Chapter 3
RESEARCH METHODOLOGY

3.1 Background

Islamic banking is one of the most rapidly emerging trends in finance in today’s world. It not only provides an alternative to interest-ridden forms of banking but also provides a more stable and less risk-prone option when compared to the conventional banking. This has been proved by the strong resilience shown by Islamic banks all over the globe during the recent economic recession. Also, the fact that the last few decades have witnessed a phenomenal growth of Islamic banks around the globe calls for attention and hence, poses a great opportunity for a country like India, which dreams of becoming an Asian financial hub.

3.2 Rationale for the study

Islamic finance presents a new avenue as a novel alternative to the conventional financial set-up in this country. Driven strongly by moral values and ethical considerations, it presents an opportunity, not only to the marginalized minority of this country, but also to others who are not inhibited by the religious connotation to it. Therefore, the purpose of this study is to find out the prospects of Islamic banking in India.

Although Islamic banking has got a religious connotation, it is a myth that must be dispelled. It is not in any respect restricted to the Muslim community alone. This is why in countries like Malaysia and UK, where Islamic banks are operational over the last few decades, two out of every five retail customers are non-Muslims. Also there are many countries, like France, Germany and Malaysia, (in which Muslims are not a majority), where Islamic banks have been introduced or at least there exists an Islamic banking window in a conventional bank. This is not only because it acts as a tool for financial inclusion but also because it makes business sense, as its principles prohibit highly risky financial products like derivative contracts, which was the root-cause of the recent sub-prime crisis. India would do well to capitalize on the Islamic financial world and benefit from the inflow of funds especially from Gulf Co-operative Council countries.

According to Safdar Husain Khan, chairman of Delhi State Minorities Commission, a report of Reserve Bank of India says that a whopping US $1.5trillion as interests
accrued on deposits of Muslims are lying unclaimed in different banks in India (Source: The Milli Gazette, print issue of 16-31 July 2011). This is because an overwhelming majority of Muslims do not want to avail it, due to the strong religious implications. Such a huge sum of money is lying idle and is not ploughed back into the economy of the country. The main reason for this is because of the present provisions in the Banking Regulations Act, which does not permit the functioning of Islamic banks. Therefore, the Finance ministry and Reserve Bank of India need to re-examine their present stance of the prohibition of Islamic banking and to create a conducive environment for the Indian Muslim populace to contribute to the growth of this great country.

While many a non-Muslim country like US, UK, France, Denmark, Luxembourg and Singapore have shown keen interest in adopting Islamic methods of finance, India's ambition of becoming an Asian financial hub would not materialize if it cannot tap the pool of Islamic Finance. Therefore, this study which is aimed at assessing the prospects of Islamic banking among the retail customers of banks in India assumes significance.

3.3 Statement of the Research Problem

According to Sachar Committee Report, India is a country with around 150 million Muslims, living across the length and breadth of the country (Source: SCR, 2006). This number is more than the Muslim population of many predominantly Muslim dominated countries of the world. As a community which is strongly driven by the religious injunctions and moral values, Indian Muslims always have found it difficult to manage their financial resources within the ambit of the Indian Constitution. Islamic injunctions prohibit Muslims from borrowing or lending of money for interest and also to invest in socially irresponsible ventures such as pork industry, arms and ammunitions, pornography etc. Therefore, the implementation of these principles, which form the backbone of Islamic finance, has been a far-cry and a distant dream for the Muslims of this country. It is against this backdrop that Islamic Finance, (in general and Islamic banking in particular), which works on the principles laid down in Quran and Sunnah (the two primary sources of Islamic law), has been attracting a lot of attention of the practicing Muslims.
3.4 Research Questions

This study was undertaken to address the following research questions.

a) What is the level of awareness of the respondents about Islamic banking?

b) What is the level of awareness of the respondents about Islamic methods of finance?

c) Is there any relationship between the demographic variables and the prospects of Islamic banking?

d) What are the main factors that motivate and influence the attitude of the respondents towards the prospects of Islamic banking?

e) What is the perception of the respondents towards the future possibility of providing Islamic methods of finance?

3.5 Research Objectives

The following objectives were framed in order to get answers to the above questions.

3.5.1 To examine the level of awareness of the terminologies of Islamic banking among the retail customers of banks in India and its impact on the prospects of Islamic banking.

3.5.2 To examine the level of awareness of the terminologies of Islamic methods of finance among the respondents and its impact on the prospects of Islamic banking.

3.5.3 To determine the effect of demographic and socio-economic profiles of the respondents on the prospects of Islamic banking.

3.5.4 To identify the main factors that would motivate and influence the attitude of the respondents towards prospects of Islamic banking.

3.5.5 To analyze the perception of the retail customers of conventional banks towards the future possibility of providing Islamic methods of finance.
3.6 Research Hypotheses

The following major hypotheses were framed based on the above objectives.

