

Awareness of Islamic Banking Products and Services among Consumers in South Africa

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Abstract

The Islamic banking system has been operational in South Africa since 1989. Islamic banking products and services are available in Islamic banks and Islamic windows operated by conventional banks. However, awareness of Islamic banking products and services has been low. The stability of any economy is dependent on the performance of the financial sector. The financial sector functions as an engine to the economy linking units to deliver goods and services to the people. Islamic banking works on a concept of free interest and it is practised according to the Sharia Law whose source is from the Quran. This study analysed consumer awareness level towards Islamic banking products and services. A sample of 140 respondents from different cities in South Africa was selected. Descriptive statistics and a binary logistic model were used to analyse the responses. The results indicated that gender, age, race, and qualification were statistical significant in influencing awareness of consumers. Further, the findings note that there is a lack of understanding in the principles of Islamic Banking.

Keywords: Islamic Banking, awareness, consumer, South Africa

1. Introduction

Islamic Banking System is defined as banking in line with values and ethos of Islam, and governed by the principles of Sharia Law. Sharia requires that banks to not charge interest and avoid any unethical practises in achieving its goals and objectives (Maali, Casson, & Napier, 2006). Islamic banking is a system of banking that follows principles governing Islamic economics. According to Chapra (1996), Islamic economics is referred to any body of knowledge that realises human wellbeing through allocation and distribution of scarce resources in line with Islamic teachings without infringing anyone's freedom. Islamic banking as a system is grounded by deep Islamic principles and morals. There are two basic principles guiding Islamic banking, these are the sharing of profit and loss; and the prohibition of Usury (collection of interest). Collection of profits is strictly not permitted under any circumstance, but revenue sharing agreements are permitted. The fundamental thrust of Islamic Banking is the desire to submit to divine instructions on all transactions, especially exchange of money. Islamic banking is not limited to the prohibiting of interest payments, but it can be expanded to include issues of risk and certainty, and speculation. Khan and Mirajor (1986) state that the primary objective of the Islamic system is social justice and specific pattern of income and wealth distribution.

In South Africa limited research, has been done in order to try to understand the awareness of Islamic Banking products and services. The purpose of this study is to ascertain consumer awareness to Islamic Banking products and services in South Africa where Muslims are minority. Therefore, this study extends on limited literature on awareness of Islamic banking products and services.

2. Literature Review

Ghannadian and Goswami (2004) state that Islamic banking prohibition of interest is not based on economics, but religious beliefs. Therefore, not charging interest requires Islamic banks to finance investments projects through profit or loss sharing. The fundamental of Islamic banking is the prohibition of the interest, that is, banks are not expected to charge interest when lending to customers. On the other hand, conventional banking is based on the interest principle (Ariff, 1988). The charging of interest by conventional banking system is seen as injustice to borrowers, as interest on loans has to be paid whether the outcome is favourable or not (Dusuki & Abdullah, 2007). Therefore, in comparison the Islamic banking deals with the creation of equity through profit and loss sharing schemes, yet in conventional banking equity is created by debt (Patel, 2006).

Suleman (2001), states that Sharia law, which draws its laws from Holy Quran, governs Islamic banking. Yet, Banking Acts enacted by the government or Reserve bank govern the conventional banking. In addition, Dusuki and

Abdullah (2007) state that, Islamic banking is constructed upon the goodwill principle and cooperation, which stand for equity and risk sharing. While, the conventional banking system is based on individualism when it comes to risk and equity sharing. However, the strictly prohibition of interest in Islamic banking does not mean that profit cannot be achieved when trading. Therefore, Islam regards interest financing as immoral and economically harmful in many ways. Patel (2006) notes that profiting which violates religious law in any way or harmful to the stakeholders is not supported by Islamic banking. Hence, investments funds are not to be used in production of alcohol and tobacco, animal cruelty and offensive advertising (Dusuki & Abdullah, 2007).

2.1 Islamic Banking Products

Islamic banking offers an array of products and services to its customers with the objective of satisfying different type of investments and financial needs.

Financing products - financing products offered by banks are mainly for home financing especially for customers who wish to buy houses, vehicles and other personal assets.

Deposit Products - Deposit products are meant to cater to needs for different income, age groups, for instance, basic current and savings accounts are for low-income earners, *Ijraa*, and *Wadi* savings are for youngsters below the age of eighteen. These accounts are offered with bankcard services.

