

# Perceptions and Attitudes Towards Islamic Banking & Finance Evidence from Australia

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## ABSTRACT

*Islamic banking and finance is gradually emerging as an alternate to conventional finance among Muslim minorities living in predominantly western society such as Australia. Using data obtained from a survey amongst Muslims living in Queensland, this research examines the relationships between Islamic banking and finance concepts and personal attributes. This study found significant relationships between 'Riba' and 'Age' and between 'Familiarity of Islamic Banking' and 'Gender, Level of Education and Occupation'. These relationships were found to be strong, indicating a strong awareness of the concept of Islamic banking but not the financial instruments used in its operations. There is also a strong desire amongst Muslims for an Islamic financial institution, but this was not prompted by religious reasons. Respondents put great emphasis on adherence to Shari'ah and Amanah as the most important factors in bank selection criteria. There was also a strong desire for Shari'ah-complaint Superannuation and investment funds.*

## 1 INTRODUCTION

Those familiar with Australia will understand the vastness of the country, the population concentration along the eastern seaboard and the tyranny of distance between settled communities. This dispersion aside, the Islamic community has managed to hold on to norms and customs associated with the multi-ethnicity of its composition. According to the 2001 Australian Population Census, Muslims are concentrated in the large metropolitan areas of Sydney, Melbourne, Brisbane and Perth – in that order. The spirit of 'multi-culturalism' advocated by the Labor government positively impacted on the cultural cohesiveness of communities, their beliefs and customs and their desire for economic self sufficiency. That desire prompted some to find Shari'ah compliant financing alternatives that in turn led to the establishment of MCCA<sup>1</sup> in Melbourne in 1989. Yet despite MCCA's relatively short history and small capital base (compared to other community-based co-operatives and credit unions) inhibiting its growth, it has managed to influence through its operations (to an extent) perceptions of Islamic finance.

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<sup>1</sup> MCCA – Muslim Community Co-operative (Australia) Ltd established in 1989 to provide Islamic finance to its members. <http://www.mcca.com.au>

However, questions remain on its receptiveness within the wider Islamic community. Anecdotal evidence from discussions with community leaders ascribes this lack to problems of attitudes, perceptions and knowledge associated with Islamic finance.

The purpose of this research is to examine personal factors influencing the perceptions of Islamic finance within the Australian Islamic community. The research posits the question; what are the relationships between the attitudes and perceptions of individuals and the understanding of important Islamic financing terms and concepts? Hence, this study is concerned with the significance of personal behavioural factors, such as knowledge and focuses on the understanding of Islamic finance; its conceptualisation; its development and its emergence as an alternative to conventional banking. This significance is evaluated through the perceptions of respondents on a range of issues and attempts to determine, through empirical study, whether significant associations exist between sets of variables and the strength of such association. In general, the study uses socio-demographic information to determine the relationship between variables covered in a survey questionnaire. In particular it evaluates the relationships between concepts such as '*riba*', and familiarity with *Islamic financing concepts and products* as dependent variables and a number of independent variables such as *gender, age, education* and *occupation* on the other. Further, a number of factors associated with bank selection and investment alternatives were posited with the view to determine the dominant factors or reasons that explain user behaviour.

There has been no research in this area of Islamic behavioural finance in Australia although there are a number of studies conducted in other countries. These studies provide answers to some questions posed in this research but lack the depth of inquisition related to Australian conditions. Thus for instance, questions remain on the nature and influence of personal barriers that inhibit the advancement, attractiveness and receptiveness of Islamic finance in Australia. This research seeks to address this lack of understanding of Islamic finance.

## **2 LITERATURE REVIEW**

Most of the research into Islamic Banking has concentrated on the religio-ethical aspect of interest (or usury); its practical significance to Muslims and problems associated with it; its economic relevance to Islamic society and its contribution to contemporary economic thought (Khan, 1983 p.7). However, research into the behavioural aspects of Islamic finance - involving relationships between faith-based ideologies such as *riba, gharar, maysir* and socio-demographics and issues involving stakeholder attitudes and perceptions of Islamic finance seems to have received little attention.

In what has now developed into an important understanding of investment decision-making, behavioural finance is able to explain many non-utilitarian factors contributing to personal investment behaviour (Tversky & Kahneman, 1986). Applying their theory to Islamic banking and finance allows us to better understand the psychological make-up of Muslims that in their financial decision-making, perceptions and attitudes towards Shari'ah compliant banking, products and services. Woven into the fabric of Islamic personal finance are legal strictures that circumscribe the boundaries within which behaviour is acceptable (Usmani, 1999).

## 2.1 The lawful and the Prohibited

The single most important element on which Islamic finance is founded is the proscription of *riba*. This follows from its Qur'anic prohibition in Surah 2 :275-282 where interest is condemned while trade is encouraged. Because of this aversion, Islamic banks have developed Shariah-compliant products (Ali & Ali, 1994)

The other economic philosophy of Islam is predicated on the relationship between man and Allah (God) his creator that requires a total submission to the will of Allah called *tawhid*. Scholars are in agreement that *tawhid* extends to the relationship between man and the bounties bestowed on him; the sharing of these bounties and the need to discharge obligations (Siddiqui, 1980, p.195). But submission also entails obedience to God and in the context of economic activity, not to transgress the bounds of what is *halal* (lawful) and *haram* (unlawful) (Al Qaradawi, 1984; Doi, 1984).

