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Emerald Article: An Investigation of User Perceptions of Islamic Banking Practices in the United Kingdom

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Article Title Page

An Investigation of User Perceptions of Islamic Banking Practices in the United Kingdom

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Structured Abstract (please use headings listed below):

Purpose - Islamic banking as a financial institution has always been proclaimed to be different from conventional banking systems. This is mainly due to the prohibition of interest and emphasis on achieving social economic responsibility in society. However, in practice, Islamic banking practices in the United Kingdom seem to be far away from its paradigm version. The main purpose of this study is to evaluate user perceptions of Islamic banking practices in the United Kingdom.

Design/methodology/approach - To explore the understandings and perceptions of customers about Islamic banking practices in the UK an online questionnaire survey is used as the research approach in this study. The survey was conducted through a closed-ended structured questionnaire.

Findings – The overall findings of this study suggest that Islamic banking in the UK is not fully aligned with the paradigm version of Islamic finance. The respondents generally agree with the view that the principle of profit and loss sharing element represents the true spirit of Islamic banking practices,

however, due to the complex nature of Islamic banking products, they are unsure about the full benefits of this system. There is a high expectation among the respondents about the commitment and strong welfare role of Islamic banks in society. It is therefore suggested that through research, effective marketing and generating more awareness in users about Islamic finance, it is possible to achieve more from the Islamic banking paradigm.

Practical Implication – This study is not only relevant to Muslims but also to the banking regulators in the UK, as many conventional banks are now offering Islamic products and services alongside their routine interest based transactions. Hence there is a need for the regulators to understand the real nature of such practices by both the Islamic and conventional banks and establish a uniform regulation so that users are not ill-treated by banks in the UK.

Keywords: Islamic Banking, Islamic Banking Products and Services, Perceptions

Article Classification Research paper

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1. Introduction

Islamic banking is regarded as an interest free system based on profit and loss sharing (PLS) principles. It emerged in the late twentieth century and has expanded tremendously in the last twenty years. This growth can be linked to the free flow of capital and the awareness by Muslims of the implication of interest based transactions in their religion. The revolutionary departure from conventional banking system to the interest free Islamic banking is exemplified by a vision to move from debt based financial intermediary to an equity based arrangement. In this regard Khan and Bhatti (2008) argue that Islamic banking is a growing discipline adding more ethical practices and diversified tools and systems to global finance. In addition, Siddiqui (2002) highlights that Islamic banking is dominated by profit and loss sharing which helps to absorb any diverse outcomes on the asset side of the balance sheet.

In contrast to the above, Dusuki and Abdullah (2006) point out that an ideal structure of Islamic banking based on profit and loss sharing principle proves to be a mirage. Similarly, Khan (2004) highlights that only a minuscule portion of the assets of Islamic banks (around 5%) consists of loans based on a genuine profit and loss sharing system. The rest is mainly dominated by the debt based mode of financing, such as *Murabaha* contracts. Adding further to the debate, Ismail (2002) argues that in Islamic banking practices equal importance is placed on debt based contracts. Similarly, Chong and Liu (2007) highlight both debt and equity based financing issues in Islamic banking. They argue that *Mudaraba*, which is supposed to be interest free, is structured similarly to the conventional banking deposits.

Other studies, such as Sadr (1982); Siddiqi (1985); Ahmad (1994); Haron (1996); Ahmad (2000); Chapra (2000a, 2000b); Siddiqui (2002); Haron and Hisham (2003); and Dusuki and Abdullah (2006) argue about the role played by Islamic banks in society. These studies report that Islamic banks not only offer profit and loss based products but also promote social welfare in the society. On the other hand, Lewis and Algaud (2001) and Satkunsegaran (2003) propose Ismail's (2002) model, which stresses that Islamic banks should aim at maximising profits like normal commercial banks as long as it is done according to Islamic law.

It can be observed from the above that there are various controversies about the practices of the PLS mode of financing and the role played by Islamic banks in society. The question then arises: in a period of rapid economic growth and competition, has Islamic banking diverged from its paradigm version? This research thus seeks to investigate user perceptions about Islamic banking practices in the UK. The researchers aim to explore relevant literature, and provide a critique of the findings and link it to the outcome of this study. The outcome will not only be of interest to Muslims but also to the banking regulators and others in the UK.