Takaful products - these are products offered to insurance individuals.

They are business-banking products on offer designed mainly for the business community. These range from:

Asset backed - these allow a business to buy or lease assets. The financing includes equipment, leasing, commercial property financing, business, and project financing. Furthermore, treasury services are offered as well, these range from inter corporate investments, issuance of asset bond (*Sukuk*) for raising funds and foreign exchange services.

Trade Financing - these are offered to businesses that intend doing transactions and funding their operations, for instance, letter of credit issued by bank to suppliers of a business; working capital provisions; and export credit facilities.

Source: AL Baraka Islamic Bank, 2013

South Africa offers a range of Islamic products and services this is shown in Table 1:

Table 1: Islamic products and services offered by banks in South Africa

ABSA Islamic Finance	Wes bank Islamic Finances	AL Baraka
Retail services		
Vehicle and asset finance	Vehicle and asset finance Residential property finance Commercial property finance Petro cards Debit cards	Vehicle and asset finance Residential property finance Commercial property finance Trade finance
Corporate Banking		
Commercial property finance	Financial lease	Trade Finance
Treasury /Money market investments products		
Murabaha equity conduit	None	Participation account Regular income provider Monthly investment plan Haj investment scheme Unit trusts Profit calculation and distribution
Deposit services		
Banking cheque account Banking saving account Target/Save account	Business cheque accounts Personal cheque accounts Youth saving accounts Adult savings account Smart account	Participation account. Regular income provider. Junior jump account Monthly investment plan. Savings investment account. Haj investment account
Other products and services		
Islamic wills	RMB Islamic Equity Fund	Stainless steel tank containers

	Home loan Estate planning and wills	Estate planning and administration of estates. Takaful insurance. Foreign exchange services.
Electronic Banking		
None	None	Al Baraka electronic and transactional banking Internet banking Cheque book facility Electronic security and safety
International Banking		
None	None	Foreign exchange International banking

Source: Author generated

As shown in Table 1 the Islamic financial products and services offered by a few South African Banks are limited as compared to the conventional banking systems that offers a number of products and services tailor made to suit the consumers' demands.

2.2 Challenges faced by Islamic banking

Islamic banking has been facing a number of challenges from its inception even though there is a noticeable penetration to new markets.

2.2.1 Awareness

Although the banking system has been in existence for over a half century, awareness on its products and services are hardly known by most people even though a majority of the Muslim community are aware of such products and services. Furthermore, this lack of awareness has led to differing opinions on products and services offered by the Islamic banking. (Khalaf, 2007)(Khalaf, 2007) argues that a product or services may be accepted by one individual and be considered un-Islamic by another, showing a major rift between the Muslim community and Non-Muslim.

2.2.2 Product and service complexity

Islamic products are very complex in nature as compared to conventional financial products. This creates a serious challenge to banks as they try to satisfy consumers who are non-Muslim by making sure they understand the benefits of each product to avoid conflicts (Cornish et al., 2012)(Cornish, Meenagh, Marsden, & Pallet, 2012). According to Ulp (2002) Islamic banking is limited to two main products; cost plus financing and equities. Therefore, this means the consumer is limited to extreme products.

Lack of innovation is a major hindrance to Islamic banking as much of products with latest technology are offered in the conventional banking system. (Khan & Ahmed, 2001)(Khan & Ahmed, 2001) defined a financial engineering as an art of designing financial products that offer satisfaction to consumer needs and wants. Therefore, financial markets are very dynamic, competitive, and sophisticated. Islamic tools have been limited to classical modes developed few years back. Furthermore, Islamic banking system is composed of fragmented small players who are not able to compete for large-scale projects that need huge finances.

2.2.3 Limited consumer behaviour monitoring

In conventional banking, contracts usually guide the behaviour of the parties. Any violation of any contractual liability in conventional banking is usually offset by interest payable on late payment, damages, and other measures that are meant to correct a wrong. The use of such methods in Islamic banking is prohibited as it can be classified as unjust enrichment. Therefore, it is usually hard to recover any amount if they are violations in a contract. Moreover, Islamic banks are prohibited from investing in debt markets or hedging instruments such as derivate, hence, the element of risk is higher compared to conventional banks.

