CHAPTER 6 –

Findings, Suggestions and Conclusion
6.1 Introduction

This thesis, “A study of Attitudes and perception of stakeholders towards Islamic banking in India” has so far moved from definitional issues related to Islamic methods of finance and past literature regarding attitudes towards Islamic banking and then to an empirical study in stakeholders’ context. In this chapter, an attempt has been made to provide combined discussion of results, the theoretical contributions, empirical implications, research limitations and areas for future investigations of study.

6.2 Research Summary

Islamic finance is a financial system that is in accordance to the principles of Islamic Shari’ah, and the six sources of Islamic Shari’ah compose of Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Warde 2000). The principles of Islamic finance are inferred from Islamic Shari’ah to provide guidelines to people in their financial transactions. The most significant of these principles is the prohibition of Riba and Gharar which underpin commercial activities, but using the profit/loss sharing between people or people and firms as a financial equity method side by side to other Islamic methods of finance. Islamic banking theory is based mostly on the prohibition of interest and the introduction of profit/loss sharing schemes and other accepted methods of finance as well as offering banks’ operations such as deposit accounts (Obaidullah 2005). Islamic finance comprises of financial institutions, products and services which are designed to comply with the central tenets of Shari’ah (or Islamic law). The latest conceptual development of Islamic finance first took place between the late 1940s and the mid-1970s. Islamic banking, started on
a modest scale in mid-1970’s, has witnessed a rapid expansion and evolution over
the past four decades. The conventional banking industry as a whole has seen
paradigm shift in recent years due to globalisation and liberalization. Islamic
Banking System is no exception to this and they are also facing stiff competition
from conventional banks. Today Islamic banking is no longer regarded as a banking
service striving to fulfil only religious obligations of the Muslim community, but
more significantly as an innovation in the whole banking industry, that ought to be,
as alternative and innovative system as conventional banking. This necessitates
Islamic banks to understand the real needs of their stakeholders towards Islamic
Banking Services. Observing the increasing demand for Islamic Banking Services,
various multinational conventional banks have already started separate windows for
Islamic banking that provide interest free services to the widely scattered
population.

In recent years, world-over the attitude of stakeholders towards Islamic Banking
System has shown increasing graph not only because of the religious motivation
but due to various factors including relative cost and benefits, service delivery and
quality, staff competency and convenience. However, in countries like India where
only conventional banking system is in operation, Muslim community is deprived
of Islamic Banking System. Therefore a sizeable number of Muslims either do not
maintain any relationship with conventional banking system or do not accept any
interest on their deposits. Hence it is believed that there is tremendous scope of
Islamic Banking System in Countries like India. For instance, establishing Islamic
banks that have been practising Islamic methods of finance globally in accordance
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with Islamic Shari’ah can be an important attempt to improve banking services and products.

Presently these Islamic banks introduce a new contractual relationship between depositors and bankers and net profits are distributed among the depositors and shareholders while losses are shared according to each party’s contribution. In particular, there are many types of Islamic methods of finance that are linked to different economic activities, but those discussed in this study are common in theory and practice especially in Islamic banks as institutions (Iqbal and Molyneux 2005). These methods are, Mudarabah, Musharakah, Murabaha, Bai Mmuajjall, Bai Salam, Istisna, Ijarah and Qardh Hassan.

Stakeholders’ attitudes towards Islamic methods of finance are investigated in this thesis as a first attempt in the Indian context particularly J&K State and one of few studies have been conducted globally. The main objective of this study is to indicate level of awareness, attitudes towards, motivations for and the probability of applying Islamic methods of finance by stakeholders. A comprehensive survey was conducted to achieve this objective. Various statistical analysis, (specifically reliability test, normality test, descriptive analysis, Cross-tabular analysis, t-test, correlation, and multiple regression) were used to analyse the results of the survey.

