

Awareness and Perceptions of Muslim Society towards Islamic Banking in the Philippines

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Abstract

The aim of this study was to determine and analyse the level of awareness and perceptions of Muslim society towards Islamic banking in the Philippines. Self-structured questionnaires were administered and distributed to 70 employees of some selected offices of the Mindanao State University (MSU), Marawi City and the data were processed and analyzed descriptively. The results revealed that most of the respondents are aware of the existence of the Al-Amanah Islamic Investment Bank of the Philippines and that interest and uncertainties are prohibited in all forms of business transactions including in Islamic banking. Conversely, they are not aware of Islamic banking products and services and its modes of financing such as *musharakah*, *mudharabah*, *murabaha* and *ijarah*. Furthermore, the study found that most of the respondents perceived that Al-Amanah Islamic Investment Bank of the Philippines has not done enough to promote and market its products and service to the public. The problem of peace and order, and the lack of emphasis placed on the importance of Islamic banking in the country have affected its development. The study also indicated that majority of respondents believed that Islamic banking has a potential positive future in the Philippines. Hence, promotion through policies and marketing strategies is necessary in strengthening Islamic banking in the country.

Keywords: Islamic bank, awareness, perceptions, Philippines, Muslim society

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Introduction

The Philippines is known as a Christian country in Asia with minority Muslims of around 7-10 percent. Islam had been introduced to the Philippines for three centuries before the arrival of Spaniards in the Philippines in the 16th Century. The geographical strategic location of Mindanao Island in the Philippines as a trade route catered a huge opportunity for the people of Mindanao to have strong collaboration with the Muslim world (Lingga, 2004). Certainly, this was also involved of the interplay of political, economic, psychological and social reasons (Gowing, 1979). After the Philippines independence, Muslim communities in the country have suffered socio-economic predicaments as a result of the government policies which were more favourable to non-Muslims. This injustice treatment towards Muslim in the Philippines known sometimes as Bangsamoro people has brought a Moro armed resistance in Southern Mindanao which has adversely affected the socio-economic development of the country particularly the Muslim communities. To address the problem, the Philippines Government established various solutions which primarily aimed in improving the socio-economic conditions of the Bangsamoro people. One of the government initiatives was the establishment of Al-Amanah Islamic Bank of the Philippines in 1973 (Lingga, 2004). However, the creation of Islamic Banking in the country has inappreciably contributed in the enhancement of the socio-economic conditions of the Muslim communities in the Philippines due to sluggish development and expansion of the said Islamic Bank. although, it was created to promote the socio-economic growth and development of Muslim communities in the country and to serve their banking and financing needs in accordance with Islamic principles of banking and finance operations. Philippines Amanah Bank is the only Islamic bank in the country recognized and owned by the Philippines Government applying the principles of Islamic banking. It is the only Islamic bank in the country allowed to provide Islamic banking products and services. Its slow-moving expansion and unfavourable performance are mainly associated by absence of concrete regulatory framework and low awareness of the society to its existence, products and principles.

The existence of Islamic banking in the Philippines for more than four decades starting from 1974 has not gained an auspicious market environment. Besides of the low public awareness, lack of regulatory infrastructure and environment towards Islamic banking has not been developed. The present Charter of Islamic bank in the country established only the Philippine Amanah Bank but not a regulatory framework for the expansion of Islamic banking in the country. Besides, the General Banking Law of the Philippines only recognizes Al-Amanah Islamic Bank as Islamic

financial intermediary but it does not provide for the creation of other Islamic Banks (Tetangco, 2014). The very low public awareness and dire perceptions towards Islamic banking among Muslims in the country undoubtedly contributed to its unfavorable performance. According to Muhammad Ayub (2007), the future of Islamic banking and finance and its full recognition depend on the interest of the clients in particular and public in general toward it, and enhancing clients in emerging industry. This can be possible through providing essential education of the people, and creation of awareness about Islamic economic system. Keeping in view of this situation and the paucity of relevant studies about awareness and perceptions towards Islamic banking in the country, there is a need to examine the level of knowledge and perceptions of the Muslim society towards Islamic banking in the Philippines. Public knowledge and perceptions play important role for the decision making of the society to adopt Islamic bank. Certainly, the findings of this study can be considerable factor to strengthen market strategies and innovate Islamic financial products and services of present Islamic bank in the country.

