

Evaluating The Most Important Factors Of Awareness For Interest Free Banking From The Perspective Of General Public And Banking Executives.

Ataur Rahman Azami,

Research Scholar & Assistant Professor, Department Of Business Administration, Khwaja Moinuddin Chishti Language University, Lucknow.

Prof (Dr.) Syed Haider Ali,

Professor & Head, Department Of Business Administration, Khwaja Moinuddin Chishti Language University, Lucknow.

Abstract

The study on evaluating the most important factors of awareness of interest free banking is a two way explorations of the two most important stake holders i.e. general public the beneficiaries and the bank officials. The study is based on five selected districts of UP and is primary data based collected through questionnaire from 1236 general public and 436 bank official. After the analysis of data using factor analysis it was found that both the respondents were aware that interest free banking system works on Interest-free, provides Trade with mark-up & special type of trading agreement. Apart from this, bank officials were also aware about the Leasing contract & Sales contract under the interest free banking system as the most important factor awareness. Lastly, the researcher points to some valuable suggestions as per the findings of the study.

Keywords-Awareness, Interest Free banking, General Public, Ban, Banking official.

Date of Submission: 19-02-2024

Date of Acceptance: 29-02-2024

I. Introduction

A financial institution that adheres to Islamic Shari'ah standards and contributes to economic development is known as an Islamic banking system. Individual, social, cultural, and religious factors, as well as institutional factors, all have an impact on whether a bank is conventional or Islamic. (Amin, 2013), procedures, and atmosphere (Asdullah and Yazdifar, 2016). While the underlying concepts and operations of Islamic banks differ from those of conventional banks. (2013) (Wan Ibrahim & Ismail).

Islamic finance is becoming more popular, with assets rising by double digits in 2019. Due to increased appreciation, geographic interest, and digital transformation, Islamic finance is gaining popularity.

Islamic finance was created to ensure that funding sources were governed by Shariah and Islamic principles. By 2024, Islamic finance assets are expected to total \$3.69 trillion USD. While Muslim countries have turned to Shariah financing to meet their capital needs, it is also gaining traction in non-Muslim countries.

As a result of COVID-19, technology has advanced, making Islamic banking more accessible to both Muslim and non-Muslim investors. Non-Muslim investors are drawn to Islamic banking products and services that are ethical and responsible.

As non-Muslim countries are getting knowledge and expertise in Islamic finance, the researcher wanted to investigate the level of awareness of interest-free banking in India, focusing on Kanpur, Prayagraj, Lucknow, Azamgarh, and Mau. As a result, the study's objectives are-

1. To study the most important factors of Awareness of interest free banking system and Services for General Public.
2. To study the most important factors of Awareness of interest free banking system and Services for Bank Officials.

II. Literature Review

Basiri, A., Fallah, A., & Kheirollahi, M. (2023) investigated the law's impact on usury-free banking operations in the Islamicization of the banking sector and financial and credit organisations. Data was gathered by carefully reviewing the legislation of interest-free banking operations, as well as the circulars and executive instructions of banks, as well as the bylaws of various chapters of this law, in a descriptive and analytical manner. The investigation of the interaction between depositors and banks, as well as between banks and investors, reveals that the legislature is more interested in defending the banks' behaviour than in implementing Sharia-compliant

monetary policies.

Garba, M., & Hafiz (2022), in their study found a positive association between religion, financing options, and adoption of interest-free banking in Nigeria, and recommended that interest-free banks provide products and services that are religiously compatible.

According to Hirpo, H. D. (2022), Interest-free banking is an alternative to traditional finance, driven by awareness, relative advantage, observable, and compatibility.

Said, L. R., Bilal, K., Aziz, S., Gul, A., Shabbir, M. S., Zamir, A., & Abro, H. (2022), found in their study that 28% of Islamic banking consumers in Pakistan do not understand the fundamental notion of Islamic financial institutions, while 54% of conventional banking customers expressed interest in converting to Islamic banks.

Kebede, D. A. (2021) found that Interest-free Banking has a positive impact on Ethiopia economic development through mobilizing idle monetary resources, creating employment opportunities, and inviting new customers to the banking system.

According to Sudarsono, H., Tumewang, Y. K., & Kholid, M. N. (2021), customer intention to use Islamic banking services is positively influenced by awareness, suitability, religiosity, social influence, bank reputation, and perceived risk.

