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PERCEPTION AND ATTITUDES OF MUSLIMS AND NON-MUSLIMS TOWARD ISLAMIC BANKING IN THE WESTERN COUNTRIES: CASE STUDY OF UNITED KINGDOM

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ABSTRACT

The study aimed was to identify the challenges faced by the Islamic banking and finance industry in order to find the appropriate and suitable solution that will enable the continuation and expansion of the industry. The study attempts to define the challenges and obstacles faced by the Islamic Banking and Finance Industry in the UK. The study adapted different research methods including collecting primary data surveys. However, secondary data through descriptive analysis and logistic regression is also used. This study found that the Islamic banking and Finance Industry in the UK face a number of challenges, which may hinder and slow down its growth. The study also found that there is a great opportunity for the growth of the industry if appropriate measures are taken. Also, despite the fact that many of the responses of the population sample show that they have awareness about Islamic banking and finance, they are still hesitant about dealing with Islamic banks.

INTRODUCTION

The Islamic financial law has a long history. Islamic banking and the finance industry are based on profit and loss sharing investments. Islamic banking has become a growing force in global financial circles over past three decades with Islamic banks found in more than 70 countries globally [1]. Islamic financial provides alternatives to conventional financial for the investors that have religious sensitivities or concerns [2]. Ernst and Young report titled

“World Islamic Competiveness Report” that the global Islamic finance industry has been reported 16% of compound annual growth rate between 2010 and 2014 [3].

Islamic banking system involves the products which do not include riba (interest) and based on Shari’ah principles [4]. Riba is forbidden (haram) by Holy Qur’an and Sunnah since money has no intrinsic value [5]. Meanwhile, conventional bank is band conducting conventional business in its activities providing services in financial traffic payment [6]. Islamic banks have to compete with conventional banks in standardization, innovation, intra and inter industry business and markets to operate in the dual system [7].

In the United Kingdom, the first Islamic bank, Albaraka Bank, opened a branch in London by the end of the (1980s). Thus, it became the first Islamic bank to operate in the United Kingdom with a banking license. The Islamic Bank of Britain IBB established in 2004 is the first Islamic bank in the Kingdom in the 21st century, followed by the European Islamic Investment Bank (EIIB), which was incorporated in 2005 and authorized in 2006. A third bank, Bank of London and the Middle East (BLME), was incorporated in 2006 and authorized in 2007. The Islamic Bank of Britain IBB was the first Islamic bank to be approved by the (FSA) Financial Service Authority. The Islamic banking system has its establishments since the 1970s, and has been expanding its principles, but in light of the global financial crisis, it has experienced a double-digit growth rate with worldwide assets close to one trillion (IMF, WP/11/156). Although Islamic banking is one of the fastest growing segments in the financial world, it is still in its infancy stage, at about one percent of the global banking system.

Based on Malaysian Islamic Banking Act 1983, Islamic bank is defined as any company that carries on Islamic banking business and holds a valid license [8]. There are five principles in Islamic finance such as the prohibition of riba (interest), prohibition of gharar and maysir, insistence that all funding be backed by tangible assets, limitation in halal activities investment and profit and losses sharing [9].

The fully Islamic banking in the UK comprise of Islamic Bank of Britani (IBB), ABC International Bank PLC, Bank of London and the Middle East PLC (BLME), European Islamic Investment Bank PLC, and Gatehouse Bank. In addition, there is a group of the UK financial institution, that offer Islamic financial service, such as The Ahli United Bank (UK) PLC, HSBC Amana financial and Lloyds, Further, research should also be undertaken in a more comprehensive manner to analyze the non-Muslim perception towards Islamic banking since this study only concentrated on Kuala Lumpur, Malaysia with a limited number of respondents.

In United Kingdom, 300 Muslims had studied on their patronage aspects and awareness of Islamic financing methods which found that Shariah-compliant products appeared to be effectively accessible through Islamic finance “windows” of conventional banks [10].

