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EFFECTS OF AWARENESS AND PERCEPTION ON ISLAMIC BANKING PRODUCTS IN TARABA STATE

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Abstract

This research examines the awareness and perception on Islamic banking product in Taraba State, Nigeria. There are three objectives of this study which include: to determine the level of awareness of Islamic banking product in Taraba state, to evaluate the perception on Islamic banking product in Taraba state, to examine the prospect of Islamic banking product in Taraba state. The research design was survey in nature and Questionnaire was used as data collection instrument. The population of the study was 1,305 with a total number of 297 sample obtained as specified in Krejcie and Morgan table. Descriptive analysis and regression were used for analyzing the data. The findings of the research revealed that there is low level of awareness on Islamic banking product; however it also shows that there is positive perception on Islamic banking product in Taraba state. Based on the last

objective, it was discovered that Islamic banking product has a very high potential in the state. It was recommended among others that an avenue should be created by stakeholders

for an intensive awareness programme to encourage more participation and acceptance of customers on Islamic banking products.

Introduction

Islamic banking system is an important element of Islamic finance. It offers products which are free of interest unlike conventional banks. Islamic banking was first developed in the Persian Gulf states, where its customers were almost exclusively observant Moslems who needed a banking system that complied with Islamic *Shariah* (law) principles (Khair, Gupta and Shanmugan, 2008).

Islamic banking operates based on some key principles which are guided by Islamic Sharia law. Its purpose is the same as conventional banking except that it must comply with *Shariah* law. These principles include: the principle of profit and loss sharing (equity participation). Based on this principle, investors are encouraged to invest as partners in order share profits and risks in the business instead of creditors because profit is considered as reward of capital. The second principle is prohibition of *riba* (i.e interest) which is considered as effortless profit or profit that increases the principal amount without putting any effort. The third principle is the business activities to be conducted should be *Shariah* approved (not alcohol, gambling, prostitution etc). It is also part of the principles considering money as a potential capital; it implies that money cannot be made from money but only serves as medium of exchange. There should be no uncertainty, risks and speculation in conducting the business activities. Lastly, sanctity of contract and full disclosure must be achieved.

In the early seventies, there were numerous political revolutions in the Muslim countries which facilitated the establishment

and development of Islamic Financial Institutions at different levels. Based on this growth, there was a gradual expansion of Islamic Bank and Financial houses in the Middle East and even western countries like United States of America and United Kingdom. However in 2003, the bank had experienced a remarkable acceptance throughout the world. During this period, about 176 Islamic banks were established around the world with more than \$147 billion (Rammal and Zurbruegg, 2006).

However, despite these achievements experienced by Islamic Bank, it can be observed that, the rate of expansion and penetration into other countries (Nigeria inclusive) is very low. Even though Islamic Banking Institutions have gained reputation in almost all the continents of the world, there is still misconception about the banking system and inadequate level of awareness among the customers and investors in many countries. These challenges are not only found in Non-Moslem societies but also in some Moslem societies. It is on this basis that this research becomes expedient in order to examine the effect of awareness and perception on Islamic Banking products in Taraba State.

Nigeria is one of the countries that operate Islamic Banking System with the establishment of Jaiz and Taj Banks but with limited coverage. Although before that the former Habib Bank (now Keystone Bank) and Stanbic IBTC bank operate Islamic banking windows, little success was recorded perhaps due to lack of awareness and poor perception.

The main objective of this study therefore is to examine the level of awareness and perception on Islamic banking product in Taraba state, specifically to examine:

- i) The level of awareness on Islamic banking product in Taraba state
- ii) The level of perception on Islamic banking product in Taraba state
- iii) The prospect of Islamic banking product in Taraba state.