Ayyub, S., Xuhui, W., Asif, M., & Ayyub, R. M. (2020), revealed in their study that perceived behavioural control and perceived utility are the most important determinants of intention to use Islamic banking, providing insights into the consumer behaviour of users and non-users.

Dawami, Q. (2020), found that the Attitude and Service Quality of Islamic banks are the primary drivers of customer behaviour, while the bank's image and religiosity have little influence.

According to the findings of the study conducted by Kaakeh, A., Hassan, M. K., & Van Hemmen Almazor, S. F. (2019), attitude and awareness have direct effects on intention, while image, awareness, Shariah compliance, and individuality have indirect effects.

Mahadin, B. K., & Akroush, M. N. (2019), identified that service quality and perceived value influence WOM's attitudes towards Islamic Banking (IB) in Jordan, and managers should focus on implementing IB-specific strategies to acquire new customers and retain existing ones.

Latif, S. D. H. (2019), Muslim society in the Philippines is aware of the Al-Amanah Islamic Investment Bank of the Philippines' existence and prohibits interest and uncertainty, but does not do enough to promote its products and services. Promotion is needed to strengthen Islamic banking.

Belwal, R., & Al Maqbali (2019) found that customers in Oman had mixed attitudes towards Islamic banks and IB windows, with the majority not creating an account.

According to Chowdhury, Y., Saba, N., & Habib, M. M. (2019), Islamic banks should strive to ensure customers choose them not only for religious reasons, but also for the quality of their services.

Bekele (2018)'s research found that Shariah compliance, awareness, advertisement, perceived relative benefit, and service accessibility have a positive impact on interest-free banking acceptance at United Bank S.C. Addis Abeba.

Selvanathan, M., Nadarajan, D., Zamri, A. F. M., Suppramaniam, S., & Muhammad, A. M. (2018), claimed in their study that Islamic banking is influenced by bank reputation, religion, and cost benefit, with convenience not a major factor.

Ali, S. A., Hassan, A., Juhdi, N., & Razali, S. S. (2018) created a scale to assess employees' attitudes towards Islamic banking, with five orthogonal dimensions: awareness, utility, Shariah compliance perception, patronage, and attractiveness.

Abera, N. (2017), found that bank customers were less aware, Muslims were satisfied, and IFB offered a product and service they would like to use.

Janahi, Al Mubarak, & S. S. (2017) found strong correlations between customer satisfaction and six elements of customer service quality.

Setiawan, B., & Panduwangi, M. (2017), showed in their study that community preferences for Islamic banking qualities revealed certainty was the most important factor for clients.

Lajuni, N., Wong, W. P. M., Yacob, Y., Ting, H., & Jausin, A. (2017), looked at factors that influence people's decisions to adopt Islamic banking products, such as attitude, government support, and societal impact.

According to Rama, A. (2017), Islamic banks should focus on customer happiness, service quality, Shariah compliance, costs, and involuntary switching to motivate customer switching.

Islam, J. U., & Rahman, Z. (2017), claimed in their research work that Islamic banking has gained global recognition and traction in emerging nations, but most respondents do not understand how it works.

Bodibe, S., Chilya, N., & Chikandiwa, C. T. (2016), highlighted that Bank practitioners and marketers should focus on raising knowledge about Islamic banking.

Asdullah, M. A., & Yazdifar, H. (2016), found that female respondents lack awareness and comprehension of basic Islamic banking rules, while male respondents cite religious beliefs, cost effectiveness, and service excellence.

III. Methodology Of The Study

This study is exploratory in design and is primary data based with a total 1236 general public and 436 bank official from five selected cities (Kanpur, Prayagraj, Lucknow, Azamgarh, Mau) of Uttar Pradesh as the sample size of the study collected by quota sampling technique. The data was collected with the help of questionnaire and collected data was analyzed by applying frequency analysis and exploratory factor analysis using SPSS version 25.

IV. Data Analysis and Interpretation

Demographic information of respondents- General Public

Out of total 1236 respondents, 11.7% respondents were from Kanpur, 15.8% respondents were from Prayagraj, 41.5% respondents were from Lucknow, 18.7% respondents were from Azamgarh and 12.4% respondents were from Mau. Further from the gender point of view, out of total 1236 respondents, 66.0% respondents were male and 34.0% respondents were female.