In this thesis, a functional sample of 503 stakeholders is investigated with regard to four research questions. Starting with first question (does awareness of Islamic methods of finance influence the attitudes of stakeholders towards the potential use of Islamic methods of finance?) the results indicate that the majority of Stakeholders have knowledge of the existence of Islamic banks, more than ½ of them have clear
knowledge about Musharakah and Qardh Hassan has been practised by about 2/3rd of them. However, most of stakeholders are uniform regarding the specific methods of finance such as Mudarabah, Morabahah, Bai Muajjall, Istisna. Clearly, most of stakeholders have good level of awareness about the existence of Islamic banking and some of their methods of finance, but they are at the same time unaware of the specific methods of finance. These results are supported by the past literature by many studies such as Bley and Kuehn (2004), Hamid and Nordin (2001). The results also illustrate that the majority of stakeholders who are aware of the existence of Islamic banking and some of their methods of finance represent potential users of Islamic methods of finance. This provides answer for the question that the stakeholders’ level of awareness has positive impact on their potential use of Islamic methods of finance.

Stakeholders’ demographic and socioeconomic variables including, gender, age, education, professional status, monthly income, region and their potential use of Islamic methods of finance are used to answer the second research question (do socioeconomic and demographic factors influence Stakeholders’ attitudes towards the potential use of Islamic methods of finance?). The findings indicate that profession status, monthly income, age and the level of education have influenced the stakeholders’ potential use of Islamic methods of finance. In other words the results confirm that Islamic methods of finance are preferred by the middle aged and public servants with relatively low incomes.

According to the research question (what are the principal motivating factors towards the potential use of Islamic methods of finance by stakeholders?),
Stakeholders were requested to indicate their degree of importance for 14 statements that represent beliefs and evaluated outcomes for potential use of Islamic methods of finance. The results show the stakeholders are motivated to use Islamic methods of finance by several potentially highly correlated variables that reduced to a smaller number of common factors namely Muslims services, profitability and religion. Cross tabular analysis are performed on previous four motivated factors to explore which of them has a significant influence on the stakeholders’ potential use of Islamic methods of finance. In accordance with findings indicated by Okumus (2005), Metawa and Almossawi (1998), Metwally (1996), and Omer (1992), the results of this thesis provide the same evidence that religious factors have a significant influence on stakeholders’ attitudes towards potential use of Islamic methods of finance. However, in this study a new revelation has come to fore wherein both Muslims as well as Non- Muslims respondents believe that besides the religion factor the number of quality product offerings catering to different banking segments has a great impact in shaping the attitudes and perceptions of stakeholders towards the Islamic banking.

Regarding the demographic and socioeconomic influence on the potential use of Islamic methods of finance and its relations with stakeholders’ profiles, Firstly, and similar to Zainuddin, Jahyd and Ramayah (2004), Gerrard and Cunningham (1997), Metwally (1996), and Hegazy (1995) the results show that the majority of Stakeholders are interested in Islamic methods of finance. Most of these are males working in public sector. Over three-fourth of them are 36 years old with college or high level of education. However, most of the respondents who are not interested
in Islamic methods of finance are younger than 36 years old, self-employed and majority of them have high monthly income.

Finally, the last research question designed to know the future probability of the use of Islamic methods of finance by retail consumer (Is religion a major influence on the likelihood of engaging in Islamic finance by Stakeholders?). The findings indicate that the Islamic banking product offerings are more important than the religion in shaping the attitudes and perception of stakeholders towards the Islamic methods of finance. Therefore, religion does not represent the primary predictor for increasing the probability of applying Islamic methods of finance in India for retail consumers.

6.3 Research Contributions:

As the importance of empirical research investigating retail consumer attitudes towards Islamic methods of finance is growing, however very less research on the attitudinal, investigation in business firm and bank context has been undertaken. In order to fill this void the focus of this study was on understanding the factors that determine potential use of Islamic methods of finance by the stakeholders. For that reason, an attempt has been made in this study to extend the range of belief variables and attitudes-intention variables by investigating them as predictors in a new context, i.e. the Indian consumers and banks. In addition, while prior research studies mostly focused on users and non-users of Islamic banking, this research study contributes by adding another dimension to it i.e. providing a deeper understanding of stakeholders’ awareness towards Islamic methods of finance. At last but not least, the study has paved a way for more and more research studies on
‘Islamic Banking’, which is being seen throughout the world as a promising alternative to conventional banking especially in the situation of economic crises and recession.

