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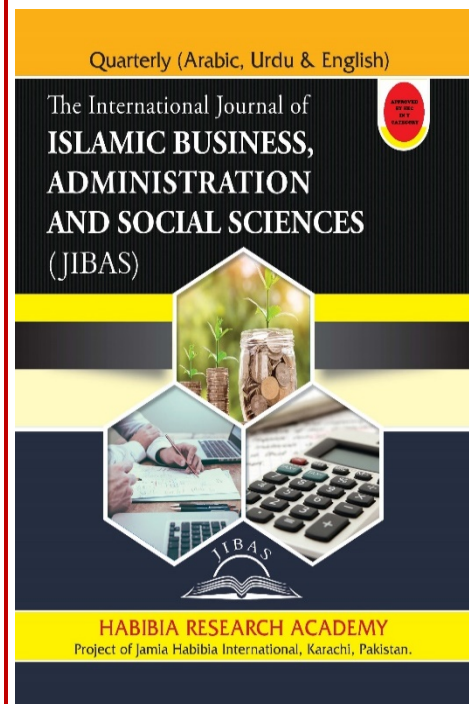
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TOPIC:
CHALLENGES IN PUBLIC ACCEPTABILITY OF ISLAMIC BANKING

AUTHORS:

1. Muhammad Ali Khan, PhD Student of Shaikh Zayed Islamic Research Centre, Karachi University, Pakistan. Email ID: alishoki@gmail.com
Orcid ID: <https://orcid.org/0009-0000-0179-1113>
2. Dr. Abida Parveen, Professor of Sheikh Zayed Islamic Research Centre, Karachi University, Pakistan. Email ID: info@szic.edu.pk Orcid ID: <https://orcid.org/0009-0004-6278-5621>

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CHALLENGES IN PUBLIC ACCEPTABILITY OF ISLAMIC BANKING

Muhammad Ali Khan,

Abida Parveen,

ABSTRACT:

Although most Muslims are aware that Riba is a great sin in Islamic Shariah, they still face challenges in adopting Islamic banking for their financial needs/activities/requirements. The purpose of this research article is to analyze the general trend of people's views, facing challenges and misconceptions among them regarding Islamic Banking and therefore suggest promoting Islamic banking. Even though the scope of Islamic banking is expanding on a daily basis it is not gaining the popularity it deserves. Therefore true Muslims who believe in Judgement Day always make all efforts in their life to avoid gambling and other speculative activities like Riba for themselves and their loved ones. If a Muslim does not oppose Riba to protect his entire family including himself, then his faith is meaningless. Allah issues intimate against Riba at numerous places in the holy Quran regarding Riba and explains it as a great sin. Islamic banking is a financial intermediary system that avoids paying interest on all kinds of transactions including conducting its activities in a manner that contributes to achieving the goals of the Islamic economy.

KEYWORDS: *Islamic Banking, Riba, Interest, Financial Crises,*

INTRODUCTION:

Uneven exchanges and borrowing costs and fees are frequently referred to by the Arabic word "Riba," which means "to increase" or "to exceed." Interest is regarded as Riba, or an unjust and exploitative gain, by Islamic law.

Riba's base is based upon bias, narrow-minded mentality, and callousness as well and it clashes with the spirit of kindness and sympathy. Rather than risk sharing in business or its investment, Riba establishes a money-lender-borrower relationship where the moneylender has only focused on its financial returns, no matter what the borrower's conditions, just to pressure the borrower to get interest on the credit.

Riba or Interest-based credits/loans generally take advantage of poor people, exploit and make them poorer. Payday credits are a genuine illustration of ruthless loaning to poor people, with yearly financing costs that regularly reach 400%. Numerous poor individuals end up refinancing these loans multiple times as part of a never-ending cycle of debt and riba. Mortgage holders who default on their home loans are an example of a very common situation. Banks frequently sell a family's home even after they have already paid the full purchase price.

Riba is forbidden in Islam for the primary reason that it enriches the wealthy while impoverishing the poor. Dealings in which neither party receives equal treatment are condemned by Islam. The social gap between rich and poor people is thought to be maintained and frequently widened as a result of interest.

On the other hand, Islam's goal is to spread compassion and charity. to get rid of feelings of selfishness and self-centeredness, which can lead to hostility, mistrust, and resentment

in social situations. Sharia law creates opportunities and contexts for individuals to lend money without interest by making Riba illegal.

Islamic banking is a kind of financial operation that works under Shariah law or Islamic regulation. In its guidelines and rules, Islamic banking complies with the primary and essential source of Shariah laws & regulations, which are derived from the Quran, the holy book, and Sunnah. In all financial transactions, these Shariah laws & regulations consider human values, equality, civil rights, and social justice. It also encourages entrepreneurs to groom their businesses. Safeguard property rights as well as emphasis on transparent obligations and binding commitments.

1.2 – Explanation of Islamic Financial Banking?

The legal code of Shariah is the core foundation for Islamic financial economics.

Islamic financial banking or Shariah compliance financial activities that adhere to Shariah rules and regulations. Two main principles of the Islamic financial system are to prohibit interest against lending and to encourage profits and losses relationship between the lender and the borrower.

1.3 – Major differences between the Islamic financial system and conventional financial system.

One of the primary distinctions between the Islamic financial system and the conventional financial system is the prohibition of speculation and usury. Speculation & gambling are strictly forbidden in Shariah as well as borrowing money with interest rates is also against the law. The Quran also forbids investments involving alcohol, gambling, pork, or any other substance. Consequently, Islamic banking may be considered a distinct cultural form of ethical investing.

