

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Since the last three decades, Islamic banking has become one of the fastest growing industries.¹ There are over 300 Islamic financial institutions worldwide across 75 countries according to the Asian Banker Research Group.² Islamic banking services have been widely accepted throughout the whole world by the Muslims and also the non-Muslims, in a Muslim minority and Muslim majority states.³ Countries with large Muslim populations in Southeast Asia like Malaysia and Indonesia have established a strong Islamic banking industry. Malaysia has over 16 Islamic banks operating actively.⁴ Islamic banks in Malaysia have a total of 59 Islamic products catered for Muslims and also non-Muslims.⁵

There are also banks which cater Islamic banking products and services in Muslim minority countries like Singapore. In comparison to neighbouring countries, Singapore is still new and developing in rendering Islamic banking services. There is a range of matters which are crucial for local banks to consider in setting up more

¹ Asyraf Wajdi Dusuki and Nurdianawati Irwani Abdullah “Why Do Malaysian Customers Patronise Islamic Banks?”, *International Journal of Bank Marketing* 25, 3 (2007), 142-160.

² Bank Negara Malaysia, retrieved 11 August 2014, <http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0>

³ Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice* (Chichester: Wiley, 2007), 6.

⁴ Bank Negara Malaysia, retrieved 11 August 2014, <http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0>

⁵ Islamic Finance Info, retrieved 11 August 2014, <http://www.islamicfinanceinfo.com.my/discover-islamic-banking/know-your-islamic-banking-products>

Islamic banking in Singapore or to operate Islamic banking services more effectively. One of the factors is the support from the locals especially the Muslims. Therefore it is important and highly encouraged to gather studies on how is the locals' awareness and acceptance of the Islamic banking services.

This dissertation however will focus on Muslim population. As Islamic banking is derived from the religion Islam itself, as a start, it is significant to explore the local Muslims knowledge on Islamic banking services.

1.2 RESEARCH BACKGROUND

There has been a widespread of knowledge and information regarding Islamic banking practices. Information about the principles of Islamic banking and its implementation has been increasingly available throughout the Muslim majority countries. Many Muslim minority countries also have an access to the information on Islamic banking services ranging from bank pamphlets, advertisement to academic modules and writings.

The Islamic banks have introduced equity-based financing which is free from interest and usury. This type of financing is in lieu with the principles of Islamic economics. The objective of Islamic economics is not solely to eliminate interest but to provide social equality and security by disregarding all kinds of exploitation.⁶ These objectives are also applied to Islamic banking services. These unique objectives distinguish between conventional banking and Islamic banking. Singapore, like other

⁶ Habibullah Khan and Omar K. M. R. Bashar, "Islamic Finance: Growth and Prospects in Singapore" (Working Paper, June 2008).

neighbouring countries, is operating both conventional and Islamic banking even though the Islamic banking sector is relatively small.

Singapore is one of the Muslim minority countries. With a small percentage of 14.7 per cent, Singapore has a small size of Muslim community.⁷ Despite the small scale of Muslim population, Singapore still provides Islamic banking services under special supervision from the Monetary Authority of Singapore (MAS). These three banks which offer Islamic banking services via personal banking are Maybank Berhad, Overseas Chinese Banking Corporation (OCBC) and Commerce International Merchant Bankers Berhad (CIMB).⁸ Maybank Berhad and CIMB are non-local banks; they were established in Malaysia while OCBC is the longest established local bank in Singapore.

As mentioned, Singapore is comparatively new to Islamic banking services. This sector was just established in the year 2005 with Maybank Berhad as the first bank to introduce Shariah-complaint online savings account and Shariah-compliant savings cum checking Account.⁹ In the year 2007, OCBC followed. Only recently, CIMB Singapore offered Islamic banking services too. This shows that Islamic banking in Singapore is comparatively limited and it is safe to say that most Singaporean deposit their savings in conventional banks.

With its limited offer in services, Singapore community's awareness and perspectives are questionable especially among the Muslims. As Islamic banking and

⁷ Census of Population 2010 Statistical Release 1: Demographic Characteristics, Education, Language and Religion, Department of Statistics, Ministry of Trade and Industry, Republic of Singapore, 2012.

⁸ Monetary Authority of Singapore, retrieved 17 April 2013, <https://secure.mas.gov.sg/fid/>.