The remainder of this study is organised as follows. Section 2 presents relevant literature which evaluates the Islamic banking paradigm and assesses the underlying rationale for Islamic banking in Islam. Both the Islamic paradigm and the major products and services are analysed in terms of their practical implementation in the United Kingdom. Section 3 provides a description of the research methodology and data. Section 4 reports results of the survey findings and provides a detailed commentary on the outcome of the study. Finally, section 5 concludes the study by reporting the main findings, limitations and avenues for future research.

2. Literature Review

2.1. Islamic Banking and its Paradigm

Islam encompasses all areas of human existence including economics. Due to the historical developments of the banking industry the conceptual model of Islamic banking gained momentum after the mid 1940s. In this regard, over the course of the last 60 years or so research contributions were made towards the Islamic banking model by different scholars (such as, Uzair, 1955; and Maududi, 1961; amongst others). In recent years contributions have been made by studies such as Gafoor (1999); El-Gamal (2000); Warde (2000); Lewis and Algaud (2001); Iqbal and Llewellyn (2002); Obaidullah (2005); Iqbal and Molyneux (2005); Ainley et al., (2007); Khan et al., (2007); Khan and Bhatti (2008); Aldohni (2008); Dusuki (2008); Rashid et al., (2009); Masood et al., (2009); and Woodley (2009), amongst others.

According to Woodley (2009) Islamic economics emerged as a concept and academic discipline in the 1970s. Islam's main feature is concentrated around the prohibition of business or any activity related to alcohol, interest, gambling and pork. However, the central feature of Islamic economics within the Muslim world is the prohibition of *riba* (interest). Furthermore, Obaidullah (2005) highlights that in an Islamic system all transactions must be governed by the norms of Islamic ethics as enunciated by Shariah law. At a fundamental level, an Islamic financial system may be described as a "fair" and "free" system, as Shariah law allows freedom to enter into any transaction. However, this law does not imply unbridled freedom to constrain Islamic norms such as the prohibition of *riba* and *Gharar* (risk of uncertainty).

In line with the above, Ahmed (1994) describes Islamic banking as being based primarily on equity featuring zero based interest, equity participation, leasing, joint ventures and a promising rate of return. Here, interest based intermediation is replaced with profit and loss sharing and interest free intermediation. Similarly, El-Ghazali (1994) points out that Islamic banking does not follow conventional banking process, like funding the client on the basis of the borrower's credit worthiness and strong collateral. Hence, strong collateral with bad projects cannot be a substitute for good projects with weak collateral. In other words, a market based mechanism is promoted by the Islamic banking system, where investments are appraised on the basis of their merits in terms of bringing proper allocation of resources and distribution of wealth.

Chapra (1985) and Khan and Bhatti (2008) highlight that the ban on payment and receipt of interest and the levy on *Zakat* (2.5% of a Muslim's wealth in excess of a specified amount possessed for a complete year) leaves capitalists with little scope to retain funds for profiteering. The outcome of these studies also document that in a competitive Islamic economy the prices of goods and services will show a downward trend due to the constant increase in the supply of goods and services through innovation and competitive entrepreneurship. Thus, monetary expansion and credit creation maintains less inflationary impact on the economy since the return on capital is based on its productivity. Khan and Bhatti (2008) also highlight that doing business with weaker groups and the poor is the unique feature of Islamic banking and, to promote sustainable economic growth, it specializes in financing small and medium sized enterprises.

A considerable number of studies (such as Sadr, 1982; Siddiqi, 1985; Ahmad, 2000; Siddiqui, 2002; and Rosly and Bakar, 2003) regard PLS as the only principle that represents the true spirit of an Islamic banking system. These studies do not counteract the use of Shariah-permissible debt based contracts alongside equity based contracts. However, most of these studies do emphasise the socio economic objectives that Islamic economics seeks to achieve. Hence they conclude that Islamic banks should not only be profit oriented but should also be promoting Islamic values and norms as a whole without undermining their commercial viability. In this regard, Khan et al., (2007) highlight that Islamic banks should promote Islamic principles because the main reason of people's preference for these banks is their religious beliefs.

On the other hand, in contrast to Chapra's (1985) model, other studies (such as Lewis and Algaud, 2001; Satkunsegaran, 2003; and Dusuki and Abdullah, 2006) have favoured

Ismail's (2002) model. This model points out that in any Quranic text, the overemphasis placed on PLS modes of financing is believed to be unfounded and even incompatible with the methodology of Shariah law. The model further stresses that Islamic banks should aim at maximising profits like conventional commercial banks as long as it is done according to Islamic law. This view gives equal importance to the debt based contracts (for example, *Murabaha, Ijara* etc.) which will be enable Islamic banks complete with conventional banks in the modern competitive environment.

