



**Awareness about Islamic Banking System**

Syed Fahad Ali

MS Student at Indus University Karachi

---

The material presented by the authors does not necessarily represent the viewpoint of editor(s) and the management of the Khadim Ali Shah Bukhari Institute of Technology (KASBIT) as well as authors' institute.

© KBJ is published by the Khadim Ali Shah Bukhari Institute of Technology (KASBIT)  
84-B, S.M.C.H.S, Off.Sharah-e-Faisal, Karachi-74400, Pakistan.

### **Abstract**

Islamic banking found its origin since 1400 years but it had not being grown with that much pace for hundreds of years later. Now it is being growing with rapid pace. For this purpose we have undertaken research process, 275 semi-structured questionnaires has been circulated in six private universities of Karachi, Pakistan. The results showed that there is a lack of awareness among students of bachelors and masters about Islamic banking system. Found a lot of misconception about the Halal banking system. Yet the Islamic banking industry has to pay more attention towards the development of awareness programmes, seminars and marketing plans.

**Key Words:** *Halal misconception, awareness*

### **Introduction**

Banks are referred to as an institution which accepts deposits and lend money in the shape of loans to individuals. It is a mechanism through which the money of any country is controlled. These are called the Central banks of any country. (AllBankingSolutions.com)

Banking rules which are governed through Shariah are known as Islamic Banking principles. Islamic banks are totally based on those principles that are allowed in Islam. (Islamic Banking Website).

Awareness is the mostly used psychological term which tells about the knowledge for any specific thing, matter or subject. (The Warriors Way ®).

Islamic banking system found its origin since 1400 years. Holy Prophet Hazrat Muhammad Mustafa SAW worked as a Mudarib to Hazrat Khatija (RA). Mudarib is a person who provides his own human/technical skills in conduction of the business and Hazrat Khatija was Rab ul Maal (Investor) to him according to Islamic Banking system of now. Later Hazrat Khatija married him because of his honesty in the business activities (Biography of Last Prophet). Islamic banking finds its root in this famous and ancient Islamic history.

## Awareness about Islamic Banking System

No one recognized the Shariah based banking system till the 1970s. First it moved to Gulf/Middle East. Then in 1980s it moved to Asia Pacific. In 1990s products of Islamic banking were launched and Islamic banking has increased its offerings. In 2000s it started to grow with much pace since then in Europe, America and etc. Now playing a vital role in the development of economy (How to run an islamic bank, 2011).

Islamic banking has greatly covered Malaysia, Nigerian banking sectors. As we have seen the Lehman Brother crisis of the banking industry in 2008. The global financial crisis hit badly the conventional banking system but for the Islamic banking system, it doesn't proved to be that much disastrous. As the word Islamic denotes, many people have misconception that it is only for Muslims? No that's not true. Interest is prohibited in the Christianity and Judaism as well. The non-Muslims in India are rapidly changing their perception towards the banking system, as they are moving to the Islamic banking and finance services instead of conventional banking system.

The State Bank of Pakistan has ordered to convert all conventional banks to Islamic banking system latest by 2018. Islamic banking act (IBA-2016) to be enforced all over Pakistan as it's under process for finalization in the State Bank. It will be enforced by the end of 2016 or may be at the start of 2017. The concept of banking to be based on Islamic principles i.e. Shariah will get the legal entity after it. Because of the financial crisis of 2008 the western investors are more likely to convert their bank accounts to Islamic banks because of less risk-bearing banking system.

Pakistan has adopted various standards of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI). It has also signed a MoU with State Bank of Pakistan to

## Awareness about Islamic Banking System

translate these standards in Urdu Language. (AAOIFI Launches Urdu Translation Project for Shari'ah Standards)

### **Problem Statement:**

To check and analyze the Awareness about Islamic Banking System among Universities Students of Karachi. In the past we have found that there is very much lack of awareness about Islamic Banking system in many countries of the World such as Malaysia, India, Nigeria, Afghanistan, United Kingdom and Australia. We are conducting the same manner research in Karachi to find whether we are one of them or we are well aware of the Shariah based banking system.

### **Scope:**

Our area of research is based on university students of Karachi. Karachi is the hub of the Pakistan. Questionnaire has been circulated because of limited time and financial resources. Even it is very much difficult to find good and serious respondents in various universities because no one is ready to give their valuable few minutes. Somehow we managed to get the representative samples as per our criteria about the study. Being a researcher it's the responsibility of us to find the representative and serious respondents about any study.

### **Objective:**

In this research paper we aimed our research to enhance our knowledge for the awareness about Islamic banking system among the University students of Karachi. Karachi is the metropolitan of Pakistan. Our research is based on students because students are the future of any country. Islamic banking is growing rapidly and it requires a watch-tower for the banking industry to look into the matter. The landmark decision of State Bank of Pakistan gives more life to the Islamic Banking industry in the country. However still there is shortage of Islamic

## Awareness about Islamic Banking System

Banking experts yet, which is to be addressed with the need of time. Islamic banking sector will get much more benefits from this opportunity.

### **Literature Review**

Islamic banking is growing with pace among non Muslims as well. Questionnaire survey was undertaken among 152 respondents. It is found that it will set aside the conventional banking system in Malaysia soon. (Aziz, Sidek, & Adnan., 2012)

Seyed Reza Seyed at el examined about the acceptance of the Islamic banking and financial services. Mixed method has been used including both qualitative and quantitative. A model has been made on the bases of economical and managerial behavioral aspects. Results showed positive signs. (Javadin, Raei, Iravani, & Safari, 2015)

Patrick Iman at el examined the relationship between Islamic banking system and economic growth and found that there is a strong relationship between these two variables exists. (Iman & Kpoder, 2015)

Ching Wing Lo at el examined that Islamic banking is not yet grown with that much pace in Malaysia as compare to conventional banking system. Analytical research technique has been adopted by the researchers. The results showed that there is a short of studies in this regard and banking sector needs to educate and aware people about the Islamic banking system. (Lo & Leow, 2014)

Ringim K.J at el examined the perception, awareness and understanding of Muslims account holders in conventional banks. For this purpose regression, correlations and factor analysis was analyzed. The results showed that the Muslim account holders of conventional banks are more likely to adapt Islamic banking system. (K.J & I.M, 2014)

Sameer Ahmed Mastoor at el examined that there is no concept of loans in Islam but Islamic banking is growing with a good pace and Maiwand Bank has done a research on

