

Examining Awareness regarding Islamic Banking among Business Graduates in Bangladesh

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Abstract

Islamic finance is a form of ethical investment and ethical lending. Under this system, loans and investments are made without interest. At the heart of Islam is a sense of cooperation — helping one another according to principles of goodness and piety (and not cooperating in evil or malice). At present, though of solid presence of Islamic banking in Bangladesh, there is no way to ignore the fact that, still there is a great deal of misconception about doing banking in islamic way. Due to lack of proper understanding of conceptual framework of Islamic banking, there exist skeptical views in general people, and as well as in business graduates also. This survey proves the reality. The survey found that, the awareness level of Islamic Banking and Finance (IBF) among business students is quite inadequate and in some cases, far away from real concepts. This is primarily caused by very insignificant presence of IBF in their academic curriculum. Despite their poor knowledge or perception of IBF, most of the students are found to be very interested in knowing about it. So, this report recommends all business educational institutes to come forward in offering courses and other programs, in any format, in order to uplift the general level of awareness among the future bankers of the country and thus engage in catering the demand of huge number of Islamic bankers for our fast growing Islamic banking industry.

Key Words: *Islamic Banking, Awareness Level, Educational institutions, Business Students, Riba, Conventional Banking, Difference, Ethical banking, Interest-free banking.*

1. Introduction

For an expanding economy, a developed and efficient banking system is indispensable. The role of banking is comparable to what an artery system does in the human body. Nevertheless some economists consider the role of interest in the conventional banking mechanism as a major negative factor that contributes to cyclical fluctuations in the economy. In response, though not exactly to that exigency but for quite a few other reasons, the second half of the twentieth century witnessed a distinctly separate line of thinking on banking called Islamic Banking.

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Islamic Banking can be categorized as a form of ethical investment and ethical lending. Under this system loans and investments are made without interest. Ethical restrictions include prohibition on alcohol and gambling and the consumption of pork. Islamic funds never knowingly invest in companies involved in gambling, alcoholic beverages, or porcine food products. Elimination of “*Riba*” or interest is basic in all forms of Islamic financial system.

At the heart of Islam is a sense of cooperation — to help one another according to principles of goodness and piety (but not to cooperate in evil or malice). In essence, Islamic finance and banking aims to eliminate exploitation and to establish a just society through application of *Shari’ah* or Islamic law while operating banks and other financial institutions. To ensure compliance to *Shari’ah*, Islamic banks use the services of religious boards comprised of *Shari’ah* scholars. Its practitioners and clients need not to be Muslims, but they must accept the ethical restrictions underscored by Islamic values.

Having only one Egyptian-based Islamic bank existed in 1975, the total assets of all the banking and non-banking financial services being offered in Islamic mode throughout the world would be now in the range of \$ 800 billion to \$1 trillion. This phenomenal growth is a strong evidence of demand from people for this particular type of banking.

Islamic banking and finance (IBF) started its journey in Bangladesh since 1983 with the initiation of Islamic Bank Bangladesh Limited (IBBL). Since it’s coming into operation in Bangladesh, this industry flourished in a very high growth rate.

A great deal of study has been conducted on operational challenges and performance of islamic banks in Bangladesh. Despite its solid presence, one must admit the present fact that, still there is a great deal of misconception and skeptical views regarding doing banking in islamic way among general people, and more sadly among our business graduates, graduating every year. In this research work, a survey was conducted among final year students or fresh graduates from business faculties in different business institutions.

1.1 Objective of the study

The objectives of the study are to know the following points:

- How our business students studying at undergraduate and masters level see the whole concept of interest free banking, both in terms of theory and practices;
- To what extent our universities are helping their students in getting necessary exposure in IBF;
- How much our students are interested to know about Islamic Banking.

1.2 Definition of concept:

It is important for people to see that Islamic banking gives a tangible form to its religious ideology. Most of the times, clients of Islamic banks find it difficult to understand the real underlying differences between Islamic and conventional banking. Because, of the sudden popularity of Islamic banking throughout the world, it is evident that, many conventional banks are trying to somehow introduce ‘islamic’ products and services or trying to transform its conventional operation into ‘*shariah* compliant’ banking with minimal effort, out of intention of capturing client base, not out of their strong conviction towards Islamic fundamentals. Thus are being created many products and services which are ‘*shariah* compliant’ in form but not in substance. These products might be the causes of the skeptical views general people hold regarding Islamic banking. But, on the other hand, it also cannot be ignored that, lack of initiatives from both banks as well as universities for building up knowledge and awareness regarding principles of Islamic banking plus the nature of offered products & services by our banks is a major reason why general people cannot comprehend the difference.