The two models of Islamic banking discussed above are not significantly different from each other. However, as highlighted by Dusuki and Abdullah (2006), the mode of operation will likely vary in alternative systems between banks. Obviously, those who favour Ismail's (2002) model will certainly be concerned about making a profit in order to remain sustainable in the long run. The question then remains whether from the Shariah perspective such an endeavour is commendable or not. On the other hand, the proponents of Chapra's (1985) model conjecture on the PLS instrument on which the Islamic financial system is based. This ensures realisation of socio economic objectives envisaged by Islamic economics. However, it is important to highlight that the Dusuki and Abdullah (2006) sample is based on seven stakeholder groups of only two banks in Malaysia. In light of this limitation it will be difficult to generalise the findings of this study.

Keeping the above arguments in mind, the practical relevance of major Islamic financial products is explained below.

2.2 Major Islamic Financial Products and Services

Within the principles of Shariah law, Islamic jurisprudence permits a wide range of financing contracts to be designed and implemented. According to Volland and Hassoune (2005), Islamic financial institutions use non-tradable instruments which set these banks apart from conventional banking practices. Albalawi (2006) highlights that finance under Islamic law should be mainly categorised into profit and loss sharing i.e., equity based financing products. As *riba* is prohibited in Islam, an acceptable solution has been put into practice by replacing fixed rate of interest with a variable rate of return based on economic returns on investments. This study further argues that profit and loss sharing contracts have been advocated in place of interest based financing, and financial institutions replace debt instruments by profit and loss sharing based financial products. Similarly, Siddiqui (2002) explains that the issue of possible injustice due to inflation and recession in money-lending transactions was covered by Islam 1400 years ago. In light of this, although the impact of inflation is absorbed by the PLS system subject to the sharing of operational results, it is still worth mentioning that currently it only constitutes around 20% of the total investments used by Islamic banks. This study therefore explores some major Islamic financial products, below.

2.2.1 *Mudaraba*

Obaidullah (2005) regards *Mudaraba* as an equity based mode of financing in which, for a specific venture of the client, the bank provides finance. The management of the business is executed by the client, where he/she has to provide professional, managerial and technical expertise for initiating and operating the venture. Under the *Mudaraba* contract the owner of the capital is the bank, which cannot interfere with the management of the business. While discussing *Mudaraba*, Volland and Hassoune (2005) document that banks can manage the risk by considering the asset side of the balance sheet and maintaining the right to undertake follow up and supervisory tasks. Similarly, Albalawi (2006) highlights that banks can acquire information regarding the important decisions taken by the entrepreneur and by auditing the accounts. Also, Hassan and Zaher (2001) argue that the bank and the client are temporary partners; therefore the bank is entitled to a management fee in the form of a rate of return. Hence, according to the pre-agreed ratio, profit is shared between the two parties, whereas all the losses are absorbed by the bank only.

2.2.2 Musharaka

According to Obaidullah (2005) *Musharaka* financing is an agreement between two parties, an Islamic financial institution and a client, involved in a partnership to contribute to entrepreneurship and capital. The client and the bank enter into an agreement to combine their financial resources in order to invest in a business venture and manage it accordingly. In this regard, Hassan and Zaher (2001) stress that *Musharaka* is suitable for long term project financing and adheres to the principle of profit and loss sharing. They regard it as the most pure form of Islamic finance of the present time and encourage its implementation and use. Similarly, Volland and Hassoune (2005) argue that this practice has been instituted by the Islamic financial institutions in order to bring profit sharing investment accounts in line with the products offered by conventional banks, which are competing for investments. Through such a mechanism Islamic banks not only compete with the investment products offered by fund managers but also compete with the conventional banks' remunerated accounts. The researchers now discuss two major debt based Islamic banking products, below.