Legal Framework for Islamic Banking in Nigeria

Central Bank of Nigeria, in January 2009, approved the Apex Bank (CBN) to join the International Financial Services Board (IFSB) as a full member. The IFSB is an international standard-setting organization for the Islamic financial services industry. The CBN, in August 2010, released the new banking model, which included non-interest banks among the specialized banks and will operate either at National or Regional level with capital requirements of N10 billion and N6 billion respectively (Shittu, 2014).

In response to the positive step taken by the CBN, the Nigeria Deposit Insurance Corporation (NDIC) in September 2010 released its exposure draft on Non-interest Deposit Insurance Scheme for stakeholders' comment. Another effort manifested when Banks and Other Financial Institutions (BOFI) Act No. 25 was enacted. Section 61 of BOFI Act recognized the establishment of profit and loss sharing bank in the country, which basically is the Islamic form of banking.

Awareness of Islamic Bank Products

The results of several studies in the literature across different countries on the level of awareness of Islamic Bank Products are mixed and varied. For instance, in studies carried-out in Thailand by researchers about the awareness and perceptions of customers towards objectives, characteristics and

criteria of selecting Islamic Bank, Lateh, Ismail and Ariffin (2009), Khattak and Rehman (2010) and Okumus (2005), have similar results. It was found that most of the customers were aware of the special characteristics of Islamic Banking System that differ with the conventional banking system in some respect like free-interest banking system. On the other hand, they have little awareness about the Islamic banking products.

In another research vein, Okumus (2005) measured the level of customers awareness of Islamic Banking Products in Turkey. The outcomes of the study found that the level of awareness on some general products such as current account and time deposit account was appreciating. But the awareness in some complex, products such as *Murabahah* and *Ijarah* were very poor.

In Bangladesh, Khan, Hassan and Shalied (2008) examined the awareness and usage of various Islamic banking products and services among Islamic bank customers. They discovered that most of the customers have requisite understanding of general products and services but have little or no awareness on some products such as *Mudarabah* and *Murahabah*. Similarly, Thambiah, Eze, Santhapparaj, Arumugam (2011) analyzed the awareness of Islamic Retail Banking (IRB) between the rural and urban banking customers in Malaysia. The result also indicated that generally, there is lack of awareness of Islamic retail banking among both rural and urban customers.

As noted by Thambiah et al (2011), the difficulties encountered in understanding some of the Islamic banking products and services such as *Mudarabah*, *Musharakah*, *Bai'ul Ajal*, etc is due to the fact that such terms are named in Arabic language. In a general note, some of this products that are

complicated in terms of understanding could be due to the language name used (Arabic) and complexity in transaction.

With regard to Western World, Akbar (2012), examined the user perception of Islamic banking practices in the United Kingdom. Respondents agree that profit and loss sharing is among the element which shows true spiritual of Islamic banking practice, while on the other hand, due to lack of awareness of Islamic banking products and services, respondents are not quite sure about full benefit of Islamic products and services offered.

Perceptions of Islamic Banking Products and Services

In a study conducted by Lateh et al (2009) which examined the perception of the customers towards the objectives, characteristic and criteria of selecting Islamic bank in Thailand, it was found that Thai customer perceived that there were no differences between the Islamic bank and the conventional bank products and services, except in the names used to highlight the Islamic Banking products and services.

In a similar vein, a study was carried out by Karim and Affif (2005) in Indonesia which surveyed 1,047 respondents to determine their perceptions towards the characteristics of Islamic bank. The findings revealed that the main characteristic of Islamic bank was profit distribution while some viewed that Islamic bank was conducted according to the Islamic teachings. The perception of respondents in this research shows insignificant differences between Islamic bank and conventional bank, even if there is, it shows that it is in profit sharing.

The study of Loo (2010), in Malaysia with objectives to investigate the perceptions of Moslems and non-Moslems toward Islamic banking, the result shows

that there is a significant difference between X-Gen Moslems and X-Gen non-Moslems and similarly between baby boomer Moslems and baby boomer non-Moslems in how they perceive Islamic banking. In a nutshell, non-moslems consider Islamic banking with a disadvantage more significantly than Moslems.

