

LITERATURE REVIEW ON THE KNOWLEDGE OF ISLAMIC BANKING PRODUCTS AMONG MUSLIM ENTREPRENEURS

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ABSTRACT

This article discusses sources that are related to knowledge, religiosity, perceptions and underlying principles of Islamic banking towards the Islamic banking products that offered for Muslim entrepreneurs. Some previous researches and documents related topics to this study are referred to especially on knowledge of Islamic banking products, understanding of the underlying principles, religiosity factors, and Perception toward the Islamic banking. Researchers found Muslim and non-Muslim alike have knowledge on Islamic bank product. Sources of knowledge in Islamic bank products are mainly from television, newspapers, family members, magazine, and radio. Respondents aware the difference between Islamic and conventional banking. Findings on a research shows a low percentage in the knowledge of Islamic banking products. A research conducted in UEA found that Muslim students are more interested and knowledgeable in Islamic banking as compared to non-Muslims. In Pakistan Muslim community eager to take financial products and willing to spend their lives according to Shariah. For entrepreneurs, it was found that understanding towards Islamic SME's financing are considerably well and the respondents understand the importance of practicing and applying Islamic financing towards their business. Study in Malaysia shows knowledge on Islamic Banking system were posed because Islamic banking products have not been understood by customers due to lack in from the institutions. Promotions on Islamic banking are still low resulting insufficient knowledge of Islamic banking products. Underlying principle is the most important factor that affects the level of product knowledge among the Islamic bankers. Shariah has recognized some elements that need to be avoided in any such transaction namely; the prohibition of *Riba*, *Gharar* and *Maisir*. Another principle that underlies under the Islamic banking is in terms of a basic freedom to enter into any kind of business or transaction which is *halal* or permissible in Islam. Applying certain products based on Islamic contracts are crucial to eliminate usurious systems and ensure compliance with three main ; *halal* spending, *halal* earning and equitable distribution of wealth. The *aqad* (contract) needs legal documentation and considered the root of an Islamic banking transaction. Valid contracts consist of several elements to make them lawful from Shariah point of view. Other than that the Shariah board becomes a vital component in Islamic Finance Institutions (IFIs).

INTRODUCTION

This article discusses relevant documents such as journals, books and other sources that are related to knowledge, religiosity, perceptions and underlying principles of Islamic banking towards the Islamic banking products that offered for Muslim entrepreneurs. The author reviews some of previous researches and documents related topics to this study especially on :

- i). Knowledge of Islamic banking products.
- ii). Understanding of the underlying principles.
- iii). Religiosity factors.
- iv). Perception toward the Islamic banking.

KNOWLEDGE OF ISLAMIC BANKING PRODUCTS

Islamic banking industry had appeared as one of the fastest growing sectors over the last few decades. It has extended to all places of the world and has gained extensive identification by Muslim and non-Muslim.

Haron, et al., (1994) had conducted a study among Muslim and non-Muslim Customer. They found out that source of knowledge in Islamic bank product among the Muslim are from mainly television, newspapers, family members, magazine, and radio. Hence, his review found that 63% of respondents know the difference between Islamic and conventional banking. The research conduct by Hamid and Nordin (2001) have expressed their findings that 96.7% of respondents were aware of their banking Islam in Malaysia and obtained a low percentage in the knowledge of Islamic banking products.

Osman and Ali (2008) had conducted a study on Muslim entrepreneur knowledge and usage of Islamic finance. Their study focused on the level of knowledge among entrepreneurs towards Islamic financing to the SMEs. Their findings reveal that Muslim entrepreneurs understanding towards Islamic SME's financing are considerably well and the respondents understand the importance of practicing and applying Islamic financing towards their business.

Bley and Kuehn (2004) focused on students' knowledge and perception towards conventional and Islamic finance in United Arab Emirates (UAE). This study examined the elements of financial knowledge, religion and language and it was found that Muslim students are more interested and knowledgeable in Islamic banking as compared to non-Muslims. This was supported by Khan and Asghar (2012) had conducted a study regarding to the Islamic banking and financial service knowledge in Pakistan and it was found that there are greater opportunities in this country for the development and growth of Islamic financial system since Muslim community themselves eager to take financial products and willing to spend their lives according to Shariah. This study found that more than 50 percent of the respondents agreed where the Islamic banking and financial service have proper knowledge of the teachings of Islam.

However, Ahmad and Haron (2002) found the knowledge among respondents in the Islamic Banking system were posed because the Malaysian corporate customers stated that providers of Islamic banking products have not done enough in educating customers and marketing their products. This support by Doraisamy, et al., (2011), the promotion about Islamic banking still low in Sungai Petani and the effect is people's insufficient knowledge of Islamic banking product system.

As one of the most important players in the service industry nowadays, it has appeared as one of the fastest growing industry all over the globe. Therefore, the knowledge of the Muslim entrepreneurs in Islamic SME's financing is considerably well and the respondents understand the importance of practicing and applying Islamic financing towards their business (Osman and Ali, 2008).

