



**EMPLOYEE AWARENESS OF CORE ISLAMIC
VALUES FOR THE MARKETABILITY OF ISLAMIC
BANKING PRODUCTS IN BANGLADESH**

BY

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**A research paper submitted in fulfilment of the requirement
for the degree of Master of Science in Islamic Banking and
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ABSTRACT

Since its inception, Islamic finance sector have gone through rigorous research and development which led to the gigantic size of the industry at present world economy. The impressive growth of the Islamic banking industry was welcomed by good number of Muslim populations of various countries which is ever expanding. However, most of the research and developments in the Islamic finance sector focused on the state-of-the-art product and services so that the stakeholders; mainly clients and stockholders get the best service with maximum profit by competing with the conventional banking industry. This rapid advancement of products and services however did not quite give proper attention to one important stakeholder in the industry which is the employees of the Islamic finance institutions. This research aims to explore the key concepts and history of Islamic banking industry along with its current development around the world. The research however will focus on the perception of the Islamic banks employees in Bangladesh. This primary data based research which was heavily dependent on survey questionnaire tries to show the relationship that the knowledge about Islamic value among employees have with the marketability of the Islamic banking products and services. Furthermore, with the help of secondary data, the paper also discusses the approaches that should be taken by the major industry players in order for the industry to have sustainable growth and expansion in Bangladesh.

خلاصة البحث

منذ ظهوره، مر قطاع التمويل الإسلامي بالكثير من الأبحاث والتطوير والذي قاد إلى الحجم العملاق للقطاع في الاقتصاد العالمي الحالي. النمو المثير للإعجاب لقطاع البنوك الإسلامية كان مرحبا به بالعديد من السكان المسلمين في مختلف الدول وهو نفسه دائم التوسع. ولكن، معظم الأبحاث والتطويرات التي شهدتها قطاع التمويل الإسلامي كانت مركزة على أحدث المنتجات والخدمات حتى يأخذ أصحاب المصلحة، وبالأساس العملاء وأصحاب الأسهم، أفضل خدمة وبأعلى ربح عبر التنافس مع قطاع البنوك التقليدية. هذا التقدم السريع بالمنتجات والخدمات لم يعطي اهتماما لأحد أهم أصحاب المصلحة في القطاع، وهم موظفي مؤسسات التمويل الإسلامي. هذا البحث يهدف إلى استكشاف المفاهيم الرئيسية وتاريخ قطاع البنوك الإسلامية مع تطوراتها الحالية حول العالم. البحث مع ذلك سيركز على رؤية موظفي البنوك الإسلامية في بنغلاديش. هذا البحث المستند على البيانات الأساسية والتي تعتمد بشكل ضخم على الاستبيانات يحاول أن يظهر العلاقة بين العلم بالقيم الإسلامية بين الموظفين على القدرة التسويقية للمنتجات والخدمات في البنوك الإسلامية. علاوة على ذلك، بمساعدة البيانات الثانوية، الورقة تناقش النهج التي يجب اتباعها من أهم المؤثرين في القطاع من أجل أن يكون للقطاع نمو وتوسع مستديمان في بنغلاديش.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality as a research paper for the degree of Master of Science in Islamic Banking and Finance.

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATIONS

CIBE	Centre of Islamic Banking and Economics
IBBL	Islami Bank Bangladesh Limited
PBUH	Peace be upon him
HSBC	Hong Kong and Shanghai Banking Corporation
IDB	Islamic Development Bank
RDS	Rural Development Scheme
IBTRA	Islami Bank Training and Research Academy
SIBL	Social Islami Bank Limited
SJIBL	Shahjalal Islami Bank Limited
GDP	Gross Domestic Product
UBL	Union Bank Limited
UAE	United Arab Emirates
SLR	Statutory Liquidity Requirement
OIC	Organization of Islamic Cooperation
ROA	Return on Asset
ROE	Return on Equity
AQR	Association of Qualitative Research
ANOVA	Analysis Of Variance

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

According to the Dubai-based AlHuda Centre of Islamic Banking and Economics (CIBE), Islamic banking has come a long way from its formation since the early 1970s as the industry is projected to exceed US\$ 2.5 trillion as at 2015. This rapid expansion of Islamic finance has led to various researches in major segments of financial institution, highlighting its sustainability in the long run. Islamic finance can be described as a concept where various instruments and frameworks have to be followed in order for it to be called Islamic or *Sharī`ah* compliant. Launching with just a few products under the conventional banks as windows to opening up full subsidiary and full-fledged banks, Islamic banking sector has become an industry by itself with more rapid growth rate than the conventional banking sector. In general, it refers to finance mechanisms in compliance with *Sharī`ah* and is based on two major sources: the Quran and the Sunnah.

