

**LEVEL OF AWARENESS TOWARDS ISLAMIC BANKING – A STUDY WITH
REFERENCE TO THE RESIDENTS OF KAYALPATNAM.**

¹Dr.D.Hepzibah Vinsyah Jeyaseeli *

²Mrs. A.Aysha Muzammila *

* 1&2 Assistant Professor, Department of Business Administration, Wavoo Wajeetha Women's College of Arts and Science, Kayalpatnam, affiliated to Manonmaniam Sundaranar University, Tirunelveli-12

Abstract

Islamic banking is a form of banking based on Islamic principles. Basically, in Islamic banking it is not allowed to pay and receive interest but rather it is based on profit sharing. Islamic banks focus on generating returns on investments through investment tools that are "Sharia" compliant. The purpose of this paper is to ascertain the awareness of, Islamic banking financial products among the residents of Kayalpatnam.

Keywords: Islamic banking, Awareness level, Non- Interest

Introduction:

Islamic banking, also known as non-interest banking, is a banking system that is based on the principles of Islamic or Sharia law and guided by Islamic economics. Islamic banking is a finance system based on the principles of not charging interest, which is prohibited under Islam. Two fundamental principles of Islamic banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. Islamic law prohibits collecting interest or "riba". Furthermore, the very objective of Islamic banking system is to enhance and develop the unity of Muslim societies as well as to make sure just distribution and utilization of funds in conformity of Islamic paradigm and its pure teachings. Meaning that, all banking operations such as products and services, deposits transactions and financing modes provided by Islamic banks to its respective clients must be carried out in conformity with the Islamic principles. On the other hand, as a growing financial industry, Islamic banking and finance has sharply gained market with non-Muslims in the world because of its attractive principles, which reflects the bank's endeavours to excel religious beliefs to a tangible market. Thus, Islamic financing is imbued with Islamic oriented economics with modern lending principles in which its products could be offered to both non-Muslims and Muslims. Islamic banking has the potential to contribute towards greater financial inclusion besides providing support to small and medium sized enterprises.

PRINCIPLES OF ISLAMIC BANKING

1. Sharing of profit and loss: the borrower and the lender share the profits as well as losses arising from the venture with the finances obtained from the lender. The basic view is that the general community should benefit from such activities.
2. Prohibition of investing in unlawful business: unlawful business involved in selling alcohol or pork or business that produce media for instance, gossip columns or pornography, or gambling industry are prohibited in Islamic law.
3. Prohibition of Riba or interest: Islamic law prohibits receiving and giving interest, because interest deprives someone from the blessings of 'Allah' as it leads to taking away of property actually belonging to someone.

Review of Literature:

Islam, Jamid Ul and Rahman, Zillur (2017) , studied the awareness and willingness towards Islamic banking among Muslims: An Indian Perspective. The results concede that

majority of the respondents lack in understanding of functioning of Islamic banking. The results further concede that majority of the respondents are willing to go for Islamic banking if informed properly and offered better customer experience. The results suggest that Islamic banking organizations need to frame effective communication strategies to increase awareness among the population about how Islamic banking operates.

Ansari Aziz and Tariq Hareem (2017), in their paper entitled “Attitude For Prospective Islamic Banking In India: An Analysis” concluded that there is a void for Islamic banking in India and people are avoiding interest being received from commercial banks and look for solutions which does not conflict with their faith by choosing interest free schemes for investment purpose. These observations clearly tell that Muslims have been denied their fundamental right and they are just using commercial bank as they do not have the desired option.

Masood Salman et al (2014), in their research paper titled “Cognizing Customer Awareness and Perception of Islamic Banking Products in Pakistan” it is concluded that Islamic banking system is at initial stage for Pakistan and when something is in the primer phase then different discussions emerged about its limitations. The position is that the customer have awareness about Islamic banks and its operations, but they are not well aware about the Islamic banking products such as Bai Muajjal, Istasna, Diminishing Musharaka, Sukuk, Qarz-a-hasna, Ijarah, and Murabaha. It is necessary that the Islamic banking products awareness should be increased.

Objectives of the study:

To trace out the terminologies used in Islamic Banking System.

To understand the level of awareness about Islamic Banking among the respondents.

To examine respondents’ Understanding Level towards Islamic Banking System and Operations

Methodology:

In order to carry out this study, Kayalpatnam was chosen. The reason why this place was chosen is two-fold. Firstly, it was because these place have a very large population of Muslims in the Thoothukudi district. 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 this place. The target population for this study was any retail customer of banks across these cities. The data collection was done through a questionnaire. Convenience sampling was followed for carrying out this study. Secondary data has been collected from journals, magazines, and websites. Simple percentage analysis and Weighted Average method were used.

Area Profile:

Kayalpatnam is a Municipality in Thoothukudi district in the Indian state of Tamil Nadu. Kayalpatnam had 26.34% Hindus, 67.24% Muslims, 6.36% Christians, 0.01% following other religions. Most of the Muslims here are matrilineal (a custom in marriage whereby the husband goes to live with the wife's community) residents.