⁹ Maybank Singapore, retrieved 17 April 2013, <http://info.maybank2u.com.sg/about-us/news/2011/29jun11.aspx>.

Muslims have religion as a common factor, it is perceived that Muslims must be more aware of the services. To some extent, the support from the people, especially Muslims, in the country is very crucial to sustain Islamic banking services.

Therefore, this paper will study Singaporean Muslims awareness and to explore their opinion; whether they accept Islamic banking products and services or otherwise.

1.3 RESEARCH PROBLEM

From the overall view on Islamic finance in Singapore, it is reported that the industry is growing rapidly on 2013, as it has for the previous five years, despite global economic uncertainties and market volatility.¹⁰ Global Islamic financial assets are estimated to have reached US\$1.8 trillion by the end of 2013, from US\$1.5 trillion in 2012.¹¹ This growth is contributed by the industry initiative; there more funds continue to be established in Singapore to meet demand from clients in Asia as well as from the Middle East. Also, several corporations have established sukuk programmes in Singapore to tap the market over the next few years.¹²

However, narrowing down to Islamic banking services in Singapore, the industry (retail Islamic banking) is reported to remain underdeveloped. This is mainly due to the low percentage of Muslims in Singapore along with the low awareness of the services. This results in low demand.¹³ There is a need to create a larger awareness for Singapore Muslims towards the existing Islamic banking products and services.

¹⁰ Ravi Menon, "Islamic Finance – Continued Growth" (Welcome Remarks, Managing Director, Monetary Authority of Singapore, at the 5th World Islamic Banking Conference Asia Summit, 2014)

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Wong Wei Han, "Retail Islamic Banking Remains Underdeveloped", *Today*, 5 July 2013, 1

Even though there is relatively low percentage of Muslims in Singapore, it is still viable and fairly important to gather support from the community as Islamic banking itself is derived from the religion of Islam. Therefore this research is crucial as to explore Singaporean Muslims awareness and acceptance.

In order to gain support from the Muslim community, it is important for them to have knowledge on the Islamic banking services rendered by the participating banks. According to Gerrard, there is only 31.7% among the Muslim community who truly understand the fundamental concept of Islamic banking.¹⁴ However this research was done before the establishment of Islamic banking services in Singapore and the statistic may seem outdated. Over the years, there are many tertiary educational institutions offering Islamic banking and finance related courses. In 2012, London School of Business and Finance has launched professional short courses in Islamic finance. Currently, Singapore polytechnic is offering a module on Islamic banking and finance. Local universities are also offering professional courses on Islamic banking and finance on a postgraduate level.

With the expanding formal education on Islamic banking and finance, it is assumed that Singapore Muslims may have an enhanced awareness towards Islamic banking services. However, being aware does not guarantee an acceptance and vice versa. There are other factors that can influence how the public choose their preferred bank to secure their savings or to do other transactions. Therefore it is also significant to look upon the factors which can contribute to how Singaporean Muslims choose Islamic banking.

¹⁴ Gerrard P. and Cunningham B. "Islamic Banking: A Study in Singapore", *International Journal of Bank Marketing* 15, no.6 (1997), 208.

Hence, it is important to conduct a research exploring how well-aware Singapore Muslim community towards Islamic banking services after nearly a decade of operation. Also, it is also important to explore the possibility of Singapore Muslim community accepting to subscribe to the services. This research may be useful for educators and also industry players.

1.4 RESEARCH OBJECTIVE

The objectives of this study are as following:

1. To explore Singaporean Muslims awareness on Islamic banking products and services.
2. To explore Singaporean Muslims acceptance on Islamic banking products and services.
3. To study factors which influence Singaporean Muslims in choosing Islamic banking products and services.

1.5 IMPORTANCE OF THIS RESEARCH

This research consists of few important points that can be contributed:

1. To clearly show how well Singaporean Muslims are aware of Islamic banking products and services.
2. To study how well Singaporean Muslims accept Islamic banking products and services.

3. To contribute some relevance studies to the Islamic banking sector in Singapore.

1.6 LIMITATION OF THE STUDY

The main limitation of this study is the choice of sampling design. As it is difficult to access the Muslims community data, the researcher used non-probability sampling. Empirical method is also suitable for this research. However, this study adopted non-probability sampling after taking into consideration of the time restriction and other external factors.