The basis of Islamic finance is the prohibition of lending money for interest (*riba*). This characteristic, among others is what separates the Islamic banking transactions from conventional banking. A loan contract offered by conventional banks whereby money is lent for interest is strictly prohibited according to *Sharī`ah*. Despite that, *Sharī`ah* does recognize concept of capital as a factor of production, which are being used to support real business activities. The concept of prohibition of *riba* can be found in several verses in the Quran, of which the most commonly used verse is as follows:

... وأحل الله البيع وحرم الربوا

“... they say: trade is like riba, but Allah has permitted trading and forbidden riba (usury)...” (2:275)

The verse has directly prohibited dealing with riba and made it clear that *Sharī`ah* has permitted business activities.

Apart from prohibition of riba, Islamic finance differs from conventional finance because of prohibition of *gharar* (uncertainty), *Maysir* (gambling) and other prohibited elements. *Sharī`ah* recognises that uncertainty prevails in any kind of activity for which it is not measured as strictly as riba. Even though Prophet Muhammad (PBUH) did not lay down the principles for the prohibition of *gharar*, there are hadith, which gives some manifestations of the doctrine, but not principles. However, *gharar* will affect the validity of contract if it occurs in certain areas. *Gharar* in kind i.e. the buyer does not know what he is actually buying or the amount he will get with the money that has been given, *gharar* due to delivery or price which means the buyer does not know when he will get the product that he already paid for and how much he actually has to pay for the product in the end. Gambling is also linked with *gharar* as it involves high level of uncertainty with minimum or no effort from the person who wins or loses in the end. Along with all these attributes, there are also certain specific products that are prohibited in accordance to *Sharī`ah* and these products cannot be used to trade or consume even without riba or *gharar* which includes trading and alcohol, pork, etc.

As stated by Pew Research Center's Religion and Public Life Project 2012, Bangladesh is the fourth largest Muslim populated country in the world. Being a country with such large number of Muslim population, Bangladesh started Islamic banking in the year 1983 with the establishment of Islami Bank Bangladesh Limited

(IBBL). Since its inception, growth of the Islamic banking industry commonly reported as impressive by the local observers as it was welcomed by a good number of Muslim population of the country. The growth of IBBL has led to an increase in the number of Islamic banks all over the country which led to the establishment of Islamic money market by the central bank of Bangladesh (Bangladesh Bank) in order to meet the liquidity requirement of the Islamic banks in Bangladesh. According to the quarterly report (April-June 2014) regarding the development of Islamic banking in Bangladesh prepared by the research department of Bangladesh Bank, the country has 8 full-fledged Islamic banks, 19 Islamic banking branches of 8 conventional commercial banks and 25 Islamic banking windows of 7 conventional commercial banks. Although the growth in the number of local banking players is impressive, the financial stability report 2013 by Bangladesh Bank shows some worrying figures for the Islamic banks in Bangladesh. As stated in the report, although Islamic banks exhibited modest growth in 2013 in terms of total assets, total deposits, total investments and advances; the rate of growth however, is considerably lower compared to that of 2012. Even after having an overall growth of 12% in investments (loan and advances) and 14% in deposits; net income dropped 9.7% in 2013 compared to a growth of 37.5% in 2012 (Financial Stability Report 2013, 2014). For a country with around 90% Muslim population, it is very alarming to see a fall in the growth of Islamic banks at a time when the whole world is embracing Islamic finance. Even after having majority of Muslim population in the country, the fact that Islamic banking and finance is not growing like it is supposed to depend on some major factors and one of these major factors is lack of knowledgeable workforce. Although the total manpower in Islamic banking sector was 26,359 as at June 2014 (Developments of Islamic Banking in Bangladesh, 2014), it is of severe concern that

the country does not have single university providing proper degree courses in the field of Islamic banking and finance. For this reason, almost 100 percent of the workforce who join these Islamic banks are either from conventional finance educational background or experienced conventional bankers which make it difficult for them to transfer true value of Islamic finance to the customers thus leading to decrease in growth in the Islamic banking industry in Bangladesh.

This paper aims to portray the viewpoint of the current Islamic bank employees of several Islamic banks in Bangladesh regarding their knowledge and understanding of the values that Islamic finance is connected with, rather than being a mere extension of conventional banking products. Along with that, the paper also aims to indicate the importance of the establishment of a proper degree program in the field of Islamic banking and finance in Bangladesh in order to cater the vast number of intakes by the Islamic banks all over the country.

1.2 PROBLEM STATEMENT

Previous studies by Hassan and Ahmed (2002) stated that the customers and employees of the Islamic bank in Bangladesh were not interested in conducting banking transactions in Islamic banks because they believed that only the name of the bank had been changed in order to reflect that it was an Islamic-based bank; they believed that interest, which is prohibited in Islam, was still practiced. This is a major problem not only for the expansion of Islamic finance in Bangladesh but also for the expansion of Islamic finance in general.