2.2.3 *Murabaha*

A *Murabaha* contract is based on the principle of cost plus or mark up. Mills and Presley (1999) and Chong and Liu (2007) elucidate that banks or the Islamic institutions are authorised to purchase goods or tangible assets at the request of the client and then sell them to the client at a predetermined price, which not only includes cost but also a negotiated profit margin. These studies further highlight that *Murabaha* contracts are normally used for trade and working capital financing. While discussing *Murabaha,* Zaher and Hassan (2001) highlight that the client takes the responsibility for negotiating all of the key commercial terms with the seller of the asset. During the life of the contract the mark up on the asset cannot be altered. The size of the mark up is determined in relation to the interest rate index such as LIBOR (London Inter Bank Offered Rate) or the US Treasury Bill rates. The client's credit rating, the transaction's size, and the type of goods being financed also affect the mark up size. There is enough flexibility in the *Murabaha* deals for its use in real estate and project financing; however, historically it was primarily used for trade finance. However, the *Murabaha* model has been criticized by Islamic scholars, such as Homoud (1994); Gafoor (1999); and Khan and Bhatti (2008). These authors highlight that the practice of *Murabaha* contract grossly violates the principles of Shariah law.

2.2.4 *Ijara*

Obaidullah (2005) indicates that, under the *Ijara* financing, in the first place the bank is approached by the client who identifies the asset and collects relevant information. The bank then buys the asset and allows the client to take possession under a lease contract. In the next step, over a future time period, the client pays the rental and then, after the agreed time period, either the asset reverts to the bank or is taken by the client under the terms of the lease. Rental charges on property are permitted by Shariah law only on a pre-condition that the bank retains the risk of asset ownership. In addition, all damages, repairs, insurance and depreciation of the leased asset are the responsibility of the leaser, according to Shariah law. Also, throughout the useful life of the asset, the leaser should bear the risk of uncertainty.

However, Chong and Liu (2007) highlight that features of *Ijara* are similar to that of conventional lease financing. Similarly, Zaher and Hassan (2001) argue that the Western financial or capital lease is comparable to *Ijara.* The option of owing the asset at the termination of the lease is given to the lessee. In this case, assets such as a building, piece of equipment, or even an entire project are purchased by the bank, which leases it to the client on a lease rental through a written agreement. Both types of leasing are governed with the condition that the assets must have a long, productive life and must not be practised in an un-Islamic pattern. This means that the lease payments should be agreed in order to avoid any speculation. Moreover, Iqbal (1998) and Warde (2000) identify that, for meeting financial needs in the real estate, retail industry and manufacturing sectors, Islamic financial institutions mostly rely on *Ijara*.

2.3 A Critique of the Current Islamic Banking Practices

There is a strong tendency in the relevant literature on Islamic banking and finance to emphasize the theoretical superiority of Islamic banking based on PLS over the conventional banking system. However, Dusuki and Abdullah (2006) argue that the practices of Islamic banking diverge in many ways from its paradigm version. In line with this, the debate concerning whether or not Islamic banking products are Islamic has been an ongoing subject of concern. In this regard, Nienhaus (1986) stresses that not all Islamic banks follow a profit and loss sharing system. He argues that models that are wholly based on PLS principles presenting Islamic economics are misleading and subject to the business activities of Islamic banks. In reality only a small percentage of the total financing activities of Islamic banks are based on PLS. Other studies such as Obaidullah (1999); Chapra and Khan (2000); Dar and Presley (2000); and Khan and Ahmed (2001) also argue about the lack of usage of PLS instruments in Islamic banks.

Moreover, studies such as Lewis and Algaud (2001); Kuran (2004); Yousef, (2004); and Iqbal and Molyneux (2005) also agree that the usage of PLS instruments such as *Mudaraba* and *Musharaka* financing has declined in recent years. Instead of PLS instruments, asset portfolios, short term financing and other debt based contracts constitute a great bulk of investments in Islamic bank accounts. Moreover, Yousef (2004) argues about a tendency in Islamic banks to utilise instruments that are similar to debt in the provision of finance to clients, such as '*Murabaha Syndrome*'. Also, Islamic banks have received criticism for structuring their balance sheet predominately on debt based assets. In addition, arguments raised by studies such as Ahmad (1994); Siddiqui (2002); Rosly and Bakar (2003); and Warde (2000; 2004) highlight that Islamic banks can hardly claim superiority over an interest based system. Nienhaus (1986) argues that this situation has arisen due to the mixed economy and the need to compete with the interest based banks. He argues that Islamic banks applying PLS techniques operating in mixed economies find it difficult to complete due to two major problems. First, unlike conventional banks, PLS techniques do not provide information about the earnings in advance but just gives a rough guide of its probable earnings. However, competition with their counterparts has caused Islamic banks to offer products whose returns are not less than those of conventional banks. Second, in a mixed economy, Islamic banks' operation of a PLS system could lead to a concentration on more risky and bad projects, which would lead them to carry high risk - due to the PLS partnerships

In contrast, Khan (2004) argues that just because the products of Islamic and conventional banks are identical, it does not mean that Islamic products are impermissible. It is just one of the criticisms often used against Islamic banking practices. He argues that the majority of Islamic banking products have a strong resemblance to their conventional counterparts; however, what distinguishes Islamic instruments from conventional ones is nothing but a set of processes. Khan (2004) supports this by giving a strong relevance to the theory of Islam, where he identifies that, depending upon the validating process, the difference between something forbidden, permissible or obligatory can be recognised. He gives a simple example of two couples, one is married and the other unmarried: they may look the same but what distinguishes them is the agreement of a simple marriage contract, which makes one valid and the other illegal, as per Islam.