The extent to which man adheres to this is displayed in his *taqwah* (obedience of Allah). The Arabic meaning of *taqwah* is much wider and it would be unwise to find an objective means to determine any persons' level of *taqwah*. It is quite possible for a persons' *taqwah* to be weak but still be conscious about issues such as interest and gambling. Much of the Muslim financial behaviour stems from this attachment – a very personal issue incapable of objective assessment.<sup>2</sup>

A third Islamic precept that influences behaviour is adherence to the law or Shari'ah.

The Prophet Muhammad is reported to have said:

“That which is lawful is plain and that which is unlawful is plain and between the two of them are doubtful matters about which not many people know...”

(Hadith reported by Bukhari and Muslim)

The opinion of Vogel and Hayes (1998, pp.24-28) is that those adhering strictly to the Sunnah prohibitions will not entertain any variation in its form and content and the question of interest is no different. Thus, they argue, in terms of strict religiosity, much of what is proclaimed to be Islamic banking does not conform to the Shari'ah. For this reason Bashir, Darrat and Suliman (1993, pp.639-651) argue that honest entrepreneurs would find a financial incentive to be honest. Since honesty is construed as essential in financial dealings and, as for Muslims, a meritorious act rewarded by God profiting by other unlawful means has no place in the faith. Siddiqui (1980), Chapra (1985) and Kurshid Ahmed (1980) (the early thinkers on this subject) hold that the establishment of Islamic banks themselves is a manifestation of adherence to the Sunnah in its economic sense and that those attracted by it express their acceptance of that.

## 2.2 Financial behaviour – religious and other motivations

In the literature Rosly and Bakar (2003, pp.1249-1265) have found in their study that the flouting of the law (*haram* acts) has jeopardized the status of Islamic banking by its emulation of conventional banking methods and that this has not created any performance advantages over conventional banks. They have also found that a legalistic re-interpretation of prohibitions has degraded the Islamic banks' ethics.

El Diwany (1997, p.161) has made a similar observation in his academic study.

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<sup>2</sup> For this reason, in the survey questionnaire, respondents were asked to comment about their level of consciousness and *not* *taqwah*. Instead, the questionnaire relied on the respondents' self-evaluation of consciousness based on their perceived notions of acts prohibited in the Shari'ah.

However, Errol and El-Bdour (1989) found in their study that religious motivation did not seem to play a primary role – but this was only in the context of ‘bank selection’. Instead, in a very utilitarian sense, customers were more inclined towards the profitability (PLS motive) in Islamic banking presumably because of the familiarity with the Arabic explication of *musharakah* considering that the research emanated in Jordan. This is understandable as Wilson (1997, p.1331) confirms that *musharakah* was the earliest form of Islamic participatory financing with which many Muslims were familiar. Almost ten years later research in Jordan by Nasser, Jamal and Al-Khatib (1999) found strong competition from conventional banks forced efficiency changes on Islamic banks and customers were satisfied with the Islamic banks facilities and products. However, even considering the high awareness of Shari’ah compliant products, customers disliked dealing with them. The researchers also found 40% of those surveyed agreed strongly while 30% agreed that religious reasons were important considerations in Islamic banking.

The empirical findings of Omer (1992) in the UK established the complex relationship between cultural diversity; occupational background; education; financial standing and perceptions/attitudes towards Islamic finance. The interaction of these behavioural forces, especially the reluctance to borrow money, explained in part the reasons for the slow uptake in Islamic finance. Further, lower levels of education were shown to increase the desire for Shari’ah compliance but paradoxically a low propensity to gravitate towards Islamically acceptable financing. This finding seems at first to rebut the Erol and Bdour (1989) findings on the religiosity variable amongst respondents, but on closer evaluation, cultural influences seem to be the more plausible explanation (Craig, Clarke & Hamid, 1993).

A study by Haron, Ahmad and Planisek(1994) in Malaysia found that respondents were not motivated by the religion – instead other criteria such as service and efficiency were more relevant in bank selection. The respondents in this research were from three non-metropolitan towns and included non-Muslim responds as well. Another finding by Gerrad and Cunningham (1997) in Singapore found a low awareness among Muslim respondents to fundamental Islamic terms and concepts. They found only 20.7% of respondents were aware of what *riba* meant while 31% knew what was meant by the term ‘Shari’ah’. The other significant observations were that only 22.6% of Muslims surveyed deposited money with Islamic banks were motivated by religious consciousness or solely religious reasons while 35.4% of non-Muslims were of that same opinion. Over 67% of respondents indicated that deposits would be made for a combination of religious and profitability reasons. Otherwise the respondents were not attracted to Islamic banking by virtue of religion only. Furthermore, the research also reveals that was no significant relationship between religion and finance amongst Singaporean Muslims and that both Muslim and non-Muslim groups were more disposed towards receiving higher interest rates on savings.