The UK is one of the western countries, which embraced Islamic finance being strongly built capitalist economies, which in many principles differ from

the basic principles of the Islamic Law. The UK may face a greater challenge in the establishment of solid Islamic Banking and Finance system not only because of the religious difference, but also because of the other issues, such as the legal requirement, social setups, and political principles. Therefore, a clear and deep study, which identifies and categorizes these challenges in order to lead to constructive solutions to these challenges, is very crucial in the growth and development of Islamic Finance in the UK. Thus, this study finds that the lack of awareness might be the major challenges for Islamic banking in the UK.

METHODOLOGY

The UK community understands the functions and practices of Islamic banking practice. The study aimed was to examine and check the development and opportunities of Islamic banks in UK by using a structured questionnaire. The questionnaire was an important research tool for collecting primary data. The information needed to be collected from the survey was all about the features that identify the perceptions, awareness of Muslims and non-Muslims and regulations regards to Islamic banking. This study followed the quantitative methodology that focused on gathering numerical data from a group of people to explain a particular phenomenon.

This study adopted surveys as a source of primary data. However, the secondary data used is the descriptive analysis. Hence, the survey will measure the study's independent and dependent variables. Independent variables stated the understanding of Islamic banking in the UK and there were many Muslims who live there and want to spend their life based on their religion. In addition, non-Muslims become attracted to deal with Islamic banking, particularly after the financial crisis. There was a dependent variable if they deal with Islamic banking and the development and growth of Islamic banking in the world especially in the UK.

The study used a survey method which to get the benefit to know the opinion of a lot of communities in the UK if using Islamic banking and have knowledge about transaction of Islamic banks. For example, the use of self-administered questionnaire to conclude customers' perception is a good way to know people's views. The questionnaire prepared in both English and Arabic languages to make sure that will effectively collect information. This primary data helped in finding answers about the study questions.

Two types of statistical techniques were undertaking which are descriptive statistics, and binary logistic regression analysis. Data was entered into the Statistical Package for Social Sciences (SPSS). Descriptive statistics was calculated using Statistical Package for Social Sciences (SPSS).

RESULT AND DISCUSSION

Result

In Figure 1, the first statement was the Islamic banking system that was introduced because Muslims are prohibited from receiving or giving interest which is practiced by the conventional banking system. The result showed that 70% of the UK community agreed that Islamic banking exist because Muslims were not allowed to deal with Riba. There are 9% of the respondents disagreed

as shown in and Figure1. A few of the Muslims were aware that Islamic banks avoid dealing with riba and others who disagreed stated that cannot distinguish between the differences between the interests of Islamic or conventional banking. The ones who agreed stated that they acknowledged and understand riba.

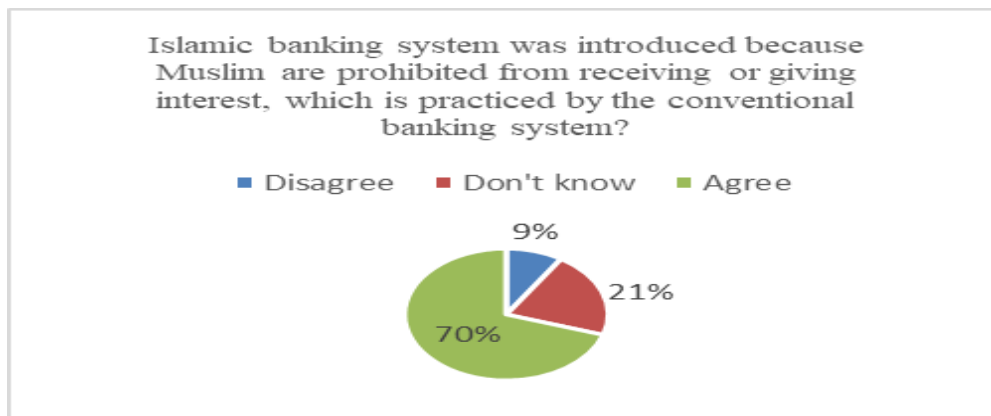


Figure 1: Presentation of Islamic banking to avoid riba

Second statement is about Islamic financial system, its working and the concept of the participation in a transaction backed by existing assets and benefit from the funds at a risk on a profit-and- loss-sharing basis. The second statement was about the operation of the Islamic banking system, the profit and loss sharing principle is the only principle that can replace the interest. The result showed that 64% agree while 16% disagreed, as shown in Figure 2. Most of respondents agreed that the Islamic bank depend on their investment in products and services on profit loss sharing.