Literature Review

Islamic Banking in the Philippines

Philippine Amanah Bank is the only Islamic bank in the country that is allowed to provide Islamic banking services and products. By virtue of the President Decree No. 264 of President Ferdinand Marcos, Philippine Amanah Bank was established with an initial capital of 50 million Pesos. This decree also mandated the bank to invest its 75% total loanable funds for the short and long term credit facilities for some provinces in the Philippines with Muslim population such as Cotabato areas, Lanao del sur and Lanao del Norte, Islands of Sulu, Basilan, Palawan and Zamboanga areas. Philippines Amanah Bank was mandated to implement the principle of Islamic banking and unfortunately, it failed to implement the said principles due to small market demand and public awareness towards it. In 1990, Philippine Amanah Bank was renamed as Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP) after the signing of the Republic Act No. 6848 which also provided the bank the authorized capital of 1 Billion Pesos for the improvement of socio-economic development of the Autonomous Region in Muslim Mindanao through banking and financing based on the concept of Islamic Bank and Finance principles (AAIIBP, Annual Report 2016).

After renaming, Al-Amanah Islamic Investment Bank of the Philippines has incurred unfavorable financial losses until to the present. Its poor

performance bore operating losses of PhP554 millions from 1990 to 2006 with annual average loss of PhP33 million from its operation (Iqbal & Mylenko, 2016). Due to incurred losses from its operations, this bank had been bid for private parties but it was not successful. Enthusiastically, Al-Amanah Islamic Investment Bank of the Philippines envisions to be a leading Islamic financial institution in the country providing an alternative banking services in response with global demand for Islamic Bank and for the development of socio-economic aspects of the Muslim minorities in the country. On July 2008, another Government bank in the Name of Development Bank of the Philippines acquired the said Bank , and Bank's rehabilitation Plan was implemented in which Al-Amanah Islamic Investment Bank of the Philippines is allowed to operate both Islamic and conventional banking. The 5 years Rehabilitation Plan as approved by Monetary Board of the country is focused mainly on corporate strategies. These plans are: Recapitalization, Restoration of Financial Viability, Reorganization, and Reform Institution. Originally, during the conception of Al-Amanah Islamic Bank which firstly introduced as Philippines Amanah Bank, the bank was created to provide credit facilities to the people of the Muslims in the Philippines particularly to the dominated Muslim provinces of the country like Cotabato, South Cotabato, Lanao Del Sur, Lanao Del Norte, Sulu, Basilan and Zamboanga del Norte, Zamboanga del Sur and Palawan. The Al-Amanah Islamic Bank's main Office is located in Makati City, and has 8 (eight) branches in some areas in the country such as in Cagayan De Oro City, Cotabato City, Davao City, General Santos City, Iligan City, Jolo City, Marawi City and Zamboanga City. (AAIIBP, Annual Report 2016). Presently, there is a bill submitted before the House of Representatives of the Philippines for the amendment of the Republic Act 6848 known as Charter of the Al-Amanah Islamic Investment Bank of the Philippines, which aims to strengthen Islamic banking in the country and provide the regulatory framework for expansion and promotion of financial inclusion as well as socio-economic development of the Muslims in the Philippines in particular and the Philippines in general.

Overview of Islamic Banking and Finance Principles

Islamic banking and finance as part of Islamic financial system contrasts fundamentally from a conventional banking and finance. Islamic finance has unique and distinct basic principles based from Islamic Law. Islamic finance is defined by Alamad (2017) as "an approach to finance and undertaking financial activities as founded, governed and illustrated under Shariah" (p. 16). The difference between conventional finance and Islamic finance is not only confined to its ways of financing and investing but much more on the fundamental principles and ethical values. Islamic finance is guided generally by Shari'ah principles and ethics. It is not only primarily for profit but rather