## Awareness about Islamic Banking System

awareness about Islamic Banking system in Afghanistan via questionnaire survey of sample size 25 and found that Maiwand bank should replace some employees. (Mastoor)

Dr. Sirajuddin Chougale examined that there is a need of Islamic banking system in India as well. Due to the interest free banking procedure. Which lead to the economic growth of India, thus the living standard will have to be raised. (Chougale, 2014)

Mohammad Nouman Hussain Chowdhury et al examined that Islamic banking is based on giving loans investment without any interest which leads to the welfare of the society. Questionnaire survey for conducted and found that there is a lack of knowledge among graduates about Islamic banking system in Bangladesh which requires a lot of efforts to make the students aware of it. (Chowdhury & Zaman, 2013)

Saeed Akbar et al examined the consumer's perception towards Islamic bank products in United Kingdom. Online questionnaire has been circulated in order to acquire the knowledge about it. The results showed that the respondents generally know about Islamic banking which is based on Profit and Loss sharing. But in depth they do not know about how Islamic banking works, its functions, procedure and etc. So it's the duty of banking regulatory authorities to let the people aware of it which makes it easier for the understanding of Islamic banking system (Akbar, Shah, & Kalmadi., 2012)

Kareem Muritala Kewuyemi et al examined the support of various targeted groups towards Islamic banking in Nigeria. Questionnaire survey has been conducted. It is found that there is a need of creating awareness among the various groups of people and attempts should have been made to change their attitude towards Islamic banking system. (Kewoyemi)

Mark Loo et al examined that Islamic banking is not that much popular in the Western side. The 2008 financial crisis of the Lehman Brothers didn't affect the Islamic banks that much.

## Awareness about Islamic Banking System

200 people including Muslims and non-Muslims were interviewed about their perception towards the Islamic banking system. The people with the age 30-50 found to be in the support of the Islamic banking system more in contrast with the people of higher ages. It is suggested that Islamic banking sector needs more marketing efforts with research and development analysis. (Loo, 2010)

### **Methodology**

We have taken 50 students from 6 private universities of Karachi each. Total 340 questionnaires were circulated and we have received 300 questionnaires. 40 questionnaires were circulated extra because of non-respondents sample. Students of universities include the pursuer of BE/BBA/BS/MBA/MS/ME degrees.

Questionnaire survey is one of the most inexpensive ways to undertake any research because there are limitations for the financial resources with time as well.

For better results we have used convenient sampling method. Convenient sampling is said to be done when we focuses on the sample which is in our reach with ease. Our target population is from mainly students because they are the asset of the society. They are the pioneers of any country. So it is very much right to say that attempts are been made to change their attitudes towards Islamic banking system.

In this research paper, we are using Quantitative research technique using SPSS to determine the 1) Reliability, 2) Frequency Distributions, 3) Cross-Tabulations, 4) Correlations, 5) Single and Paired T-Tests, 6) Factor Analysis, 7) Sample Adequacy Test and 8) Regression with ANOVA.

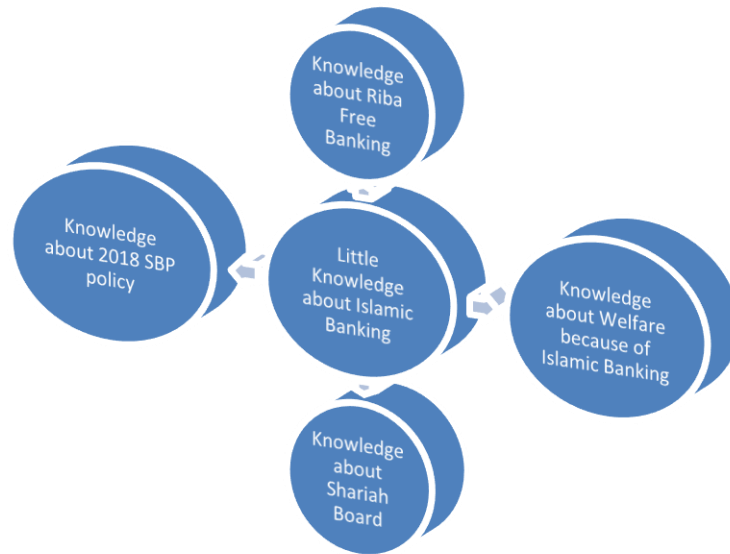
### **Hypothesis:-**

H<sub>0</sub>: Students of various universities have significant knowledge about Islamic Banking system.

## Awareness about Islamic Banking System

HA: Students of various universities does not have significant knowledge about Islamic Banking system.

### Research Model:-



The above model shows that the Awareness about Islamic banking is dependent on the knowledge about the following variables

### Result

#### Reliability Statistics

Cronbach's Alpha	N of Items
<b>.788</b>	<b>22</b>

The bench mark is 0.65. It is also stated that Higher the Cronbach Alpha, Higher the reliability. Our Cronbach Alpha is 0.788 which is highly reliable.

#### Case Processing Summary

Reliability	N	%
Valid	275	100.0
Excluded <sup>a</sup>	0	.0
Total	275	100.0

a. Listwise deletion based on all variables in the procedure.

of the Cronbach alpha that Higher the Cronbach reliability of the Data. 0.788 which is highly



## Awareness about Islamic Banking System

### Age Group

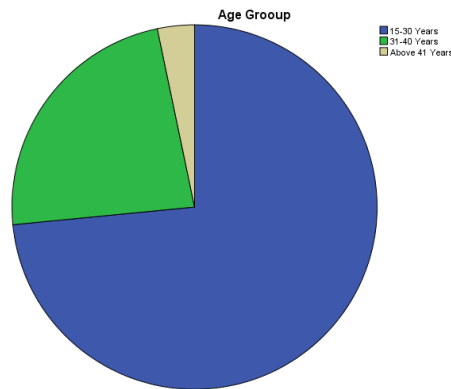
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 15-30 Years	202	73.5	73.5	73.5
31-40 Years	64	23.3	23.3	96.7
Above 41 Years	9	3.3	3.3	100.0
Total	275	100.0	100.0	

73.5% of the respondents belongs to 15-30 Years Age Group.

23.3% of the respondents belongs to 31-40 Years Age Group.

3.3% of the respondents belongs to Above 41 years of age.

Majority of the respondents belongs to 15-30 Years Age Group.