As a result, Islamic banking, in contrast to conventional banking, does not charge interest but does involve purchasing or partnerships. Islamic banking has distinct risk profiles and adheres to distinct principles. For Islamic banks, there are two types of regulations. It is represented first by the public authority and national bank, and besides by the Shariah Administrative Board, which supports Islamic monetary results of Islamic banks and ceaselessly continues checking regarding the execution of the Shariah rules and guidelines.

1.4 – Procedure of earning of profit in Islamic Financial System?

Participation in equity and profit sharing rather than taking interest in lending is the Islamic financial system's source of earning. In equity participation, an Islamic financial institute becomes a partner while lending money to a business, instead of the business paying interest on lending money, it gives a share of the profits to Islamic Bank. Therefore, if the business cant unable to repay, the Islamic bank also bears a loss.

1.5 - History of Global Islamic Banking.

Before and during the time of Prophet Muhammad (PBUH), there were financing transactions in Makkah. At that time Makkah was the focal point of business exercises. Hazrat Khatijah gives Prophet Muhammad (PBUH) an investment for a business partnership.

Egypt was the first nation to implement modern Islamic banking in 1963 when Ahmad Elnaggar established a profit-sharing savings bank in the town of Mit Ghamr.

In 1975, Dubai Islamic Bank became the first fully-fledged Islamic bank. United Bank of Kuwait then offers financial products that adhere to the Sharia. Additionally, HSBC offers Islamic banking as the principal Western bank in the UK to offer sharia-consistent home loans.

In order to standardize Islamic banking, funding has been provided to the AAOIFI.

Under Taqi Usmani's direction, Islamic banking as we know it today was founded in 1997 under the name Meezan Bank.

1.6 - Islamic Banking Advantages.

1- First, Islamic banking ensures financial inclusion. As a result, financial services and products that are useful and affordable can be obtained for both individuals and businesses. Savings, transactions, credit, insurance, and payments are delivered in a sustainable and responsible manner.

2- Islamic banking reduces the negative effects of harmful practices and products. Remember that Sharia law prohibits any transaction that promotes Islam's prohibited industries or activities.

3- Through its rule of sharing benefits and misfortunes, as well as some other expected gambles, Islamic banking guarantees equity. As a result, the legislator ensures that Islamic finance products adhere to the Sharia and that profits, losses, and threats are shared proportionally rather than placing the entire risk on the customer, as in the Western financial system, whose goal is to make money by charging interest on loans it gives to customers regardless of the circumstances.

4- Islamic banking boosts economic expansion. The primary objective of Islamic financial institutions investing in any company is to grow and generate profits. If the business grows successfully, it will generate profits, and the bank will eventually receive a share of those profits.

1.7 - Riba in Quran

The Arabic word for the idea of "interest" is riba. Riba means "an increase in money," "an increase in anything," or "an increase in anything from its initial value." These are the literal meanings of the word. However, in Islam, no increase is considered riba. Money may also rise for business activities. Just increments are haram that are coming about through prefix rate.

Interest restrictions imposed by religion are crystal-clear and unambiguous. Riba-based transactions are forbidden in the Quran.

The Quran's prohibition against riba is discussed in different places.

The 1st in Makkah is that Allah doesn't bless a man who takes an interest in lending and doesn't give charity which increases wealth multiple times.

2nd verse came in the early days of Madinah which also strongly condemned Riba which was also prohibited in all previous holy books. [4:161]

The 3rd revelation gave instructions to all Muslims to avoid all kinds of Riba. [3:130-2]

1.8 - Research Objective

The study will Research to analyze the general public view toward Islamic Banking and give suggestions for improvement of Islamic Banking towards making its acceptability on a large scale

1.9 - Research Questions

Q1. Do you know that the Riba (Interest) is Haram (forbidden) in my and all religions?

Q2. I don't give importance to make dealing with Islamic Banks due to.

Q3. I don't want to move my account/business to an Islamic Bank from a conventional bank due to:

Q4. I think that current Islamic Banks

Q5. Islamic Banking services cost me

Q6. When anybody needs a loan

Q7. Islamic Banks can fulfill customers' daily and business requirements.

Q8. All staff of Islamic banks know about Islam & they explain me satisfactorily.

Q9. Do Islamic banks give profit to their depositor honestly?

Q10. Islamic banks earn more on deposits and investments than conventional banks.

Q11. I have my bank accounts in:

Q12. Islamic Banks have more reputational/perceptual risk than conventional Banks.

Q13. The government is doing good work in promoting Islamic Banking.

Q14. Do I know that the people who deposit their money in the current account of Conventional / interest-based banks, support Riba / Interest indirectly and therefore become part of it?

Q15. If I dealt with Islamic Banks only, on judgment day, I could have at least argued that Islamic Banks were the best option to avoid Riba for me so I selected Islamic banks.

Q16. If Islamic banks claim that they are Islamic then the liability would be on them whereas as an account holder of an Islamic Bank, I will be "Bari uz Zimah" and not guilty or blamed on judgment day.

Q17. If there is an option available within the same bank to convert my conventional account into an Islamic account then I will convert my account to Islamic.

1.10 Questionnaire design

The questionnaire has been designed to keep in view the common people's questions, problems, requirements, and thoughts regarding Islamic banking in general like :

(a) Level of religiousness

(b) Seriousness in avoiding Riba

(c) Banking service requirements

(d) Convenience

(e) Cost-effectiveness

(f) Fearness of judgment day

1.11 Sampling Methods

Researchers use the "simple random sampling" approach since it's regarded as an impartial and equitable way to choose samples. This sampling type is considered the simplest method for selecting samples and understanding.