Both Haron et al. (1994) and Gerrad and Cunningham (1997), concentrated on Muslim and non-Muslim response to issues relating to *riba*, awareness of Islamic banks, concepts and bank selection criteria. Both studies are significant for a number of reasons: their research was not purposive; their samples were not drawn from bank customer lists and therefore perceived to be unbiased from unrestricted populations; the population consisted of Muslim minorities and non-Muslim majorities (Singapore) and the reverse in Malaysia; they covered areas where Islamic banking is in vogue (Malaysia) and absent (Singapore) and; their research found problems and challenges (competition and regulatory) facing

Islamic banking in those countries on issues relating to *riba*. A closer examination of both studies reveal that much of the behavioural attitudes towards Islamic finance in these countries stem from a general lack of familiarity with terms and concepts – a common marketing problem where product novelty and ignorance initially struggle against established and well known brands and concepts. A study by Gerrard and Cunningham (1997) on Islamic banking in Singapore reveals low awareness amongst Muslims and non-Muslims of the culture of Islamic banking. Their study found *inter alia* that where Muslims were in a minority (as in Australia) there was less likelihood of cultural change to Islamic banking given the low exposure to its operations - unless more banks were prepared to offer such services.

### **2.3 Bank selection and satisfaction Criteria**

The early works on this subject includes published research of Kaynak, Kucukemiroglu and Odabasi (1986) and Holstius and Kaynak (1995). These studies are instructive in the way bank selection and customer satisfaction studies have developed. In then research that followed, the selection criteria used in all studies seem to centre around the same attributes – the most common criteria in all these studies are the following; ‘efficient service’; ‘friendliness of personnel’; lower bank charges’ and ‘higher returns’.

Metawa and Almossawi (1998) conducted a predominantly in-house survey of products offered by the Bahrain Islamic Bank and the Faisal Islamic Bank and attempts to identify the profile and banking habits of bank customers. Their findings that customers are more inclined to choose an Islamic bank are self-evidentiary being chosen from a narrow population base. Customers surveyed were most satisfied with investment accounts and rated adherence to *Shari’ah* and return on funds as the most important criteria in bank selection.

Moving into the new millennium, the literature suggests a greater prevalence of Islamic banking and finance seems to slowly conscientise Muslim financial behaviour. The likely cause for this is the significance of three factors acting in concert namely; greater media coverage of Islamic finance (advertising, publicity, and academic studies); innovation (financial engineering) and, the revival in religious consciousness amongst Muslims driven by political externalities.

This higher awareness tendency is confirmed by Hamid and Nordin (2001) who also found that adherents to the faith could not distinguish adequately between Islamic and conventional banking and finance.

In a somewhat contradictory finding, Ahmad and Haron (2002) found low awareness of Islamic banking among 65% of respondents. Haron and Yamirudeng (2003) found awareness of Islamic banking in Thailand to be weak as well as large scale ignorance of banking products and concepts. The pattern of ignorance seems to be prevalent in most countries, Furthermore, these problems are not confined to the economically disadvantaged or laity. A study conducted by Bley and Kuehn (2004) amongst university students in the UAE found that knowledge of Islamic banking terms and concepts were lower compared to understandings of conventional terms and concepts. Also, those students familiar with Arabic displayed higher awareness of Islamic banking knowledge.

More recently a survey by Loonat (2004) in South Africa shows a high awareness of Islamic banking amongst respondents combined with low usage; bank selection was predicated on service and product range and there is a positive receptiveness towards

Islamic finance. The most significant aspect of this research is the change in attitude and the perception of Islamic banking following the collapse of 'Islamic Bank Limited'<sup>3</sup> in 1997. Here for the first time is evidence of important behavioural changes amongst people that shaped their attitudes and perceptions towards Islamic finance.

Evidence of other factors affecting Dar (2003) behavioural attitudes and perceptions in the UK is provided by Dar (2003). This study suggests that customs, culture, education and degrees of religious consciousness are greater predictors of Islamic finance behaviour. The complex mixture of these factors are shown to dictate the bank and product selection of users choosing between Islamic and conventional finance.

None of the research it appears has attempted to address the psychological aspects of behavioural changes in the way that Kahneman and Tversky (1979) suggested changes in personal behaviour influence investment decision-making. According to these researchers, emotions, state of mind, greed, anxiety and overconfidence as well as other emotional states, are factors that consciously shape human decisions. The 'prospect theory' they developed has become a feature in many brokerage firms that rely on the behavioural reflexes of their clients and the way these firms have responded in shaping investors portfolio decisions. This theory and its refinements when applied to Islamic banking and finance, leads one to understand changes in perceptions and attitudes that has more explanatory power in the complexities and receptiveness of the marketplace for banking products and services than mere assumptions that Islamic banking is more appealing to Muslims only because it is faith-based. Many lessons can be learned from the west and the challenges to Islamic scholars as Dar and Presley (1999, p.5) argue "...rather than develop in isolation from western literature, Islamic scholars would do well to exploit the wealth of supportive argument to be found in western literature".