Overall, the researchers determined that the customers' and employees' understanding of the concepts and practices of Islamic banking is still vague. So in

order to prevent any misunderstanding, adequate training must be given to the employees, future researchers and also the customers. Although employees in Islamic banks are given training but they are more focused in the areas dealing with their products and services only. There is a lack of basic *Sharī`ah* knowledge by the employees in Islamic banks which is the gap that needs to be filled in order to have better understanding of the whole Islamic banking system.

This exploratory research is essential because employees serve customers at branch level and each customer is treated as a separate associate to the business hence comprehensive understanding, detailed information and explanation of the concerned areas should be attained to provide to the customers which may help to eradicate the misconception some people have regarding the products and services provided by the Islamic banks all over the country.

1.3 RESEARCH OBJECTIVES

Primary objective of this research is to show the relationship that the knowledge about Islamic value among the employees has in the marketability of the Islamic banking products and services. This will look into the fact that having knowledge about banking products are not enough for the Islamic bank employees rather they will have to believe in what they are selling i.e. have strong faith in the objective of Islamic finance by fulfilling *Maqasid al Sharī`ah* and in order to do that, employees must gain basic *Sharī`ah* knowledge and have understanding about the prohibition of riba in Islam and its consequences.

Other than that, with the help of the survey questionnaire, the secondary objective will be to find the view regarding Islamic banking industry in Bangladesh from one of the most important stakeholders; i.e. the employees.

In the end, I would also like to illustrate the importance of establishing proper degree programs and educational institutions in the areas of Islamic banking and finance in Bangladesh, which will not only expand the understanding of the people regarding Islamic banking and finance but will also help to attract better informed customers.

1.4 HYPOTHESIS

H1: Lack of adequate training on Islamic values has no relationship with return on asset (ROA).

H2: Employee opinion of universities in Bangladesh should have proper Islamic banking degree has no significant relationship with ROA.

H3: Employee opinion of Islamic banks being replicas of conventional banks has no significant relationship with ROA.

H4: Number of Islamic bank employees with conventional bank account has inverse effect to the profitability of the bank.

1.5 SIGNIFICANCE OF THE STUDY

The research is believed to be very important as the finding of this research will help the Islamic banks in Bangladesh to fix their human resource acquiring and training process which will lead to more employees with strong belief and value regarding Islamic finance.

This may also help the government of Bangladesh to realize the reasons for slow growth of Islamic finance industry for the fourth largest Muslim populated country in the world and may help them to take necessary steps to fix the issues and expand beyond Islamic banks and start looking at the introduction of an active Islamic financial market.

Finally this research may also help change the opinion of a sizeable portion of the clients who still does not have clear idea about Islamic banking and finance due to the lack of knowledgeable Islamic banking employees who fail to portray the right picture to the population in Bangladesh.

1.6 ORGANIZATION OF THE THESIS

The paper mainly consists of six chapters. The first chapter consists of introduction of the overall Islamic finance and the basis on which it was built upon along with a brief overview of the condition of Islamic banking in Bangladesh and its perception among the general population. The chapter also includes problem statement, research objectives, hypothesis along with significance of the study as a whole. It is then followed by chapter two which mostly provides the institutional background of the research; which means the chapter mostly discusses the past, present and future of the Islamic banking and finance in Bangladesh.

The third chapter in this paper consists of literature review of some of the scholarly articles from the past that are mostly related to the perception about Islamic banking among various stakeholders in different countries along with the perception of Islamic banking and finance among various stakeholders in Bangladesh. Chapter four is then followed consisting of research methodology that explains the design and

methods chosen for the particular research. It also focuses on the data collection technique and talks about the population and sample size and in the end followed by various data analysis methods used in this research.

The fifth chapter includes findings and discussion after the analysis has been carried out and explains and interprets various findings of the research. Finally, chapter six is the concluding chapter which includes some limitation of the research along with suggestion for further research before concluding the whole paper.

CHAPTER TWO

INSTITUTIONAL BACKGROUND

2.1 INTRODUCTION

According to a research conducted by Pew Research Center, Muslim represent 23% of the world population which translates to a number of 1.6 billion (Desilver, 2013). This number explains why Islam is currently the second largest religion with followers not limited in the Middle East and some parts of Asia but from all walks of life scattered across the world.

Islam is primarily based on two major sources which comprises of the divine revelation, which is the Holy Quran; and Sunnah, which includes words and deeds of the Prophet Muhammad (PBUH). Along with that, Islam is based on Five Pillars which acts as a foundation of Muslim life. These five pillars include “Iman” (faith or belief) that there is no God but Allah and Prophet Muhammad (PBUH) is His final Messenger. It is then followed by the performance of five daily prayers and then trailed by fasting during the month of Ramadan which is the third pillar of Islam. The fourth pillar includes giving “Zakat” or almsgiving from the yearly saving and is compulsory for those who are able and finally the fifth pillar is performance of “Hajj” or pilgrimage to Mecca for those who are financially and physically capable to perform, at least once in a lifetime.