for the achievement of justice and shared development. The prescribed general principle in Islamic finance regarding business transaction is that everything is permissible unless there is clear evidence from the primary sources of Islamic law that prohibit that transaction. However, there are few constraints of freedom to engage in business transactions that are prescribed by Islamic Law due to prohibition and unethical considerations. Generally, prohibition in Islamic law can be divided into unlawful by its own sake or the thing itself is inherently forbidden (*haram lidhatihi*) such as riba, wine, pork, and unlawful due to external factor (*Haram Ligairihi*) such as selling during Friday prayer (Karim, 2005). In Islamic finance, one of the prohibitions is interest "Riba". Interest is permanently prohibited in Islam and all types of transactions should be free from interest. The word "Riba" in Arabic Language means an "increment" or "addition". Technically, it refers to any excess payment or compensation without due consideration (Usmani, 2002, p.42). However, application of riba is not only confined to loan but also to selling and exchange. Riba in selling or exchange arises when there is an unjustified increment gained by the seller or the buyer if they exchanged goods of the same kind in different quantities (Abdelrahman, 2003). Furthermore, the wisdom behind the prohibition of *Riba* is for moral and economic reasons. Morally, interest is prohibited because it is the way of exploiting the poor and usurping the wealth of others without compensation. Economically, it prevents the essence of working to earn profit and does not promote mutual cooperation and brotherhood in the society. Moreover, *Riba* will lead to higher income inequality (El-Ashker & Wilson, 2006). Although prohibition of interest is fundamentally aspect of Islamic finance, interest free banking and finance is not enough to consider that financial institutions which do not apply interest are fully Shari'ah compliant. Presence of excessive uncertainty (*gharar*) and risk in business transaction is also not allowed. Muhammad Ayub (2008) defines *gharar* as "the uncertainty or hazard caused by lack of clarity regarding the subject matter or the price in a contract or exchange." (p.57). However, uncertainty and risk are usually part of business activities and cannot be totally avoided. The prohibition of *gharar* in Islamic finance refers to the excessive uncertainty that entails or causes dispute among the contracting parties (Al-Saati, 2003). Moreover, gambling and any form of games of chance is also not allowed in Islamic finance. There are two relevant concepts relating to gambling such as *Maisir* and *qimar*. *Maisir* is the acquisition of wealth by chance either by deprivation of the rights of others or not. *Qimar* on other hand arises when one gains at the expense of other (Ayub, 2008).

Profit is generally the primary objective of any business venture. However, Islamic finance is not primarily guided only by profit maximization, justice and welfares of the society are given priority over individuals, and there are

limitations that should be observed in earning a profit. For instance, investing in business dealing with unlawful products like gambling or alcohol is prohibited. Moreover, lending is not for profit activity and any interest attached to lending is not allowed. Lending should be done with an intention to help and gain Godly rewards. There are products which are prohibited by Islam and they cannot be the subject of the transaction. Promotion of compassionate finance are encouraged such as zakah, qard hasanah (benevolent loan), waqaf which are not intended to gain profit is quite important for socio-economic improvement of the society. Earnings cannot be guaranteed because the nature of business can gain profit or loss, and return cannot be separated from risk. Selling of something which is not owned by sellers is also prohibited.

Promotion of private property and freedom of markets is among also the important basic principles of Islamic finance. Ownership of an asset or property cannot be separated from its risks and return, and finance cannot be created outside the market for goods and services. Market also should be perfectly competitive market. Monopoly and all types of market frauds are prohibited. Time is valued and adjusted in deferred trading not in money. Money is not capital but only potential capital and it becomes capital when it is combined with other resources in productive activity. According to Abdelrahman Yousri (2013), the Madinah Market is the model for market structure in Islam, which provided rules on market and trading, and this market was described as Islamic pure competition. Madinah market laid down rules that forbid market irregularities and imperfections such as imposing levy and dues on market entry, *Ihtejar* or using stones to claim permanent private area in market place, monopoly (*ihtekar*), monopolistic competition practices, fraud and cheating, discriminative and unfair prices (*ghabn*), *gharar*, and price manipulation (*najash*). Justice and mutual consent, transparency, honesty and mutual help also are part of norms and principles prescribed by Shari'ah in all business transactions.

Awareness and Perceptions towards Islamic Banking

Consumer awareness and perceptions are important in business industry. Familiarity of consumers with the distinctive features and usefulness of particular products or services drive their decision to buy or adopt. Awareness literally means knowledge and understanding that something is happening or exists. Cambridge Dictionary defines awareness as "understanding of a situation or subject at the present time based on information or experience". Perception on other hand, is defined by Hanna, et al. (2013) as "the process of selecting, organizing and interpreting sensations into meaningful whole" (p.75). Moreover, perceptions play vital

