Chapter 6

CONCLUSIONS
RECOMMENDATIONS AND
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Chapter Overview

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Conclusions, Recommendations and Implications

Chapter Overview

This chapter discusses the conclusions, recommendations and implications based on the findings of the study. First, conclusions of the study is given, followed by recommendations made on the basis of determinants of Islamic banking in India, their mutual relationship and hierarchy. Subsequently, the recommendations based on customer attitude and willingness towards Islamic banking are made. The chapter concludes with implications of the study.

6.1 Conclusions

The study attempts to address the underlying challenges and opportunities of Islamic banking in India. It includes the identifications of key determinants of Islamic banking and understanding consumer's attitude towards it. The conclusions of the study are classified in two sections, section 1 discusses the determinants of Islamic banking and section two covers conclusions based on consumer's attitude towards Islamic banking.

6.1.1 Conclusions Based on Identification of Key Determinants of Islamic Banking in India

Determinants of Islamic banking in India have its significance because of the fact that Islamic banking in India is emerging as a political and social issue. This is primarily due to the fact that Islamic banking is regarded as a religious/charity system in the mindsets of the regulators and policy makers. The various levels of determinants, are critical for better
understanding and bear implications for the successful introduction of Islamic banking in India.

Islamic banking system can be introduced in India by developing factual ideology about Islamic Banking and its operational aspects. This can be further facilitated by a collaborative relationship with governmental policies and regulations. Proper awareness creation about Islamic banking is the primary issue which needs to be focused upon.

The government of India has recognized the need and benefits of products and services offered by Islamic banking to the large untapped Muslim population. Several initiatives were introduced to foster compatibility of the features like nomenclature and requirement of Sharia’h certification with Indian financial system. However, these developments are in their nascent stage at the moment. It is challenging to analyze the potential of Indian market as a center for the products of Islamic banking in South East Asian.

For the purpose of financial inclusion of Muslims as well as non-Muslims, a marketing plan is required by the Islamic banks to offer modified banking products on the principles of Islamic banking. The issues of legal and regulatory factors need to be handled with care and proper gelling is required between the features of Islamic banking products and current financial regulations in India. In order to make Interest-free Islamic banking a reality in India, a multi-dimensional plan of action is required. This action plan should comprise of awareness campaign, intervention of regulators, political will, development of knowledgeable manpower, financial inclusion and support to the efforts undertaken by various individuals and institutions.

6.1.2 Conclusions Based on Consumer’s Attitude towards Islamic Banking

Findings from this study show that the attitude of Indian customers can be classified into four dimension i.e. ideology of Islamic banking, awareness about features of Islamic banking, knowledge about benefits of Islamic banking and prospects of Islamic banking. Therefore, these factors should be considered by the Islamic banks in formulating suitable marketing and operational strategies. A statistical validation of five null hypotheses
concludes that demographic variables like religion, age, education and occupation exert an influence in shaping the attitude of the customers towards Islamic banking.

The results also shows a positive attitude of the respondents which is an encouraging sign for the business of Islamic banks in India. This fact is supported by the responses obtained from the Muslim and non-Muslim consumers. The findings of the present study that people are generally less aware about the features of Islamic banking, but have a positive attitude towards the concept of Islamic banking are in line with previous studies by Omer (1992) and Gerrard and Cunningham (1997). This finding however is deviating from the findings of Erol and El-Bdour (1989) and Bley and Kuehn (2004) as these researcher have concluded that those people aware of features of Islamic banking share positive attitude towards it. This is due to the fact that studies conducted by Erol and El-Bdour (1989) and Bley and Kuehn (2004) conducted their studies in Islamic nations like Jordan and Qatar with a Muslims majority. Whereas Omer (1992) and Gerrard and Cunningham (1997) conducted their study in United Kingdom and Singapore where Muslims are in a minority. Thus, the studies by Omer (1992) and Gerrard and Cunningham (1997) have a close resemblance with the present study in India, where Muslims are in a minority. Similarities in the findings of this study with the studies conducted in Singapore and United Kingdom imply that the model adopted for the introduction of Islamic banking in these countries may also be adopted in India. For example opening of special Islamic banking windows in the existing commercial banks by accommodating some minor regulatory changes.

The results of the study indicate that there is an increasing demand for the products and services of the Islamic banking. Presently, the customers are aware of various options of investment and are capable to handle their financial requirements in compliance with their religious faith. It is an opportunity for the financial institutions of India to market the products of Islamic banking by developing a business relationship with the Muslims as well as the non-Muslim community. However an in-depth causal study is required to establish relationship between offerings and the demand patterns in context of dynamic business scenario.
It has to be kept in mind that “Islam is religion and a culture, lived differently in various areas of the world” and “efforts to target these customers are necessarily contingent on geographic location and context” (Walker, et al. 2007). Therefore it is not reasonable to conclude from the success of Islamic banking in one country that the same approach of Islamic banking will be successful in all other countries.