### University

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Indus University	43	15.6	15.6	15.6
Institute of Business Management IoBM	54	19.6	19.6	35.3
Iqra University	27	9.8	9.8	45.1
SZABIST	47	17.1	17.1	62.2
Institute of Business and Technology BIZTEK	50	18.2	18.2	80.4
Mohammad Ali Jinnah University MAJU	54	19.6	19.6	100.0

## Awareness about Islamic Banking System

Total	275	100.0	100.0
-------	-----	-------	-------

19.6% of the respondents belongs to Institute of Business Management IoBM

19.6% of the respondents belongs to Mohammad Ali Jinnah University.

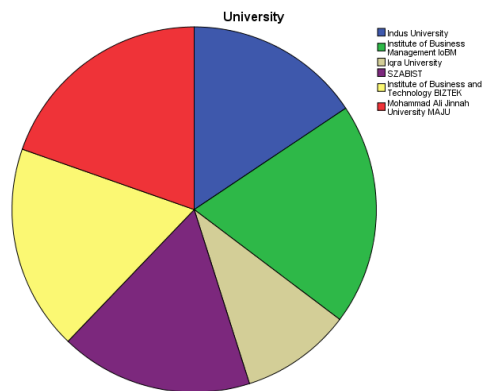
18.2% of the respondents belongs to Institute of Business and Technology BIZTEK.

17.1% of the respondents belongs to Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology SZABIST.

15.6% of the respondents belongs to Indus University, Karachi

9.8% of the respondents belongs to Iqra University, Karachi

Majority of the respondents belongs to Institute of Business Management IoBM and Mohammad Ali Jinnah University MAJU.



## Discipline of Study

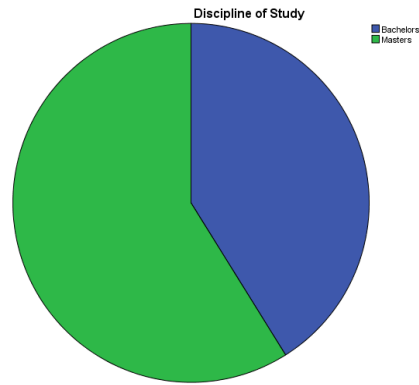
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bachelors	113	41.1	41.1	41.1
Masters	162	58.9	58.9	100.0
Total	275	100.0	100.0	

59% of the respondents hold for Masters degree

41% of the respondents hold for Bachelors degree

Majority of the respondents studying in Masters discipline.

## Awareness about Islamic Banking System



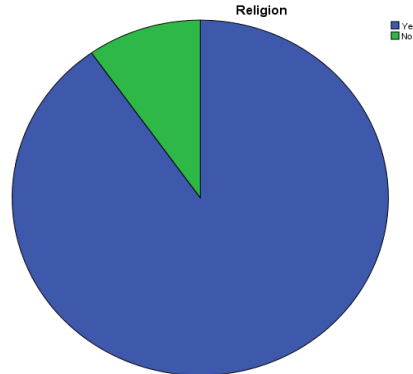
## Religion

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	248	90.2	90.2	90.2
No	27	9.8	9.8	100.0
Total	275	100.0	100.0	

90.2% of the respondents are Muslims

9.8% of the respondents are Non-Muslims.

Majority of the respondents are Muslims.



## Little knowlege about Islamic Banking

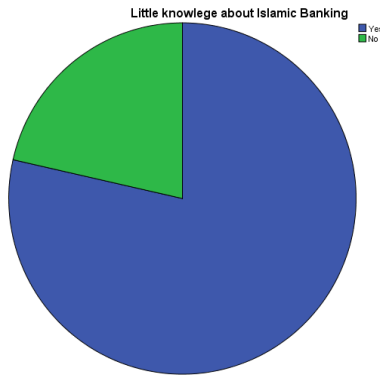
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	216	78.5	78.5	78.5
No	59	21.5	21.5	100.0
Total	275	100.0	100.0	

78.5% of the respondents said that they have little knowledge about Islamic banking products

21.5% of the respondents said that they don't have little knowledge about islamic banking products even

## Awareness about Islamic Banking System

Majority of the respondents said that they have little knowledge about Islamic Banking products.



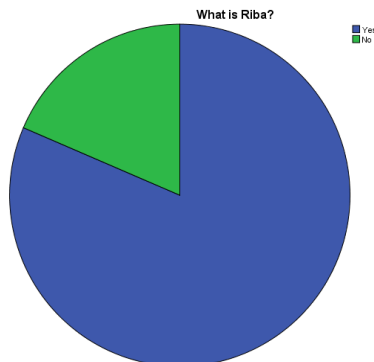
## What is Riba?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	224	81.5	81.5	81.5
No	51	18.5	18.5	100.0
Total	275	100.0	100.0	

81.5% of the respondents knows about Riba (Interest)

18.5% of the respondents does not have any knowledge about Riba (Interest)

Majority of the respondents knows about Riba (Interest)



## Awareness about Islamic Banking System

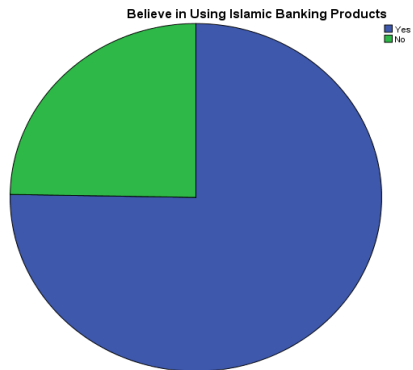
### Believe in Using Islamic Banking Products

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	207	75.3	75.3	75.3
No	68	24.7	24.7	100.0
Total	275	100.0	100.0	

75.3% of the respondents said that they believe in using Islamic Banking products

24.7% of the respondents said that they do not believe in using Islamic Banking products.

Majority of the respondents believes in using Islamic Banking products.



### Interest is Harmful?

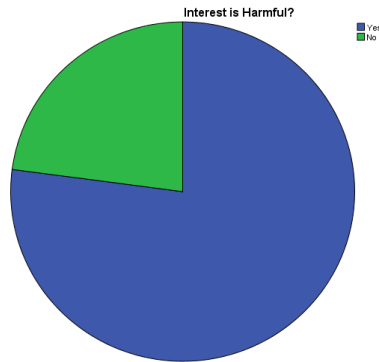
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	212	77.1	77.1	77.1
No	63	22.9	22.9	100.0
Total	275	100.0	100.0	

77.1% of the respondents agreed that Interest is Harmful for economy

22.9% of the respondents disagreed that Interest is Harmful for the economy.

Majority of the respondents agreed that Interest is harmful for the economy.