Again, Abdullahi, Sidek and Adnan (2012) examined the perceptions of non-Muslim, customers towards Islamic banking in Malaysia. The outcome showed that Islamic banking is making progress among non-Moslems in Kuala Lumpur. Most of the customers have both Islamic and conventional banking account, showing that non-Moslems really supported Islamic banking system in the area.

Additionally, Akbar (2012) examined the user' perception of Islamic banking practice in United Kingdom. The finding shows that the Islamic banking in UK is not fully aligned with the paradigm version of Islamic finance. Respondents agreed that profit and loss sharing is among the element which shows the true spirit of Islamic banking practice, while on the other hand due to lack of awareness of Islamic banking products and services, respondents are not sure about full benefit of Islamic banking products and services.

On the other hand, Ahmad and Haron (2002) conducted research on corporate customers' perception on Islamic banking with 45 respondents in Malaysia concerning Islamic banking products and services. The finding shows that Islamic banking products and services are not popular among corporate customers. In addition, they disagreed that the Islamic banking products and services in Malaysia were similar to the products of the conventional banks and Islamic banking use different names on the products and services.

Research Method:

The research approach employed in this study is a descriptive survey design which falls within the positivist paradigm. The populations of the study consists of 1305 dealers, distributors, suppliers and other business operators within the three geo-political zones of Taraba State namely Jalingo, Wukari and Gassol which was obtained from the Association of Taraba State Trade Union and Taraba State Chamber of Commerce. According to Krejcie and Morgan (1970), the sample size adequate for 1305 population is 297.

Stratified random sampling was employed to reach respondents across the three geo-political zones.

This study employed the use of an adapted questionnaire as an instrument to collect the data for the research. The statistical technique used for analyzing the data was descriptive analysis and Regression. Descriptive analysis was employed in respect of objectives 1 and 2 (to determine level of awareness and perception) while regression analysis was used to analyse objective 3 (examine the prospect of Islamic banking product in Taraba State).

Results and Discussions***The level of awareness of Islamic banking product in Taraba State*****Table 1: level of awareness of Islamic banking product in Taraba State**

	N	Minimum	Maximum	Mean	Std. Deviation
BQ1	255	1	2	2.39	.490
BQ2	255	1	5	2.19	1.672
BQ3_1	255	1	5	4.23	1.086
BQ3_2	255	1	5	4.06	1.313
BQ3_3	255	1	5	4.01	1.200
BQ3_4	255	1	5	3.85	1.006
BQ3_5	255	2	5	4.18	.928
BQ3_6	255	1	5	3.66	1.220
Valid N (listwise)	255				

Source: SPSS 25

Table 1 showed that the respondents had little awareness of the Islamic banking products and services. Average scores of awareness about Islamic banking products are 1.747. While the average of the responses varies between 2.39 and 4.18 Awareness of *Mudarabah* is the highest awareness level (Mean= 4.18, Sd. =.928) and

awareness of *Murabaha* is the lowest awareness level (Mean=2.19, Sd. = 1.672). These findings show that respondents who participated in the survey have low levels of awareness about Islamic banking products. The perception of Islamic Banking Product in Taraba State

Table 2: perception of Islamic Banking Product in Taraba State

	N	Minimum	Maximum	Mean	Std. Deviation
CQ1	255	1	5	3.49	1.400
CQ2	255	1	5	3.39	1.336
CQ3	255	1	5	3.51	1.070
CQ4	255	1	5	3.83	1.211
CQ5	255	1	5	3.60	1.047
CQ6	255	1	5	3.27	1.123

CQ7	255	1	5	3.98	1.270
CQ8	255	1	5	4.13	1.027
Valid N (listwise)	255				

As shown in Table 4.10, the respondents had mixed perception to the products of Islamic banking. Average scores are 3.347 while the averages of the responses vary between 3.27 and 4.13. Most

respondents have a positive perception about the products provided in Islamic banking. This implies that the perception Islamic banking product in Taraba State is shows positive.

