.

### **Recommendations**

According to Porter (1990), a country's national Prosperity is built by its capability to originate and enhance. The last decennium has shown the emergence of Mauritius as a trustworthy, secure and a convenient destination to conduct business. It is now amongst the most ambitious economies in the world and benefits from low taxes as well as high standards of global practices. With its crucial location in the Indian Ocean, Mauritius has been characterised as a leading global financial centre. The financial services market remains one of the pedestal features of the Mauritian economy. To maintain its ambitious margin, Mauritius need to continuously innovate through the setting of new legislations and supervision. Mauritius is considered an arch for investment in Asia and Africa. Mauritius aims at improving its scope for financial services and came up with more sophisticated products.

In our study we found that respondents are keen to dealing with an IF institution although it hauls a religious allusion. 72% of respondents thought that the alternative system would work in Mauritius, depicting the potential market for an IB in the country. An IF institution willing to set up its operations in Mauritius, shall be concerned about being competitive in returns, since we found out that respondents were much concerned about returns. To boost the demand for IF products, a proper information and propagation campaign shall be carried out targeting the whole population since we found that attitudes towards IBF do not contrast between religions. This shall also clear the misconceptions of Mauritians about IBF and illustrate the activities of the firm with appropriate attention to the elementary concepts, since results proved that there was a misconception about the prohibition of both interest received and paid amongst Muslims and an absolute lack of knowledge amongst respondents irrespective of religions.

The Ranked selections shall be noteworthy to potential IB since it points out the fundamentals that respondents want in a bank. ‘Confidentiality’ and ‘Efficient services’ are the top requirements. A potential IB shall have a good reputation for its confidentiality and provide adequate services to be able to secure the market. Though very competitive, an IB shall provide extra facilities to seize funds, to avoid liquidity risk, such as equity financing like mutual funds and unit trusts which are sharia compliant.

As shown by Dr Al-Jarhi (2002), IF could favour macroeconomic enhancements, such as efficiency, stability and growth. IF could be an optimal mode of financing for government agenda. Providing flexible laws to attract IF institutions to settle in Mauritius could be a win-win situation for the government to achieve its macro-economic policies and reduce unemployment. Mauritius could be a good platform for the externalisation of IBF since it is party to various regional trade agreements such as double-taxation treaties and free-trade agreements.

The setting of a contemporary financial system in an existing one would be arduous although some conventional banks are already operating Islamic windows in the island. IBF has its own specificities and international Islamic laws could be used as a parameter, to alter existing local laws to adapt for IBF.

## **5.1: Recommendations**

### **5.1.1: Islamic Banking and Financial Services Act (IBFSA)**

An IBFSA shall be the solution to the removal of legal barriers hindering the establishment of an IF institution in Mauritius. The Act shall institute all constitutional legal requirements for an IF institution to operate and its duties and responsibilities. The Act shall cater for licensing procedures, share interest, sharia and corporate governance, insurance and exchange controls. The Islamic Financial Act of Malaysia could be used as guidelines for adopting such an Act in Mauritius. The Banking Act shall remain the main act for banking and financial institutions.

### **5.1.2: Islamic Banking and Financial Services Commission (IBFSC)**

An IBFSC would portray the regulatory body of an IF institution. It would be responsible for the supervision, licensing and monitoring of the IF sector, alike the FSC for the non-banking financial sector. It shall protect the integrity and stability of the IF sector of Mauritius under the rulings of the IBFSA. The IBFSC by being the licensing authority of IF institutions would alleviate the responsibilities of the central bank.

### **5.1.3: Sharia Supervisory Board (SSB)**

The SSB shall act as the supervisory authority ensuring compliance with the IBFSA for both conventional banking businesses offering IF services and IF institutions offering IF solely. The SSB would control both the Central bank (regulator of Banking Business in Mauritius) and the IBFSC. This could alleviate the responsibilities of the central bank as far as the supervision of IF is concerned.

The following diagram illustrates the new banking and financial services structure under the proposed set of policies:

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