2.2.4 Separation of funds between Islamic and Conventional Banking

Shariah compliance and financial regulations may require that funds be separated from conventional banking operating an Islamic banking window. This separation of funds extends further to physical and logical separation (Cornish et al., 2012)(Cornish, Meenagh, Marsden, & Pallet, 2012)Hence, this can lead to an operation of a parallel banking system infrastructure and process which increase costs. Therefore, this may be a problem to banks offering Islamic Banking to its consumers.

2.2.5 Shortage of qualified personnel

The Islamic banking system has a huge shortage of qualified managers, as most of them are untrained to use Islamic Financial practices (Iqbal, et al., 1998). It is clear that one of the challenges faced within the Islamic banking system is a lack of skilled and trained professionals (Bokhari, 2007)(Bokhari, 2007). Therefore, this challenge may limit the growth of Islamic Banking as more personnel need more training.

2.2.6 Understanding of Islamic banking products and services

In South Africa, the understanding of Islamic Banks is still not sufficient to warrant awareness of its banking products and services. In a study conducted by Saini, et al., (2011), it was found that 96 percent of respondents surveyed only knew four attributes of Islamic banking. The study revealed that 20 percent of the respondents used four products, which included savings; equity funds, unit trust and investments. Furthermore, less than 8 percent use Islamic Banking for vehicle financing activities. Only 2 percent used services like transaction accounts, debit cards, credit cards, and internet banking. Some of the respondents who held banking products with Islamic bank were not aware of the profit sharing principle. This indicated a lack of understanding about the concept of Islamic banking products and services.

3. Methodology

In this study a sample size of 140 respondents were selected from different provinces. Respondents were from Gauteng, Eastern Cape, and Western Cape Provinces. For this study, Muslim and Non-Muslims aged 18 years and above were targeted. A random sampling technique was used to distribute questionnaires. A total of 1000 questionnaires were distributed using emails and self-administered interviews, of which 140 were deemed complete and sufficient for statistical analysis. Respondents were customers from all commercial banks in South Africa. In this study customer's demographic characteristic, awareness, Islamic banking products and services was checked. The data recorded was analysed using the Statistical Package for Social Sciences (SPSS 21). Multi collinearity tests were done to check if the data was suitable for a binary choice model. Normality tests were also done by testing Skewness and the data was normal. Descriptive analysis was first employed and a binary logistic model was applied to analyse factors influencing awareness of consumers to Islamic banking products and services.

The binary regression model was used to test the influence of the hypothesised explanatory factors on the dependent variable.

$$\ln(\text{ODDS}) = \ln(P/1-P) = \beta_0 + \beta_1X_1 + \dots + \beta_nX_n + \mu \dots \dots \dots (1)$$

In equation 1, P represents the probability of awareness in Islamic banking products and services and (1-P) represents the probability of non-awareness.

P represents the predicted probability of the event which is coded with 0 (awareness to Islamic banking products and services) rather than with 1 (non-awareness to Islamic banking products and services).

1 - P represents the predicted probability of non-awareness and X represents predictor variables.

β represents the slope parameters of the model, which measures the change in ln for a unit change in the explanatory variables.

3.1 Variables

The variables for the binary logistic model and their expected signs are shown in Table 2 below.

Table 2: Variables of binary the model

Variable	Measure	Expected sign
Dependent Variable		
Awareness	Dichotomous (0 if yes;1 if no)	
Explanatory variables		
Gender	0= female;1= male	-/+
Age	Number of years	-/+
Marital status	Categorically	-/+
Race	Categorically	-/+
Work experience	Number of years working	-/+
Qualification	Level	+

4. Findings

The majority of respondents were males aged between 20 and 30 years. Single people dominated the study (70 percent); 59.3 percent were non-Muslim respondents and 40.7 percent Muslim. The African race contributed 48.1 percent of respondents followed by Asian/Indian who contributed 37 percent. The majority of respondents had 0 to 5 years of work experience and possessed a tertiary qualification. The description of the sample is given below in Table 3.