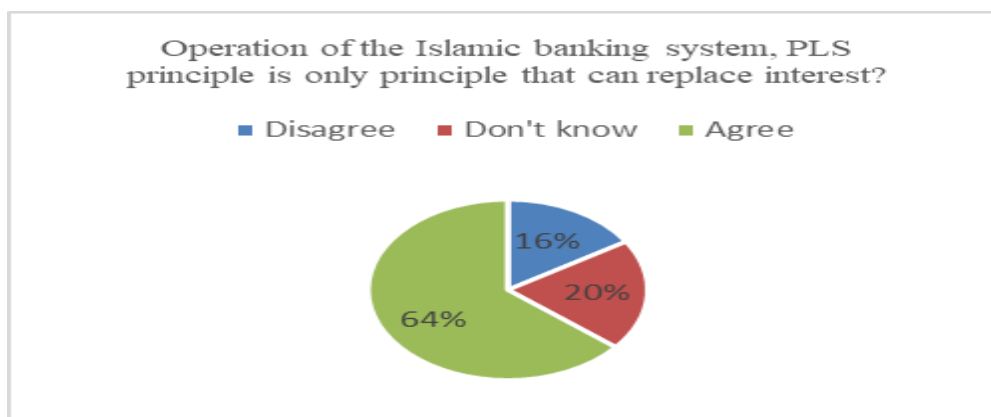


Figure 2: Islamic banking share profit and loss (PLS)

In the third statement, the examination of the main principle of Islamic banking and practices may help Muslims and non- Muslims to become more ethical in their values. From the third statement, People will become more ethical in their values if they deal with the Islamic bank. The outcome is that 80% agree though 10% disagree. Also, an interesting topic is that Muslim scholars and participants argue around finance and Islamic bank in the UK.

Responses indicate that Islamic banking ethics can provide ethically strong leadership to the organization to fight against an ethical dilemma of prevailing in corporate and bank management, which is evident from the existence of many popular scandals. Majority of responses believe that Islamic banking may help Muslims to become more ethical in their value.

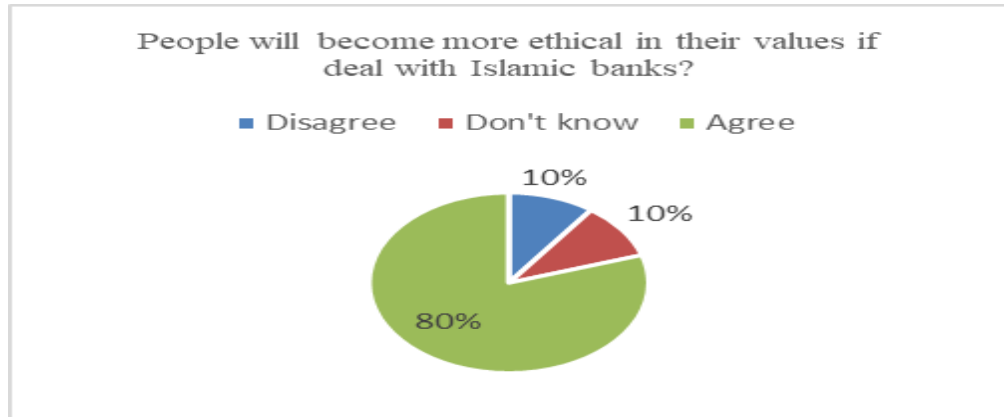


Figure 3: People become more ethical during deal with Islamic bank

In Figure 4, Islamic banking products and services available in the UK are similar to products and services of conventional banks except the different names used by the bank in highlighting those products. As a result, 31% of respondents agreed while 24% of respondents disagreed. In this statement, the real nature of products and services offered by Islamic banks in the UK which an examination of the perceptions of respondents on the present practices of Islamic banking in UK is needed.