6.2 Recommendations

Research findings are helpful in gaining an insight into the research outcome and thus recommending specific actions needed for Islamic banking. They are presented below:

I. Ideology has been found as the most important driving force for Islamic banking in India. It is necessary to educate people about the concept of Islamic banking. Consumers’ awareness programs and informative seminars should be organized, so that the larger audience is made aware of the benefits of Islamic banking products. This can only be catered through consumers’ awareness programs & campaigns.

II. Creating proper awareness and knowledge programs would help people to understand the operations of Islamic banking products and services. This knowledge will remove a lot of doubts and challenges owing to the Islamic banking and help consumers to be more involved in the field of Islamic banking.

III. Government should make way for the full-fledged operationalization of Islamic banking by removing hurdles in the path of Islamic banking in India. It is a banking system which is likely to fully sanitize the banking sector and also reduce the socio-economic problems bedeviling the sector in India. Islamic banking will also contribute significantly to the overall development of the country by introducing micro credit schemes aimed at improving different communities, thereby drastically reducing unemployment rates.

IV. Nomenclature of Islamic banking remains a point of concern for regulators and policy makers. A proper Indian name can be given to terminology of Islamic banking system. As most of the terms in Islamic banking are derived from Arabic sources, hence in
a non-Arabic speaking country like India. It may pose difficulty in customers’ familiarity and recall of products. It may also hinder word-of-mouth publicity by the customers. Name should be given according to the secular character of India. Countries like Turkey, U.K. had adopted similar kind of names. Names may be like Bhartiya interest free bank, Samajik Banking, Social Banking Ethical Banking, Participatory Banking, Moral Banking, etc.

V. All the four dimensions of the consumer’s attitude are equally important and need strategic handling by the marketers. Across all demographic groups, prospects of Islamic banking as a dimension of consumer attitude scores high, it is required to stimulate the other dimensions, Ideology of Islamic banking, Awareness about features and knowledge about benefits of Islamic banking.

VI. A large number of consumers has shown readiness to open an account in an Islamic bank and they are not going to withdraw their money even if an Islamic bank does not distribute any profit for one year. This segment needs to be targeted even before the introduction of Islamic banking in India as this segment may help in pressurizing the government to come up with the necessary changes in the legislation for the introduction of Islamic banking in India.

VII. Most non-Muslims (and some Muslims) have this notion that there are only cosmetic differences between the conventional and Islamic banking system. Most of them belief that interest rate charge by the conventional banks is repacked as profit rate in Islamic banking. This shallow understanding overlooks the fact that Islamic banking emphasizes justice in financial transactions. Justice is a highly-regarded value in Islam as well as in other religions.

VIII. Islamic Banking offers an alternative paradigm for millions of needy people currently not catered by the conventional banking system. In order to provide access to sustainable services offered by Islamic banks on a large scale, it is imperative for the industry to adopt innovative and sound practices and prove that these models work.

IX. Islamic banks have to provide high level of customer services in comparison to the services offered by the commercial banks so that customer shifting from conventional to
Islamic bank maintain the same level of satisfaction. It is imperative for Islamic banks to maintain high standards of service quality. Effective management practices can turn a dissatisfied customer making a repeat purchase. Online banking services, faster transaction system and efficient counter management can add value to everyday volume of transactions and simultaneously increase customer satisfaction. Islamic bankers are therefore, forced to introduce efficient services both externally and internally alongside the religious belief. Customers not only want their money growing without Riba but also want the security, faster transfer and convenience.

X. Undoubtedly, under the present regulatory framework, Islamic banking is not possible in India. It has to be noted that Islamic banking is introduced without substantial changes in the financial regulations of other multicultural countries. In a large number of countries legislative changes in their banking and taxation law system without using religious terms Sharia'h or Islamic in their legislation have been made.

XI. Profitability as well as religious principles remain at the heart of people’s preference for Islamic banks. This indicates that the banks should remain highly dedicated to Islamic principles. Introduction of any products/service (particularly the ones that have a fixed amount of profit upfront instead of a ratio of profit sharing) that may have substantial similarity with the traditional banking products/services should be thoroughly explained on the basis on Islamic principles and should be checked for consumers’ adaption.

XII. Islamic banks must endure their efforts to integrate the spirit of Islam with effective governance and social development activities. To survive against competition and earn respectable return for the owners and depositors, Islamic banks must design customer friendly, technologically assisted products and conduct wide spread distribution of the product from different branches both in rural and urban areas.

XIII. On its own part, government can allow some public sector banks to come out with a scheme under which, instead of paying interest to its depositors, it will agree to share profits earned out of actual investments in activities like trading in equities, financing infrastructural projects and other core business activities. Some filtering may be required.
in these sectors to keep out segments like financial companies, vulgar entertainment, tobacco, etc.; but there would still be a huge basket of investment opportunities left. BSE 500 has the highest number companies which qualify on strict Islamic finance parameters. Banks can freely invest in these securities and earn substantial profits.