From the religion point of view, out of total 1236 respondents, 48.9% respondents were Hindu, 41.3% respondents were Muslim, 3.4% respondents were Christian, 2.3% respondents were Sikh and 4.1% respondents were from other religions. After analysing educational qualifications, it is found that out of total 1236 respondents, 28.0% respondents were graduate, 38.3% respondents were post graduate, 9.7% respondents were professionally qualified, 23.2% respondents were others and 0.8% respondents were PhD. Further analysing the occupation point of view, it can be seen that out of total 1236 respondents, 30.9% respondents have private job, 19.7% respondents have government job, 44.7% respondents have businesses and 4.6% respondents were others.

Demographic information of respondents- Bank Official

Out of total 436 respondents, 10.1% respondents were from Kanpur, 13.5% respondents were from Prayagraj, 49.3% respondents were from Lucknow, 16.1% respondents were from Azamgarh and 11.0% respondents were from Mau. From the age point of view, it can be seen that out of total 436 respondents, 14.9% respondents aged between 21-30 years, 41.7% respondents aged between 31-40 years, 35.1% respondents aged between 41-50 years and 8.3% respondents aged between 51-60 years. From the gender point of view, it can be seen that out of total 436 respondents, 62.4% respondents were male and 37.6% respondents were female. From the religion point of view, it can be seen that out of total 436 respondents, 69.3% respondents were Hindu, 24.1% respondents were Muslim, 3.4% respondents were Christian and 3.2% respondents were Sikh.

From the designation point of view, it can be seen that out of total 436 respondents, 36.5% respondents were lower level executive, 50.7% respondents were middle level executive and 12.8% respondents were higher level executive. From the bank point of view, it can be seen that out of total 436 respondents, 58.0% respondents were from government bank and 42.0% respondents were from private bank.

Factor Analysis: Identifying the most important factors of Awareness of interest free banking system and Services for General Public.

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy comes out to be **0.739**, which indicates the present data is suitable for factor analysis and Bartlett's test of sphericity was found to have enough correlation between variables to proceed with the analysis.

Table 4.1- Most important factors of Awareness of interest free banking system and Services for General Public.

Component	Eigen value	% of variance	Item Covered	Factor Loading
1	2.840	20.286	I am aware that Interest-free banking provides Interest-free loans.	.773
			I am aware that Interest-free banking provides Trade with mark-up.	.705
			I am aware that Interest-free banking provides special type of trading agreement.	.617
2	1.791	12.793	I am aware that Interest-free banking does not allow pre- determined fix amount of returns.	.800
			I am aware of the concept of Interest-free banking system.	.796
			I am aware that in Interest-free banking profits are allowed through trading activity only.	.673

3	1.248	8.917	I am aware that Interest-free banking is a kind of Partnerships or joint ventures.	.683
			I am aware that Interest-free banking provides Sales contract.	.605
			I am aware that Interest-free banking provides Leasing contract.	.403
4	1.031	7.363	I am aware that in Interest-free banking risk of loss and variability of profits must be faced to get the returns (profit and loss sharing).	.806
			I am aware that interest free banking does not believe in time value of money with respect earning profit in form of interest.	.791
			I am aware that in Interest-free banking risk of loss and variability of profits must be faced to get the returns (profit and loss sharing).	.806
5	1.025	7.322	I am aware that IFBS does not deal in the products that involve interest.	.760
			I am aware that pre-determined fix amount of returns is not allowed in IFBS	.683
			I am aware that IFBS does not deal in the products that involve interest.	.760

Interpretation: Firstly, the above table 4.1 showed that the output has identified **5** linear components within the data set. Where, the most important factor 1 explained 20.286% of total variance, factor 2 explained 12.793% of total variance, factor 3 explained 8.917% of total variance, factor 4 explained 7.363% of total variance and factor 5 explained 7.322% of total variance. Further, the table also brings the findings of the Most Important factors of Awareness of interest free banking system and Services for General Public, seeing the table it was found that-

Factor -1 includes following **3** variables

1. I am aware that Interest-free banking provides Interest-free loans.
2. I am aware that Interest-free banking provides Trade with mark-up.
3. I am aware that Interest-free banking provides special type of trading agreement.

Factor -2 includes following **3** variables

1. I am aware that Interest-free banking does not allow pre- determined fix amount of returns.
2. I am aware of the concept of Interest-free banking system.
3. I am aware that in Interest-free banking profits are allowed through trading activity only.

Factor -3 includes following **4** variable

1. I am aware that Interest-free banking has the system of Profit and loss sharing.
2. I am aware that Interest-free banking is a kind of Partnerships or joint ventures.
3. I am aware that Interest-free banking provides Sales contract.
4. I am aware that Interest-free banking provides Leasing contract.