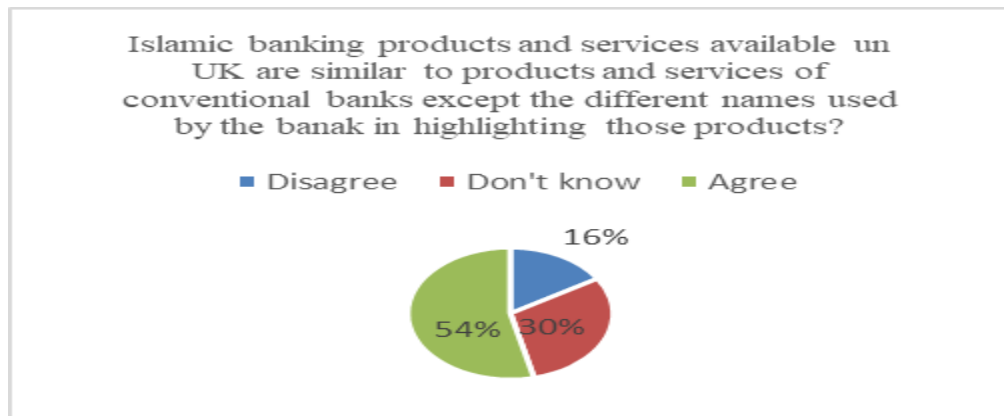


Figure 4: Islamic banking product similar to conventional in UK

From the fifth statement, Islamic banking was on the unique quality of products and services has provide and not about computing price. As a result, 61% of respondents agreed while 16% of the respondents disagreed as shown in Figure 5. The results get a positive perception from the respondents. As a result, Muslims and non-Muslims customers trust the product and service offered by this to be fair and equal among people.

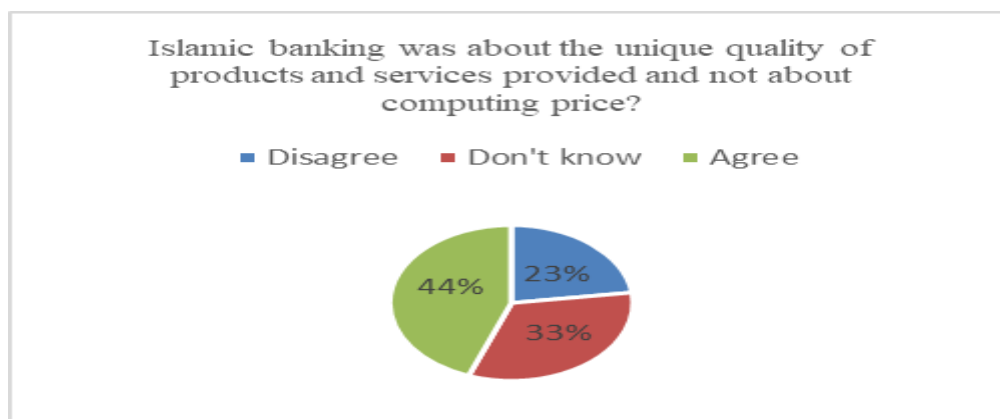


Figure 5: Islamic banking for quality products and services

From the sixth statement, enough marketing is done to create knowledge about Islamic products and services in the UK. As a result, 45% agree; however, 17% disagree, as shown in Figure 6. The outcomes from the responses of Islamic banks were informing and developed awareness in users and there was an acceptable percentage. Majority of responses have shown awareness about Islamic banking in the UK. Thus, this statement was planned to examine the marketing and advertisements offers done by Islamic banks in promoting Islamic products and services in the UK.

