

Analyzing the Commercial and Social Welfare Objectives of Islamic and Conventional Banking: A Comparative Analysis from the UAE

Fareed Zafar Khan, Hummayoun Naeem, Aziz Ur Rehman Rana¹,
Suleman Sikander and Syed Shoaib Qaisar

*Shaheed Zulfikar Ali Bhutto Institute Of Science & Technology (SZABIST), Dubai Campus
Dubai International Academic City (DIAC), United Arab Emirates*

¹*Department Of Business Administration, Foundation University, Islamabad, Pakistan*

Abstract

The main objective of this research was to analyze the customers' perception of the social welfare and commercial objectives between Islamic banks and conventional bank customers of UAE. The tool developed by Dusuki (2008) was adopted for this study. A sample of 160 respondents was drawn through convenience sampling, 80 respondents were the customers of conventional banking, and the rest of the 80 respondents were the customers of Islamic banking. The sets of data were entered into SPSS version 21. Firstly, the Cronbach's alpha reliability was computed and the analysis indicated that Cronbach's alpha reliability was significant enough to proceed with further data analysis. Moreover, the frequency distribution tables were developed and all the tables were developed indicating the comparative figures from both customers i.e Islamic banking customers and Conventional banking customers. For hypothesis testing, the independent sample t-test was applied. The results indicated that there was no significant difference between the perception of customers with the reference to commercial and social welfare objectives between Islamic banking and conventional banking practices in the United Arab Emirates (UAE).

Keyword: Social welfare, Islamic Principles, customer perception, profitability.

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I. Introduction

Banking sector is the backbone of any economy. The banking institutions acts as an intermediary while linking two parties together; where one party provides funds and the other one will make investments of those funds for profit making and at the same time, contributing towards economic development of the country significantly (Mosab, Yahya and Asif, 2017). Islamic banking tends to be as per Sharia principles. The perception of bank customers may vary when it comes to conventional and Islamic banking products. Perception can be defined as our recognition and interpretation of sensory information. Perception also includes how we respond to the information. We can think of perception as a process where we take in sensory information from our environment and use that information to interact with our environment. Perception allows us to take the sensory information in and make it into something meaningful (Williams, 2019).

While looking at the historical perception of the Islamic Banking, it can be drawn that the first premium free bank was every recorded a way back in 700 BC named as the 'Agibi Bank' in Babylonia whose workings were dependent on it values (Al-Masri, 1998). In the eighth century, it was the time where Islamic Finance has come within a few familiar concepts whereas it was also called Islamic brilliant age. Moving forward, it was attributable that the British Empire had attached which transverse over territories Asia and Africa that brings up a common customary of retaining money from the western parts of the world assuming as a controlled way over others. Some effects were initiated in the Egypt region wherein premium-free records have existed just in a few of these customary banks which eventually caused backing-off of the leap of Islamic Banking (Pervez, 1990).

During the mid of 1970s who was denoted as the era of the upheaval in Islamic Banking where the beginnings were carried out with the First International Conference on Islamic Economics was held in the Makkah city of Kingdom of Saudi Arabia. This additional agreement about the meeting was to build up the main Islamic Banking Principle as Islamic Commercial bank which was named as Dubai Islamic Bank in 1975 by the United Arab Emirates (UAE) Government. In succeeding in this foundation laid by UAE, business sectors were occupied by various other banks of Kuwait, Egypt, Saudi Arab, Sudan, and Pakistan.

Problem Statement

Most of the financial services in the UAE have are being offered based on Islamic principles. The issue is worth exploring that which mode of banking serves the social welfare and commercial objectives to a greater extent. Keeping the same in view, the researchers plan to analyze the customers' perception of the objectives of Islamic and conventional banking in the UAE. The study revolves around the social welfare and commercial objectives of both the modes of banking.

Significance of the Study

The study is focused on understanding the perception of customers towards Conventional Banking and Islamic Banking. The study is focused on two main variables: social welfare and commercial objectives. The proposed study appears to be a great contribution to the body of knowledge as similar investigations have not yet been carried out in the UAE. Both banking systems may benefit from the study findings during their policy-making phase.

II. Literature Review

In the global monetary market, Islamic banking has significantly expanded the segment where is has perceived practically and competitive form of financial intermediation. Their contribution to its extensive range of financial products and services are not only for the existing Muslim world but outside the Muslim countries/communities globally. In the mid-1970s, this industry on a smaller scale has shown reckless progress and growth over the past few decades along with double-digit yearly growth rates for almost 30 years. Islamic banking Industry showed positive results that inclined more importance for banking consumers to the industry. Currently, the Islamic banking industry is keen parallel to the conventional one and would have the capacity to capture more market share in the future (Iqbal and Molyneux, 2005).