## Awareness about Islamic Banking System



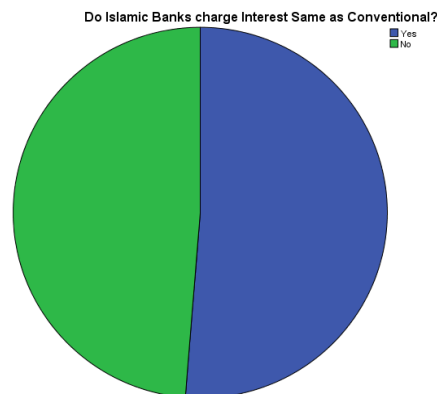
### Do Islamic Banks charge Interest Same as Conventional?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	141	51.3	51.3	51.3
No	134	48.7	48.7	100.0
Total	275	100.0	100.0	

51.3% of the respondents said that Islamic banks charge interest same as conventional banks

48.7% of the respondents said that Islamic banks doesn't charge interest as conventional banks do.

Majority of the respondents said that Islamic banks charge interest same as conventional banks. And it's the important fact and an eye opening situation for the Islamic banking industry.



## Awareness about Islamic Banking System

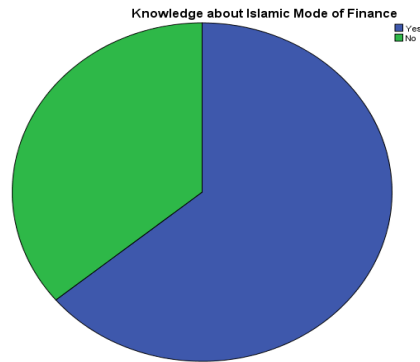
### Knowledge about Islamic Mode of Finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	176	64.0	64.0	64.0
	No	99	36.0	36.0	100.0
	Total	275	100.0	100.0	

64% of the respondents said that they have knowledge about Islamic mode of Finance.

36% of the respondents said that they haven't any knowledge about Islamic mode of Finance.

Majority of the respondents said that they have knowledge about Islamic mode of Finance.



### Islamic banking based on P&L Sharing

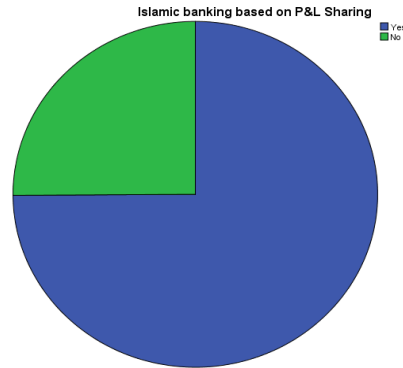
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	206	74.9	74.9	74.9
	No	69	25.1	25.1	100.0
	Total	275	100.0	100.0	

## Awareness about Islamic Banking System

74.9% of the respondents agreed that Islamic banking is based on Profit and Loss Sharing

25.1% of the respondents disagreed that Islamic banking is based on Profit and Loss Sharing

Majority of the respondents said that Islamic banking is based on Profit and Loss Sharing.



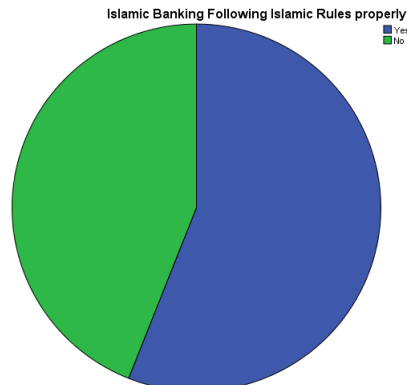
## Islamic Banking Following Islamic Rules properly

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	154	56.0	56.0	56.0
No	121	44.0	44.0	100.0
Total	275	100.0	100.0	

56% of the respondents said that Islamic banking system follow islamic rules properly

44% of the respondents said that Islamic banking system doesn't follow islamic rules properly.

Majority of the respondents said that Islamic banks follow Islamic rules properly.





## Awareness about Islamic Banking System

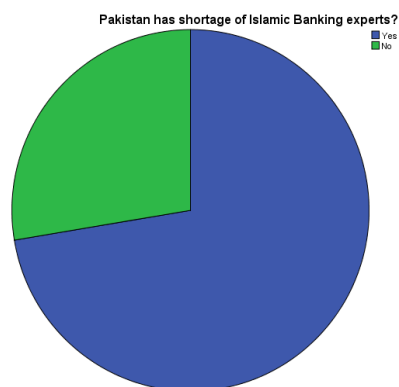
### Pakistan has shortage of Islamic Banking experts?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	199	72.4	72.4	72.4
	No	76	27.6	27.6	100.0
	Total	275	100.0	100.0	

72.4% of the respondents agreed that Pakistan has shortage of human skills in Islamic Banking System.

27.6% of the respondents disagreed that Pakistan has shortage of human skills in Islamic Banking system.

Majority of the respondents said that there is a shortage of human capital/talent/experts in Islamic banking industry.



### Development of Human Skills in Islamic Banking

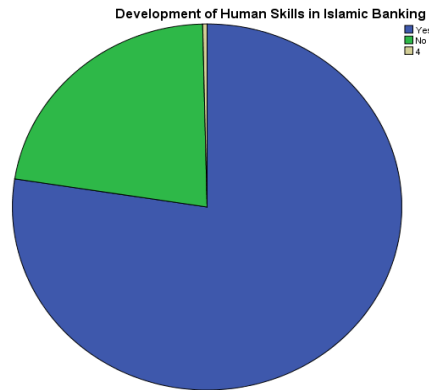
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	213	77.5	77.5	77.5
	No	61	22.2	22.2	99.6
	4	1	.4	.4	100.0
	Total	275	100.0	100.0	

77.5% of the respondents said that academic activities and training programmes can help in developing Human skills in Islamic banking sector in Pakistan

## Awareness about Islamic Banking System

22.2% of the respondents however said that there is no need of developing human skills in Islamic banking sector via training programmes.

Majority of the respondents said that there is a need of developing human skills in Islamic banking sector in Pakistan.