UNDERSTANDING OF THE UNDERLYING PRINCIPLES

The understanding of underlying principle is the most important factor that affects the level of product knowledge among the Islamic bankers because the principle of the Islamic banking itself that makes it differentiate with the conventional banking system (Harun, 2014). In addition, the factor influencing of knowledge for underlying principles good for that Islamic Banking and financial service have proper knowledge of the teachings of Islam and

works accordingly Shariah and that Islamic Banking and financial service have proper knowledge of Shariah and works accordingly underlying principles (Khan and Asghar, 2012).

Based on Ayub (2007), Islamic law does not recognize any transaction that have a proven unlawful. Due to this factor, Shariah has recognized some elements that need to be avoided in any such transaction for instance the prohibition of *Riba*, *Gharar* and *Maisir*. The prohibition of *Riba* can be found clearly in the Quran from various verses. For example in al-Quran:

"That which you give as Riba to increase the people's wealth increases not with God; but that you give in charity, seeking the goodwill of God, multiplies manifold,"
(Translation, Surah al-Rum verse 39:)

In addition, according to Ahmad and Hassan (2007) the absolute prohibition of *Riba* in Quran is a command in order to develop an economic system which free from the elements of exploitation, injustice between the financier and the entrepreneur. Therefore, the relevance for this prohibition is to create equity balances among the parties involved in the transaction. According to Ab.Ghani and Kamri (2008), as Muslim entrepreneurs, capital business needs to be ensured taken from halal sources and independent of elements of laptop to get the blessings of Allah in this world and the hereafter.

Another principle that underlies under the Islamic banking is in terms of a basic freedom to enter into any kind of business or transaction which is *halal* or permissible in Islam. Ayub (2007) had identified that exchange is only permitted when carry out in permissible commodities and follow the guides that laid down by the Shariah. Thus, Islam allows the transactions like *Bai' Ijarah* and services. Instead of that, Islam also encourages Muslims to engage in the transaction that based on profit and loss sharing (PLS). Based on Ajija, et al., (2012), applying PLS is one of ways out to eliminate usurious systems and comply with three main reasons which are; *halal* spending, *halal* earning and equitable distribution of wealth.

Besides of the above principles, another aspect that need to be carefully scrutinized is the *aqad* (contract) and legal documentation. An *aqad* can be considered as the root of an Islamic banking transaction where it differentiates the components between the conventional system which is doubtful that can lead to invalid contract and entitlement of ownership (Rahman, 2007). A valid contract must consist of several elements which are offer and acceptance, contracting parties and subject matter. The offer can be done through spoken words, writing or conduct. Meanwhile, the acceptance should conform to the offer in all its detail. On the other hand, the contracting parties must have the capacity to execute or perform in the transaction. Lastly, the subject matter must be lawful, exist at the time of contract made and can be delivered in the required time (Ayub, 2007).

In the Islamic banking industry, the role of the Shariah board becomes a vital component since it has the fiduciary duties towards all the stakeholders of Islamic Finance Institutions (IFIs). Instead of that, it plays a fundamental role in ensuring the credibility of IFIs by having the authority to issue fatwas regarding to the Islamic finance and banking through collective *ijtihad* (Dusuki, 2012). According to Iqbal and Mirakh (2011) the role of Shariah boards in governance is quite critical especially in ensuring the consistency of application in all financial transactions. In addition, based on Ayub (2007), the uprightness of the IFIs is totally depends on the status of Shariah compliance, the impact of a product launched, the competence of the professional as well as the attitude to conform with the Shariah norms.

RELIGIOSITY FACTORS

According to Ab. Ghani and Kamri (2008), Islam as a religion that provides guidance for the welfare of all human life in this world and the hereafter and very high regard to entrepreneurial activity. Islam is not only about religion but also stressed on the way of life which is *Ad-Din* (Alam, et al., 2012). This means, Islam guides and teaches Muslims in every aspects of life and not just only focus on specific performance of worship. For example, engaging in *haram* (forbidden activities) such as consuming alcoholic drink and gambling are clearly mentioned in the Holy Quran. Even on the trading transaction such as what to trade, how to trade, how to interact with others are clearly directed within this religion.

The Muslim have the prospect to put their money or investment in a bank since it complies with their religious beliefs. According to Alam, et al., (2012) religion is one of the most universal and prominent social institutions that can influence people's attitudes, values as well as behavior at both levels which are individual and societal levels. It

is supported by Conroy and Emerson (2004) where they defined religiosity as something which is signified that can influence people's ethical beliefs and can reflect human daily conduct and commitment.

Islamic banking products have won the trust of all religions, and it has also been supported by Naser and Moutinho (1997) identify that the concept of the Islamic banking is not only stressed on the Muslim customers, but also able to entice non-Muslims customers due to the benefits gained from the system itself. In addition, it is also supported by Kishada and Wahab (2013), in general, non-Muslim customers have equal chances to put their investment either in Islamic banks or in conventional banks without concerning about the religious factors.