1.12 Limitations for Further Research

- 1.) The social commitment of Islamic banking has not been investigated. Therefore, It is proposed that the achievements or shortcomings of Islamic Banks should be highlighted.
- 2.) Islamic banks are responsible for giving equivalent chances to everybody in the public arena. Individuals who have good ideas but have a shortage of funds can be encouraged by Islamic banks through investment on profit and loss bases. Future exploration ought to be finished on how Islamic banks have contributed around here and how it very well may be executed to improve society
- 3.) Islamic banks can assist with decreasing poverty. This is a region that should be examined and researched.
- 4.) Future studies should examine how Islamic Banks increase Musharika and Mudarba in their credit portfolio.
- 5.) Future investigations can likewise focus on what mediums ought to be taken on to make individuals mindful of Islamic banks.
- 6.) Future exploration can likewise focus on the focuses that can bring an agreement among all Shariah researchers concerning the worthiness of Islamic financial items according to Shariah rules.

1.13 Contribution of the Study

This study will give a realistic view of the general people which could help Islamic banks for improvement of their business.

Literature Review

In the Sura-e-Rome (30:39), Allah Almighty lays out the positive and negative of interest and then declares Haraam. SuraeAlBakara (2:275). Instructions regarding Riba are reflected in many verses in the Holy Quran.

The first step of detailed explanation of Riba's benefits and drawbacks. In this verse, Allah the All-Powerful revealed the benefits and drawbacks of Riba and commanded charity. People overlook the intrinsically fatal outcome of Riba because they only consider Riba's extrinsic characteristics to exponentially increase their capital. For the sake of increasing wealth and achieving a peaceful wealthy life as well as in the next stage after death, Muslims are strongly encouraged to frequently distribute donations, zakat, and charity to deserving individuals. (2010, Ashfaq, Kashif, and Asad)

The attainment of greater social justice is one of Islam's most important goals. The Qur'an says that a society without justice will eventually fall apart and be destroyed (Qur'an, 57:25). A set of rules or moral values that everyone agrees on and adheres to is necessary for justice. If the financial system satisfies at least two conditions based on moral values in addition to being robust and stable, it may be able to achieve justice in society. The lender should have also a participant in the risk sharing thus the entrepreneur doesn't have to bear all of the losses. The other is that the poor should get a fair share of the money that financial institutions raise to help end poverty, make it easier to find work and start a business, and help even out income and wealth distribution. (Umer Chapra, 2011) M.

In Islam, both entrepreneurs and financiers are expected to share equally in both profits and losses. Therefore as per Islamic financial principle: "No gain, no risk." We must also be willing to share the risk if we want to gain. Risk/reward sharing in the financial system should encourage financial institutions to evaluate risks with greater care and monitor borrower spending more effectively. Both the financier and the entrepreneur should double-check the risks in order to bring more discipline to the financial system, reduce excessive lending, and improve the health of the system. (2008) (Umer Chapra)

Muslims had established a framework that works without interest and participation in assets. During the early time of Islamic history, the framework performed outstandingly. In the Mediterranean period, profit profit-sharing financial system worked very well organized way in business and industry and became successful against interest-based borrowing and lending. (Munawar Iqbal and Philip Molyneux 2005)

As the interest payment is a fixed payment that should be paid regardless of whether the client can't pay, hence in this way Riba takes advantage of society. Riba is totally disallowed in the Islamic financial framework. Accordingly, the most broadly perceived justification for tolerating Islamic banking is the preclusion of Riba which exists in the traditional financial framework. (Tahira, Karim, 2016)

As the main objective of the Islamic financial system is to eliminate Riba from financial transactions that's why it invests in assets. (Azam, Saqib, Irfan, 2021),

The Islamic financial system is not just a replica of conventional banking. In point of fact, it is based on Shariah ethical principles, which principally have different rules and regulations compared to conventional banking systems. (Brian Kettell, 2011)

Since the idea was put into practice around 40 years ago, Islamic finance has experienced steady and consistent horizontal and vertical growth despite being an evolving industry. The ability of Islamic finance to withstand the effects of the global financial crisis, maintain a positive outlook throughout, and eventually emerge as a more equitable and effective system has raised its profile and demonstrated its capacity to stabilize the global financial system. (M. Kabir Hassan, 2018)