role for in marketing strategy of firm to attract new customers and keep their existing patrons. According to Hanna, et al. (2013), there are three important concepts related to perceptions. There are exposure, attention and sensation. Exposure occurs when individual comes to contact with environmental stimuli. Attention is the allocation of individual's mental capacity to a stimulus, and Sensation refers to the responses of our sensory receptors. In this context of Islamic banking, awareness of the Islamic banking products and services refers to the understanding and knowledge of the existing Islamic bank and its products/services and principles through various ways. Awareness of the society towards Islamic banking can create favorable or unfavorable decision making. A study conducted by Ahmad & Bashir (2014) asserted that among the masses in Pakistan, there is less awareness among masses about Islamic banking terminology, products and services. They also found that customer's awareness level and customer's service utilization decision has positive correlation. The study of Mahdzan, et al. (2017) in Malaysia also inferred that level of understanding of consumers on Islamic banking concepts is quite low despite of the fact that Malaysia is center of Islamic banking and finance. They concluded also that understanding and perceived advantage has a significant influence to the adoption of Islamic banking in Malaysia.

Generally, this study used the Theory of Planned Behavior for its theoretical framework. Theory of Planned Behavior is the extension of Theory of Reasoned Action by Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). The main theme of this theory is the individual intention as precursor of behavior. According to the theory, intentions are the motivational influence of behavior. The performance of individual behavior whether hard or easy is always dictated or driven by the intention. The stronger the intention of individual to take part in a behavior, the more possibly should be its actualization. Moreover, intention itself is a function of three considerations. These are attitude toward the behavior, subjective norm and perceived behavioral control. Attitude toward the behavior is the degree to which a person has a favorable or negative evaluation or appraisal of the behavior in question. Subjective norm refers to the perceived social pressure to do or not to perform the behavior. Moreover, Perceived behavioral control refers to the perceived ease or difficulty of performing the behavior which includes reflection of past experience as well as anticipated impediments and obstacles (Ajzen, 1991). Based from the Theory of Planned Behavior (TPB) that proposes three considerations that determines behavioral intention. In this exploratory study, awareness and perceptions of Muslim society towards Islamic banking are considered salient belief factors that can influence their attitudes towards adoption of Islamic bank.

Previous Studies

Studies on awareness and perceptions of people towards Islamic bank in the Philippines are very limited. However, there are many studies conducted related to awareness, perception, preferences, attitudes and behavior towards Islamic banking in the neighboring countries of the Philippines and other Muslims and non-Muslim countries. For instance, in Singapore, Gerrard & Cunningham (1997), inferred in their study that there are two reasons that motivate Muslims in Singapore to deposit their money in Islamic bank, religious and profitability reasons. Muslims have low awareness of the culture of Islamic banking while non-Muslims have an almost complete lack of knowledge about Islamic banking in Singapore. In New Delhi, India, Islam & Rahman (2017) carried out study regarding the awareness and willingness towards Islamic banking among Muslims. The study concluded that majority of 290 respondents have lack of understanding on Islamic banking operations but they are willing to go for Islamic banking if there is proper information and good customer services offered. Another findings are found on the study of Abduh & Idrisov (2014) in Dagestan, Russia. The study inferred that majority of people of Dagestan were not aware of Islamic banking products and services. They have low awareness on *Murabah*, *mudharabah*, *murabahah* and *Ijarah* contracts in Islamic banking and even the principle of profit loss sharing concepts in Islamic banking. The authors also found that there is positive relation between awareness and attitude. However, there is no clear influence of attitude to intention of the people to support Islamic banking and finance. Lujja, *et al.*, (2018) study that aimed to explore the perception of Ugandans towards Islamic banking concluded that both Muslims and non-Muslims in Ugandans have low awareness towards Islamic bank although Muslims are more familiar about Islamic banks. With 354 sample and the data analyzed through descriptive and factor analysis, the study revealed that Muslims attitude towards Islamic bank is influenced primarily by religious and profitability, while non-Muslims' attitude is mainly motivated by profitability of Islamic banks. For the factors affecting the selection criteria of Islamic banks by Ugandans, there were 6 determinants such as third party influence, status of the bank, convenience, profitability, hospitality and location. Third party influence is homogeny for Muslims and non-Muslims as selection criteria of Islamic banks while the rest vary for Muslim and non-Muslims.