Table 3: Descriptive results

Variables	Percentages	Variables	Percentage
Gender		Race	
Male	59.3	African	48.1
Female	40.7	White	7.41
		Coloured	7.4
		Asian/Indian	37
Age		Work Experience	
20-30	74.1	0-5 years	88.9
31-45	22.2	6-10 years	7.4
46-55	3.7	11 and above	3.7
Marital Status		Education Level	
Single	70.4	No education	7.4
Married	25.9	Primary	3.7
Divorced	3.7	Secondary	14.8
		Tertiary	74.1
Muslim	40.7		
Non-Muslim	59.3		

In order to understand the distribution of respondents in different banks. It was discovered that 29.6 percent were from Al Barak Bank which is a purely Muslim Bank, and the rest had accounts with Standard Bank 25.9 percent which does not have Islamic Banking, ABSA had 18.5 percent respondents and it offers Islamic conventional windows, FNB with 14.8 percent offered Islamic windows and 3.7 percent from Nedbank. Respondent's banks are show shown in Table 4 below.

Table 4: Banks used by respondents

Banks	Percent
ABSA	18.5
Standard Bank	25.9
FNB	14.8
Al Barak Ltd	29.6
Nedbank	3.7
HBZ ltd	3.7
Other	3.7

Respondents were given a question seeking to understand their awareness to Islamic Banking products and services. The most products that the respondents were aware of: 55.6 were aware of Deposit, 40.7 percent aware of investment and financing. It was quite surprising that 77.8 percent of respondents were not aware of Insurance products offered by Islamic Banking and 66.7 percent were not aware of debt products. The high percentage of respondents' non-awareness shows that only a few Islamic Banking products are available to consumers. The results are similar to Gerrard and Cunningham (1997) who recorded a low level of awareness in Islamic Banking products in Singapore. Table 5 presents the results.

Table 5: Awareness to products and services

Products/services	Aware	Not aware
Deposit	55.6	44.4
Investment	40.7	59.3
Insurance	22.2	77.8
Financing	40.7	59.3
Debt	33.3	66.7

In order to understand how respondents perceive the Islamic banking system, questions in form a Likert Scale were posed. It can be seen in Table 6 that most respondents (43 percent believe that Islamic banking is conducted under Sharia Law and 33 percent were neutral. At least 59 percent believed that Islamic Banking is available to both non-Muslims and Muslims. However, when asked if interest rate was prohibited, 40.7 percent respondents were neutral highlighting a lack of knowledge. At least 48.1 percent disagreed that returns in Islamic Banking are dependent on profit and loss sharing. These findings show the complex nature of the Islamic banking system. Most respondents were neutral 51.9 percent when asked if Islamic banking funds businesses prohibited by the Sharia Law.

Table 6: Islamic Banking operations

Value	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Islamic banking conducted under Sharia law	11.1	11.1	33.3	29.6	14.6
Islamic banking available to non-Muslim and Muslim	3.7	11.1	25.9	37	22.2
Interest is prohibited	3.7	11.1	40.7	22.2	22.2
Returns are based on profit sharing	3.7	48.1	29.6	0	18.5
Islamic banking invest in businesses not prohibited by Sharia	3.7	3.7	51.9	14.8	25.9
Islamic banking should have a Sharia Board	3.7	0	40.7	25.9	29.6

Respondents were further given questions in form of a Likert scale to rank their responses on the potential of Islamic banking in South Africa. In Table 7, at least 67 percent believe that it has a potential to compete with the conventional banking system. Thus, 62 percent believe that it can be an alternative as well. However, 65 percent stated that Islamic Banking is based on religion. When asked if Islamic banking provides low cost on products and services at least 55.6 percent were neutral on this question. This showed that most respondents had no idea how Islamic banking works. A total of 63 percent were neutral if whether returns are high in Islamic banking or not, with 11 percent strongly disagreeing. At least 68 percent stated that Islamic Banking would work just as conventional banking in South Africa.

Table 7: Potential of Islamic Banking in South Africa

Value	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Islamic banking has a potential to grow.	3.7	3.7	25.9	40.7	25.9
Islamic banking can be an alternative.	7.4	7.4	22.2	40.7	22.2
Islamic banking is based on religion.	7.4		22.2	44.4	25.9
Islamic banking provides low costs products and services.	11.1	3.7	55.6	18.5	11.1
Returns are high in Islamic banking.	11.1	7.4	63	11.1	7.4
Islamic banking would work in South Africa.	7.4	11.1	22.2	40.7	18.5

4.1 Binary logistic

Table 8: Model test

Omnibus Tests of Model Coefficients			
	Chi-square	Df	Sig.
Model	18.444	7	.010

The addition of variables in the model seems to not have an influence to the outcome. The -2-log likelihood is a measure of how well a model explains variations in the outcome of interest. It is usually called the deviance and a chi distribution. The p value generated when adding variables to the model is given in the Table 8 above and it is 0.010 which is less than the conventional significance level of 0.05, hence we conclude that the addition of variables to the model is statistical significant. In other words, the variables explain the variations in the awareness of Islamic banking products and services. Using the Cox and Snell R squared in Table 9, the explanatory variables explain 49.5 percent of variations in awareness for customers in Islamic banking.