While Islamic banking has gained popularity in Bangladesh, most of the studies and researches in the context of Islamic banking have so far focused on comparative financial performance of banks and legal issues (e.g., Ahmad, & Hassan, 2007; Ahmed, Rahman, & Ahmed, 2006; Alam, 2000; Hassan, 1999; Sarkar, 1999). The issue of customer awareness level has hardly received any attention. A good number of surveys and research in other countries shows the fact that the level of know-how regarding IBF is really at a very poor level almost irrespective to countries where these studies were actually done. This study is an effort to address the gap, though for the time being is only limited to fresh graduates or final year university level students.

1.3 Scope of the study

As explained earlier, this study was only limited to fresh graduates or final year business students of both bachelor and masters level studying at different private as well as public universities in Dhaka.

1.4 Limitation of the study

The report has the following limitations-

- As this study targeted only business students based in Dhaka for survey, the findings may not be applicable in drawing any conclusion or any assumption regarding the general people of Bangladesh.

- The data collection period lasted from mid March to mid May. Therefore, the applicability of the information gained may not last long due to the ever changing scenario of banking industry.

1.5 Data Collection

Both the primary and secondary information were used to make the report more meaningful and presentable. The details of these sources are given below:

Primary Sources:

- Usable data (n ~ 550) was collected from a survey of around 600 graduate and undergraduate students, mostly of business administration from different public and private universities and colleges in Dhaka.
- To get a representative cross-section of the business students, BBA & MBA students of around 20 colleges and universities were interviewed.

Table 2: List of Institutions

| # | Name of Institution | # | Name of Institution |
|---|--|----|---|
| 1 | Asian University of Bangladesh | 10 | Manarat International University (MIU) |
| 2 | Bangladesh Islamic University (BIU) | 11 | Military Institute of Science and Technology (MIST) |
| 3 | BRAC University | 12 | Northern University |
| 4 | Dhaka College | 13 | North South University (NSU) |
| 5 | Dhaka University | 14 | Stamford University |
| 6 | East West University | 15 | State University of Bangladesh (SUB) |
| 7 | Eden University College | 16 | Titumir College |
| 8 | International Islamic University Chittagong (IIUC) | 17 | United International University (UIU) |
| 9 | Jahangir Nagar University | 18 | University of Liberal Arts of Bangladesh (ULAB) |

Table 2: Profile of Respondents

| Demographic factors (Total # of respondents: 500) | | |
|--|-----|-----|
| Educational Background | 193 | 307 |
| Level of Education | 331 | 169 |
| Gender | 370 | 130 |
| Religion | 470 | 30 |

- In the survey, total of 50 samples were not completed properly and were excluded, leading the sample size at 500. The sample breakdown is presented in Table 02.

Secondary Sources:

- Websites of different international and local institutions related to Islamic banking and finance
- Various book, articles etc.

2. Literature Review

It was found by Omer (1992), from a survey on 300 Muslims in UK, that the preference for Islamic over conventional finance increases with the level of religious commitment and education.

Another study by Shah (2010) compares the consumers' preferences towards Islamic and conventional banking using five identified factors namely promotion, customer service, pricing, accessibility and service quality. The findings show that there are 3 significant factors which are promotion, convenience and service quality. However, only promotion and convenience factors contribute positive significant to the Islamic banking preferences. The study also shows that consumers prefer to have conventional banking because of its service quality.

A study done by Khan, Hassan & Shahid (2007) found respondents to possess a high level of education (29% having a bachelor degree and 44% with either a Master or a PhD degree). Only 17% of the respondents have education at or below high school level. In a similar study in Bahrain, researchers (Metwa & Almassawi, 1998) also found a very small portion (only about 5%) of their sample falling below 'high school' category. However, the concentration of respondents in that study lied in 'high school' and 'college/bachelor' category.

Haron, Ahmad and Planisek (1994) noted that although there was a high level of awareness of Islamic products, there was a poor understanding of the differences between Islamic and conventional banking, as well as weak knowledge regarding Islamic products and services. That study found, almost 40% of customers chose islamic banking solely from religious preference. Nasser, Jamal, and Al-Khatib (1999) surveyed 206 bank customers on Jordan and found a very high level of ignorance regarding *shariah* compatibility and structures of some products offered by islamic banks. More than two thirds (~70%) of the respondents admitted that religious preference was one of the prime motivations for choosing islamic banks. Study by Metawa and Almassawi (1998) revealed almost the same figures whereas Gerrard and Cunningham (1997) found that figure to be nearly 25%.