#### **2.4 Stakeholder expectations**

Stakeholder theory argues that all stakeholders have an expectation to be fairly treated and that managers should manage the business for the benefit of all stakeholders (Deegan 2001 p.268). Clarkson (1995) divided stakeholders into primary and secondary stakeholders. In Islamic finance, fund providers and users would fall to be included as primary stakeholders. Even so, in the long run Islamic banks and institutions must be run for the benefit of all stakeholders and they have certain minimum rights that may not be violated. Thus the Shari'ah Boards in Islamic banking entities are expected to ensure that these entities discharge their responsibilities (Usmani, 2000, pp.238-239). Further, because depositors, shareholders and other claimants have put their trust in the management of the banks, management has a duty to discharge the Amanah (Quran 4:58) and (Doi, 1984, pp.382-383). The collapse of Islamic Bank Ltd demonstrated how stakeholder perceptions and attitudes are eroded, changed and influenced through corporate mismanagement.

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<sup>3</sup> The Islamic Bank Limited based in South Africa collapsed in 1997 in which depositors lost more than R200m through fraud, corruption and nepotism. The collapse of this bank created a profound negative perception of Islamic banking and finance in that country with far reaching consequences for banks in general. As a result, the Reserve bank of South Africa introduced a raft of austerity measures the effectively changed the nature of Islamic finance in that country.

### 3 Significance of this Study

This study is considered significant to Australian Muslims in light of media coverage in *The Weekend Australian*<sup>4</sup>. It is also significant to the banking industry, as it seeks to explain the economic rationale behind bank selection by Muslims of alternatives to conventional banking products - especially that relating to home financing.<sup>5</sup> One of the recommendations of the Menzies Report<sup>6</sup> was the idea of institutional equity participation for first-home buyers as a means of increasing home affordability – an idea that resonates with the Islamic financial instrument of ‘diminishing Musharakah’. Such ideas although dismissed by the Treasurer, signify the need for better alternatives to home debt financing. A further significance of this study is the empirical data to other providers of financial intermediation and the likely effect of new entrants into the local banking market (as witnessed in the UK with the opening of the Islamic Bank of Britain). The perceived attractiveness of a secondary Islamic securities market in Australia may be an important addition in the global funds market which is developing into a significant industry, as observed by the IMF and the World Bank (Mirakor & Iqbal 1987)

Another significance of this study is one concerned with the state of play in the Australian Financial Market. There are no Islamic banks in Australia. Two financial intermediaries have established operations providing a limited range of Islamic financial products; MCCA (a finance co-operative) established in 1989 operating out of Melbourne and Iskan Finance (a home mortgage finance facilitator) established in 2002 based in Sydney. Both organisations actively promote the Murabaha facilitation scheme with MCCA engaged in Ijarah financing as well. Australian Prudential regulations require all finance dealing entities to be corporatised (Hogan et al, 2004, pp.18-19). Hence even though the two entities may pursue a faith-based ethos, compliance with Australian law is mandatory. It is difficult to foresee the impact of a dedicated Islamic bank in Australia given the number of barriers that may inhibit entry into the highly competitive banking market. The first is the legal impediment under the Banks Act 1959 under which the Treasurer may use his ‘discretion’ in approving banking licenses – a process that . Past experience indicates this

### 4 Objective of this Research

Given that Islamic banking is faith-based, there may be an expectation that the creation of Islamic financial institutions will lead to a greater awareness amongst Muslims as their creation would be accepted as an alternative to conventional banking.

The first objective of this study is to test this proposition empirically by examining the relationships between Riba, Awareness of Islamic banking concepts, products and a number of other independent variables. The strength of these *relationships and associations* will be tested using statistical techniques.

The second objective is to study Muslim attitudes towards Islamic banking in Queensland (where Muslims are in a minority) with a view to establish whether sufficient *awareness* of Islamic banking and Islamic financing products exists amongst local Muslims.

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<sup>4</sup> Reported in the ‘Australian’ weekend edition July 12-13, 2003 ‘Money & Investing’

<sup>5</sup> It is noteworthy to mention that the Prime Ministerial Taskforce on Home Ownership briefed the Menzies Research Institute to develop alternative ideas to traditional mortgage financing.

<sup>6</sup> Australian Financial Review, 19 June 2003

A third objective of this study is to determine the level of awareness amongst Muslims of some fundamental *concepts* on which Islamic banking is structured.

The fourth objective is to determine if there are other criteria that Muslims will consider before deciding to move to another bank before resorting to use Islamic banking.

The final objective will be to draw some inferences from the statistical analyses on how Muslims perceive Shari'ah compliant investment and retirement schemes.

In attempting to address these issues, this study will adopt a critical social science approach (Neuman, 2003 p.139) for an objective assessment of the research questions. In particular, it will make use of a survey questionnaire as a means of gathering data amongst Muslim living in the State of Queensland.

## **5 Research Questions**

- 5.1 Do Australian Muslims know and understand riba and its implications?
- 5.2 How aware are Australian Muslims about Islamic banking and finance and what is the level of familiarity with its concepts, products and services?
- 5.3 Which factors would customers value most in deciding their banking preferences?
- 5.4 Is there a desire for new methods of financing, investment and other services?

## **6 Research Methodology**

### **6.1 Method**

A qualitative research method is employed in this study that relies on the use of a Survey Questionnaire covering a number of multivariate variables associated with Muslim attitudes and perceptions (Neuman, 2003). The statistical analysis relies on completed (with no missing data) survey forms collected from respondents. To ensure the integrity of that data the method used for this purpose was based on the principle of replication by way of a survey questionnaire. This method demanded adherence to standardised methodological procedures relating to data collection; data entry; measuring with numbers and finally analysing the data with procedures using appropriate statistical software.