- There is no significant difference between the demographic variables of the respondents with regard to the general perception and awareness of Islamic banking.
- There is no significant difference between the demographic variables of the respondents with regard to the patronage towards Islamic banking.
- There is no significant difference between the perceptions of male and female with regard to the general perceptions, awareness and patronage towards Islamic banking.
- There is no significant difference between those who practice Islamic methods of finance and those who do not with regard to the general perceptions, awareness and patronage towards Islamic banking.
- There is no significant difference between the mean ranks towards the general perception, awareness and patronage towards Islamic banking in India.

3.5 Conceptual Framework for Analysis

![Fig 3.1 Framework of Analysis](image-url)
3.7 Sample Area and profile of the respondents

For the purpose of this study, four major cities from South India were chosen. These four cities were Chennai, Mallappuram, Bangalore and Hyderabad. The retail customers of both private and public sector banks in these four cities formed the sample for this study. The reason why these cities were chosen is two-fold. Firstly, it was because these four cities have a very large population of Muslims in these states. Secondly, a large part of this populace has people in their families working abroad, especially in the Gulf region. This results in a very large percentage of foreign remittances from these cities.

3.8 Sampling method

For the purpose of this study, the sampling technique used is stratified simple random sampling. The choice of the various states followed by the choice of the four different cities in these four states constitutes the different strata of the sample. Once the cities were identified, simple random sampling technique was adopted at the stage of selecting the respondents for the survey.

3.9 Sample Size

The sample size was determined by using the scientific method by using the standard deviation obtained from the pilot study of the sample of 50 respondents, by allowing the standard error at 5% level. The sample size was determined by using the following formula:

\[
\text{Sample Size (N)} = \left(\frac{ZS}{E}\right)^2
\]

Where

- \(Z\) is the Standard value (corresponding to a confidence level of 95%) = 1.96
- \(S\) is the sample SD from the pilot study of 50 samples = 0.665
- \(E\) is the acceptable error = 5% = 0.05

Therefore, the sample size (N) = \(\left(\frac{1.96 \times 0.665}{0.05}\right)^2\) = 679.54 or 680
After determining the sample size based on the pilot study, the sample size was fixed at 680. Therefore, 760 questionnaires were distributed. Out of this, 712 responses were received. On scrutiny of the sample, incomplete and dual entry questionnaires were removed and for the analysis, 687 questionnaires were considered suitable for analysis and discussion.

3.10 Data Collection Instrument

The data for this study were obtained through a survey questionnaire, which was designed keeping in mind the research objectives outlined earlier. The questionnaire was structured with seven sections and the responses were sought on a five-point Likert’s scale, ranging from ‘Highly Aware’ to ‘Not at all aware’ or from ‘Strongly Agree’ to ‘Strongly Disagree’ for all the sections except the first one. The various sections were as follows:

(i) Demographic and socio-economic details (age, gender, religion, city of nativity, marital status, academic qualification, income, occupation etc.)
(ii) General perceptions about the usage of Islamic banking practices in India
(iii) Awareness of the terminologies of Islamic banking (Shariah, Halaal, Haraam, Riba) and Islamic methods of finance (Musharakah, Murabahah, Mudarabah, Ijarah, Sukook, Istisnaa, BaiMuajjal, Takaful)
(iv) Bank selection criteria or patronage factors (i.e. Awareness, Religious Reasons, Products and Services, Vicinity/ Ease of Access, Reputation, Cost/Benefit).
(v) Perception towards the possibility of providing Islamic methods of finance
(vi) Motivation
(vii) Bottlenecks for implementation

The various variables for the bank selection criteria were determined from a previous study carried out by Erol and El-Bdour[29], Erol et al., [35]. Also, while exercising the bank selection criteria for Islamic banks, the religious issue was also considered important. (Haron et al., [31], Metawa and Almossawi[33]).

3.11 Pilot study

A pilot study was initially conducted at Chennai with 50 respondents during April 2014 to test the validity and reliability of the questionnaire. The validity and
reliability of all the variables were found to be good enough to carry out the full-fledged study. However, it was found that there were no responses for some of the demographic variables of the respondents like age, educational qualification, occupation, and type of account. In order to give room for the wide coverage during the main survey, the questionnaire was retained as it is. The results of the reliability analysis for the various variables and their respective value of Cronbach’s alpha are listed in the following table.

Table 3.1 Results of the Reliability Test for the pilot questionnaire

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Number of items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>General perception</td>
<td>7</td>
<td>.731</td>
</tr>
<tr>
<td>Awareness of terminologies of Islamic banking</td>
<td>4</td>
<td>.802</td>
</tr>
<tr>
<td>Awareness of terminologies of Islamic banking</td>
<td>8</td>
<td>.964</td>
</tr>
<tr>
<td>Awareness</td>
<td>7</td>
<td>.635</td>
</tr>
<tr>
<td>Religious reasons</td>
<td>4</td>
<td>.854</td>
</tr>
<tr>
<td>Products and services</td>
<td>7</td>
<td>.881</td>
</tr>
<tr>
<td>Vicinity/Ease of Access</td>
<td>6</td>
<td>.844</td>
</tr>
<tr>
<td>Attractiveness</td>
<td>4</td>
<td>.765</td>
</tr>
<tr>
<td>Reputation</td>
<td>3</td>
<td>.839</td>
</tr>
<tr>
<td>Cost/Benefit</td>
<td>6</td>
<td>.849</td>
</tr>
<tr>
<td>Perception of the benefits</td>
<td>5</td>
<td>.818</td>
</tr>
<tr>
<td>Motivation</td>
<td>7</td>
<td>.807</td>
</tr>
<tr>
<td>Bottlenecks for implementation</td>
<td>5</td>
<td>.590</td>
</tr>
</tbody>
</table>