From study on Malaysian Commercial bank customers, Hamid and Nordin (2001) noted a high awareness of Islamic banking but poor self-reported knowledge of specific Islamic products, including poor understanding of the difference between Islamic and conventional banking. In another study of Malaysian commercial customers and their views of Islamic financial services, Ahmad and Haron (2002) noted that 65% of the respondents admitted to having limited knowledge of Islamic banking.

It is undeniable that a greater understanding regarding the awareness level of Islamic concepts of banking in both the bankers and the customers is important for promoting the industry to more solid position. Customers in most cases, due to poor knowledge in IBF, try to understand Islamic products in terms of attributes of conventional products. And thus, the more similar an Islamic product is to any conventional product the more it becomes popular. This is one of the prime reasons for which many of the Islamic products/modes of financing are not flourishing in expected growth rate. Apart from this, this is also very vital that our bankers have depth conceptual knowledge in IBF for continuous innovation and structuring of *shariah* compatible products fulfilling different banking needs of clients.

The studies mentioned in this chapter were mostly limited to customers/consumers of banking services and thus were conducted primarily to measure the awareness level in service-receivers. In order to grasp the picture in totality, same studies need to be conducted on different levels of executives working in Islamic banks, as well as, on

future bankers – graduates aspiring to take banking as career. This study is such an effort to address that gap taking business graduates (both undergrad and masters level) from a good number of public and private business schools in Dhaka as our respondents and thus, unique in its nature.

3. Survey Findings

To examine the awareness level of Islamic Banking and finance, this survey of about 500 students from different private and public universities was conducted. The questionnaire was prepared with consultation with academicians and experts. It covers a number of areas. Graphical overview of the findings from the survey is presented in the appendix.

The survey hardly found any gap with respect to perception about IBF among undergraduate and masters students. Finance graduates are of better position than nonfinance graduates as far as IBF knowledge is concerned. Male candidates showed more awareness level than to their female counterparts. Muslims showed much more positive attitude towards IBF than to their non-muslims counterparts.

Only 25% of the respondents believe that, IBF is fundamentally and principally different from conventional one. But, one third of them have no clear idea about what the actual differences are. Sadly, 20% respondents, both of males and females, opined that, IBF is just nothing but another way of attracting customers. One fourth of the respondents believe that, the difference between IBF and Conventional banking is very minor in nature.

More than 50% of the respondents are aware that all sorts of interests are prohibited in islam. Rest of them either are not sure about what islam says about interest or have doubt regarding practicality of its prohibition. Respondents partially, if not strongly, agree that the industry of IBF has reached to such a level as to be regarded as an attractive career path.

On an average, around 20% of the respondents showed their confidence on islamic banks regarding their ‘interest free’ banking services. Another one fifth of respondents showed their plain doubt whether those services are ‘interest free’ at all.

One, out of every three graduates, was found very enthusiastic to learn about IBF. On an average, 50% of the students said that IBF is not covered at all in their academic syllabus and another 30% of the respondents said that though islamic banking, to some extent, was taught as part of their academic syllabus, that, they think, was not quite near to as expected. 80% of masters level students are found discontented about their academic syllabus with respect to IBF while the figure is 75 for undergraduate students. More than 40% of the respondents opined that they would certainly avail any opportunity of learning IBF in any format if offered.

4. Recommendations

From the findings of the survey, we can summarize the following three things:

- The awareness level of IBF among business students is poor.
- This poor awareness level is mostly caused by very insignificant presence of IBF in their academic curriculum.
- Despite their poor knowledge or perception of IBF, most of the students are very interested to know about it.

So, this study recommends that all business educational institutes particularly Bangladesh Institute of Bank Management (BIBM), should come forward and offer courses and training programs targeting general people and students in order to uplift the general level of awareness among the future business leaders of the country. Such initiatives would enable the graduates to diversify their opportunities and render effective contribution in Islamic banking industry of our country. Our graduates would be able to compete not only in Bangladesh but also in the very promising industry of Islamic banking in other parts of the world, like, UK, Middle Eastern countries, Australia etc. Surely such initiatives from BIBM would also inspire other educational institutions and universities for revise their curriculum so as to provide their students with sufficient skills and knowledge required to work in industry.