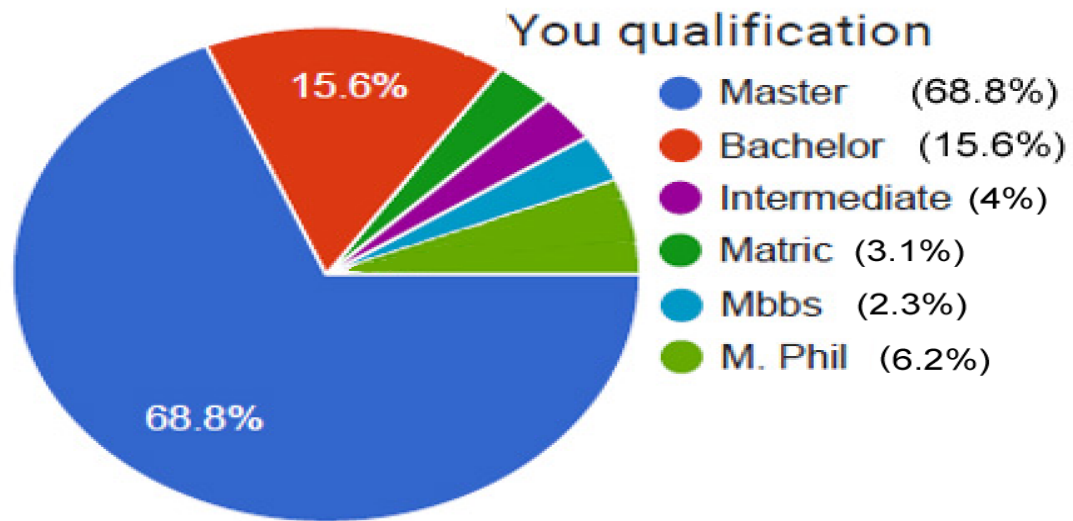
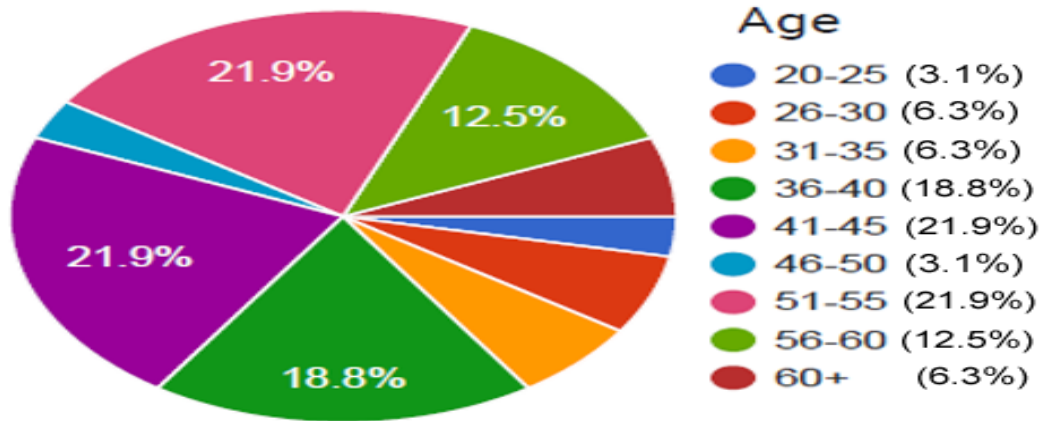
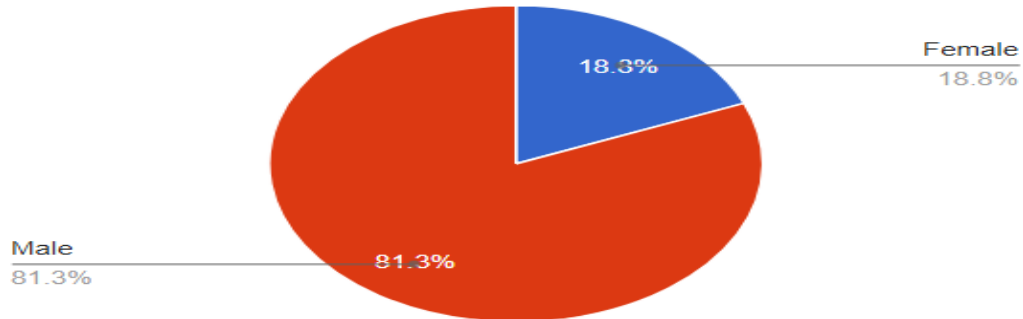
Because the regulatory framework in Western nations favors traditional banks over Islamic ones, Islamic banks face difficulties there. When it comes to establishing Islamic banks, the government of some Muslim nations is not particularly cooperative. (Ahmed, 2008; Meisamy & Gholipour, 2020).

Research Methodology

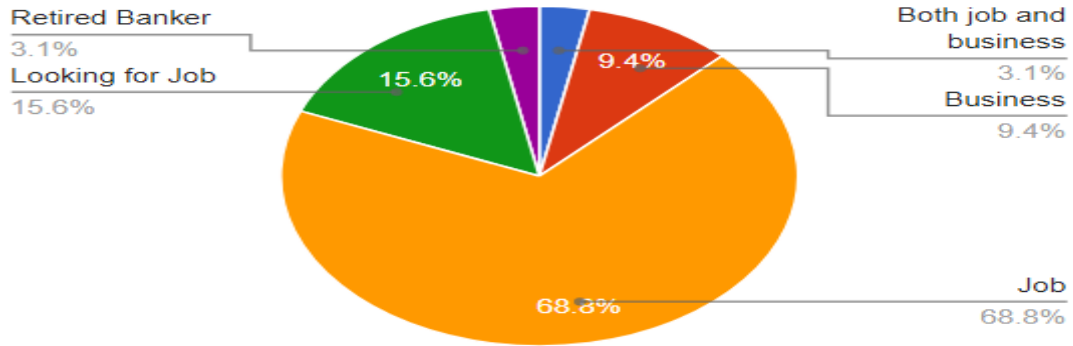
As the research purpose is to observe consumer behavior and analyze their views towards Islamic Banking, therefore the best technique in this scenario is the Quantitative research method which needs to be adopted. Questionnaires are distributed electronically and physically to get views of common people.