Abduh & Omarov (2013) conducted a study to examine Muslim's awareness and willingness to patronize Islamic banking in Kazakhstan and the research showed that majority of the 300 respondents are aware of Islamic banking in the country. However, it was observed that they are not aware of the most of the products and services of Islamic banking in Kazakhstan. In Bosnia and Herzegovia, a study conducted by Ergun and Djedovic (2011) revealed that

the general knowledge about Islamic banking is low and the perceptions of Islamic banking are not positive. In Africa particularly in Mauritania, Ramdhony (2013) through structured questionnaire for Muslim and non-Muslims respondents in Mauritania concluded that awareness towards Islamic bank irrespective of religion is quite low although Muslims have better are of Islamic Banking terminology than non-Muslims. Certainly religious belief and return motives are factors that influence them to deal with Islamic bank. A study in Tunisia by Souiden (2013) indicated the vital role of religiosity for favourable attitude towards Islamic banks. Using convenience sampling with 217 respondents concluded that the more religious the person and fearful to divine punishment, the more he or she will develop favourable attitude towards Islamic banks. The study also inferred that the more a Muslim believes in Islamic laws, the more positive attitude towards Islamic banks.

Moreover, Khattak & Ur-Rahman (2010) analyzed the the customers' satisfaction and awareness level towards Islamic bank institutions in some cities of Pakistan. With 156 respondents , the study indicated some of Islamic products are known to customers but customers are not aware of Murabaha and Ijara products in Islamic banking . Religious reasons also play big factor in bank selection criteria of Customers. Bank efficient in transaction and confidentiality of Islamic banks to their customers have positive significant relation to banking selection criteria of customers. Similarly, the study of Sohail,I. (2014) in the same country showed that most perceived important factors in selecting banks by the respondents is the consideration of the cost or benefits of the products and services offered by the bank and friendliness behavior of banks and the finding demonstrated that Islamic banking system cannot be attractive as compared to conventional bank. Furthermore, majority of the respondents also have no enough knowledge about Islamic banking system and they cannot easily differentiate between Islamic bank and conventional bank because of lack of awareness about Islamic bank.

A study that used factor and logit regression analysis with 154 respondents was conducted in Barcelona, Spain by Kaakeh, *et al.* (2018) regarding the attitude of Muslim Minority towards Islamic finance showed that the intentions of Muslims to deal with Islamic banking is mainly triggered by attitude of Muslims in Spain. Furthermore, religious motivation and awareness play vital role for the selection of Islamic banking. Conversely, the study also inferred that Muslims in Spain are not familiar about the modes of operations and contracts used by Islamic banking although the respondents are keen to know more about Islamic banking.

In Thailand, the study of Ismail, *et al.* (2009), revealed that Thai Customers Muslims and Non-Muslims were aware of the unique characteristics of Islamic Banking practice including prohibition of interest but they perceived that there were no differences between Islamic bank and Conventional bank in Thailand. This implies of the very minimal awareness of the Thai customers towards Islamic Banking products and services. Generally, based from above mentioned related studies conducted in other countries which indicate of the low awareness and lack of basic knowledge towards Islamic Banking, further study for the case of the Philippines relating to public awareness is vital. There are limited few studies conducted regarding awareness and perceptions towards Islamic bank in country particularly in the Muslim areas where Al-Amanah Islamic Investment Bank of the Philippines has branches. Hence, the main objective of this study is to determine level of awareness, understanding and perceptions of Muslim society towards Islamic bank in the Philippines.

Methodology

Data

Data for this study were collected using a self-administered questionnaire which was developed based on various sources of literature. It consists of three sections. The first section is designed to gather information regarding the demographic profiles of the respondents such as age, gender, educational attainment, monthly salary, work status, length of service and marital status. The second section includes the awareness towards Islamic banking and finance. The third Section is devised to determine the basic understanding and perceptions of the respondents towards Islamic bank. Specifically, to determine the awareness of the respondents, the respondents were asked to state their awareness through restricted item or closed ended questions. The respondents also were asked to their level of agreement on the statements regarding understanding and perceptions towards Islamic bank basic principles and characteristics using Likert-Scale ranging from strongly agree (5), to strongly disagree (1). Data were analyzed descriptively.