6.4 Suggestions and Research Implications:

The findings of the present study indicate that the majority of retail consumers and business firms are potential users of Islamic methods of finance. While only 14.1% of the retail consumers and only 27.7% of the business firms are not potential users. Therefore, establishing ‘Islamic Banks’ in India in general and the state of Jammu and Kashmir in particular to offer Islamic methods of banking and finance has a huge scope. This arrangement will help conventional banks to provide these consumers with wide ranging diverse financial products. In addition, since the potential use of Islamic methods of banking and finance is indicated at high level, these Islamic banks will certainly contribute to the overall Indian economic development.

Finally, in the Indian context, financial literacy and productive methods of finance are important policy intervention areas for the Indian government. Findings of this research can provide an idea to the central bank of India (RBI) in the development of the policies for allowing Islamic methods of banking and finance on formal basis. It will also help them in addressing the critical issues in the policy formulation related to Islamic banking so as to ensure that the conventional banks are involved to open specific windows offering Islamic methods of banking finance as well as focusing on training programmes to promote all of those who are interested to apply for Islamic methods of banking and finance.
6.5 Research Limitations:

In particular, the following limitations need to be considered while interpreting and applying this study’s findings.

- While this study can inform and assist the Indian government in the development of the policy document for applying Islamic methods of finance, the study’s results are limited to India where no Islamic finance has been formally practised.

- The findings of this research is limited to potential users of J&K state, thus the generalizations of the results for analysis of other firms and institutions must be made with caution.

- Another limitation on the study’s results for these three groups is that the survey was conducted in the Northern-most State of India Jammu and Kashmir. Although the motivating factors are tested for validity and reliability and judged to be valid and reliable, further development is warranted due to the possibility that not all motivating factors are addressed.

- An understanding of how perceptions, attitudes and behaviour towards Islamic methods of finance change over time would be a preferred approach to data collection. However due to time and cost constraints a longitudinal study was not feasible.
6.6 Research areas for Further Investigation:

According to the descriptive analysis for the Indian financial system as a developing system which has been under several transformations during the last decades and Indian finance sector has not received much attention in the past literature, some empirical studies are needed to measure the efficiency and productivity of Indian financial institutions, especially with the wish of Indian government to move towards market economy. In addition, there are still many issues to be investigated regarding the Indian banking institutions such as the performance of these institutions that could be affected by several transformations during past years.

Regarding Islamic methods of finance, a number of directions for further research are indicated. First, while Islamic methods of finance have been practised in many countries, the literature indicate that there is a poor understanding regarding to specific Islamic methods of finance such as Mudarabah, Morabahah, Ijarah and Istisna. Therefore, research is required to explore reasons behind this lack of awareness in these methods of finance. Second, little is still known on how Muslims and non-Muslims are affected by religious and economic factors in their financial decision-making. Third, most existing literature on attitudes, perceptions and awareness of Islamic methods of finance have been done in a particular national context. It would be interesting to compare consumers’ attitudes, perceptions and awareness of Islamic methods of finance in international context. In other words, a comparative research is needed to compare these aspects in a country with a completely Islamic banking system, to a country with a dual-banking system and another country which at an early stage of Islamic banking.
Finally, one reason for the growth of Islamic finance worldwide has been the willingness of national governments with a sectarian-orientation to support its establishment. It is not known what particular role these governments have played in attempting to modify the perceptions, attitudes and knowledge of Islamic banking alongside any direct or indirect support or encouragement to the institutions themselves.

Frequent reference to a lack of understanding of certain Islamic banking and finance methods, particularly at the commercial level, suggests that this should be examined more carefully.