### Islamic Banking do not invest in Haram activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	209	76.0	76.0	76.0
No	65	23.6	23.6	99.6
4	1	.4	.4	100.0
Total	275	100.0	100.0	

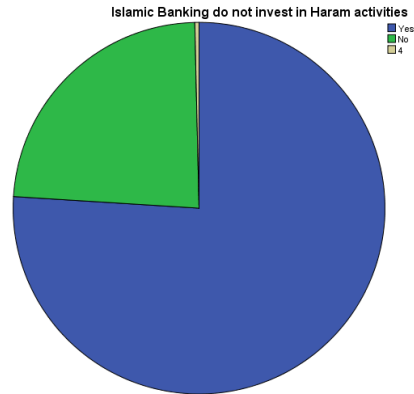
#### Interpretation:

76% of the respondents said that Islamic banks do not invest in Haram activities which is good for economic development.

23.6% of the respondents said that Islamic bank does invest in Haram businesses which can harm the economy of the country.

Majority of the respondents said that Islamic banking system does not invest in any type of illegal businesses and haram activities.

## Awareness about Islamic Banking System



### If you choose Islamic Banking, Why?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Because of my religion	124	45.1	45.1	45.1
It provides Socio-Economic welfare to the people	45	16.4	16.4	61.5
Both of Above	77	28.0	28.0	89.5
None of Above	29	10.5	10.5	100.0
Total	275	100.0	100.0	

45.1% of the respondents said that they would choose Islamic banking because of their religion Islam.

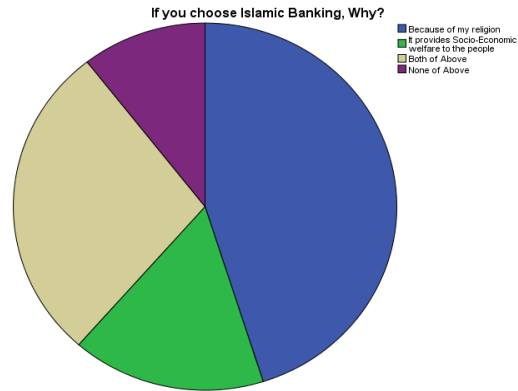
16.4% of the respondents said that they would choose Islamic banking because of the Socio-Economic welfare

28% of the respondents said that they would choose Islamic banking because of both the factors above i.e. Religion Islam and Socio Economic development.

10.5% of the respondents said that they might have some other reasons behind the selection of the Islamic banking system.

Majority of the respondents said that they would choose Islamic banking because of Religion Islam.

## Awareness about Islamic Banking System



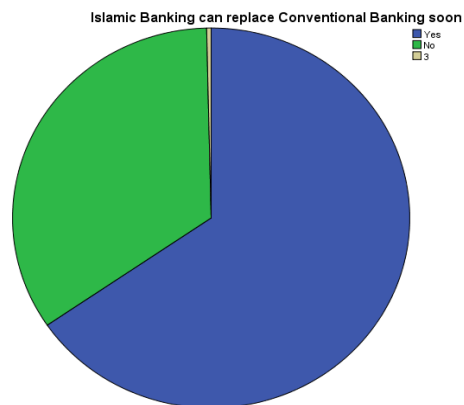
### Islamic Banking can replace Conventional Banking soon

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	180	65.5	65.5	65.5
No	94	34.2	34.2	99.6
3	1	.4	.4	100.0
Total	275	100.0	100.0	

65.5% of the respondents said that Islamic banking can replace the conventional banking system soon.

34.2% of the respondents said that Islamic banking can't replace the conventional banking system.

Majority of the respondents said that Islamic banking can replace the conventional banking system soon.



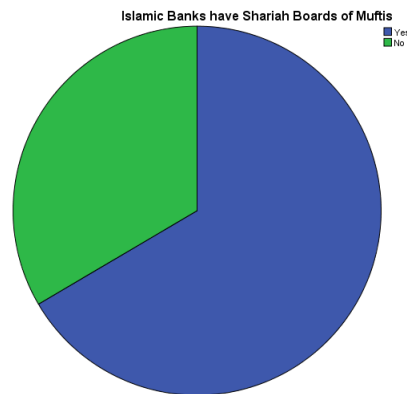
## Awareness about Islamic Banking System

### Islamic Banks have Shariah Boards of Muftis

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	183	66.5	66.5	66.5
No	92	33.5	33.5	100.0
Total	275	100.0	100.0	

66.5% of the respondents do have the knowledge that Islamic banks have Shariah board

33.5% of the respondents do not have any knowledge about Shariah board in Islamic banks. Majority of the respondents said that they have knowledge about Shariah board in Islamic banks.



### Conventional Banks like Standard Chartered, UBL, and Habib Metro have Islamic Window

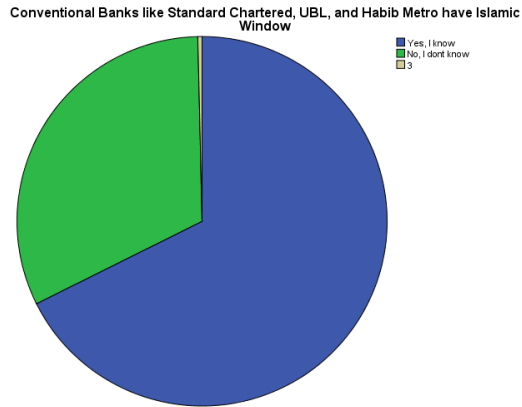
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, I know	186	67.6	67.6	67.6
No, I dont know	88	32.0	32.0	99.6
3	1	.4	.4	100.0
Total	275	100.0	100.0	

67.6% of the respondents said that they know about the Islamic banking windows at Standard Chartered, UBL and Habib Metro banks

## Awareness about Islamic Banking System

32% of the respondents said that they don't know about the Islamic banking windows at Standard Chartered, UBL and Habib Metro banks.

Majority of the respondents said that they know about Islamic banking windows at Standard Chartered (Sadiq), UBL (Ameen) and Habib Metro banks.



## State Bank of Pakistan ordered to convert some of conventional branches into Islamic by 2018

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	150	54.5	54.5	54.5
No	123	44.7	44.7	99.3
3	2	.7	.7	100.0
Total	275	100.0	100.0	

54.5% of the respondent said that they know about the State Bank of Pakistan's order to convert conventional banks into Islamic banks by 2018 44.7% of the respondents said that they do not have any knowledge about SBP's order to convert the conventional branches into the islamic banks.

Majority of the respondents said that they know about the State Bank of Pakistan policy 2018.