Method

This study was conducted at Marawi City, Philippines and the data gathered through self administered questionnaire. The employees of some offices of the Mindanao State University Marawi city were the target

samples of this research. The respondents are all Muslims who are currently working at Mindanao State University, Marawi City. The selection of sample respondents is based on the fact the university employees are deemed to have relevant knowledge of the Islamic banking because they are in academic institution. A total 100 questionnaires were distributed and only 70 questionnaires were deemed valid. Responses were screened for errors and misplaced answers. Due to large number of Muslims in the Philippines scattered in various areas, the sampling technique used in this study is non-probability convenient sampling.

This study is exploratory in nature, rigorous statistical analyses were not employed. Explorative research design was used in this study and descriptive and frequency analyses were conducted to create and represent the respondents' demographic profiles, awareness, understanding and perceptions towards Islamic bank. Furthermore, to measure the internal reliability of questionnaires, Cronbach's Alphatest was used. Cronbach's alpha of 1 indicates of perfect reliability and the closer the Cronbach's alpha to 1, the higher the reability. It was suggested that the lowest limit for Cronbach's Aplha is 0.70. In this study,0 .97cronbach's alpha for understandingstatements and 0.98 for perceptions statements.

Results and Analysis

Results of the Study

1. Demographic Profiles of the Respondents

Table 1. Gender, Age and Educational attainment Distribution of the Respondents

Gender group	Percentage
Male	27.14
Female	72.86
Age Group	Percentage
20-23 year	4.29
24-27	17.14
28-31	14.29
32-36	14.29
37-39	5.71
40-43	12.86
44-49	2.86
50-60	27.14

Table 1. Gender, Age and Educational attainment Distribution of the Respondents (Continue)

Educational Attainment Group	Percentage
Undergraduate	82.86
Master Degree	17.14
Doctorate Degree	0

Table 1 above shows that among the 70 respondents, 51 of them are females which constitute 72 percent of the total sample and only 26 percent is males. For the age group, 27.14 percent of the total respondents are in the ages between 50-60 years and followed by the ages between 24-27 years which constitute 17.14 % of the total respondents. Furthermore, 2.86 % of the total respondents is in the ages between 44-49 years, and the ages between 37-29 years constitute only 5.71 percent from the total respondents. Both the Ages between 28-31, and 32-36 years comprise of 14.29 percent respectively. Furthermore, almost 83 percent of the respondents acquired their undergraduate degrees and only 12 of them have finished master degrees which constitutes only 17 percent.

Table 2. Length of Service, Work Status and Marital Status of Respondents

Length of Service	Percentage
1-2 Years	27.14
3-7	28.57
8-12	17.14
13-18	2.85
19-25	10.00
26 and above	14.28
Total	100
Marital Status	Percentage
Single	61.42
Married	37.14
Widow	1.42
Total	100
Work Status	Percentage
Regular/permanent	42.87
Contractual	57.14
Total	100
Monthly Income Group	Percentage
5,000-10,000 Pesos	40
10,000-15,000	28.6
15,000- 20,000	17.1
20,000-25,000	10
25,000-30,000	4.3
Total	100

The table 2 above shows that majority of the respondents have been in the service at Mindanao State University for between 3-7 years, which constitute of almost 29 % of the total respondents. 19 of the respondents or 27 percent have been working in the university between 1-2 years. 2 % of the respondents have been employees of MSU between 13-18 years, and 14 percent of them have been worked for more than 26 years in the said University. For marital status, 43 of the respondents or 61 and 37 percent are singles and married respectively and only one is widow. Furthermore, 57 percent of the respondents have been working as contractual and the rest are regular employees of MSU.

For the monthly income or salary of the respondents, out of 70 respondents, 28 of them or 40 % have an average monthly salary between 5,000 - 10,000 thousand Pesos while 28 percent of the respondents have an average monthly income of 10,000-15,000 thousand pesos and only 4 % of them have higher average salary of between 25,000-30,000 thousand Pesos followed by 7 respondents with an average salary between 20,000-25,000 Pesos as shown in table 2 above.

2. Awareness and Perceptions towards Islamic Banking

There are 5 questions asked for the respondents to determine their basic understanding of Islamic banking existence in the country and its products and services.