Dusuki (2008) examined that the perception of stakeholders of Islamic banking industry and identified the most important reflections of customer attitude in social-welfare factors. This result implies that Islamic banks must ensure that all of their transactions are Shariah-compliant not only on their forms and legal technicalities but also more importantly the socio-economic substance is premised on the objectives outlined by Shariah.

Islamic banks are the Shariah oriented entities and entitled to act vigorously by the ideas projected by Islamic business while comprehending its objectives and philosophy. There are two intentions (Haroon, 1995) for the establishment of precise Islamic business philosophies. Firstly, these philosophies are meant to be used by the strategy and policymakers of all the organizations to frame corporates policies and objectives of their banks. Secondly, it has to be presented as an indicator to ascertain that the particular organization is presenting true Islamic principles or not (Dusuki, 2008).

If we need to understand Islamic banking completely then we have to understand the philosophy behind Islamic banking which is guided by Islamic shariah. There are two points of view of Islamic oriented banking is that establishing the right philosophies would be used by the organization or strategy makers of the banks while making the organizational strategy. Secondly, the Islamic bank must run their businesses by keeping in view of Islamic philosophy.

The business methods of Islamic and conventional banks are different and drawn their origination to specific focus groups. Sometimes conventional banking is often traced as a 'western banking whilst Islamic banking origination has its deeper roots in the Middle East.

Since when the Dubai Islamic banking in 1973 came into the establishment, it has prompted various comparative researches between conventional banking and Islamic banking. The zones of these studies were quite dissimilar while including the comparison of leverage and effectiveness, comparison of the operational framework, comparison of profitability and accomplishment by the study on distinction and similarities, asset quality, liquidity and profitability comparison, comparison on customer satisfaction, and comparison on risk management practices, etc. (Pillai, 2012).

The vital difference between conventional and Islamic banking doesn't pertain to its business exercises but it carries out guidance over its operations and outlook. These values have prevailed within the domain of sharia laws which is not in particular to its transactions but contains the values within the society (Pillai,2012). According to the writer these values are in the form of essence which covers the objectives of Shariah (Islamic Law) endorsing both the social and economic welfare of the society.

According to Tabash and Dhankar (2014), there are two kinds of banks in the UAE are operating together in such a competitive environment. During the global crises during the year 2008, Islamic banks specifically banks in UAE has drastically positioned themselves in the global economy where they are moderately affected by the crises and surpassed commercial banks. Whereas Islamic banks have also positively contributed to the UAE's economy.

As per the study, United Arab Emirates promotes the Islamic banking industry as it is planning to convert Dubai Emirate as a hub for the Islamic Finance industry globally. They are in support of the growing Islamic banking Industry as per the strategic plan of the UAE government in 2021. Currently, they are operating 23 local and 22 international banks within the country. Out of these native banks, five banks are working under Islamic ethics as a full-fledged Islamic operation whereas the rest of them are working within the domains of Islamic and conventional operations both.

Synthesis of Literature Review

Initially, the study started with past research studies on related topics, orientation to Islamic Banking and Conventional Banking in the banking sector of the U.A.E and analytical findings by the researchers on different factors influencing the customer's behavior in banking channel selection. Insights of different researchers revealed that common factors are affecting the perception of the customer in the selection of between Islamic and traditional banking channels. To further explore the relational impact of each factor on consumer behavior and the insights of traditional banking in the UAE, we have developed tools to acquire the necessary primary data for further analysis.

The researchers have gone through several types of research on the issue but have found a single study addressing social welfare and commercial objectives with reference to Islamic banking in the UAE. That indicates a clear knowledge gap and this research is an attempt to fill the gap.

However, the Islamic banking industry has potential growth in the future not only in Muslim countries but also in non-Muslim countries. To more explore, the bank managers, investors, financial advisories also understand the importance of Islamic banking and its practices according to Shariah (Islamic Law) for commercial purposes as well as for social welfare.

Hypotheses of the Study

H1: There are significant differences between customers' perception of the commercial objectives of Islamic and conventional banks of UAE.

H0: There are no significant differences between customers' perception of the commercial objectives of Islamic and conventional banks of UAE.

H2: There are significant differences between customers' perception of the social welfare objectives of Islamic and conventional banks of UAE.