Factor -4 includes following **2** variable

1. I am aware that in Interest-free banking risk of loss and variability of profits must be faced to get the returns (profit and loss sharing).
2. I am aware that interest free banking does not believe in time value of money with respect earning profit in form of interest.

Factor -5 includes following **2** variables

1. I am aware that IFBS does not deal in the products that involve interest.
2. I am aware that pre-determined fix amount of returns is not allowed in IFBS

Factor Analysis: Identifying the most important factors of Awareness of interest free banking system (IFBS) for Bank Officials.

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy comes out to be **0.786** which indicates the present data is suitable for factor analysis and Bartlett's test of sphericity was also found to have enough correlation between variables to proceed with the analysis.

Table 4.1- Most important factors of Awareness of interest free banking system and Services for General Public.

Component	Eigen value	% of variance	Item Covered	Factor Loading
1	3.439	28.655	11. I am aware that Interest-free banking will provide Interest-free loans.	.781
			12. I am aware that Interest-free banking will provide special type of trading agreement.	.692
			10. I am aware that Interest-free banking will provide Leasing contract.	.679
			9. I am aware that Interest-free banking will provide Sales contract.	.473
2	1.471	12.259	2. The concept of Interest-free banking system can be implemented in India.	.789
			3. I am aware that Interest-free banking will not allow pre- determined fix amount of returns.	.660
			1. I am aware of the concept of Interest-free banking system.	.648
			4. I am aware that in Interest-free banking profits will be allowed through trading activity only.	.538
3	1.099	9.161	6. I am aware that interest free banking will not consider time value of money with respect earning profit in form of interest.	.657
			8. I am aware that Interest-free banking will be like a Partnership or joint venture.	.587
			7. I am aware that IFBS will not deal in the products that involve interest.	.573
			5. I am aware that in Interest-free banking, risk of loss and variability of profits will be faced by stakeholders to get the returns (profit and loss sharing).	.511

Interpretation: Firstly, the above table 4.2 showed that the output has identified output has identified 3 linear components within the data set. After extraction and rotation, the most important factor 1 explained 28.655% of total variance, factor 2 explained 12.259% of total variance and factor 3 explained 9.161% of total variance. Further, the table also brings the findings of the Most Important factors of Awareness of interest free banking system (IFBS) for Bank Officials, seeing the table it was found that-

Factor -1 includes following 4 variables

- 11. I am aware that Interest-free banking will provide Interest-free loans.
- 12. I am aware that Interest-free banking will provide special type of trading agreement.
- 10. I am aware that Interest-free banking will provide Leasing contract.
- 9. I am aware that Interest-free banking will provide Sales contract.

Factor -2 includes following 4 variables

- 2. The concept of Interest-free banking system can be implemented in India.
- 3. I am aware that Interest-free banking will not allow pre- determined fix amount of returns.
- 1. I am aware of the concept of Interest-free banking system.
- 4. I am aware that in Interest-free banking profits will be allowed through trading activity only.

Factor -3 includes following 4 variables

- 6. I am aware that interest free banking will not consider time value of money with respect earning profit in form of interest.
- 8. I am aware that Interest-free banking will be like a Partnership or joint venture.
- 7. I am aware that IFBS will not deal in the products that involve interest.
- 5. I am aware that in Interest-free banking, risk of loss and variability of profits will be faced by stakeholders to get the returns (profit and loss sharing).

V. Conclusion and Suggestions

Based on the analysis of the data and findings the following conclusions are drawn:

- The Most Important factors of Awareness of interest free banking system and Services for General Public was that the general public were aware that Interest-free banking provides Interest-free loans and it also provides Trade with mark-up and they were also aware about the special type of trading agreement. It means that the people were aware about the basic features of interest free bank.