In light of all of these discussions, it can be argued that, in an Islamic banking framework, an ideal mode of financing is the profit and loss sharing system. However, this has been shifted to a secondary mode of financing and that too for a transitory period. Hence, studies such as Obaidullah (1999); Chapra and Khan (2000); Dar and Presley (2000); Khan and Ahmed (2001); Lewis and Algaud (2001); Siddiqui (2002); Rosly and Bakar (2003); Kuran (2004); Yousef (2004); and Iqbal and Molyneux (2005) argue that debt based financing is used the most as compared to the profit and loss sharing mode of financing, whereas it should be the other way around. In contrast, Lewis and Algaud (2001); Satkunsegaran (2003); and Ismail (2002) argue that equal importance should be given to debt based financing because in the Holy Quran overemphasis on the profit and loss sharing system is unfounded. However, the dominant use of debt based products has resulted in inequitable distribution of income, which is a matter of concern. Hence, at this point Lewis and Algaud (2001) and others point out that Islamic banking is wholly based on a profit and loss sharing system, which replaces the interest based system. However, depositors are exploited by Islamic banks as the real returns are practically based on the benchmarks of the interest based system. At the same time Ahmad (2000); Siddiqui (2002); and Rosly and Bakar (2003) argue that Islamic banking is also about achieving socio economic objectives through the practice of a profit and loss sharing system. As a consequence, these banks have a dual role in the economy.

Ideally, in a profit and loss sharing system, the returns to the bank on capital sums are dependent upon the operational proceeds of the businesses, which ensure justice to all parties. However, if - just like for conventional banks - there is a guaranteed fixed return for the Islamic banks in the form of an agreed amount, irrespective of the loss incurred by businesses, then it cannot be regarded as Islamic. Ismail (2002), therefore, argues that the net result of Islamic products is the same as for conventional banking products – it is just that the name of the products has been twisted. Khan (2004) argues that it is about the way the lslamic products are executed and not about the output.

The above discussions have made us familiar with the relevant literature and the basic concept of the Islamic banking practices. The outcome of these discussions highlights the need to investigate user perceptions of the Islamic banking practices, which is explored through our empirical analysis.

3. Research Methodology and Data

To explore the understanding and perceptions of people and the overall performance of Islamic banking practices in the UK, an online structured questionnaire survey was conducted. There are several reasons for choosing this particular research design. First, the questionnaire is generally regarded as an important research tool for collecting primary data. In this regard Hussey and Hussey (1997) highlight that questionnaires are designed to find out about the perceptions of participants. It is also regarded as an effective tool for seeking opinions and attitudes toward the research issues (Ghauri and Gronhaug, 2002). In addition, Attwergy (1998) highlights that a structured questionnaire not only enhances the data collection process, reliability and validity, but also helps to develop a standard line of questioning which is build on prior research responses.

The number of questions and design of the structured questionnaire used in this study is largely based on the findings of available literature in this area. To make the questionnaire as simple as possible for the respondents it was only divided into two sections. Section 1 is based on the demographic profile of the respondents in order to identify their personal characteristics. Section 2 contains information about the salient features that identify the perceptions and awareness of Muslims with regards to Islamic banking in the United Kingdom. This section is based on a Five-Point Likert Scale (where 1 means 'strongly agree' whereas 5 means ‘strongly disagree’). In light of a thorough literature review, the questionnaire was finalised and sent out to participants via email.

In this context, it is important to highlight that the only relevant information for this study is the information from those who hold Islamic bank accounts. This is due to the fact that only Islamic bank account holders can understand the importance and significance of this research. An assumption was made that respondents had some knowledge of Islamic banking. The researchers contacted a number of Muslim societies (such as the Egyptian Society, Pakistan Association Society, Malaysian Society, Arabic Society, etc) in order to identify Islamic banks’ customers. In total, 156 correct email addresses were obtained. The questionnaire was sent to all these 156 people via email. However, only 35 usable questionnaires were returned from individuals who maintained Islamic bank accounts. The response rate is therefore 22.43%, which is a reasonable return for making inferences about the implications of the study.