Discussion of this paper lead us to faith and human knowledge is limited and put aspects of religious considerations a priority in crisis make a choice. For instance, Ahmad, et al., (2008) regarding to religiosity and banking selection criteria among Malays had revealed that there are significant differences between a Muslim's level of religiosity and Islamic banking as their main choice of bank. This showed that the lack of formal religious background in Islamic teachings may lead to low religious belief as well as lack of awareness towards the Islamic banking products and services.

Therefore, the problem that occurs give interest to writer for review to determine either the religiosity factor can influence the knowledge of Muslim enterpreneur and in accordance with the comprehensive nature as a religion and a way of life, Islam provides a complete guide to undergo all forms of life, including life economically. With these guidelines, people are not only able to handle the election crisis, but also may lead a quiet and peaceful as the servant of Allah Almighty in achieving the ultimate goal of the pleasure of Allah and most studies focus on the results of the election users of Islamic banking.

Even though there are a lot determining factors the religious value practised by the consumers plays a vital role in influencing them to patronize Islamic banking. The study has revealed that religious value stands as the most important factor to academicians who patronize Islamic banks especially those from the East Coast of Peninsular Malaysia (Idris, et al., 2011). However, some research have found factor influencing of religious motivation as the overall reason behind the use of Islamic banking services (Metawa and Almossawi, 1998). Besides, there are also findings the Islamic financial services adoption that will consider both the conventional dimensions as well as the dimensions that are specific to the Islamic banking practice. This is due to the fact that the previous studies have proven that religious based motives are not the only factors influencing the patronisation decisions of Islamic banks' customers (Echchabi and Olaniyi, 2012).

PERCEPTIONS TOWARDS THE ISLAMIC BANKING.

The Muslim entrepreneur need a strong support funding for their financial needs. As Muslim entrepreneurs, they are looking for sources clean and free from the clutches of a *Riba*. Therefore, the problem that occurs give interest to determine either the perception factor of Islamic product can influence the knowledge in corporate customer in action selects Islamic banking products. Perception is the act of discerning, realizing and becoming aware of through the senses (Rustam, et al., 2011).

Basically, the perception is often identified by the level of satisfaction towards particular products or services. Previous studies acted as an indicator to determine the Muslim entrepreneur's perceptions towards Islamic banking. According to Dusuki and Abdullah (2006), the factors relating to corporate sosial responsibility initiatives as part of potential selection of customer because the Islamic banking practice good corporate social responsibility towards the customers and make the responsibility as a strategic tool to enhance the reputation and image of the institution of Islamic business in the long run and one additional important aspect is to strategically market as an initiative through strict publicity, not only to attract potential customers, but also to serve as effective tool to educate the public about Islamic banking. Examples of social responsibility undertaken by operations namely, involvement in the community, respect for human rights and environmental practice and impact have been taken from some identified initiatives suggested by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

In addition, the Muslim entrepreneur's perceptions towards Islamic banking probably due to based on profit-oriented in order to survive in the industry. The study of Ahmad and Haron (2002) had revealed that there was a misunderstanding among corporate customers about the objectives and philosophy of the establishment of Islamic

banks and more than 50 % of respondents assumed that Islamic banks must be based on profit-oriented in order to survive in the industry.

Futhermore, Rustam, et al., (2011) conducted a study on a perceptions of corporate customers towards Islamic banking products and services in Pakistan. The result revealed that Islamic Banking products and services had good potential within Pakistan corporate sector. In addition, the factor influencing have positive perceptions of the Islamic products and services. However, employees in Islamic banks are more optimistic than their counterpart. Based on the undesirable outcome in terms of level of employees in the Islamic banking field, it is recommended that the banks' management take greater initiative in providing their employees with sufficient: knowledge of and exposure to rules of the Shariah and the principles governing Islamic banking in particular (Zainol, et al., 2008).

CONCLUSION

So far the authors have discussed academic related on knowledge, religiosity, perceptions and underlying principles of Islamic banking towards the Islamic banking products that offered for Muslim entrepreneurs. Discussions were not focussed on Muslim's perception but also on non-Muslims' on this issue. In understanding Islamic finance and banking, popular ssources of knowledge are from television, newspapers, family members, magazine, and radio. Although respondents aware the difference between Islamic and conventional banking, further investigation on researches show a low percentage in the knowledge of Islamic banking products. A research conducted in UEA found that Muslim students are more interested and knowledgeable in Islamic banking as compared to non-Muslims. In the case of Pakistan Muslim eagerly welcome financial products and willing to spend their lives according to Shariah. For SME entrepreneurs, it was found that understanding towards Islamic financing are considerably well and the respondents understand the importance of practicing and applying Islamic financing towards their business. However Islamic banking products have not been understood by customers due to lack in from the institutions. Promotions on Islamic banking are still low resulting insufficient knowledge of Islamic banking products. Lastly the authors look into documents related to the underlying principle of Islamic Banking Products. Elements that need to be avoided in any products are *Riba*, *Gharar* and *Maisir*. Any kind of business or transaction which is *halal* or permissible in Islam is welcome. Another root of an Islamic Banking is the *aqad* (contract). Its need legal documented. Valid contracts consist of several elements to make them lawful from Shariah point of view. Lastly institutions offering Islamic banking product must have their own shariah board.

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