1.7 LITERATURE REVIEW

There are, in fact, numerous researches and writings on awareness and acceptance of the society towards Islamic banking products and services.

Awareness and acceptance are highly associated with the word knowledge, perception, understanding and attitude. Discussions on the awareness and acceptance of Islamic banking often come in different kinds of keywords. Moreover, many of the researches include the study on factors of banking selection. It is crucial to conduct a thorough review on the past researches and studies on the pertaining subject.

The researches and studies were conducted in different countries with different size of Muslim population. Therefore the literature studies will be divided into three categories: Awareness and Acceptance of the People in Minority Muslim states, Awareness and Acceptance of People in Majority Muslim States and Factors of Banking Selection.

1.7.1 Awareness and Acceptance of the People in Minority Muslim States

Gerrad P. et al.¹⁵, Hussain Gulzar Rammal¹⁶, Balasundram Maniam et al.¹⁷, Yvonne Saini et al.¹⁸ and Ahmad Jamal¹⁹ conducted a study on the awareness and acceptance of Islamic banking system in Singapore, Australia, United State of America, South Africa and United Kingdom respectively. All these countries are minority Muslim states. Gerrad adopted a comparative approach on the study of Islamic banking in Singapore. He however discovered that the Muslims had little knowledge on the fundamentals and terms used in products and services of Islamic banking while the non-Muslims had none. However, this study was conducted before Islamic banking was established in Singapore.

Hussain discovered that Muslims in Australia has a slightly below average percentage of awareness level. He analysed the awareness level of the Muslim community in Australia towards Islamic banking especially from the aspect of accepting the Profit Loss Sharing (PLS). This research used quantitative method: 300 questionnaires were distributed to those who subscribed to Islamic banking services on the basis of PLS. The finding of this research concluded that most of the respondents

¹⁵ Gerrard P. and Cunningham B. "Islamic Banking: A Study in Singapore", *International Journal of Bank Marketing* 15,no. 6 (1997), 208.

¹⁶ Hussain Gulzar Rammal "Awareness of Islamic Banking Products Among Muslims: The Case of Australia", *Journal of Financial Services Marketing* 12,no.1 (2006).

¹⁷ Balasundram Maniam, Bexley J.B. and James J.F. "Perception of Islamic Financial System: Its Obstacles in Application, and Its Market", *Academy of Accounting and Financial Studies Journal* 4, no.2 (2000).

¹⁸ Yvonne Saini, Bick G. and Loonat Abdulla "Consumer Awareness and Usage of Islamic Banking Products in South Africa", *South African Journal of Economic and Management Sciences*, 14, no.3 (2011)

¹⁹ Ahmad Jamal, Akmal Hanuk and Omer Rana, "Customer Acceptance of Islamic Banking in the UK: An Exploration of Attitudes, Perceived Value and Usefulness" (Academy of Marketing Conference 2013, 11 July 2013).

were interested in purchasing PLS based products but have no knowledge about the function.

Balasundram Maniam et al. conducted a study on the perception of Islamic Financial systems in the United State, U.S. Targeted audience were non- Muslims. The finding of this research shows a high percentage of people who have no knowledge on Islamic finance. This results to a negative attitude of the people towards Islamic finance services. They do not understand the terms used or how the systems operate and they prefer conventional finance to Islamic.

Yvonne Saini et al. investigated the level of consumer awareness and use of Islamic banking products in South Africa. Target audiences were Muslims. He adopted a non-probability sampling method. He discovered that Muslims are aware of Islamic banks however their rate of use is low. This is because the factor of choosing Islamic banks was not due to religious motivations but rather efficiency of banks' facilities.

Apart from that, Ahmad Jamal et al. investigated the issues surrounding acceptance of Islamic banking in UK. The research adopted a qualitative and interpretive method. The finding of this research shows that there is a strong support from the British-Muslims for Islamic banks that offered Shariah compliant products. The British-Muslims wanted a wider range of Shariah complaint products that can cater to their needs. There is a need in increasing financial literacy among British-Muslims as to create awareness about the true range of products offered.