## Awareness about Islamic Banking System

If you choose Conventional Banking, Why?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Because of my Religion	96	34.9	34.9	34.9
	It gives guaranteed profit	56	20.4	20.4	55.3
	There is no difference between conventional and islamic banking system	55	20.0	20.0	75.3
	I have an old conventional bank account and don't want to change it	68	24.7	24.7	100.0
	Total	275	100.0	100.0	

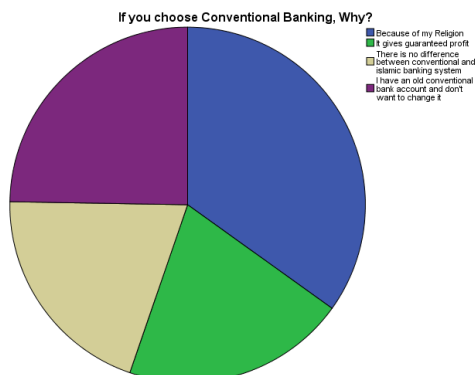
34.9% of the respondents said that would choose Conventional banking system because of the religion.

24.7% of the respondents said that they would choose Conventional banking system because they have their old conventional bank account.

20.4% of the respondents said that they would choose Conventional banking system because it gives fixed profit

20% of the respondents said that there is no difference in Conventional and Islamic banking system.

Majority of the respondents said that they would choose conventional banks because of the religion.



## Awareness about Islamic Banking System

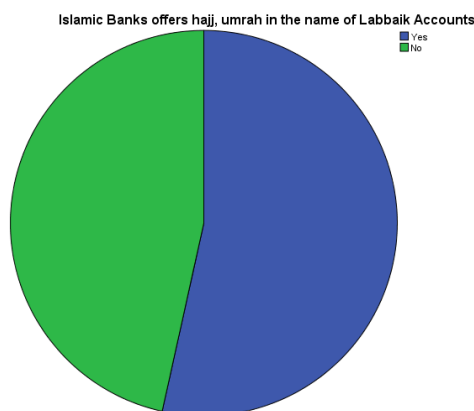
### Islamic Banks offers hajj, umrah in the name of Labbaik Accounts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	147	53.5	53.5	53.5
No	128	46.5	46.5	100.0
Total	275	100.0	100.0	

53.5% of the respondents said that they know about the Labbaik account system

46.5% of the respondents said they don't know about the Labbaik account system.

Majority of the respondents said that they know about Labbaik accounts system of Islamic banks



### State Bank of Pakistan SBP Policy 2018 can bring benefits?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	131	47.6	47.6	47.6
No	53	19.3	19.3	66.9
Undecided	91	33.1	33.1	100.0
Total	275	100.0	100.0	

47.6% of the respondents said that State Bank of Pakistan's policy can bring economic benefits to Pakistan

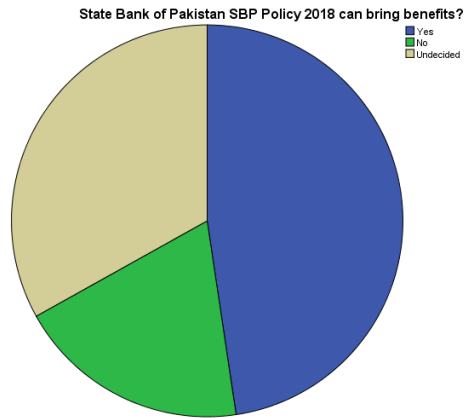
33% of the respondents said that they are Undecided/Neutral about the State Bank of Pakistan's policy

19.3% of the respondents said that State Bank of Pakistan policy could not bring any benefits to Pakistan.



## Awareness about Islamic Banking System

Majority of the respondents said that State of Bank of Pakistan Policy 2018 can bring benefits to the economy of Pakistan



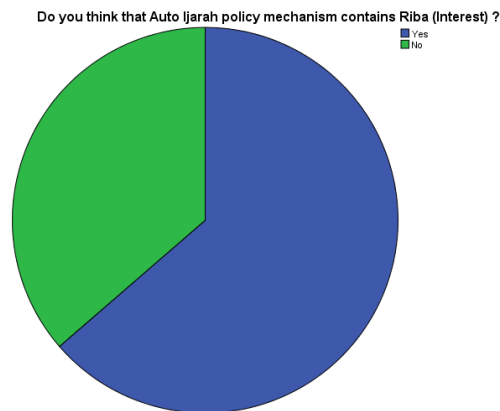
**Do you think that Auto Ijarah policy mechanism contains Riba (Interest) ?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	175	63.6	63.6	63.6
No	100	36.4	36.4	100.0
Total	275	100.0	100.0	

63.6% of the respondents said that Auto Ijarah policy of the Islamic banking system contains Riba (Interest)

36.4% of the respondents said that Auto Ijarah policy is Riba Free

Majority of the respondents said that Auto Ijarah policy of Islamic Banks contains Riba (Interest) which is prohibited in Islam.



## Awareness about Islamic Banking System

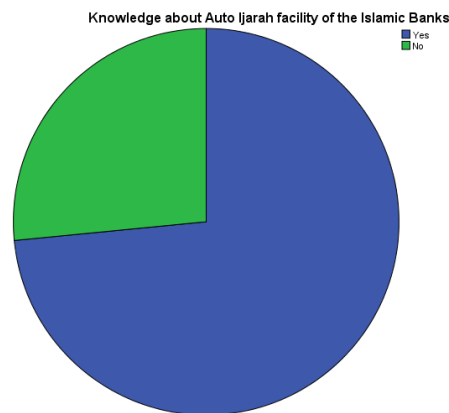
### Knowledge about Auto Ijarah facility of the Islamic Banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	202	73.5	73.5	73.5
No	73	26.5	26.5	100.0
Total	275	100.0	100.0	

75.5% of the respondents said that they have knowledge about Auto Ijarah policy of Islamic banks

26.5% of the respondents said that they haven't know about Auto Ijarah Policy of Islamic banks

Majority of the respondents said that they have knowledge about Auto Ijarah Policy of Islamic Banking system.



### Knowledge about Shirkat ul Milk agreement

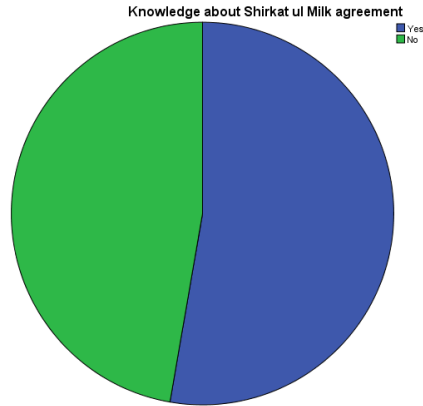
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	145	52.7	52.7	52.7
No	130	47.3	47.3	100.0
Total	275	100.0	100.0	

52.7% of the respondents said that they know about Shirkat UI Milk agreement

47.3% of the respondents said that they don't know about Shirkat UI Milk agreement.