5. References

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6. Appendix: Graphs and Charts

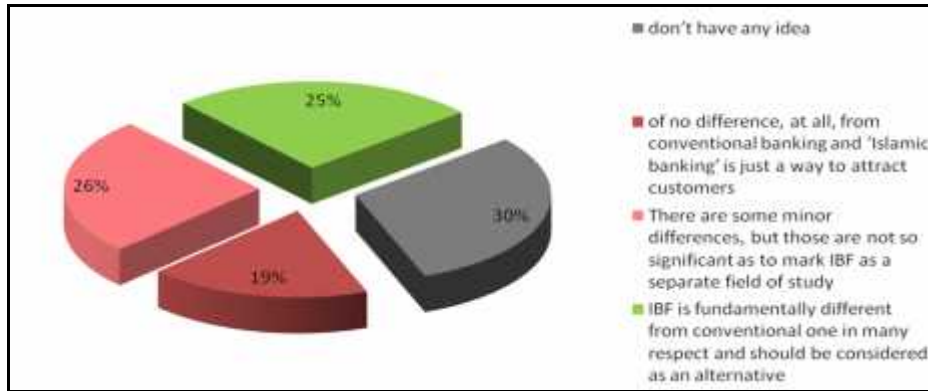


Figure 1: Perception regarding differences between Islamic and Conventional Banking

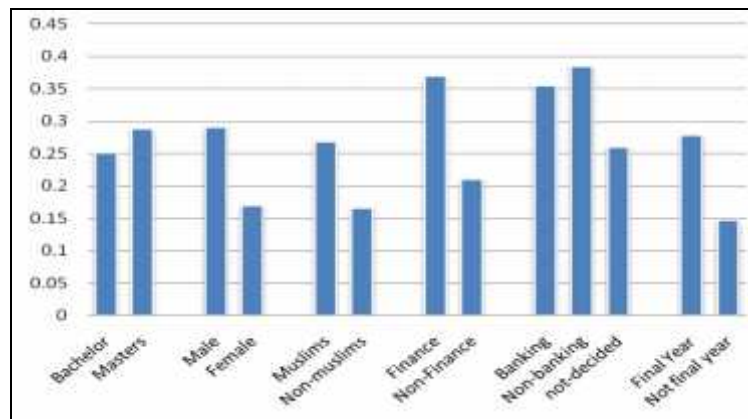


Figure 2: Is IBF fundamentally different from conventional banking?

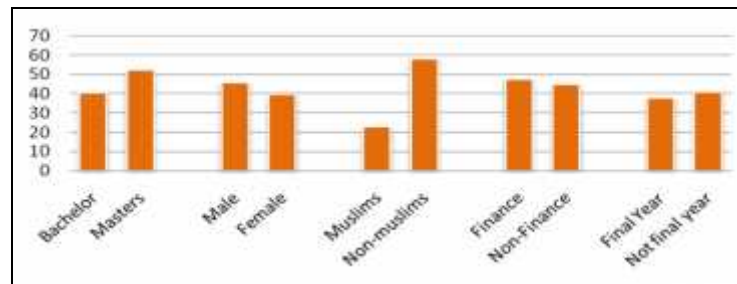


Figure 3: Are the claims of interest free services by IBs just for attracting customers?

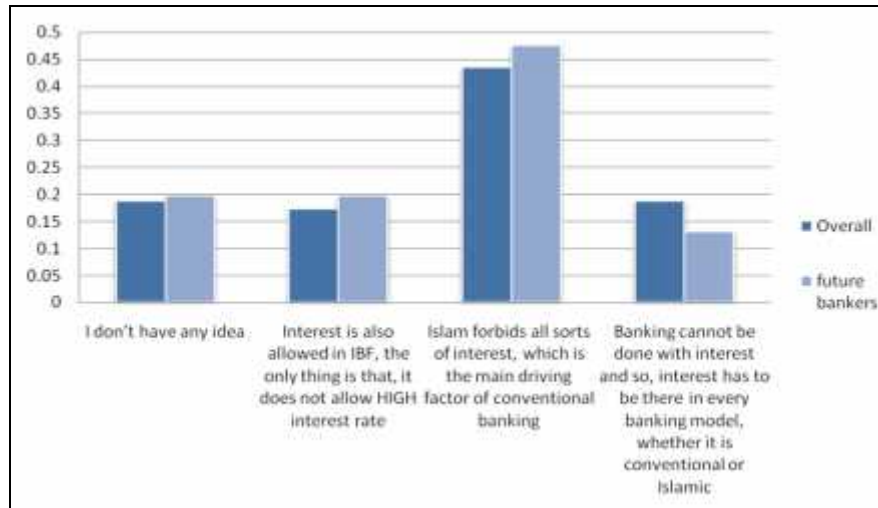


Figure 4: To what extent Riba is prohibited in Islam?