Islam is a religion which talks about “ibadah” or worship that comes from practicing all of that was mentioned above. Along with that, a significant portion comprises of “muamalat” which is the worldly dealing and interaction of human beings with each other in everyday lives, under which an imperative segment of

muamalat deals with finance and economics. The major difference between conventional finance and Islamic finance is the prohibition of “riba” in Islam and that essentially means prohibition of any excess of a loan amount from the borrower to lender which comes out of no physical work or effort. However, Muslims need financing and Islam allows people to do business with each other and share the profit or loss instead of getting riba or interest. So, in order to facilitate financial transactions and business activities for Muslims and to avoid riba, there was a need for a financial system among the Muslim community which brought forth the concept of Islamic banking and finance.

2.2 HISTORY OF ISLAMIC BANKING

A conventional bank, in its simplest form; is an institution that is mainly concerned with managing withdrawals and deposits of customers along with supplying various terms of loans to individuals and businesses. Being the intermediary between a deposit-seeking institution and loan-giving institution, the major way a bank makes money is by charging interest, i.e. the bank gives reasonably lesser amount of interest to the depositors compared to the loan-seekers and makes money from the difference of interest. On the other hand, an Islamic bank also acts as an intermediary between a person with surplus cash and deficit cash but the major difference which sets them apart from conventional bank is the method of making profit through interest. So basically, the term Islamic banking refers to banking activity that is in line with the basic principles of *Shari`ah* (divine law based on Quran and Sunnah). Since interest (Riba) is forbidden (Haram) according to the teaching of Islam, Islamic banks do not charge or give interest while dealing with their clients, instead they make money by

getting in business activities with their clients which is allowed according to *Sharī`ah*. This gives an idea that an Islamic bank is developed under Islamic framework which performs most of the standard banking service and investment activities provided by the conventional banks in compliance with the principles of *Sharī`ah*.

It is often said that the idea of Islamic banking transformed into reality in the early 1970s. However, the origin of Islamic banking system can be traced back to the beginning of Islam when the Prophet himself carried out trading operations for his wife ("Islamic Banker: Introduction to Islamic Banking," n.d.). However, under the influence of Western colonization, there have been major changes in the practice of finance in Islamic form which had some traces of existence in the earlier era of civilization. Since from the middle of the nineteenth century, most of the Muslim populated countries were either under direct or indirect pressure from the West, all these countries had to adopt the Western legal system (Chachi, 2005). This led to the adaptation of Western banking systems and business models and dereliction of Islamic commercial practices which remained even after post-independence from colonization. Even though these Muslim majority countries got full independence, it was not possible to come out of the banking system established by the West since their banking system was in a far superior position and was accepted all over the world. So, in order to be a part of the global financial market, these Muslim populated countries had to follow the rules and method established by the West which mostly operated and dealt with interest.

Since there has been a growing concern among Muslims around the world about the prevalence of interest in the banking sector, the scholars and researchers have continuously looked into the idea of doing banking and financial transactions without having to deal with interest and thus, the idea of establishing 'Islamic banks'

came to its existence, as this will not only offer all banking products and services offered by the conventional banks, but also will not violate the religious beliefs of the Muslim. Although it is argued that the earliest models of modern Islamic banking system initiated in 1960s, traces of 'Interest-Free Banks' can be tracked back to the 1930s, 1940s and 1950s, when some of the colonized Islamic countries became independent (Chachi, 2005).

As mentioned by Traute (1983) that in the late 1950s in a rural area in Pakistan, evidence of Islamic financing was found although it had no lasting impact. It has been observed for a long period that people residing in rural areas of Pakistan take Islam very seriously and practice the fundamentals of Islam in a strict way. For this reason, a small experimental Interest-Free bank was found by a small number of landowners and farmers who used to deposit funds without interest. The credit was advanced to other poorer landowners and farmers for agricultural improvements. Although no interest was charged, but a small fixed administrative fee was levied to cover the operating costs of the bank. Several reasons, including scarcity of deposit and the unwillingness of bank staff to work in the rural areas led to the failure of the small venture. However, soon after the closure of the Pakistan venture, many countries began establishing various forms of Islamic financial institutions in numerous parts of the world.

The earliest models of modern Islamic banking system commenced in 1960s with the introduction of "Mit Ghamr" bank in Egypt. During the same period, two other Islamic financial institutions were established in Pakistan and Malaysia. The one in Pakistan was an interest-free bank in Karachi and the one in Malaysia was an Islamic finance institute known as "Tabung Haji" which acts as a Hajj pilgrims fund board for the Malaysians whose main purpose is to facilitate savings for the