An in-depth analysis of data was needed in order to understand the perceptions of all the respondents. In this regard Hussey and Hussey (1997) highlight that the use of different methods for studying the same phenomenon leads to greater reliability and validity. Descriptive statistics are calculated using ‘Statistical Package for Social Sciences’ (SPSS). Similarly, Rosly and Seman (2003) highlight that a high mean with low standard deviation would simply imply a common consensus has been reached by the respondents on the particular statement, as the mean pinpoints the centre of the data. In addition, standard deviation measures the degree of disagreement among the respondents, which constitutes a significant aspect of this research. Hence, one cannot casually conclude that Muslim respondents have common understanding on the philosophy of Islamic banks by just merely looking at the mean while ignoring the dispersion around it. Interpretation of the findings derived from the data analysis is discussed below.

4. Results and Discussions

Table 1 presents the demographic profile of all the respondents. Out of the total 156 contacts, only 35 useable responses were received. Splitting the sample on the basis of gender revealed that 68.6% were male whereas 31.4% were female participants. The majority of the respondents, i.e., 85.7%, are from the age group 20-34 years, whereas 8.6% are from the age group 35-44 years, and 5.7% are from the age group 45-54 years. In addition, 51.4% are Masters or PhD degree holders; 34.3% are Bachelor degree holders; 8.6% hold professional qualifications; and the remaining 5.7% have completed college diplomas, GCSE or A-levels. This reveals that all the participants are fully qualified to understand the meaning of the survey and the issues related to Islamic banking products and services in the UK. Similarly, splitting the sample on the basis of profession revealed that 48.6% are private-sector employees; 37.1% are national and international students (in continuing education); 11.4% respondents have their own business; whereas just 2.9% are government employees. This shows a good mix of diverse professions. When the sample was split on the basis of yearly income then it revealed that 34.3% had a yearly income between £12,001 and £36,000; 5.7% had a yearly income between £36,001 and £60,000; 5.7% had a yearly income above £60,000; and 54.3% had a yearly income of less than £12,000.

Table 1
Demographic Profile of Respondents

Variable	Description/Value	Percentage (%)
Gender	Female	31.4
	Male	68.6
Age Group	20 - 34 years	85.7
	35 - 44 years	8.6
	45 - 54 years	5.7
Marital Status	Single	71.4
	Married	28.6
Academic Qualification	College Diploma/GCSE/A-level	5.7
	Bachelor Degree	34.3
	Professional Qualification	8.6
	Postgraduate (Master or PhD)	51.4
Profession	Government employee	2.9
	Private employee	48.6
	Self employed	11.4
	Students	37.1
Yearly Income	Less than £12,000	54.3
	£12,001 – £36,000	34.3
	£36,001 – £60,000	5.7
	Above £60,000	5.7

Table 2
Salient Features of Islamic Banking Practices

	Statements	STA (%)	A (%)	N (%)	DA (%)	SDA (%)	Mean	STD Dev

1	Islamic banking system was introduced because Muslims are prohibited from receiving or giving interest, which is practiced by conventional banking system.	62.8	22.8	14.2	0	0	1.51	0.742
2	Islamic Bank operates under Shariah compliance.	37.1	34.2	22.8	5.71	0	1.97	0.923
3	In the operation of the Islamic banking system, Profit and Loss sharing principle is the only principle that can replace interest.	31.4	34.2	34.2	0	0	2.03	0.822
4	By associating themselves with Islamic banks people will become more ethical in their values.	31.4	31.4	22.8	11.4	2.85	2.23	1.114
5	Islamic banking products and services available in the UK are similar to products and services of conventional banks, except the different names used by the bank in highlighting those products.	2.85	34.2	45.7	11.4	5.71	2.83	0.891
6	Islamic banking is about the unique quality of products and services they provide and not about competing on price.	17.1	37.1	45.7	0	0	2.29	0.750
7	Enough marketing is done to create awareness about Islamic products and services in the UK.	2.85	8.57	28.5	45.7	14.2	3.60	0.946
8	There is high potential for Islamic banking products in the UK.	28.5	31.4	31.4	5.71	2.85	2.23	1.031
9	In order to survive in their competitive business environment, conventional banks should also adopt the Profit and Loss Sharing principle (Shariah compliance).	20.0	25.7	37.1	5.71	11.4	2.63	1.215
10	Islamic banks' goal is not only limited to maximisation of shareholders' wealth but also includes enhancement of standard of living and welfare of society.	22.8	42.8	28.5	2.85	2.85	2.20	0.933

KEY: STA = Strongly Agree, A = Agree, N = Neutral, DA = Disagree, SDA = Strongly Disagree, STD Dev = Standard Deviation.