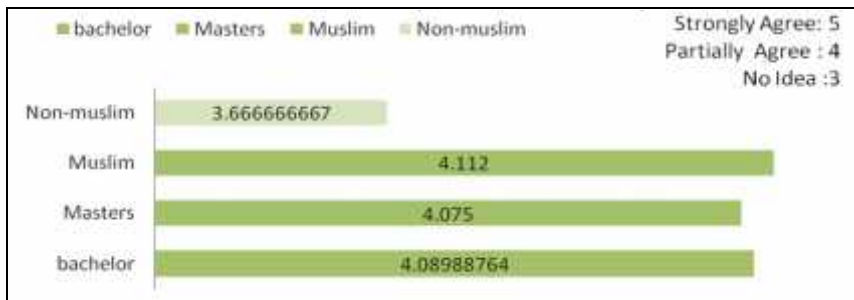


Figure 5: Do you consider IBF as a career path

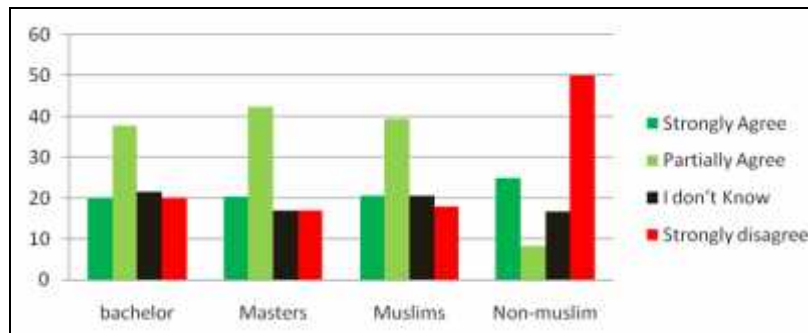


Figure 6: How much practical the concept of complete ‘riba free banking’ is?

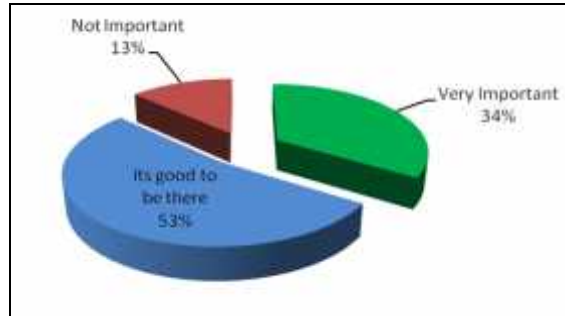


Figure 07: Do you feel that each graduate should have proper knowledge about islamic banking?

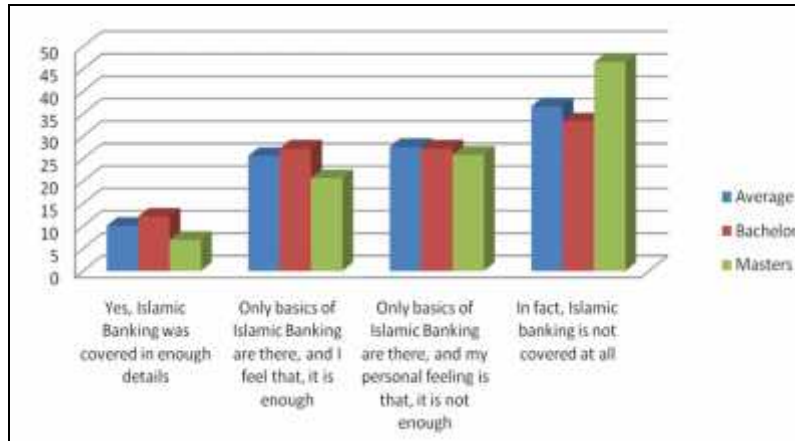


Figure 08: To what extent Islamic banking ia covered in your academic syllabus?

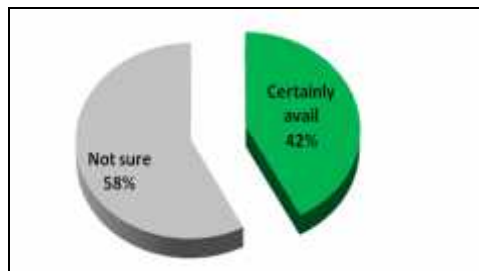


Figure 09: Are you interested about a course for IBF ?