Analysis and Results:

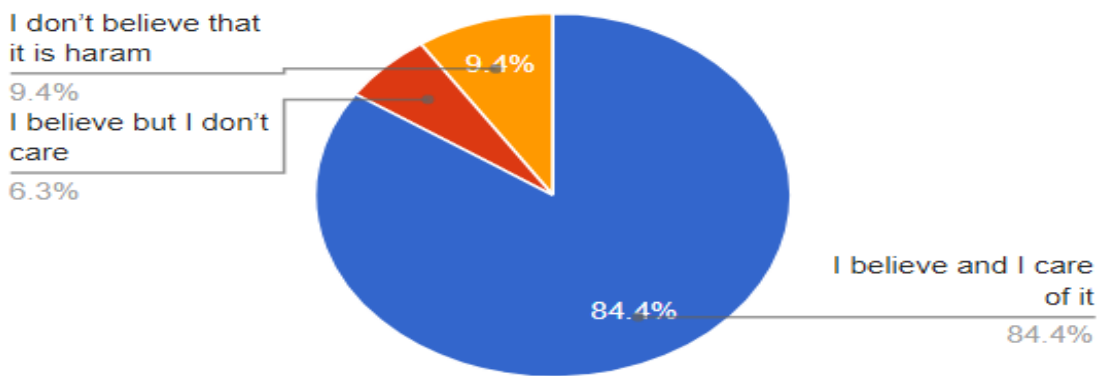
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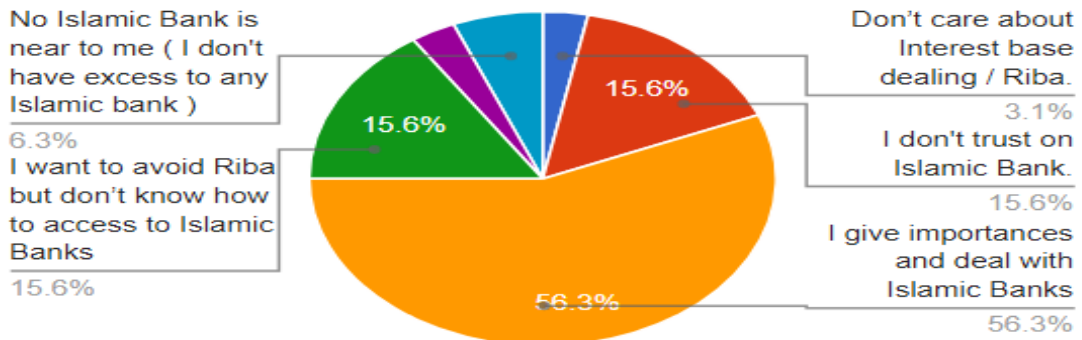
Your activity



Q1. Do you know that the Riba (Interest) is Haram (forbidden) in my and all religion?



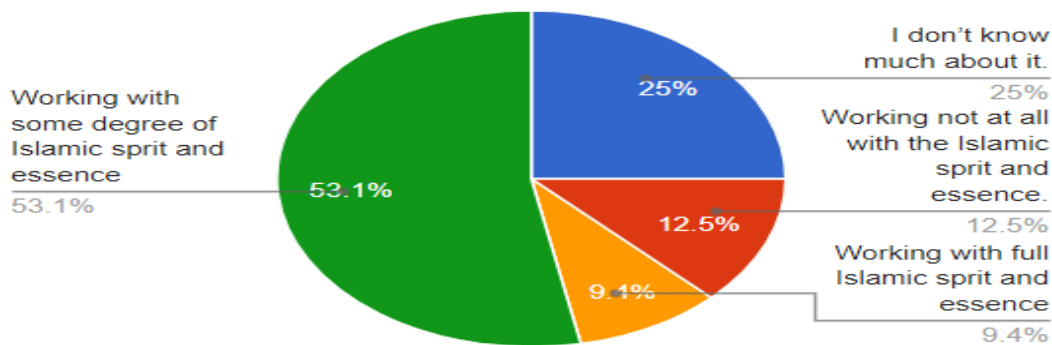
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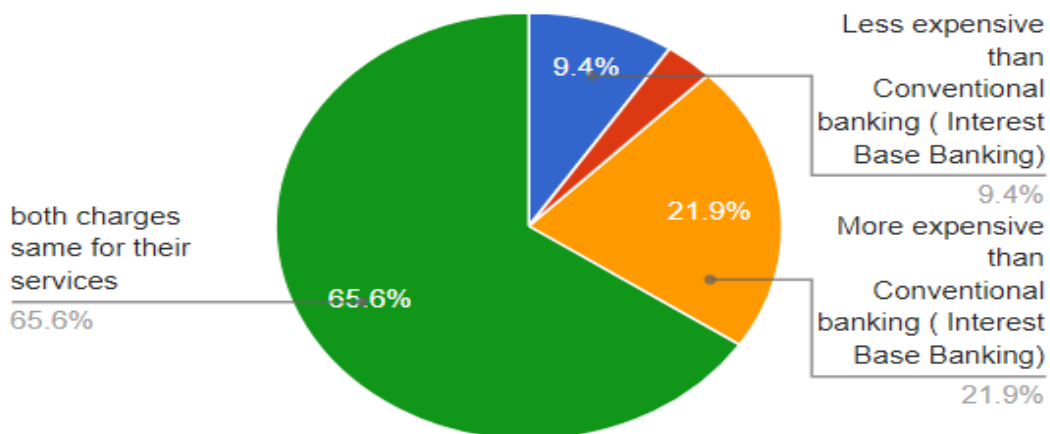
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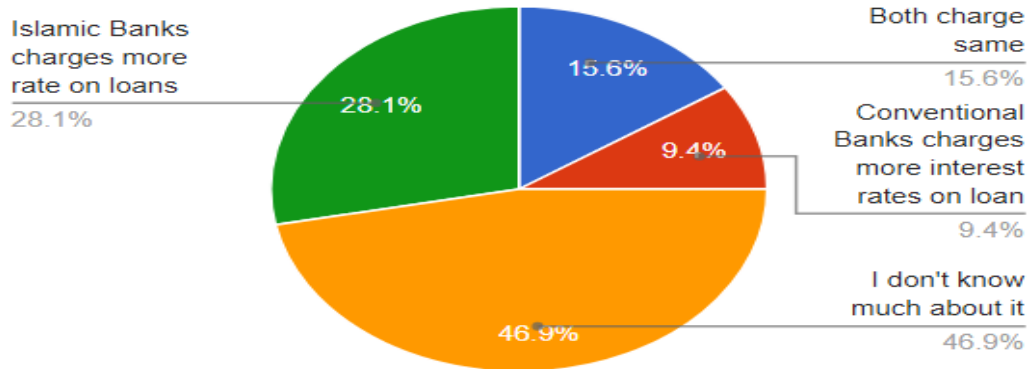
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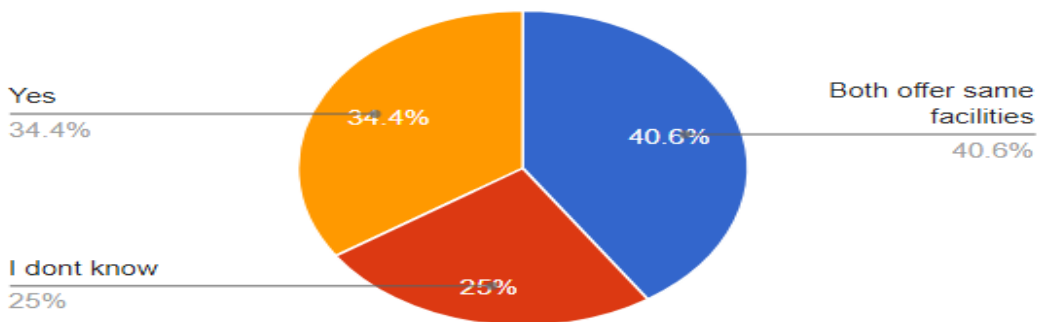
Q5. Islamic Banking services cost me