The methodological approach covered the following: design of the survey questionnaire; subjects/participants; coding and recoding of data; choice of statistical method based on a restatement of research questions; data analysis; results of the analysis; and a discussion of these results.

### **6.2 Design of Survey Questionnaire and Pilot testing**

An initial proposal for the study was prepared based on previous studies and the research questions were designed to reflect possible relationships between dependent and independent variables. This was necessary for the purpose of covering the scope and content of the research questions. Following this proposal, a draft questionnaire was prepared for consideration. The questionnaire was designed to cover all categorical variables; to ensure a maximum 12-minute completion rate and the avoidance of non-critical or perceived invasive questions. Following further revisions, a further draft was prepared and circulated to ten participants for pre-testing for their response and suggestions and the questions to be incorporated in the final draft. A final revised version was prepared after being administered to ten other participants (none being from the first group).

A total of 350 survey questionnaire forms were available for distribution. As this survey

was limited to Muslim participants living in the State of Queensland, a list was compiled of potential participants from which to draw a representative sample. A probability sampling technique was employed with the objective to ensure that every person in the population had an equal chance of being included. Thus the search for participants included; worshippers at mosques; university campuses; business people; professional people; cultural associations; friends and relations; and attendees at special occasions (e.g. school fetes and parties). The manner in which each participant was to be approached was discussed with two research assistants to ensure each assistant was aware of ethical issues – especially the condition that the survey was voluntary and that no person was to be coerced into participation. Attached to each questionnaire was a cover note identifying the purpose of the research; the reason for participation; the person responsible for the survey and a list of contact numbers of the principal researcher and the University, should respondents have any concerns in relation to aspects in the survey. Assistants were required to cover a specific area or locality - as the geographic spread of Muslims was too large for a single researcher to cover. A record was kept of the number of forms issued, completed forms, blank forms and spoilt forms returned by each assistant.

### **6.3 Participants**

A sample of 200 participants was decided based on the population size for Queensland established from the 2001 Australian Population Census. Of the 350 survey forms issued 212 participants responded to the survey. This resulted in a 60.6% success rate. The reason for the incomplete response of 40% may be attributed firstly to the onset of Ramadan – respondents were reluctant to be visited in the evenings due to the extended prayer times. Secondly, business and professional people were generally reluctant to spend time completing the survey forms, although most respondents did participate after it was pointed out that participation was voluntary. Finally, responses from females were constrained owing to customs and norms that do not allow face-to-face interviews. For this reason, a female volunteer assistant was assigned to approach female participants.

### **6.4 Techniques used to ensure no sample selection bias.**

A selection process that is skewed in favour of a particular group of participation may be construed as a threat to the internal validity of the sample (Neuman, 2003, pp. 251-252). One of the most important dependent variable in this study is that relating to “riba”. A threat to internal validity by way of a biased sample would seriously undermine the ability to make inferences about the true causal factors that lay behind use or avoidance of riba.

The following techniques were employed to ensure selection bias did not occur or were avoided:

Participants were selected from worshippers of all mosques and one visit was made at each mosque on Fridays. Imams were requested to announce that participation was voluntary. No persons were visited twice, except for collection of completed forms where prior arrangements were made for such collection. No preference was given to ethnicity and assistants were instructed to approach any participants other than their own ethnic background. Cross-cultural diversity was ensured by personal visits at functions, gatherings and fetes that included people from multicultural communities and backgrounds. Assistants were rotated between areas so as to draw participants from as wide an area as possible. Weekend visits to rural and distant communities increased the geographic spread of the

population sample. Female participation included the Queensland Muslims Cultural Group – a non-Government Organization with links to all Muslim females across all ethnic and age groups.

### **6.5 Data Coding and Recoding**

The survey questionnaire remained the primary source of data entry and analysis and no other techniques were employed. Participants were asked not to indicate anywhere or in any way any means by which they could be identified. The completed survey forms were checked for completeness. Six forms with substantial missing information were kept aside and not data processed. Missing information for two or more categories were considered substantial, as it was deemed to result in a fairly large degree of uncertainty of observed attributes.

SPSS software makes provision for developing a Codebook for the purpose of identifying each variable for the researcher and any investigators that may want to know what the data represents. The method of coding followed conventions suggested in the literature (Morgan, Orlando & Gloekner, 2001, p.153) and (Coakes & Steed, 2002, p.20). By convention, missing values were assigned the digit 9. Lickert scales for categories were coded in order of rank (1 = ‘very important’ to 5 = ‘least important’).

Recoding techniques were employed for some independent variables for the following reasons:

The first was to identify outliers shown up in Boxplots – so the data was recoded to bring outlying cases into the distribution. The second reason was to meet the strict conditions for chi-square analysis since, under this technique not more than 20% of cells should have expected frequencies less than 5 – otherwise the assumptions would be violated (Levine, Stephan, Krehbiel & Berenson, 2002). The third reason was that in using Crosstabs, Pearson chi-square becomes suitable for 2x2 contingency tables. Collapsing the age, education, occupation and riba categories to this level would restrict the inferential suitability of the results and would render it meaningless. Thus collapsing variables to a 3x3 format or larger cross-tabulations is more preferable as a wider selection of variables would be included in the analysis.