Majority of the respondents know about Shirkat UI Milk (Joint Ownership) Agreement.

## Awareness about Islamic Banking System



### Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error
Pair 1	Little knowlege about Islamic Banking	1.21	275	.411	.025
	What is Riba?	1.19	275	.389	.023
Pair 2	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Believe in Using Islamic Banking Products	1.25	275	.432	.026
Pair 3	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Interest is Harmful?	1.23	275	.421	.025
Pair 4	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Do Islamic Banks charge Interest Same as Conventional?	1.49	275	.501	.030
Pair 5	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Knowledge about Islamic Mode of Finance	1.36	275	.481	.029
Pair 6	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Islamic banking based on P&L Sharing	1.25	275	.434	.026

## Awareness about Islamic Banking System

Pair 7	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Islamic Banking Following Islamic Rules properly	1.44	275	.497	.030
Pair 8	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Pakistan has shortage of Islamic Banking experts?	1.28	275	.448	.027
Pair 9	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Development of Human Skills in Islamic Banking	1.23	275	.448	.027
Pair 10	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Islamic Banking do not invest in Haram activities	1.25	275	.457	.028
Pair 11	Little knowlege about Islamic Banking	1.21	275	.411	.025
	If you choose Islamic Banking, Why?	2.04	275	1.075	.065
Pair 12	Little knowlege about Islamic Banking	1.21	275	.411	.025
	If you choose Conventional Banking, Why?	2.35	275	1.193	.072
Pair 13	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Islamic Banking can replace Conventional Banking soon	1.35	275	.485	.029
Pair 14	Little knowlege about Islamic Banking	1.21	275	.411	.025

## Awareness about Islamic Banking System

	Conventional Banks like Standard Chartered, UBL, and Habib Metro have Islamic Window	1.33	275	.478	.029
Pair 15	Little knowlege about Islamic Banking	1.21	275	.411	.025
	State Bank of Pakistan ordered to convert some of conventional branches into Islamic by 2018	1.46	275	.514	.031
Pair 16	Little knowlege about Islamic Banking	1.21	275	.411	.025
	State Bank of Pakistan SBP Policy 2018 can bring benefits?	1.85	275	.888	.054
Pair 17	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Islamic Banks offers hajj, umrah in the name of Labbaik Accounts	1.47	275	.500	.030
Pair 18	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Knowledge about Auto Ijarah facility of the Islamic Banks	1.27	275	.442	.027
Pair 19	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Do you think that Auto Ijarah policy mechanism contains Riba (Interest) ?	1.36	275	.482	.029
Pair 20	Little knowlege about Islamic Banking	1.21	275	.411	.025
	Knowledge about Shirkat ul Milk agreement	1.47	275	.500	.030

## Awareness about Islamic Banking System

Pairs	Sig. Value > 0.05 H <sup>0</sup> = Accepted
1	0.183
2	0.258
3	0.633
4	0.000
5	0.000
6	0.264
7	0.000
8	0.056
9	0.570
10	0.341
11	0.000
12	0.000
13	0.000
14	0.001
15	0.000
16	0.000
17	0.000
18	0.140
19	0.000
20	0.000

Ho: The mean of both variables are equal

HA: The mean of both variables are not equal

Hence it is found that the mean of both variables are equal in Pair 1, Pair 2, Pair 3, Pair 6, Pair 8, Pair 9, Pair 10 and Pair 18.

### CORRELATIONS

#### Interpretations:

- Little Islamic knowledge shows statistically significant relation with riba.
- Riba shows statistically significant relation with believe in using Islamic banking products.
- Believe in using Islamic banking products shows statistically significant relation with interest is haramful.

## Awareness about Islamic Banking System

- Haramful shows statistically significant relations with do Islamic banks charge interest same as conventional.
- Islamic banks charge interest same as conventional shows statistically significant relation with knowledge about Islamic mode of finance.
- Knowledge about Islamic mode of finance shows statistically significant relation with Islamic banking based on P&L sharing.
- Islamic banking based on P&L sharing shows statistically significant relation with Islamic banking following Islamic rules properly.
- Islamic banking following Islamic rules properly shows statistically significant relation with Pakistan has a shortage of Islamic banking experts.
- Pakistan has a shortage of Islamic banking expert's shows statistically significant relation with development of human skills in Islamic banking.
- Development of human skills in Islamic banking shows statistically significant relation with Islamic banking donot interest in haram banking.
- If you choose conventional banking why? Shows statistically significant relation with Islamic banking can replace conventional banking soon.
- Islamic banking can replace conventional banking soon shows statistically significant relation with Islamic banks have a shariah boards of Muftis.
- Islamic banks have a shariah boards of Muftis soon shows statistically significant relation with conventional banks like standard chartered, UBL and Habib Metro have Islamic window.

## Awareness about Islamic Banking System

- State bank of Pakistan ordered to convert some of conventional branches into Islamic by 2018 shows statistically significant relation with state bank of Pakistan SBP policy 2018 can bring benefits.
- State bank of Pakistan SBP policy 2018 can bring benefits shows statistically significant relation with Islamic banks offer Hajj, umarah in the name of labbaik accounts.
- Knowledge about Auto Ijarah facility of the Islamic banks shows statistically significant relation with do you think the Auto Ijarah policy mechanism contains Riba (Interest)?
- Do you think the Auto Ijarah policy mechanism contains Riba (Interest)? Shows statistically significant relation with knowledge about Shirkat ul milk agreement.

### Factor Analysis

#### KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.819
Bartlett's Test of Approx. Chi-Square	1166.067
Sphericity Df	231
Sig.	.000

The benchmark of the Kaiser-Meyer-Olkin Measure is 0.5 i.e. 50% and we have 0.81 i.e. 81% which means about Sample is adequate and doesn't need any increase or decrease.

**If any of our friends, classmates or relatives need your help to open an account or require financing. How would you guide him/her?**

The most common answer we have got that visiting of the websites. So it is necessary for all the Islamic banks to make their websites effective and user friendly. There are misconceptions reported in the open ended side of the survey as well. Respondents states that some Islamic banks charge interest in the name of rent. This is not true. Some respondents said that they will love to personally visit the Islamic banks and get the details themselves. So it gives



## Awareness about Islamic Banking System

another guiding principle to the Islamic banks that they should assign one person to guide the new comers politely and in less stressful environment.