1.7.2 Awareness and Acceptance of the People in Majority Muslim States

Apart from numerous studies conducted in the minority Muslim states, there are also a large number of studies conducted in the majority Muslim states. Noraifah Ahmad et al.²⁰, Mohd Daud²¹, Mohammad Saif Noman Khan et al.²², Saad A. Metawa²³, Kamal Naser et al.²⁴ and Mohamed Sharif Bashir²⁵. Noraifah Ahmad et al. and Mohd Daud conducted a research in Malaysia whereas Mohammad Saif Noman Khan et al., Saad A. Metawa et al., Kamal Naser et al. and Mohamed Sharif Bashir conducted a research in Bangladesh, Bahrain, Jordan and Brunei respectively.

In the research, Noraifah Ahmad et al. discussed the perception of the corporate customers regarding Islamic banking in Malaysia. This research was conducted in the aspect of Islamic banking usage, understanding level towards Islamic banking among the corporate customers, their role in using the Islamic banking products and personal views on Islamic banking products. By adopting a quantitative method, it is found that nearly half of the respondents believe that Islamic Banking has a great potential as an alternative for the conventional banking. Apart from that, this research also depicted that the officers in charge of the Islamic banking products have not yet given a cogent understanding to the customers.

²⁰ Noraifah Ahmad and Sudin Haron "Perceptions of Malaysian Corporate Customers Towards Islamic Banking Products and Services", *International Journal of Islamic Financial Services* 3, no.4 (2000).

²¹ Mohd Daud Awang, "Kefahaman Masyarakat Islam Terhadap Sistem Perbankan Islam di Malaysia: Suatu Kajian di Pantai Timur Semenanjung Malaysia"(thesis, Academy of Islamic Studies, Kuala Lumpur, 2007).

²² Mohammad Saif Noman Khan, M. Kabir Hassan and Abdullah Ibneyy Shahid "Banking Behaviour of Islamic Bank Customers in Bangladesh", *Journal of Islamic Economics* (2007).

²³ Saad A. Metawa and Mohammed Almosawi "Banking Behaviour of Islamic Bank Customers: Perspectives and Implications", *International Journal of Bank Marketing* 16,no.7 (1998).

²⁴ Kamal Naser, Ahmad Jamal and Khalis al-Khatib "Islamic Banking: A Study of Customer Satisfaction and Preferences in Jordan", *International Journal of Bank Marketing* 17, no.3 (1999).

²⁵ Mohamed Sharif Bashir "Awareness, Service Quality and Product Effects on Satisfaction of Islamic Banking in Brunei Darussalam" (Proceeding, 2nd International Conference on Management, Malaysia, 11th-12th June 2012)

Mohd Daud Awang on the other hand focused on the understanding of the society towards the Islamic banking system specifically in the east coast area of Malaysia. By adopting both quantitative and qualitative methods, the finding shows that there was a low level of understanding depicted by the people around the area. At the end of the research the author suggested ways to improve the understanding level of the people towards Islamic banking system.

Saif analysed the Islamic bank customers' behaviour in Bangladesh. This research adopted quantitative method: distributing 100 questionnaires to the mass. The finding concludes that most of the Islamic bank customers aged between 25 to 35 and obtained a high academic qualification. They have a high level of awareness in using the deposit instruments but lacked in the usage of personal financing instruments. Apart from that, religious factors also play an important part in influencing the customers banking preference.

Saad determined the background and habit of the Islamic bank customers. Also, this article analysed the level of awareness, consumption and degree of satisfaction of the customers in Bahrain specifically in Bahrain Islamic Bank and Faisal Islamic Bank. This research adopted a quantitative method: 300 questionnaires were distributed. In conclusion, the writer found that most of the Islamic bank customers have a high level of education. They also have used Islamic banking service and have a high level of knowledge regarding Islamic banking products.

Kamal Naser analysed the degree of awareness and satisfaction of the customers towards Jordan Islamic bank for Finance and Investment (JIBFI). This

research also reported the reasons customers choose Islamic banks and conventional ones in Jordan. Apart from that, this research also reported the level of awareness the Jordanian Muslims have towards Islamic banking products and services. All in all, majority of the Jordanian felt satisfied with most of the Islamic banking products and services. Islamic banks receive more confidence and trust from the customers compared to conventional banks.

Mohamed Sharif Bashir examined the effect of service quality, product and awareness on satisfaction of Islamic banking in Brunei Darussalam. The study was conducted on local Muslims through a questionnaire survey. It was found that the establishment of higher levels of awareness will lead customer to have a higher level of satisfaction. Moreover, the finding also showed that the effect of service quality and product on awareness is positive and significant.