### **6.6 Choice of Statistical Method**

The research problem is to investigate possible relationships between various categorical variables identified in the research questions. Prior to the raw data being analysed for descriptive, interpretive and associational (relationship) the raw data was tested using the following procedures:

Firstly, a frequency distribution table was extracted showing the number of responses for each category of a variable and the percentage of these distributions. The purpose of this table is to provide a summary of the findings and to assess the relationship between dependent and independent variables before statistical analysis techniques are employed.

Secondly, the nominal variables had to be arranged in some logical order for chi square analysis. For instance, where riba is the dependent variable and gender, age, education, occupation the independent variables, the measurement scales for all these variables are nominal and therefore non-parametric. Chi-square analysis is only useful for measuring associations between variables. This method was chosen to address because it compares nominal or categorical data on both the dependent and independent variables. Also, for

non-parametric data the chi-square tests are the most appropriate because the data can be cross tabulated and the chi-square method will treat ordered data with few categories such as gender and age as if they were Nominal. Chi-square will also tell us whether the relationships are statistically significant. Chi-square is used to compare proportions.

The null hypothesis test in relation to the research questions is that there is no relationship (no difference) between the variables:

$$H_0: p_1 = p_2$$

The alternative is that there is a relationship such that:

$$H_0: p_1 \neq p_2$$

The test statistic for chi-square distribution in this research is: using  $\alpha = .05$  level of significance "...the null hypothesis is rejected in favour of the alternative if the computed  $\chi^2$  is greater than  $\chi^2_u$ , the upper tail critical value" (Levine et al., p.462). Thus the decision rule is:

$$\text{Reject } H_0 \text{ if } \chi^2 > \chi^2_u; \text{ Otherwise do not reject } H_0$$

Factor Analysis is a data reduction technique such that a large number of variables are reduced to a small factor that summarizes all the information contained in the variable. In this regard, factor analysis is used to measure the dominant 'thing' that respondents identify as being most important in Islamic bank selection. The purpose of the factor analysis is to confirm the factor structure of the scales used to determine Islamic bank selection criteria of Australian Muslims. In this method, the complex sets of data are simplified by analysing the correlations between them in the form of a correlation matrix. In the Gerrard and Cunningham (1997) study a factor loading of 0.5 was used for bank selection criteria. This factor loading is the correlation of a variable with a factor. This study will use a factor loading of 0.5 for bank selection criteria. Kline (1994, p.54) recommends using Varimax with orthogonal (factors are unrelated with one another) rotation.

## **7 Results of the Survey**

### ***Descriptive Statistics***

Descriptive statistics are shown in Table 7.1 below showing the distribution of data relating to the social demographics of the respondents. Muslim Males accounted for 69% of the respondents. Middle-aged respondents accounted for 55% with younger respondents almost half that number (28%). The majority of people are well educated with university degrees (59%). The majority of people were actively engaged in employment (53%) and a high proportion of respondents (34%) were students who also had a high part-time employment rate. The occupational spread suggests most people enjoy good employment opportunities with 50% engaged in business, profession and trades. The relative absence of people with menial jobs indicates a strong business/professional culture (61%) that suggests a high participation in financial management and association with banks and financial institutions. There is an expectation that this group may be more familiar with bank products and services. The majority (98%) of respondents indicated a very religious or religious consciousness towards Islam. These personal attributes indicate a strong affinity for faith-based ideas and concepts.

**Table 7.1 Descriptive Statistics**

<b>Variable</b>	<b>Count</b>	<b>%</b>
<b>Gender</b>		
Male	142	69
Female	64	31
<b>Age</b>		
18 to 25	58	28
26 to 50	114	55
51 and over	34	16
<b>Level of education</b>		
Up to year 12	37	18
Tafe, Technical & Other	121	59
<b>Employment Status</b>		
Part-time/full time	60	29
Self-employed	50	24
Student	71	34
Unemployed/retired	25	12
<b>Occupation</b>		
Business, Professional & Trades	102	50
Managerial & Office	23	11
Education & Other	81	39
<b>Religious Consciousness</b>		
Very religiously conscious	45	22
Religiously conscious	156	76
Not religiously conscious	3	2
<b>Importance of Riba</b>		
Very important	152	74
Important	36	17
Unimportant/Not important	18	9

### ***Importance of Riba and Familiarity with Islamic Banking Concepts***

The vast majority of respondents (74%) consider riba to be *very* important while 17% consider it to be important. This observation is supported by the very high level of religious consciousness. However, these two factors do not seem to accord with the high level of ignorance or familiarity with the *concept* of Islamic banking and familiarity with Shari'ah complaint products. Table 7.2 sets out clearly the low familiarity with Islamic banking products. More perplexing is the observation that despite this lack of knowledge, 92% of respondents indicated they would consider doing business with an Islamic bank. This somewhat paradoxical situation underlines the deep attachment to Islamic values that are not necessarily associated with banking and finance. There may be other personal factor that may explain this paradigm such as gender, age, level of education and occupation that explain the aversion for riba and ignorance.