Table 3.Awareness Responses towards Islamic Bank

Questions	Percentage	
	YES	NO
1. Are you aware of Islamic Banking?	88.6	11.4
2. Are you aware of Al-amanah Islamic Investment Bank of the Philippines?	87.1	12.9
3. Are you aware that the Philippines was among the pioneering countries in establishing Islamic Bank?	48.6	51.4
4. Are you aware of Islamic products and services and <i>Musharakah, Mudharabah, Murabaha, Ijarah</i> Islamic Banking modes of Financing	28.6	71.4
5. Have you ever transacted with Islamic Bank in the country.	32.9	67.1

Based from table 3 above, 88 percent of the respondents heard and are aware of the Islamic Banking. Specifically, they are aware of existence of Al-Amanah Islamic Investment Bank of the Philippines with only 12.9 percent of the respondents who said that they are not aware of Al-Amanah bank as an Islamic bank. Conversely, most of the respondents (51 %) are not aware that Philippines was among the pioneering countries in establishing Islamic bank in the name of Philippines Amanah Bank in 1974. For awareness about Islamic banking products and services, most of the respondents (71 %) acknowledged and confirmed that they are not aware of Islamic banking products and modes of financing such as *musharakah*, *mudharabah*, *murabaha*, and *ijaraah*. Furthermore, Most of them also (67%) had never transacted with Islamic Bank in the country.

The table 4 above shows that for the statement U1, “Islamic bank in the country is operated in accordance with Shariah Law”, majority of respondents agreed to the said statement with a mean of 3.8. For the second statement (U2),” Al-Amanah Islamic Investment Bank of the Philippines is only for Muslims”, majority of the respondents are in neutral side. In other hand, Islamic bank in the country can be for Muslims or non-Muslims. The third statement (U3) is “Islamic Banks prohibit interest/usury/riba”. Most of the respondents agreed that interest is prohibited in Islamic banking with 3.5 weighted mean. Moreover, majority of the respondents also believed that “Islamic Banks prohibit uncertainty in all form of business transactions (U4). Lastly, they believe that “Islamic banks only invest in Halal Business” (U5) with the mean of 4.0.

Table 4. Understanding Statements towards Islamic Banking Principles

ST	SD	D	N	A	SA	M
	%	%	%	%	%	
U1	8.6	4.3	21.4	25.8	40	3.8
U2	12.8	31.4	15.8	20	20	3.0
U3	10	15.7	12.8	22.8	38.6	3.5
U4	8.6	8.6	24.3	31.5	27.1	3.6
U5	5.8	5.8	12.9	32.9	42.9	4.0

Note: ST-Statement; SD-Strongly Disagree; D-Disagree-Neutral; A-Agree; SA-Strongly agree; M-Mean ;U-understanding

3. Perceptions towards Islamic Banking

Table 5. Respondents’ Perceptions towards Islamic Bank

ST	SD	D	N	A	SA	M
	%	%	%	%	%	
P1	35.7	25.7	12.8	22.8	2.8	2.3
P2	1.4	11.4	20	48.5	18.5	3.7
P3	8.5	12.8	28.5	41.4	8.5	3.2
P4	14.2	32.8	27.1	18.5	7.14	2.7
P5	2.8	20	21.4	42.8	12.8	3.3
P6	4.28	25.7	20	31.4	18.5	3.3
P7	10	10	21.4	21.4	37.1	3.6
P8	24.2	21.4	25.7	18.5	10	2.6
Note: ST-Statement; SD-Strongly Disagree; D-Disagree-Neutral; A-Agree; SA-Strongly Agree; M-Mean ; P-Perception						

In the table 5 above, most of the respondents disagreed to the statement (P1) that Islamic bank in the country deals with interest with weighted mean of 2.3 and only few respondents who disagreed to the said statement. For the statement related to the potential of Islamic Bank in the country (P2), majority of the respondents have positive perceptions on it with 3.7 weighted mean. The third statement (P3) in which “the presence of Al - Amanah Islamic Investment Bank of the Philippines in the country has not done enough to promote its products to the public” has got favourable agreement. Furthermore, they perceived that there is no difference between Islamic Bank and conventional bank in the country (P4). Besides, the respondents believed that the problem of peace and order in the country has impacted to the sluggish growth of Islamic Bank in the country (P5). Respondents also agreed that Islamic bank has not been expanded due to the less emphasis of the Muslim leaders in the country to encourage the Philippines Government to strengthen and expand Islamic Bank (P6). Certainly, most of the respondents believed that Islamic banks are for all, Muslims and Non-Muslims (P7). The development of Islamic bank has no relation to its principle of prohibition of interest as perceived by the respondents (P8).