Regression Analysis of effects of awareness and perception on the prospect of Islamic banking products in Taraba State.

Table 3: Regression result

Dependent: Islamic banking products and services patronage

	Coefficient	Std. Error	t	Sig.
Constant	-1.419	.127	-11.187	.000
Awareness	1.890	.026	72.450	.000
Perception	.139	.028	4.936	.000
R ²	0.661			
Adj R ²	.660			
Std. Error of Estimate	.166			
F-stats	2663.999			
Sig.	.000 ^b			

Table 3 shows the result for the test of hypothesis one. The R square shows the viability and aggregate influence of the explanatory variable included in the model which is able to explain the dependent variable up to 66.0%. While the remaining 44% is controlled by other factors that not included in the model. The F-statistical value of 2663.999 which is significant at 5% shows that the model is fit and therefore provides substantial evidence that awareness and perception have shown a high potential and good prospect for Islamic banking product in Taraba State This is further proven by the P-value (Sig) $.000 < 0.05$ and t-statistics-11.187 indicating that awareness and perception have shown high potential in Islamic banking product in Taraba State.

Discussion of Findings

The findings of the study based on the first objective to determine the level of awareness of Islamic banking product shows

that there is little level of awareness of Islamic banking product in Taraba State. Although the general awareness of the product was recorded but understanding how to transact with their products or how they are operated in the bank is not well understood. The result above is in support of the work Lateh, et al. (2009), Khattak and Rehman (2010), Okumus (2005) who have similar result.

In addition the finding of this study with regard awareness is in agreement with the works of Kham et al. in Bangladesh Karim and Affif in Indonesia. Similarly, the finding of this study with regard perception of Islamic banking product in Taraba State indicates that most of the respondents have positive perception about Islamic banking product provided in Islamic banking. This can be tied to the Rogers (1962) innovation – adoption model which requires individual to get more information about a product which makes him more aware and change perception. The

finding above is in agreement with finding of Akbar, et al. (2012) and the work of Lateh, et al. (2009) who found no differences between Islamic bank and conventional bank products except in the names used in addressing the products.

On the other hand the finding of this study on perception disagrees with the work of Ahmad and Haron (2002) who conducted research on corporate customers on perception of Islamic banking products in Malaysia. It was found that the customers disagreed with the idea that Islamic banking products are similar to conventional bank products.

The Prospect of Islamic banking product in Taraba state can be measured by looking at the benefit expectation of the respondents from Islamic banking product which is strictly tied to their level of awareness and perception on the product. The finding on the third objective on the prospect of Islamic banking product in Taraba state is positive. This implies that increase in the awareness and the positive perception will determine the prospect of the bank product in the state. The work of Erol and El-Badour (1989) which examined the factors that influence customers to choose Islamic bank showed that provision of fast and efficient service, bank reputation and confidentiality were the bank selection criteria for customers who patronized Islamic bank.

Conclusion

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The result of the study indicate that there is low level of awareness on Islamic banking product in Taraba State due to the fact that some complex product are not well understood and it also shows that awareness has significant effect on Islamic banking product. In terms of perception, it also shows that more of the respondents have positive perception on the product and perception has significant effect on Islamic banking product. The finding on the prospects of Islamic banking product shows a very good signal for having high potentials for the product in Taraba State.

Recommendations and Suggestion for Future Research

Based on the findings of this study, the following recommendations were made: In view of the low level of awareness of Islamic banking product in Taraba State, management and policy makers of Islamic bank need to embark on more aggressive product campaign to create increased awareness. Similarly policy makers can take the advantage of the potentials that the bank has to establish Islamic bank in Taraba State.

The scope of this study is limited to awareness and perception of Islamic banking product in Taraba State; as such further studies are encouraged to replicate this research using any of the zones. If same result is achieved, the findings can be generalized across Nigeria.

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