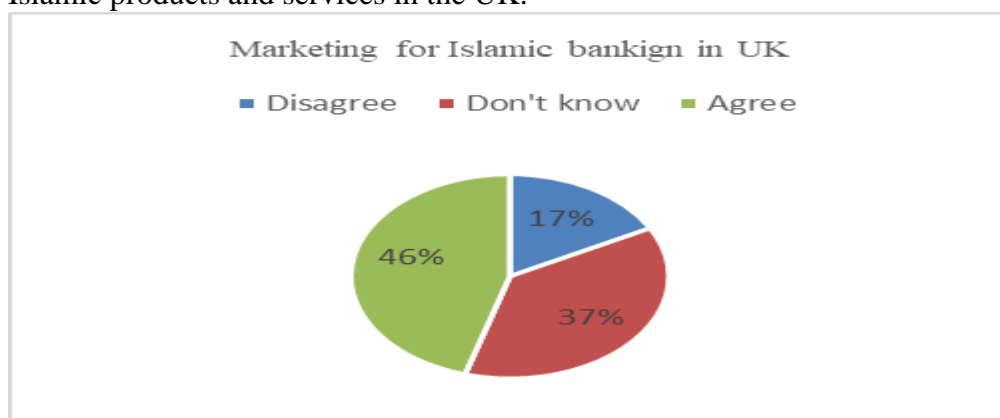


Figure 6: Marketing for Islamic banking in UK

Statement seven asked about Islamic banks' goal that was not only limited to the maximization of shareholders' wealth but also included the enhancement of the standard of living and welfare of society in Figure 7. The outcome was 71% of respondents agreed while 11% of respondents disagreed as shown in Figure 7. Outcomes from respondents on the objectives of the Islamic banking practices have reached that consensus on the goal of Islamic banks in society concentrating on distributing the wealth in the society. In conventional banks, the sole purpose is profit maximization and it does not care about the interests of the society.

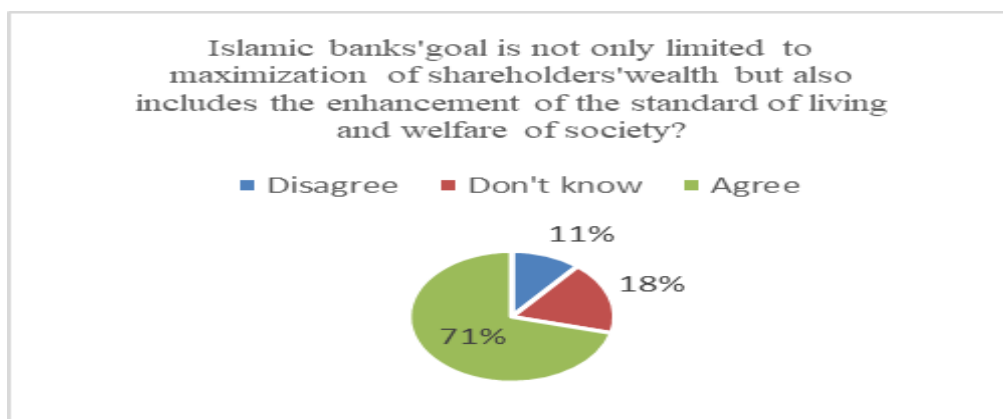


Figure 7: Aim of Islamic banking

From the eighth statement, there was a high potential for working Islamic banking products in the UK. As a result, 75% of the respondents agreed while 4% of the respondents disagreed as shown in Figure 8. The observation of respondents towards the potentiality of Islamic banking products and services indicated that most of the respondents believed and trust that there was potential for Islamic products and services working in the UK. This is a result that provided more challenges to Islamic banking in particular and these banks operate on and get the trust of their customers. The outcomes associated in the percent running of Islamic banking in the UK. So that caused many challenges to Islamic banks.