6.3 Implications

The importance of this study can be viewed from two dimensions: theoretical contributions and practical implications. Theoretically, the study fills an important gap in the literature about Islamic banking in India. Therefore, the findings of this study can add to the existing body of the literature and can serve as a starting point on which future studies can be built. On the practical side, this study can help the bankers to identify the major factors which may shape the future strategies of Islamic banking in India. The study gives an idea about the challenges and opportunities for Islamic banking in India. Determinants of Islamic banking in India and influence of consumers' demographics on various dimensions of consumer's attitude towards Islamic banking are also adequately dealt with. Additionally, it also provides an insight into investors' aptitude towards Islamic banking. Such information should be of some help to the marketers in devising appropriate marketing strategies.

6.3.1. Academic Implications

- Determinants of Islamic banking in India listed out by this study will help researchers in deciding key areas for future research.

- This study has given four dimensions for measuring the attitude of consumers towards Islamic banking.

- The study has provided an instrument for the measurement of customers' attitude towards Islamic banking for subsequent studies in this field.
6.3.2. Social Implications

- Ideology has been found as the single most important determinant to focus by the supporters of Islamic banking in India.

- Financial inclusion is found to be at top level of the model which implies that by introducing and successfully operating Islamic banks in India, the financially marginalized class could be brought into the financial mainstream.

- The study shows that Muslims are slightly more inclined towards Islamic Banking as it is in line with their religious belief but other communities are not far behind. For some dimensions of attitude towards Islamic banking, non-Muslims views are more favorable for the introduction of Islamic banking in India.

- The attitude towards Islamic Banking is influenced greatly by educational qualification of consumer. It is shown through the present study that consumers who are educationally more qualified have a more positive attitude towards Islamic banking. Even though certain educational programs are already available, there is a need to take further steps towards creating more awareness among the consumers. The marketers can educate the investors by organizing some programs like seminars, and workshops to educate the customers about Islamic banking. Such programs should focus more on those who do not have a formal education in finance or are less educated. All of these will certainly improve their knowledge and help them make well informed decisions.

- Ideology has the highest driving power and lowest dependence; hence it appears at the bottom level of ISM hierarchy. Since Islamic banking is routed through lawmakers and regulators, marketers should focus on this aspect in developing appropriate strategies so that benefits of Islamic banking can be distributed equally among all the stakeholders.
6.3.3. Managerial Implications

- The driver-dependence diagram (Fig. 4.1) gives some valuable insights about the relative importance and the interdependences among the determinants. The marketing managers can get better insights of these determinants, so that they can proactively deal with these determinants.

- ISM model developed in this study explains the hierarchy and interaction among the determinants is likely to help marketers of Islamic banking in India in prioritizing their marketing related activities.

- Shariah certification, marketing of the products, manpower requirement, and modification in existing products are important determinants but need focus at later stages. Initially ideological, political, social and global development are the most important ones.

- Findings implies that consumers’ segmentation on the basis of religion is not advisable in the case of introducing Islamic bank in India. Analysis shows that there are not much difference in the mean value acquired by the respondents of different religions.

- The study shows that males and females do not have significantly different attitude towards Islamic banking, although females are slightly more inclined towards Islamic banking. The marketers or advisors can focus more on other demographic factors than gender of the consumers.

- It has been found that young consumer are very optimistic about Islamic banking in India. This implies that generation Y can be a prospective customer of Islamic banking. Marketers should focus on offering different products for different age groups.

- The present study shows that high income group consumers have a higher positive attitude than those with less income. The marketer can tap high income individual by

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1 Generation Y, also known as the Millennial Generation, is the demographic cohort following Generation X. There are no precise dates for when Generation Y starts and ends. Commentators use beginning birth dates from the early 1980s to the early 2000s.
offering them customized products. Consumers' segmentation on the basis of income is very common for financial products.

- Consumers from different type of cities have shown different attitude towards Islamic banking. Most of the NRI customers are living in countries where Islamic banking is operational. Hence they are already aware of working of Islamic banks. There is not much attitudinal difference between people living in metros and class A cities with respect to Islamic banking.

- The present has study found that a large segment of Muslims as well as good number of non-Muslim customers are ready to open their account in an Islamic bank immediately after its introduction in India. It implies that getting a good customer base is not a big deal for Islamic banks in India. All that is needed is to retain them which will further increase the customer base of Islamic banks through positive word of mouth.

- People already have faith in Islamic banking system as the study shows that a majority will not withdraw their money in case of non-distribution of profit by an Islamic bank. This indicates that Islamic banks, can take risk and can invest in long term profit making ventures.

- Muslim customers are ready to pay some premium for dealing with Islamic banking system. Maintaining the rates at par with the existing commercial banking system will even attract a good number of non-Muslim customers.

- The study has also found that investors belonging to different occupations show different attitude towards Islamic banking. Consumers who are working in government setup have expressed less positive attitude but are very optimistic about introduction of Islamic banking in India. This indicates that such customers need to be educated more about the Islamic banking system. The marketers should take proper steps to educate these groups. Market demand for the Islamic banking products need to be created and served. Market development and factual awareness programs should be made a part of strategic planning.