**Table 7.2 Familiarity with Islamic banking products**

Product	Very	%	Not	%	Not at	%
	N		Very		all	
	N		N		N	
Murabaha	48	23	74	36	83	40
Mudarabah	33	16	78	38	94	46
Musharakah	43	21	70	34	92	45
Ijarah	29	14	74	37	100	49
Takaful	32	16	72	35	100	49

Two sets of chi-square analysis were undertaken.

The first set of tests involved a multichotomous relationship cross-tabulated between riba and the following variables; gender, age, level of education and occupation.

The second set of tests involved a multichotomous relationship cross-tabulated between ‘Familiarity with Islamic Banking’ and the following variables; gender, age, level of education and occupation with the same chi-square conditions applying to relationships.

***Chi-square test for Relationships and Association – Riba and Age***

Table 7.3 shows the association between Riba and Age. In this sample there is a significant relationship between riba and age. Middle aged respondents (26-50) (44%) displayed a much higher level of importance than younger respondents (18-25) (18%) and over 51s (12%). This is also confirmed by  $\chi^2(4) = 12.709, p = 0.013$ . The chi-square condition of cell counts  $< 5$  was found in one cell (11.1%) which is  $< 20\%$  so that this chi-square condition is not violated. As  $p = 0.013$  and  $< 0.05$  it suggests that there is a 13 out of 1000 probability that the relationship is not due to chance. The test  $\chi^2$ -test statistic is 12.71 which is  $>$  the critical value 9.49 and this is enough evidence to reject the null hypothesis. It can be concluded from this analyses that the problem of riba is more important or better comprehended in older Muslims than amongst the young. This may be due to strong religious awareness stemming from a stricter upbringing from a young age among the elderly. A low awareness of riba among young Muslims would suggest the extent to which conventional interest-based financing has been embraced by them. Conversely, it also suggests there is a degree of ignorance of the importance of riba amongst young Muslims because of the struggle to unbind the cleavage and overwhelming influence of conventional banking and financial practices.

**Table 7.3 Chi-square test for relationship between Riba and Age**

Importance of Riba	Age of Participants			Row Total
	18 to 25	26 to 50	51 & Over	
	N	N	N	N
<b><i>Panel A: Very important</i></b>				
Actual	38 (18)	90 (44)	24 (12)	152 (74)
Expected	43	84	25	
<b><i>Panel B: Important</i></b>				
Actual	9 (4)	18 (9)	9 (4)	114 (17)
Expected	10	20	10	

**Panel C: Unimportant**

Actual	11 (5)	6 (3)	1 (1)	34 (9)
Expected	5	10	3	
<b>Column Total</b>	58 (28)	114 (55)	34 (16)	

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(Percentages)

**Familiarity with Islamic banking and Other personal Attributes**

The second set of chi-square tests was conducted to test the relationship between ‘Familiarity with Islamic banking’ (the dependable variable) and Gender, Age, Level of Education and Occupation (the independent variables)

**Familiarity with Islamic Banking: Gender association**

Table 7.4 sets out the relationship between Familiarities: Gender. It can be observed immediately that there is a relationship between these variables. While 19% of males and females are very familiar with Islamic, 60% are somewhat familiar. A  $\chi^2 (2) = 13.41$ ,  $p = 0.001$  indicates a relationship is significant. The test  $\chi^2$  –test statistic is 13.41 which is > the critical value 5.99 and this is enough evidence to reject the null hypothesis. In this case the null hypothesis can be rejected, as there is a probability of only 1 in 1000 that the association is due to chance. Further, no cells have expected counts of < 5.

**Table 7.4 Chi-square test for relationship between Familiarity of Islamic banking and Gender**

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Familiarity with Islamic banking	Gender		Row Total <i>N</i>
	Male <i>N</i>	Female <i>N</i>	
<b>Panel A: Very familiar</b>			
Actual	32 (15)	8 (4)	40 (19)
Expected	28	12	
<b>Panel B: Not very familiar</b>			
Actual	90 (44)	33 (16)	123 (60)
Expected	85	38	
<b>Panel C: Not familiar at all</b>			
Actual	20 (10)	23 (11)	43 (21)
Expected	30	13	
<b>Column Total</b>	142 (69)	64 (31)	

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A number of chi-square tests were run to establish the significance of riba to gender, level of education, and occupation. Furthermore, tests to examine familiarity based on age were also undertaken. This study identified four relationships that explains the research questions set out in 5.1 and 5.2 above. Table 7.5 sets out these significant relationships.

**Table 7.5 Significant relationships to Riba and Familiarity with Islamic banking**

<b>Relationship</b>	<b>Critical Value</b>	<b><math>\chi^2</math>Value</b>	<b>p-Value</b>	<b>Null hypothesis</b>
Riba: Age	9.49	12.71	0.013	Reject
Familiarity: gender	5.99	13.41	0.001	Reject
Familiarity: education	9.49	9.92	0.042	Reject
Familiarity:occupation	9.49	11.46	0.022	Reject

### ***Discussion of Test Results***

The above table suggests that older people are more conservative in their attitude towards riba. Strong religious consciousness as well as ethnic culture is also strong influences for this behaviour. Although riba is a highly sensitive issue amongst all age groups, familiarity with Islamic financial products is very weak as indicated in Table 7.2. This suggests that the absence of an Islamic financial entity is strongly associated with ignorance of its financial instruments, products and operations.