1.7.3 Factors Influencing Bank Selection

There were indeed quite a fair number of studies conducted on factors influencing bank selection. Among them are those researched by Alsadek Gait et al.²⁶, Bley J.²⁷, Ahasanul Haque et al.²⁸, Adiwarmann A. Karim²⁹ and Khaliq Ahmad³⁰.

²⁶ Alsadek Gait and Worthington A. "An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods of Finance", *International Journal of Social Economics* 35, no.11(2008).

²⁷ Bley J. "Conventional Versus Islamic Finance: Student Knowledge and Perception in the United Arab Emirates", *International Journal of Islamic Finance Services* 5, no.4 (2005).

²⁸ Ahasanul Haque, Jamil Osman and Ahmad Zaki Hj Ismail "Factor Influences Selection of Islamic Banking: A Study on Malaysian Customer Preferences", *American Journal of Applied Sciences* 6, no.5 (2009).

²⁹ Adiwarmann A. Karim "Islamic Banking Consumer Behaviour in Indonesia: A Qualitative Approach" (6th International Conference on Islamic Economics and Finance, November 2005).

³⁰ Khaliq Ahmad, *Islamic bank customers: analysis and implication on marketing* (LAP Lambert Academic Publishing, Deutschland, Germany, 2011).

Alsadek's et al. research looked into the acceptance, perception and the knowledge of the customers on financial products and services. This research adopted a quantitative and comparative methods between conventional and Islamic finance products. At the end of the research, the writer discovered that the religious factors are the main reasons customers opt for Islamic finance apart from the bank's reputation, service quality and the product price. On the other hand, firms chose conventional finance due to its high interest.

Bley's research analysed the relation between the information gathered regarding the views of the university students on financial concept and terms in the conventional banks and Islamic banks. This research adopted quantitative method where 667 questionnaires were distributed. The result of this research showed that the university students are more familiar with terms and concepts from conventional bank than the Islamic banks. Similar to Alsadek's finding, religious factors is the number one reason on choosing the Islamic banks service.

Ahasanul et al. analysed the main factors which influenced the perception and satisfaction of the customers towards Islamic banking. This research also analysed the perception, service quality, level of confidence and social and religious perspectives towards Islamic banking. The result of this finding showed a positive relation between service qualities, social and religious perspective, level of confidence and perception of customers towards Islamic banking.

Adiwarman analysed the perception of the public towards Islamic banking service, the factors influencing customers to opt for Islamic banking and the reasons

they choose Islamic banking. This research adopted qualitative method. This research found that one of the factors which attracts customers to use Islamic banking is usury-free.

Khaliq Ahmad analysed about factors influencing the selection of Islamic banking. The factors include the banks' service quality, facilities and convenience of usage. This study adopted a quantitative method. However this study was conducted specifically in International Islamic University of Malaysia. The results showed that that's a positive response on choosing Islamic banks especially due to religiosity and the banks 'service quality.

1.8 WRITING STRUCTURE

This thesis consists of five chapters:

Chapter one is the introduction that will give an overview of the conducted study which consists of research background, problem statement, objective, the importance of study, literature review and writing structure.

Chapter two will discuss about Islamic banking services: the concept of awareness and acceptance of Islamic banking, explanations of the basic contracts used in the offered products and services briefly. Also included in the discussion is the existence of Islamic banking services in Singapore. The discussion will begin with an overview of the banking and services sector in Singapore, introduction to the main regulatory body in Singapore (MAS), discussion on the activities of Islamic banking in Singapore by introducing the three main banks which offer the services.

Chapter three will discuss about methodology approach. In this chapter the writer will discuss about the concept of awareness and acceptance also the factors in determining the banks selection of the patrons.

Chapter four consists of analysis of the research. It will analyse the hypothesis drawn from chapter 2. The data gathered from the interviews will be processed and the findings of this research will be thoroughly discussed.

Chapter five is the last chapter of this particular research. It is consists of conclusion of the study, recommendations, suggestions for further study and also bibliography.

1.9 CONCLUSION

This chapter discusses about the research background, research problems and most importantly the researcher listed down the research objectives. To strengthen the discussion, the researcher also added research importance. This chapter also includes literature reviews, research methodology and writing structure.