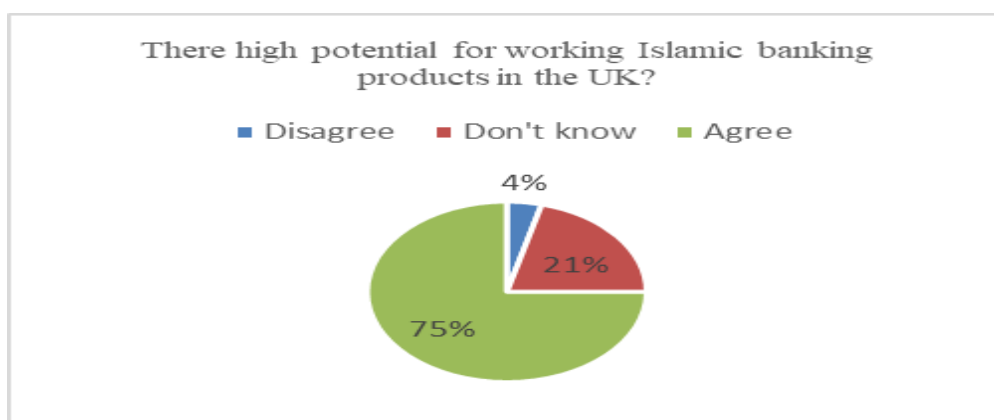


Figure 8: High potential for work of Islamic product in UK

As a result, 55% of the respondents said yes and 45% of the respondents said no, as shown in Figure 9. These banks work and treat their customers were asked from the public if they have the knowledge or awareness of Islamic banks in the UK. The result highlighted that the majority of responses are aware about Islamic banking in the UK. The aim was to test their perception and understanding of the Islamic banks.

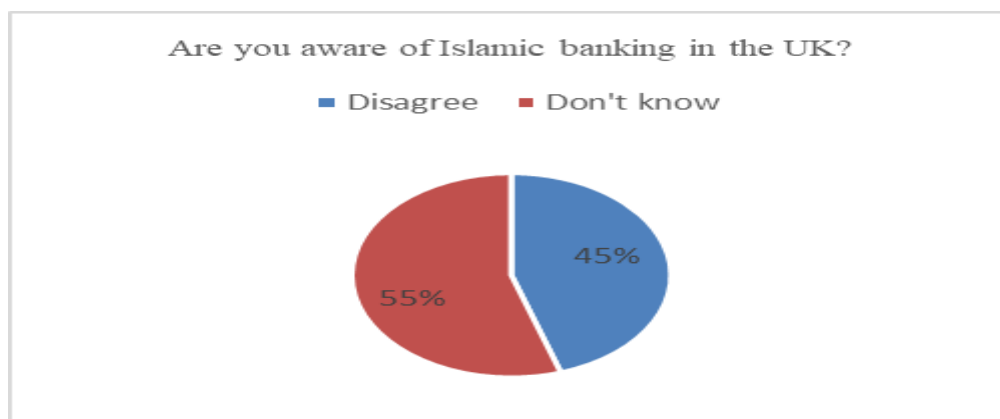


Figure 9: Awareness on Islamic banking in the UK

The outcome depicted that 40%, that is less than the half percent, were dealing with Islamic banks in the UK. On the other hand, 60% of the respondents were not dealing with Islamic banks in the UK, as shown in Figure 10. The aim was to test if they deal with Islamic banking in the UK or not especially after the financial crisis.

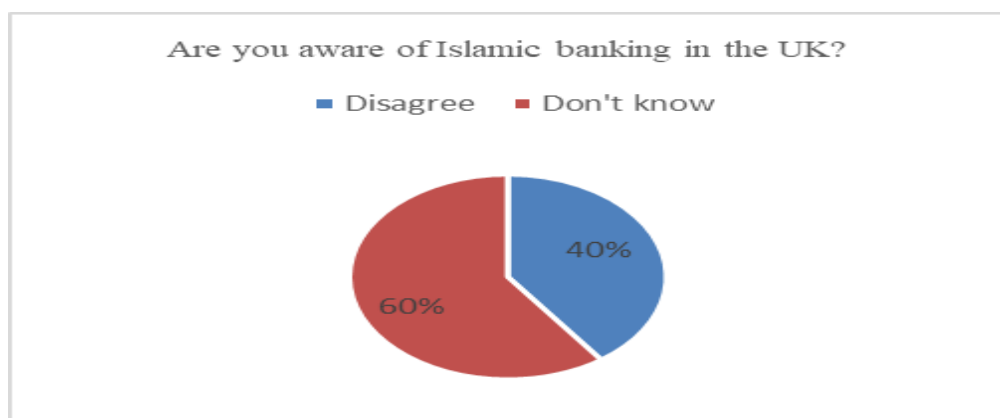


Figure 10: Deal with Islamic banking in UK

Discussion

High mean with a low standard deviation that involves a common consensus has been reached by the respondents. Besides, the mean identifies the centre of the data. In addition, standard deviation measures the level of disagreement among the respondents. Abdullah et al. [11] concluded a lack of awareness, which is that the system of Islamic banking is free from the interest of Riba.