Analysis

The presence of Philippines Amanah Bank which was later renamed as Al-Amanah Islamic Investment Bank of the Philippines only enlightened the public of its existence as the sole Islamic bank in the country but it has not done enough in enhancing the awareness and understanding of the Public particularly the Muslim society to Islamic banking principles, and products

and services. This is supported by our hypothesis that employees of Mindanao State University, Marawi City have very low awareness on the Islamic banking products and services as well as its modes of financing. This finding is consistent with the findings of other studies in other countries like of Ramdhony (2013) in Mauritania; Islam & Rahman (2017) in India; and Lateh, *et al.* (2009) in Thailand. The respondents generally have a basic knowledge of the fundamental principles of Islamic Banking system which is the prohibition of interest but this knowledge is the result of their general knowledge to the teachings of Islam not by because of the establishment of Islamic bank in the country. Presently, Islamic Bank in the country is not fully operating in accordance with Shariah principles and most of the respondents also had no transaction experience with Islamic bank in the country.

Potentially, majority of respondents have favourable conviction that there will be a huge potential future of Islamic banking in the country. This is quite similar to the finding of Kaakeh, *et al.* (2018) in Spain where most of the respondents are interested to know more about Islamic banking and finance. Certainly, the increasing global demand for Islamic bank and the integration of ASEAN countries as well as the continuous increase of the Muslim population in the country undoubtedly will give conducive environment for Islamic banking in the country. Majority of the respondents also perceived that the one of the reasons of the low awareness of the public towards Islamic bank products and services is the lack of marketing strategies and promotion campaigns of the Al-Amanah Islamic Investment Bank of the Philippines.

Moreover, the problem of peace and order in the country has impacted to the sluggish growth of Islamic Banking in the country. Armed conflict in the Philippines not only brought the death of thousands of people but also disrupted the growth and development of the country. Despite of the fact that Philippines was one of the pioneering countries in establishing Islamic bank in 1973, Al-Amanah Islamic Bank as the only one Islamic bank in the country has not competitive and financial performed well. Muslim leaders have not done enough to push for the development of Islamic bank through establishment of regulatory framework for Islamic bank and enhancement of public knowledge and human resources for Islamic banking in the country. As a result, strengthening of Islamic bank has been disregarded and failed to cater the financial inclusion for the society.

Conclusion and Recommendation

Conclusion

This paper aimed to explore and examine the level of awareness and perceptions of the Islamic banking in the Philippines. It concludes that the existence of the sole Islamic bank in the Philippines for more than four decades has not exhibited auspicious level of awareness of the society towards Islamic banking products and services. Most of the respondents in general have a basic knowledge of basic principle of prohibition of interest and excessive uncertainty in financial transactions but they are not aware of Islamic Banking products and services, and the modes of financing such as *musharakah*, *mudharaba*, *murabah*, *ijarah* and *salam*. Lack of peace and order in Mindanao and lack of emphasis on the importance of Islamic banking for Muslim communities perceived to contribute in slow development of Islamic banking in the country. Thus, in line with growing global demand for Islamic bank and finance, Philippines should initiate its vital step to expand Islamic banking in the country to serve the Muslims and non-Muslims.

Recommendation

Based on the findings of the study, the followings are the recommendations for the stakeholders of Islamic banking in the country.

1. Al-Amanah Islamic Investment Bank of the Philippines has not done enough to promote the Islamic banking and its products and services to society. To strengthen its marketing strategy for the promotion of Islamic bank in the country, the Bank can initiate various programs such as public seminars, trainings, and collaboration with other educational institutions.
2. Mindanao State University as a center of higher academic institution in Mindanao has vital role in educating the society about Islamic banking and finance through offering new minor or major courses about Islamic economics or Islamic banking and finance.
3. Absence of legal regulatory framework for Islamic banking in the country restricts the growth of Amanah Bank, it is recommended for Central Bank of the Country to work towards in attaining an appropriate legal regulatory framework Islamic banking in the country.
4. There is a need of enacting laws pertaining to Islamic banking expansion in the country to cater the financial needs of the growing number of Muslims in the Philippines and for the global demand for Islamic banks.

5. This study confined to Muslims with limited samples. Future Relevant study for both Muslims and Non-Muslims' awareness and perception is quite important.
6. The present Islamic bank in the country should start to work with religious leaders by launching informative campaign about the importance of Islamic banking and finance for Muslim society.

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