Many of the respondents stated that it is Riba (Interest) free and promotes social welfare but they didn't have any correct details about Auto Ijarah, Takaful and etc. misconception about ownership and rentals that these are to provided on the fixed date however the reality is different. It is suggested by one of the respondent that there is a need of educating people about Islamic banking system. Because most of the employees of banks do not have correct information or actual concept about Islamic banking system.

### **Result**

Islamic banking is growing with a good pace but in our study we have find some facts that will have to be addressed soon by the academic institutes. Most of the respondents were agreed that they have little knowledge about the Islamic banks, they belongs to religion Islam in majority. Respondents knew about Riba (Interest) which is prohibited in Islam and they believe in using Islamic banking products. Majority agreed that interest is harmful for the economy and the society as well. But the misconception pointed out when majority of the respondents said Islamic banks do involve riba and works same as conventional banks. However they have agreed in the survey that they knew about Islamic mode of finance and it's based on Profit and Loss sharing. They further admit that Islamic banking system is following Islamic rules properly. Thinking neutrally, then how it can be Riba (interest) based? There is a shortage of human capital and experts in Pakistan of Islamic banking professionals.

Those who are gripped with Islamic banking from all dimensions. And there is a need of development of human capital through training programmes. It doesn't means that Islamic

## Awareness about Islamic Banking System

banking is only for Muslims. Interest is prohibited in Judaism and Christianity too. Another misconception spotted when people considering Islamic banking system as the best tool for making the economy better. Supporting the State Bank of Pakistan 2018 policy to convert conventional branches into Islamic one. Respondents also stated that Auto ijarah facility contains Riba (Interest) and previously they have said that we are fully aware of the Islamic banking system. The research found various serious misconceptions among university under-graduate and graduate students. These issues will be addressed with priority. In order to provide smooth growth to the Halaal Banking system. Islamic banks do have the Sharia'ah board which consists of various well known religious scholars such as Mufti Taqi usman and others.

### **Conclusion**

The aim of the study is to provide the gateway knowledge to the authorities and other researchers that there are many misconceptions about Islamic banking prevails in Karachi, Pakistan. These issues will get more crucial with the passage of time if left unaddressed. Students are the asset of any society. If these misconception remains in their mind. They will never choose to adopt Islamic banking system as a consumer or as professionals. However the Islamic Banking Act 2016-7 will give a new life to the Islamic banks in more challenging situation. Islamic banking authorities should play its role with the collaboration of State Bank of Pakistan in order to address these issues revolving in the environment.

**“Banking system is not immoral; it’s the procedure which makes it”**

### **Recommendations**

- Aggressive marketing strategies should be adapted for Islamic banking system.
- There should be a separate course of Islamic banking for all the students to take part in.

## Awareness about Islamic Banking System

- State Bank of Pakistan should promote Islamic banking system throughout the country.
- Academic institutes should play its role in organizing of Seminars.
- Islamic banking experts from all over the world should be invited to visit various institutes, offices and other places in order to address the issues prevailing about Islamic banking system in the society.
- Researchers also take part in analyzing the knowledge of awareness about Islamic banking from individuals at every level.
- Social media should be used for addressing issues and motivating people towards the adoption of Islamic banking system.
- Islamic banking is a wide field; MBA/MS/PhD should be started with Specialization in Islamic banking system.
- Government of Pakistan should encourage students/researchers to conduct more research and field work in this sector.

### References

- AAOIFI Launches Urdu Translation Project for Shari'ah Standards.* (n.d.). Retrieved from  
AAOIFI: <http://aaoifi.com/announcement/in-an-official-visit-to-pakistan-aaoifi-launches-urdu-translation-project-for-shariah-standards/?lang=en>
- Akbar, S., Shah, S. Z., & Kalmadi., S. (2012). An investigation of user perceptions of Islamic banking and practices in the United Kingdom. *International Journal of Islamic and Middle Eastern Finance and Management* .
- AllBankingSolutions.com.* (n.d.). Retrieved from  
<http://www.allbankingsolutions.com/banking-tutor/what-is-banking.shtml>
- Aziz, A., Sidek, R., & Adnan., A. A. (2012). Perception of Non Muslims customers towards Islamic Banks in Malaysia. *International Journal of Business and Social Sciences* , 3 (11).
- Biography of Last Prophet.* (n.d.). Retrieved from <http://www.interislam.org/Biographies/khadija.htm>
- Chougale, D. S. (2014). Interest Free Banking, The need towards building awareness and acceptability. *Sai Om Journal of Commerce and Management* , 1 (3).
- Chowdhury, M. N., & Zaman, S. A. (2013). *Journal of Islamic Economics, Banking and Finance* , 9 (1).
- How to run an islamic bank.* (2011, November). Retrieved from Global Islamic Finance GIF.
- Iman, P., & Kpoder, K. (2015, April). IMF Working Paper, Islamic Bank for Economic Growth. *International Monetary Funds Working Paper* .
- Islamic Banking Website.* (n.d.). Retrieved from [http://www.islamicbanking.com/what\\_is\\_ibanking.aspx](http://www.islamicbanking.com/what_is_ibanking.aspx)

## Awareness about Islamic Banking System

Javadin, S. R., Raei, R., Iravani, M. J., & Safari, M. (2015). Conceptual Model to Explain Key Factors affecting Islamic Banking acceptance among banks and financial services customers. *Journal of Social Issues and Humanities* , 3 (8).

K.J, R., & I.M, Y. (2014). PERCEPTION, AWARENESS AND UNDERSTANDING OF MUSLIM ACCOUNT HOLDERS. *Jlloin Journal of Economic Policy* , 1 (1), 41-52.

Kewoyemi, K. M. (n.d.). Customers awareness, attitudes and patronage of Islamic Banking in Nigeria.

Lo, C. W., & Leow, C. S. (2014). Islamic Banking in Malaysia; A sustainable growth of the consumer market. *International Journal of Trade, Economics and Finance* . , 5 (6).

Loo, M. (2010). Attitudes and Perception towards Islamic Banking among muslims and non muslims in Malaysia, Implication for Marketing to Baby Boomers and X Generations. *International Journal of Arts & Science* , 3 (13), 453-485.

Mastoor, S. A. (n.d.). Ministry of Finance, Afghanistan. *International Academic Conference, Vienna* , 2014.

*The Warriors Way* ®. (n.d.). Retrieved from <http://warriorway.com/what-is-awareness/>