The strong familiarity with Islamic banking needs to be explained. The survey question asked: ‘How familiar are you with Islamic banking?’ The results indicate a strong level of familiarity with Islamic banking – but not with its instrumentalities.

The research also found a strong desire among Muslims for an Islamic financial institution but that this was not prompted by religious reasons. Respondents put great emphasis on adherence to Shariah and Amanah as bank selection criteria. The study also found a general lack of awareness of Islamic banking concepts and products.

## **8 Discussion of Research findings**

### ***Bank selection criteria***

These findings are in relation to research question 5.3

From the responses it is apparent that ‘Adherence to Shariah’ (73.3%) and ‘Amanah’ (74.9%) scored very high in the scale of bank selection criteria. The factors that explain most of the variances are ‘adherence to Shariah’ then ‘variety of services’ and ‘return on investments’. Beyond these the other factors that explain the variance are; ‘amanah’; ‘interest-free banking and ‘friends & relatives advise”. These factors when compared with observed frequencies show the importance of selection criteria by the respondents. These findings cannot be corroborated by other studies as those studies included selection criteria dissimilar to this research.

### ***Reasons for choosing Islamic bank products***

In relation to using Musharakah to finance a new business, the majority (153 or 77.7%) respondents indicated a preference to have an Islamic bank as a partner. This trend however, is not shared by Rosly et al who have criticised Islamic banks for moving away from Musharakah for reasons relating to the long gestation period for profit generation and the inherent risks associated with partners. They also found reluctance by Islamic banks for-long term Musharakah financing as it impacted on their profit performance by having to make large provisions for business failure and non-performance. In relation to financing homes, vehicles, equipment and other goods, the preferred choice of financing was Murabaha. Of the

positive responses to methods of financing 57.1% indicated using Murabaha to buy homes while 71.3% indicated they would use it to purchase vehicles, equipment and furniture. These positive responses do not confirm conclusively the respondent's awareness of Murabaha as only 16.1% were 'very familiar' with the concept compared to 38% who were 'not very familiar'. It is clear that this lack of knowledge would seriously impede any progress by a new entrant into the market considering Islamic financing. Furthermore, a substantial lack of knowledge could only be apprehended through a gradual process of education instead of quick impulsive marketing. This lack of education in itself may prove to be a barrier to entry for Islamic banks wanting to enter a fiercely competitive market in Australia.

### ***Superannuation and Share Investments.***

This discussion is in relation to research questions 5.4

A large number (66%) of respondents indicated participating in a Shariah compliant Super fund while 90% would consider moving their superannuation investments in traditional super funds providing Shariah compliant investments. It is conceded however, that prudential regulations in Australia by APRA may provide obstacles to such ideas as well as compliance with the Banks Act of 1959.

No study is available on this subject relating to the Muslim community anywhere in the world. However, an industry profile by APRA reveals that superannuation assets had reached \$495 billion by December 2000 representing a growth of 12.9% over 12 months (*APRA Insurance and Superannuation Trends – December 2000*) and the coverage extends to 91% of employees, 81% of all workers and 36% of employers. These statistics are sufficient grounds to compel Islamic banks to look beyond mere banking.

## **9 Conclusion**

This research study was conducted for the purpose of determining the relationships between variables that are crucial to the understanding and establishment of Islamic banking. The implications for the various stakeholders that make up this new banking experience are important as they will determine whether Islamic banking has a future as an alternative to conventional banking in Australia.

Firstly, for Muslims, as the Gerrard and Cunningham (1997) research has shown, familiarity with the concept will make the idea more acceptable to people. This study found that there is a strong familiarity among Muslims to the idea of Islamic banking but that this was found to be wanting, as there appeared a high level of ignorance of Islamic financial instruments. This suggests that a concerted effort will be needed to educate people before the idea becomes a commercial reality.

Secondly, as Muslims are a minority in Australia the idea would not attract conventional banks from entering the market, as it is perceived to be too small. It is interesting to note that when the Labor government deregulated the banking industry, a large number of smaller banks were forced out of the market owing to fierce competition. It is submitted that even if there was a niche market for Islamic banking products, conventional banks will match the competitive alternative and undermine the importance of the idea.

Thirdly, the study by Ahmad et al (1987) and Gerrard and Cunningham (1997) suggests that there may be a market for Islamic banking in the non-Muslim community but this

opportunity was never pursued. In this regard, Islamic banks may be guilty of creating their own barriers to entry into the banking industry generally.

Fourthly, the literature clearly indicates that no Islamic alternatives exist in the retirement and superannuation industries. This may be the result of government regulation of the industry imposing restrictions that may not be commercially expedient. However, this research has found a significant desire among respondents for Shariah compliant superannuation investment and share trading investment.

Fifthly, there is sufficient evidence emerging from this study for future studies into Islamic finance. As globalisation spreads via trans-national banking subsidiaries, opportunities may exist for an Australian based Islamic bank to enter the market given that institutions such as Citibank, HSBC and Chase have already entered these markets in a significant manner.

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