The outcomes of statements 1-10 are highlighted in Table 2. The table exhibits that a vast majority, 62.8% of the respondents, strongly agree with statement 1, with regard to the main reason behind the Islamic banking establishment as an institution operating prohibition of interest for Muslims. In other words, this statement deals with the Islamic knowledge of Muslims about *riba* (interest), which is strictly prohibited in Islam. With a mean of 1.51 and a low standard deviation of 0.742, it shows an average awareness among Muslims about the prohibition of *riba* in Islam. This degree of response reveals that, although participants have some knowledge about *riba*, however, they are not able to distinguish between the products of Islamic and conventional banking. This response is aligned with Albalawi (2006) and Woodley (2009) who regard receiving or giving *riba* as a prohibited exercise in Islam and argue that more awareness should be given to Muslims about the practice of *riba*.

Islamic banking Shariah law compliance is highlighted in statement 2. 37.1% of respondents mentioned that they strongly agree with this statement, whereas only 5.71 % disagree, showing a difference between the consensus of the respondents. With a mean of 1.97 and a low standard deviation of 0.923 the results indicate that an average number of respondents perceive that Islamic banking practices should be ethical and aligned with Shariah law. This finding substantiates the assertions made in Nienhaus (1986); Obaidullah (1999); Chapra and Khan (2000); Dar and Presley (2000); Lewis and Algaud (2001); and Siddiqui (2002), who strongly argue that there is a lack of a PLS system in Islamic banking practices. However, the finding is in contrast to Khan (2004), who argues that, although the products of Islamic banks look identical to conventional banks, it does not mean that they are non-Islamic.

In statement 3 the researchers regard the profit and loss sharing system as the only alternative in Islamic banking practices. This statement scrutinizes the perceptions of respondents towards the issue of profit and loss sharing, which has always been an interesting topic for debate among Muslims scholars, intelligentsias and practitioners of Islamic banking. A mean of 2.03 implies that respondents do concur with the view that the principle of the profit and loss sharing element represents the true spirit of Islamic banking practices. This is confirmed by 34.2% of respondents who agree and 31.4% who strongly agree with this statement. However, a very important finding is the 34.2% of the respondents who remain neutral. This may be due to the complex nature of some Islamic banking products that some of the respondents have experienced, due to which they are unsure about the full benefits of the PLS system in Islamic banking. However, by considering the relatively low standard deviation of 0.822, the mean score by itself provide evidence about the degree of agreement among the majority of respondents. In light of this, it can be argued that respondents share a similar assertion made by Ahmad (1994), who highlights that interest based intermediation can only be replaced with the profit and loss sharing principle. Also, Ahmad (2000), Siddiqui (2002) and Rosly and Bakar (2003) argue that unless the issues relating to PLS financing instruments are not resolved, socio economic justice as envisaged by the Islamic banking system would never materialise.

In statement 4 the researchers explore the main principle of Islamic banking where such practices may help Muslims to become more ethical in their values. In response to this statement, 31.4% of the respondents strongly agree. A mean of 2.23 and a relatively low standard deviation of 1.114 shows a standard consensus reached among the respondents on this statement. This shows that on average respondents believe that Islamic banking may help Muslims to become more ethical. This finding is in agreement with Ahmad (2000) and Rosly and Bakar (2003) who report that, by using Islamic banking products and services, Muslims would become more ethical in their values. These findings may be due to the belief in respondents that their invested funds are to be used according to Islamic principles, which would give them the sense of unselfishness and responsibility and will guide their actions in society. This will also lead to high expectations from Islamic banks as compared to their counterparts, especially with regards to their distinctive features which promotes good ethical conduct and values.