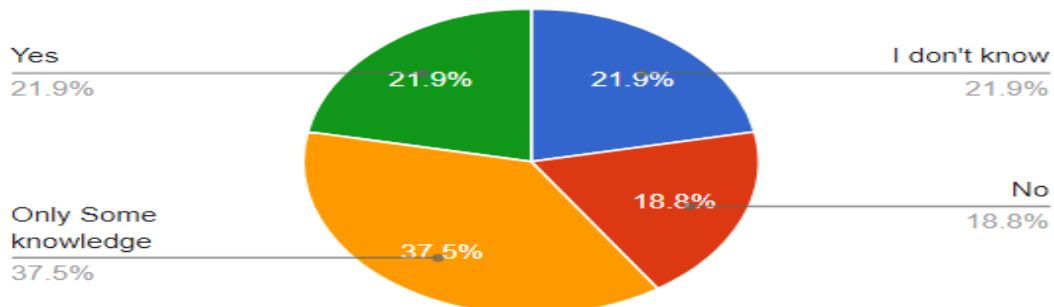
Q6. When anybody needs loan



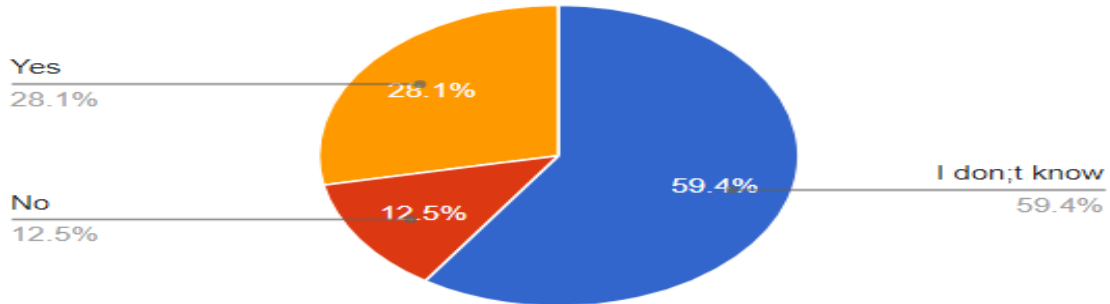
Q7. Islamic Banks able to fulfill customers daily and business requirements.