The second statement showed a difference between this study and other studies of the responses. The mean was 1.59 and a low STD 0.82 and the average of awareness of responses stated that the operation of Islamic banks is based on the profit and loss of sharing. Considering the relatively mean score by itself provides evidence about agreement among the majority of respondents that the Islamic bank deals with PLS.

In dealing with Islamic banking, the result was found that the mean of 1.46 and a low STD of 0.78 indicated an average level of awareness of respondents observed by using Islamic banking made communities that are more ethical

and aligned in their values. Haque [12] had argued that Islamic banks must develop products and introduce new innovative services in accordance with Islamic principles.

Similar products and services in Islamic and conventional banks got responses with mean 2.80 and standard deviation of 0.89. The study was found that a high mean and a low standard deviation showed that a consensus is reached among respondents about this statement. This is not a surprising result from the respondents, especially among the unconvinced Muslims and non-Muslims. That means the communities are not confident with products and services that are offered in Islamic banks in the UK.

Islamic banks are the unique quality and not computing the price with a mean 1.90 and standard deviation of 0.81. This result indicated a high average of awareness and showed a positive perception in the majority of respondents about the unique quality of products and services, and not just the computing price. This indicated that the majority of respondents are aware about Islamic banks. However, the respondents suggested that Islamic banks need to improve their transactions, innovated and progress their products and reduce their constraints.

Marketing finds a percentage from SPSS with a mean of 1.90 and a relatively low standard of 0.89. This means that there is enough marketing done for Islamic banking in the UK. Also, the study by Akbar, et al. [13] showed that most of the respondents feel the need for awareness through marketing of Islamic banking products and services in the UK.

Islamic Banking's goal is the welfare of the society; the results imply that respondents with mean 1.58 and standard of 0.85 indicated an average awareness level that respondents have reached an average consensus on the goal of Islamic banks in the enhancement of the standard of living in the society.

The Working Islamic banks in the UK recorded a mean of 1.65 and a standard of 0.89. The majority of the respondents was aware and believes that the operation for Islamic banks in the UK will be successful in the future. Should Islamic banking grow and develop its products and services to get the trust of their customers were highlighted.

Awareness about Islamic banking in the UK shows a mean 1.98 with STD.10, which indicated that a high mean and low standard showed that the majority of responses have supported the awareness of Islamic banking in the UK.

Dealing with Islamic banking in the UK shows a mean 1.57 and a standard deviation 0.50. This result was not great due to the many Muslims living there as compared to non-Muslims in the UK. In addition, Islamic banking and finance happen to be more acceptable especially after the financial crisis.

Overall, the findings highlighted that there was awareness in respondents about Islamic banking in the UK. However, the respondents did not deal with Islamic banking. Hence, there is a need to innovate and improve products. Thus, the examination of Islamic banks operated on PLS regarding their products and services which is considered as alternative of interest that adopted in conventional banks. The finding also revealed that a true PLS system will not only benefit the banks and the clients, but also the economy as

a whole. Besides, some of respondents have doubted Islamic banks around products that are offered by Islamic banks. It appears to be similar to the conventional banking products and services in order to compete with counterparts.

CONCLUSION

In conclusion, this study indicated that there was a majority of respondents who are aware of Islamic banking in the UK. However, the people did not deal with Islamic banking. The growth and development of IFIs must be monitored in the world and especially in countries such as the UK. For future study, it is hoped attention will be paid to improving common Islamic products such as Sukuk who practice with conventional banks in the UK. This study concluded some factors that contributed to the awareness and development of Islamic banking in the UK.

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