3.12 Main Survey

The questionnaires were distributed to the respondents—both Muslims and non-Muslims—during the period from June 2014 to December 2014 at the four cities of Chennai, Hyderabad, Bangalore and Mallappuram. The target respondents for this study are the retail customers (i.e. account holders) of any of the conventional banks in these four cities. These banks include both private and public sector banks. Most of these questionnaires were self-administered. The table below shows the city-wise distribution of the sample.

Table 3.2 City-wise distribution of the sample

<table>
<thead>
<tr>
<th>City</th>
<th>No. of Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chennai</td>
<td>158</td>
<td>23</td>
</tr>
<tr>
<td>Bangalore</td>
<td>120</td>
<td>17.5</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>140</td>
<td>20.4</td>
</tr>
<tr>
<td>Mallappuram</td>
<td>269</td>
<td>39.2</td>
</tr>
<tr>
<td>Total</td>
<td>687</td>
<td>100.0</td>
</tr>
</tbody>
</table>
3.13 **Scope of the study**

This investigation was carried out to find out about the prospects of Islamic banking in India among the retail customers of both private and public sector banks during the period from June 2014 to December 2014. The respondents include both Muslims and non-Muslims from the four cities of Chennai, Bangalore, Hyderabad and Mallappuram and draw its sample across the different demographic and socio-economic classes from these cities. It studies the awareness levels of the various terminologies related to Islamic banking and Islamic methods of finance. It also studies the attitudes of the respondents towards providing Islamic methods of finance. The bank selection criteria of the respondents were also surveyed.

3.14 **Limitations of the study**

The study is limited by the following:

(i) The study is confined to the four cities of South India and so the findings of the study should be placed in proper perspective for application elsewhere.

(ii) In the context of the current government policies relating to the foreign investments, the findings of this study could be used only as reference points.

(iii) The study is based on the current provisions in Banking Regulations Act and a more broad-based study would be needed to determine on the line of amendments in BRA.

3.15 **Tools of Analysis**

To carry out the above research, the following tools were used with SPSS version 20.

(i) Percentage or frequency analysis

(ii) Weighted Average Mean

(iii) t- test

(iv) ANOVA

(v) Friedman’s test

(vi) Correlation

(vii) Multiple Regression

(viii) Factor Analysis.

(ix) Discriminant Analysis
3.16 Research Contribution

This study has drawn its sample from the retail customers of banks from the four southern states of India. Therefore, in order to extend the findings of this study to the general populace would be inappropriate. However, the findings of this research gain significance on account of the fact that this sample represents a segment of the entire population of South India and thus, act as a pre-cursor to a detailed study involving various other such demographic denominations.

This study also helps to understand the socio-economic profile of the potential customers and hence, provide better insights to policy makers about the need for the introduction of Islamic banking in India and the need to fulfill the financial aspirations of the marginal sections of the society.

In the current study, it is found that Islamic banking is having low level of awareness among the respondents. However, the attitude towards adoption of Islamic Banking seems encouraging, as reflected in the study, notwithstanding the regulatory and politico-social hurdles along the way of its implementation. As Islamic banking will bring about the financial inclusion of the marginal sections of the society, it has to be implemented at least in a phased manner. This will not only help India attract foreign remittances especially from Gulf Co-operation Council (GCC) countries but also to realize its dream of becoming a financial hub. This may not only serve the economic needs of potential customers of Islamic banking but also contribute to the economy of the country, at large.

3.17 Thesis Structure

This thesis is structured as follows:

- Chapter 1 (Introduction) introduces the topic and briefly discusses the background and purpose of the topic under study. It also discusses the historical and religious background of the various concepts involved in the subject matter of study. In short, it provides the basic information about the thesis.
- Chapter 2 (Review of Literature) provides a detailed overview of the current literature regarding the various reviews of previous studies and explores the previous
research work on the different facets of bank patronage and attempts to throw light on the research gap.

- Chapter 3 (Research Methodology) gives an account of the methods used to achieve the research objective and present research design, methods of data collection, sampling techniques, statistical tools employed to analyze the data and the sample determination.

- Chapter 4 (Data Analysis and Interpretation) delineates the analysis of the data and interpretation about demographic variables and other factors pertaining to the study.

- Chapter 5 (Summary and Conclusion) presents the findings, suggestions and concluding remarks for the way forward. Finally recommendations for further research are also proposed.