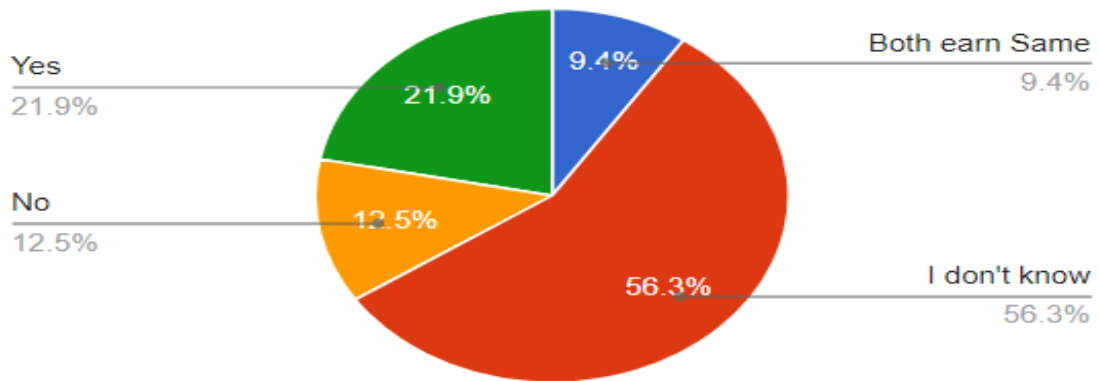
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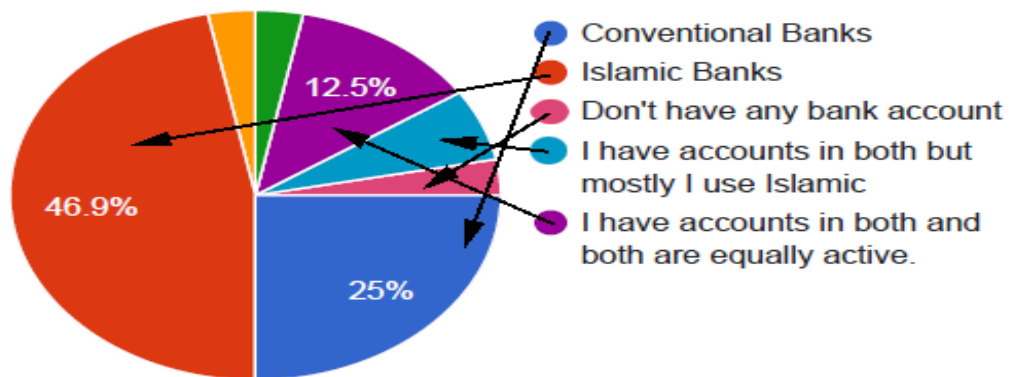
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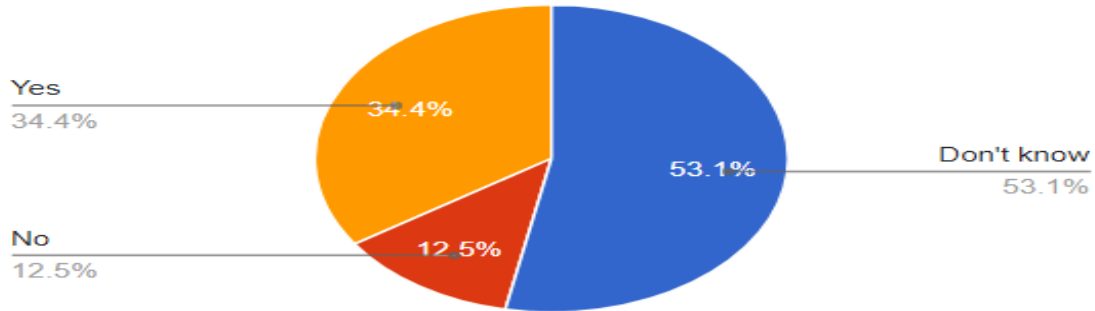
Q 10. Islamic banks earn more on deposit and investments than conventional banks.



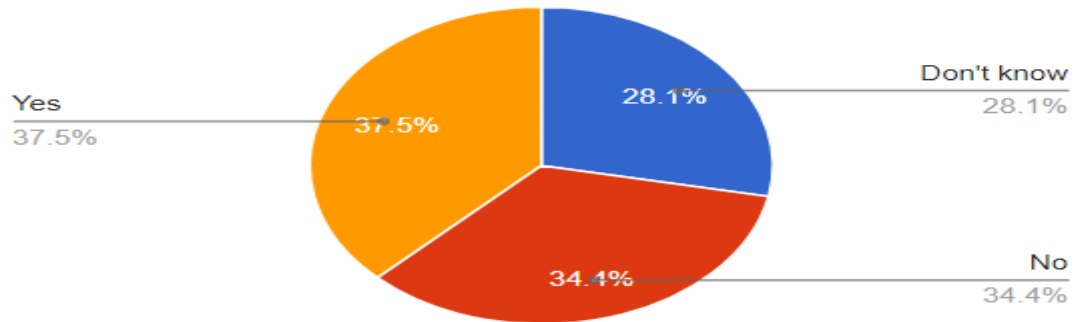
Q11. I have my bank accounts in :



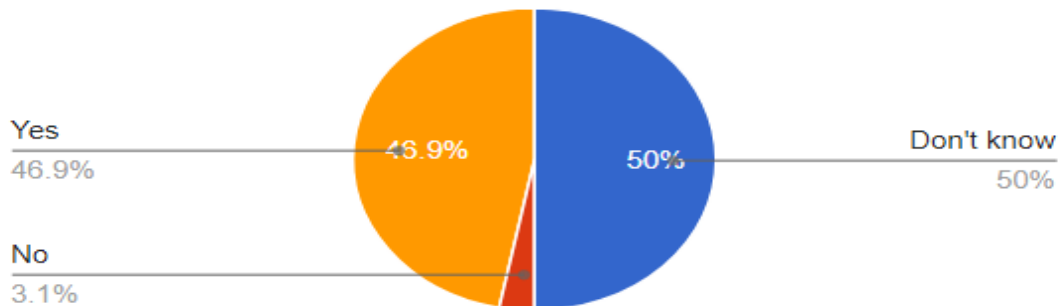
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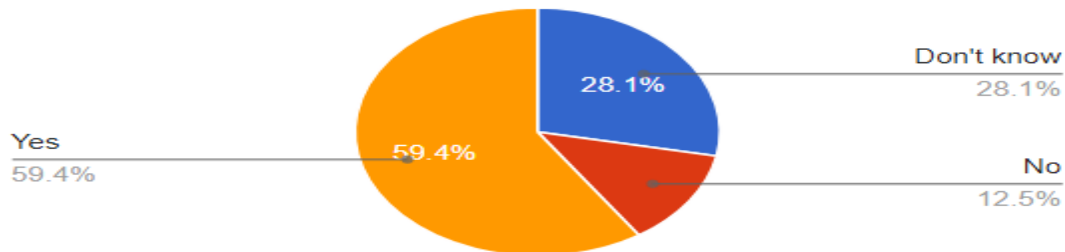
Q13 . Government is doing good work for promoting Islamic Banking.