Table 9: Model Summary

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	18.652 ^a	.495	.663

Table 10: Binary model results

Variables	B	S.E.	Wald	Df	Sig.
Gender	-5.185	2.711	3.658	1	.056***
Age	-5.318	2.621	4.116	1	.042***
Maritalstas	3.763	2.649	2.017	1	.156
Muslimor	-3.208	2.638	1.479	1	.224
Race	-2.263	1.360	2.767	1	.096**
Expe	1.456	1.470	.980	1	.322
Qualif	-1.977	1.152	2.943	1	.086**
Constant	17.402	8.709	3.992	1	.046***

*** Significant at 5 percent level and ** significant at 10 percent level

The results in Table 10 from the binary model show that gender was statistically significant at 0.05 percent level. This means that gender plays an important role in awareness. According to the Sharia law males are given more rights compared to women, hence, this biasness has an influence in the awareness of banking products and service, because females usually seek males consent in doing certain contracts. Similarly, in the African culture males have more rights compared to female, hence, they usually conduct many contracts without female consent.

It is not surprising that age was statistically significant at 0.05 percent level with a negative coefficient. The results mean that younger people are likely to aware of products compared to the older people. This is particular true in South Africa where the youths (18-34 years) contribute a larger percentage to the whole population. As expected race was statistically significant at 0.10 percent level. The findings are a true reflection of the multi-racial South Africa, where most Africans are non-Muslims. Race plays a big role in influencing awareness of Islamic banking products considering that Muslim in South Africa contribute 2 percent of the population (StatsSA, 2013). Most Non-whites usually are of Muslim origin, thus, there are likely to be aware of Islamic Banking as compared to other races.

Qualification obtained was statistically significant (0.10 percent) in influencing awareness of Islamic banking products and services. It is not surprising that as one gets more educated the high the chances of having knowledge with certain products in the banking industry. Therefore, most educated people would be expected to be aware of banking products offered in conventional and Islamic banking systems.

5. Conclusion and Recommendations

The study examined the factors influencing awareness of Islamic Banking products and services in South Africa. A sample of 140 respondents was deemed enough. The study findings show that most of the customers are highly educated owning a degree, the majority of the respondents are in the 20 - 30 years age group and most of them are employed. More than 40 percent people interviewed were Muslim and 59 percent were non-Muslim. Africans were the dominate race with over 48 percent respondents, white with 7 percent, coloured with 7 percent and Asian/Indian were 37 percent. All the respondents did their banking with these banks: ABSA, Standard Bank, AL Barak Ltd, Nedbank, FNB, and African Bank. More than 29 percent respondents were aware that Al Barak offers Islamic banking and 25 percent thought Standard bank offers as well. However, 18 percent were aware that ABSA offers Islamic products; 15 percent knew FNB and 9 percent knew HBZ Ltd, Nedbank and Other banks.

At least 52 percent respondents were aware that Islamic banking is available to Non-Muslim and Muslims. However, at least 66 percent believed that it is based on religion. The results are similar to a study conducted by (Khattak & Rehman, 2010) on Pakistan customers. The findings of this study suggest that few customers have adopted Islamic banking as 70 percent have accounts in non-Islamic banks.

As the results of this study show, it is necessary for banking institutions to educate customers on how the Islamic banking system works. The banks offering Islamic finance should start education campaigns or informative advertising campaigns. The study pointed a serious misconception about Islamic banking products and services as many people even Muslim believe that it based on religious background. This highlights a serious problem in adopting the banking system, as non-Muslims will not participate. It is generally known that most South Africans use the conventional banking system and switching to Islamic banking maybe a daunting task that would face serious resistance because of the perceptions and lack of information associated with Islamic Banking. Furthermore, Islamic banking products and services should outclass the conventional system to be recognised by many customers. Therefore, in order for Islamic banking to offer viable products and services, serious marketing efforts are needed.

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