Terminologies Used in the study:

Ijara - An Ijara contract is a contract of exchange which is popular due to its similarity to a conventional lease. Ijara contracts are used in Islamic Banking, Project finance as well as in Sukuk.

Murabaha - Sale on profit. Technically a contract of sale in which the seller declares his cost and profit. This has been adopted as a mode of financing by a number of Islamic banks

Musharaka – Musharaka is a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise.

Riba - Riba is a concept in Islam that refers broadly to the concept of growth, increasing or exceeding. It has also been roughly translated as illegal, exploitative gains made in business or trade, under Islamic law.

Takaful - Takaful is a type of Islamic insurance wherein members contribute money into a pool system to guarantee each other against loss or damage. Takaful-branded insurance is based on sharia or Islamic religious law, which explains how individuals are responsible to cooperate and protect one another. Takaful policies cover health, life, and general insurance needs.

Data Analysis and Interpretation:

The analysis and interpretation is made on the basis of field survey.

Variables	Frequency	Percentage (%)
Gender		
Male	38	76
Female	12	24
Education		
Secondary/ Higher Secondary	11	22
Diploma	13	26
Graduates	20	40
Post Graduates	6	12
Occupation		
Government Employee	5	10
Private Employee	21	42
Self employed	8	16
Housewife	13	26
Others	3	6

Table 1 showing the profile of the respondents about Islamic Banking

Source: Primary Data

From the above table 1, it is observed that out of 50 residents, 76% were males. In terms of education background most 40% of the users completed their graduate. In terms of occupation (42%) are privately employed.

Table 2 showing their level of awareness towards Islamic terminologies

Islamic Terminology	Aware	%	Not Aware	%
Ijara	37	74	13	26
Murabaha	42	84	8	16
Musharaka	8	16	42	84
Riba	48	96	2	4
Takaful	7	14	43	86

From the table 2, 96 % are aware about Riba, followed by Murbaha (84%). 86% of the respondents are unaware about Takaful.

Table 3 showing the respondents' Understanding Level towards Islamic Banking System and Operations

Factors	I	II	III	IV	V	Total Score	Mean Score	Rank
Islamic is available for Muslims as well as non-Muslims	9	10	18	7	6	159	3.78	II
Islamic banking prohibits interest in all form of transactions.	11	10	11	11	7	157	3.14	III
Returns on Islamic Banking are based on gift and profit sharing basis instead of interest.	15	4	6	12	13	146	2.92	IV
Islamic Banking is the conduct of banking operation according to Shariah Law.	5	7	6	12	20	115	2.3	V
Islam Banks only invest in businesses that are not prohibited by Islam or halal businesses.	7	20	10	7	6	165	3.32	I

From the table 3, it is inferred that, Islam Banks only invest in businesses that are not prohibited by Islam or halal businesses is ranked 1 with the mean score of 3.78, Islamic is available for Muslims as well as non-Muslims, followed by ranked 2nd with the mean score of 3.32, followed by Islamic banking prohibits interest in all form of transactions with the mean score of 3.14.

Conclusion and Recommendations:

There is no doubt that Islamic banking in India is in its nascent stage but there is a tremendous scope for it. It is observed that people have very little knowledge about Islamic banking products and services so employees should make people more aware. Banks should work hard for generating awareness about Islamic banking to make people aware of their products, services and their functioning so that people choose them not for religious obligation but genuinely because of the comfortability of the services. Public awareness needed to maintain the steady growth of Islamic banking. So they should develop appropriate marketing strategies in order to attract and retain customers in the competitive bank environment. Spreading awareness on the banking system, and scrutinizing its merits and demerits must be undertaken by the government as well as the media so that the population at large, are given an opportunity to make an informed choice. For creating awareness and spreading its benefits, new and more courses should be introduced at educational institutions, conduct various workshop/conferences/ seminar. Social media should be used for addressing issues and motivating people towards the adoption of Islamic banking system.

References:

1. Islam, Jamid U Rahman, Zillur, (2017), Awareness and willingness towards Islamic banking among Muslims: An Indian perspective *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10(1), pp. 92-101
2. Ansari Aziz and Tariq Hareem, (2017), “Attitude For Prospective Islamic Banking In India: An Analysis “, *EPRA International Journal of Economic and Business Review* Volume – 5(7), pp 94-100.
3. Masood, Salman Rehman Sumaira and Rehman Chaudhry Abdul, (2014), Cognizing Customer Awareness and Perception of Islamic Banking Products in Pakistan, *International Journal of Operations and Logistics Management*, Vol 3(4), pp 322-336
4. Muhamat, A.A; Jaafar, M. H., and Ali Azizan, N. binti, (2011). “An empirical study on banks' clients' sensitivity towards the adoption of Arabic terminology amongst Islamic banks”, *International Journal of Islamic and Middle Eastern Finance and Management*, Vol.4 (4), pp. 343-354
5. Şaduman Okumuş, (2015) Customers’ Bank Selection, Awareness and Satisfaction in Islamic Banking: Evidence from Turkey, *International Journal of Business and Social Science* Vol. 6(4) pp 41-54
6. Arunmozhi, M. (2019) An easy guide to understand Research Methodology, A simplified approach of Research Methods and Techniques, *Institute of Management Development and Research*