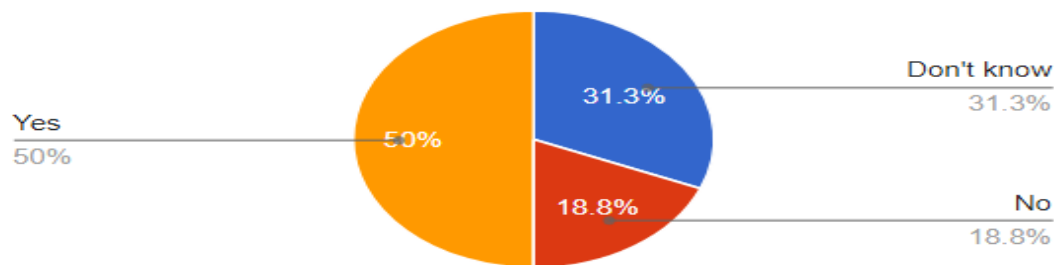
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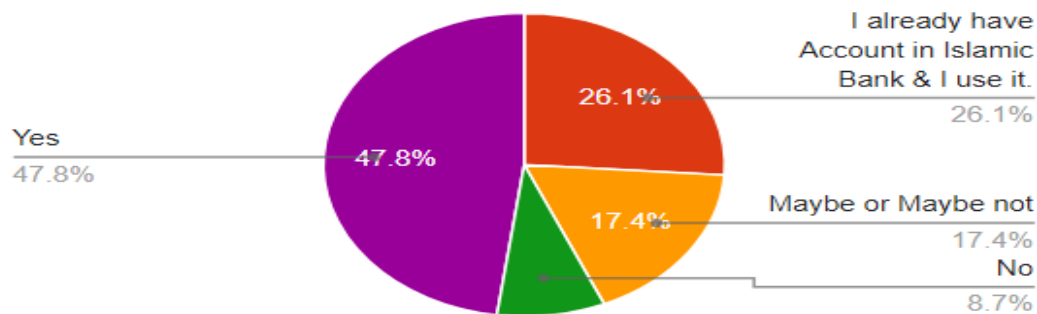
Q15 . If I deal with Islamic Banks only, on judgment day, I could have atleast argument that Islamic Banks was the best option to avoid Riba for me so I select Islamic banks.



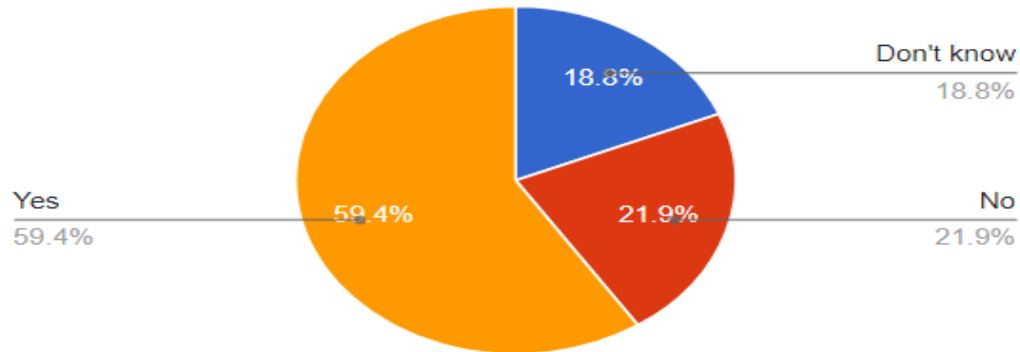
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Q17 . If there will be option available within same bank to convert my conventional account in to Islamic account than I will convert my account in Islamic .



Q18 . All Conventional banks should be convert in Islamic Banks.



CONCLUSION & RECOMMENDATIONS

Although the findings indicate that more than 80% of people want to avoid Riba but they do not have proper guidance towards Islamic Banking. Sometimes the distinction between conventional and Islamic banking is difficult to understand.

In order to increase people's awareness of Islamic banking, Islamic banks should organize additional awareness programs. Islamic banks also place a strong emphasis on social goals in their operations.

One of the greatest efforts would be to provide loan facilities to the underprivileged through specialized funds, Islamic banking has the potential to contribute to the fight against poverty which also increases a positive image among general people.

The foundation of the Islamic financial system model is on the basis of profit & loss sharing. In general Islamic banks don't focus on profit and loss sharing financial products. However, Islam places a greater emphasis on the Musharika and Modarba, which are two forms of participatory financing. Through these financing modes, Islamic Banks can help the business community in more productive ways.

Islamic banks must also launch a public educational campaign, seminars which should be designed to increase people's knowledge to inform people how Riba is a great sin in Islam. Islamic banking can also assist with their social and financial issues.

We know that most of our population lives in rural areas, so the expansion of Islamic banks' rural branch networks should be their primary focus as well as agriculture and small and medium-sized businesses ought to receive more attention.

Shariah's understanding and knowledge are very important for all the employees working in Islamic banks so that they can explain in a better way to their customers.

Islamic banks' employees should focus on their customers' satisfaction in terms of their religious concerns.

Islamic banking should have experienced scholars and skilled workers, it is therefore suggested that Islamic banking institutions should focus on plans to overcome this related issue.

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