H0: There are no significant differences between customers' perception of the social welfare objectives of Islamic and conventional banks of UAE.

III. Methodology

Research Design

The study was cross-sectional and quantitative. The banking customers from the Deira Area of Dubai, were approached. The tool developed by Dusuki (2008) was adopted for this study. A purposive sample of 160 respondents was drawn through convenience sampling, 80 respondents were the customers of conventional banking, and the rest of the 80 respondents were the customers of Islamic banking. Firstly, the Cronbach's alpha reliability was computed and the analysis indicated that Cronbach's alpha reliability was significant enough to proceed with further data analysis. Moreover, the frequency distribution tables were developed and all the tables were developed indicating the comparative figures from both customers i.e Islamic banking customers and Conventional banking customers. For hypothesis testing, the independent sample t-test was applied.

Testing of Hypothesis

H1: There are significant differences between customers' perception of the commercial objectives of Islamic and conventional banks of UAE.

H0: There are no significant differences between customers' perception of the commercial objectives of Islamic and conventional banks of UAE.

Group Statistics

	LableIB1	N	Mean	Std. Deviation	Std. Error Mean
IB1	1.00	80	3.6964	.65263	.07297
	2.00	80	3.8643	.68865	.07699

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
IB1	Equal variances assumed	.163	.687	-1.582	158	.116	-.16786	.10608	-.37737	.04165
	Equal variances not assumed			-1.582	157.5	.116	-.16786	.10608	-.37737	.04166

To test the hypothesis, a t-test was applied. The results indicate that so far as the comparison of the commercial objectives is concerned; there is no significant difference between Islamic and Conventional banking as per the perception of the customers of UAE. The mean value of perception of commercial objectives of Islamic Banking came out to be 3.69 as compared to 3.86 for conventional banking, hence indicating no significant difference between the two modes of banking with reference to commercial objectives as per customer perception.

P-value i.e. 0.116 is also higher than the level of significance that is 0.05 hence resulting in the rejection of the research hypothesis and acceptance of the null hypothesis.

H2: There are significant differences between customers' perception of the social welfare objectives of Islamic and conventional banks of UAE.

H0: There are no significant differences between customers' perception of the social welfare objectives of Islamic and conventional banks of UAE.

Group Statistics					
	LableIB1	N	Mean	Std. Deviation	Std. Error Mean
IB2	1.00	80	3.7089	.60883	.06807
	2.00	80	3.8589	.60160	.06726

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
IB2	Equal variances assumed	.067	.796	-1.567	158	.119	-.15000	.09569	-.33901	.03901
	Equal variances not assumed			-1.567	157.977	.119	-.15000	.09569	-.33901	.03901

t-test was applied to test the hypothesis. The results indicate that so far as the comparison of social welfare objectives is concerned; there is no significant difference between Islamic and Conventional banking as per the perception of the customers of UAE. The mean value of perception of the social welfare objectives of Islamic banking came out to be 3.70 as compared to 3.85 for conventional banking, hence indicating no significant difference between the two modes of banking with reference to social welfare objectives as per customer perception.

P-value i.e. 0.119 is also higher than the level of significance that is 0.05 hence resulting in the rejection of the research hypothesis and acceptance of the null hypothesis.

IV. Conclusion

The results indicate that so far as the comparison of the commercial and social welfare objectives is concerned; there is no significant difference between Islamic and Conventional banking, with specific reference to commercial and social welfare objectives, as per the perception of the UAE banking customers. The mean value of perception of commercial objectives of Islamic banking came out to be 3.69 as compared to 3.86 for conventional banking, hence indicating no significant difference between the two modes of banking about commercial objectives as per customer perception. On other hand, The mean value of perception of the social welfare objectives of Islamic Banking came out to be 3.70 as compared to 3.85 for conventional banking, hence indicating no significant difference between the two modes of banking regarding social welfare objectives as per customer perception.

Recommendation For Industry

Conventional Banking is currently getting its products approved with Shariah licensing which is carrying out the tough competition for the Islamic products.

The management of Islamic banks must highlight that products and services features in their promotion campaign to acquire a bigger market share.

Recommendation For Future Researcher

The study may be the plan with a larger sample size here in UAE but due to COVID 19, the researchers could not collect data from a larger number of respondents. Data with a large sample may be arranged in the future.

A similar study may be conducted in countries where Islamic banking is very popular such as Pakistan and Malaysia and later comparison of these studies carried out.

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