- The other most important factor was that general public was aware that Interest-free banking does not allow pre-determined fix amount of returns. They were also aware about the concepts and profits that was allowed through trading activity only.
- The other most important factor was that general public were aware about Interest-free banking has the system of Profit and loss sharing. They were also aware that it is a kind of Partnerships or joint ventures and that it provides Sales contract and Leasing contract.
- The other most important factor was that general public were aware about that Interest-free banking risk of loss and variability of profits must be faced to get the returns (profit and loss sharing). They were also aware that interest free banking does not believe in time value of money with respect earning profit in form of interest.
- The other most important factor was that general public was aware that IFBS does not deal in the products that involve interest and that pre-determined fix amount of returns is not allowed in IFBS.
- The most Important factors of Awareness of interest free banking system (IFBS) for Bank Officials were that they were aware that Interest-free banking provides Interest-free loans and it also provide special type of trading agreement besides Leasing contract and Sales contract.
- Bank officials were also aware about the concept of Interest-free banking system and that IFBS will not allow pre-determined fix amount of returns and they were also aware about that the profits under this banking system will be allowed through trading activity only.
- Bank officials were also aware about that interest-free banking would not consider the time value of money with respect to earning profit in form of interest. They were also aware that Interest-free banking would be like a Partnership or joint venture. They were also aware that IFBS would not deal in the products that involve interest. They were also aware about that Interest-free banking, risk of loss, and stakeholders to get the returns (profit and loss sharing) will face variability of profits.

VI. Suggestions

- The pattern of interest free banking in other countries should be studied to get an idea of its working in the real world and its major success determinants.
- Since the study found that both people and banking executives were aware of the basic things revolving around the interest free banking therefore, its merits and demerits in Indian context should also be assessed on a tentative basis.
- Efforts should be made to strengthen the banking system and an interest banking system should be established on a testing basis and research should be done to comprehend how it will benefit the induna economy.
- The bankers can also make a banking system that will operate on hybrid basis and can check its success rate to decide to further continue it or not.

References

- [1]. Amin, H. (2013). Some Viewpoints Of Islamic Banking Retail Deposit Products In Malaysia. *Journal Of Internet Banking And Commerce*, 18(2), 1-13.
- [2]. Asdullah, M. A., & Yazdifar, H. (2016). Evaluation Of Factors Influencing Youth Towards Islamic Banking In Pakistan. *Ictat Journal On Management Studies*, 2(1), 217-223. <https://doi.org/10.21917/Ijms.2016.0030>
- [3]. Basiri, A., Fallah, A., & Kheirollahi, M. (2023). Analyzing The Law On Interest-Free Banking Operations In The Banking System Of Iran. *Strategic Studies Of Jurisprudence And Law*, 4(4), 247-265.
- [4]. Bekele, B. (2018). *Factors Affecting Adoption Of Interest Free Banking At United Bank Sc* (Doctoral Dissertation, St. Mary's University).
- [5]. Belwal, R., & Al Maqbali, A. (2019). A Study Of Customers' Perception Of Islamic Banking In Oman. *Journal Of Islamic Marketing*, 10(1), 150-167.
- [6]. Bodibe, S., Chilya, N., & Chikandiwa, C. T. (2016). The Factors Affecting Customers' Decisions To Adopt Islamic Banking. *Banks And Bank Systems*, 11(4), 144-151.
- [7]. Chowdhury, Y., Saba, N., & Habib, M. M. (2019). Factors Affecting The Choice Of Islamic Banking By The Customers: A Case Study. *Frontiers In Management Research*, 3(1), 1-5.
- [8]. Dawami, Q. (2020). Factors Influencing The Preference Of Customers Towards Islamic Banking: Evidence From Malaysia. *Journal Of Islamic Economic Laws*, 3(1), 48-67.
- [9]. Garba, M., & Hafiz (2022), U. A. Acceptance Of Interest-Free Banking Among Small And Medium Enterprises: A Structural Equation Model.
- [10]. Hirpo, H. D. (2022), Factors Affecting Adoption Of Interest Free Banking Service: Case Of Bank Of Abyssinia Sc Adama District. <https://www.bnymellon.com/us/en/insights/all-insights/the-growing-global-appeal-of-islamic-finance.html>
- [11]. Islam, J. U., & Rahman, Z. (2017). Awareness And Willingness Towards Islamic Banking Among Muslims: An Indian Perspective. *International Journal Of Islamic And Middle Eastern Finance And Management*.
- [12]. Janahi, M. A., & Al Mubarak, M. M. S. (2017). The Impact Of Customer Service Quality On Customer Satisfaction In Islamic Banking. *Journal Of Islamic Marketing*, 8(4), 595-604.
- [13]. Kaakeh, A., Hassan, M. K., & Van Hemmen Almazor, S. F. (2019). Factors Affecting Customers' Attitude Towards Islamic Banking In Uae. *International Journal Of Emerging Markets*, 14(4), 668-688.
- [14]. Kebede, D. A. (2021). Interest Free Banking In Ethiopia: Customer Awareness, Satisfaction And Its Role On Economic Development. *International Journal Of Islamic Business And Economics (Ijibec)*, 5(1), 48-58.