Statement 5 explores the real nature of products and services offered by Islamic banks in the UK. This statement examines the perceptions of respondents towards the current practices of Islamic banking in the UK; in particular, the real differences between Islamic products and those offered by conventional banks. There is a good mix of responses visible in Table 2; with a high mean of 2.83 and low standard deviation of 0.891, a consensus is reached among respondents regarding this statement. Approximately, 45.7% of the respondents are neutral, while 34.2% agree, and just 2.85% strongly agree with the statement. Another 2.83% strongly disagree and 5.71% disagree with this statement. However, this is not a surprising result from the respondents, especially amongst the unconvinced Muslims, since there has been much confusion about the similarities of Islamic banking products and services to those used by conventional banks. These results are, however, in contrast to the findings reported in Naser, Jamal and Al-Khatib (1999), which indicate that the majority of their respondents were satisfied with most aspects of the Islamic bank's products and services.

In general, these findings are in line with the arguments raised in previously published studies (such as Nienhaus 1986; Obaidullah, 1999; Chapra and Khan, 2000; Dar and Presley, 2000; Ahmad, 2000; Khan and Ahmed, 2001; and Siddiqui, 2002). The findings in all these studies suggest that, as a replacement to the PLS system, the extensive use of fixed return financing techniques (such as, *Ijara*, *Murabaha* etc) resembles conventional interest based financing techniques. In this regard, Usmani (2002) asserts that it is just a matter of changing product names or twisting the documents. In contrast, Khan (2004) argues that it is not about the results but the way or manner in which the Islamic banks operate. He further highlights that it is important to continuously assure Muslims as well as non-Muslims that Islamic banking is based purely on Islamic principles and PLS is one of most important components of Islamic banking and finance. In addition, it is now an absolute priority for Islamic banks to distinguish their products from those of their counterparts and produce more awareness in the users.

In statement 6 respondents were asked about the unique characteristics of products and services offered by Islamic banks. More simply this statement sought to explore respondents' views on whether Islamic products are unique due to their quality or competitive price. The results highlight that 45.7% of respondents are not sure; 37.1% of respondents agree; and just 17.1% strongly agree that Islamic banking is about the unique quality or competitive price it offers. With a mean value of 2.29 and a relatively low standard deviation of 0.750, the results suggest that a consensus is reached among respondents. This shows a negative perception in the respondents towards the ethical framework of Islamic banking beyond the day-to-day commercial practices. This suggests that Islamic banks should engage in rigorous marketing strategies to create awareness about the distinctive features of their products and services. This assertion substantiates Chapra's (1985) model, which proposes that Islamic banking is not only about PLS but also about achieving socio economic objectives by equitable distribution of income and wealth.

Statement 7 explores the processes used by Islamic banks for producing awareness in users. Thus this statement is intended to find out about the marketing efforts done by Islamic banks for promoting Islamic products and services in the UK. It is clear from the results that 45.7% of the respondents disagree with this statement, whereas only 2.85% of respondents strongly agree. With a high mean of 3.60 and relatively low standard deviation of 0.946, a strong agreement has been reached among respondents. This indicates that most of the respondents feel the need for awareness through marketing about Islamic banking products and services in the UK. This is consistent with some of the findings in Metawa and Almossawi (1998), which shows that Islamic banks need to formulate and implement successful marketing plans for promoting their products and services. This is an open challenge to both the Islamic and conventional banks (offering Islamic products) to produce more awareness about the products and services they offer through effective marketing of these products and services. It costs money and resources but, with the growing popularity of Islamic finance, such efforts could soon bring dividends.

The content of statement 8 is intended to find out about the future prospects of Islamic banking products and services in the UK. This statement investigates the perception of respondents towards the potential of Islamic banking products and services. It can be observed in Table 2 that 31.4% of the respondents agree, whereas only 2.23% strongly disagree with this statement. Furthermore, 31.4% of the respondents remain neutral about this statement. This mixed feedback was confirmed with a mean of 2.23 and a standard deviation of 1.031. This indicates that most of the respondents believe that there is potential for Islamic products and services; however, there are some who cast doubts about this potential. These findings may be linked to the current operations of Islamic banks in the UK, the products they offer, and the complexities in understanding their practices; as compared to the smoothly run, user friendly conventional banking practices in the UK. This is again a finding that provides more challenges to Islamic banks; in particular, the ways these banks operate and treat their customers. These findings confirm the findings of Hague (2010), who argues that Islamic banks should introduce new innovative services in accordance with Islamic principles.

In statement 9 the researchers ask about the nature of Islamic products and services offered by conventional banks. This statement examines the perceptions of respondents towards the implementation of the main principles of the profit and loss sharing system in conventional banks. This is important because the operations and running of conventional banks are more user-friendly than those of the current Islamic banks and provision of PLS services would provide more opportunity for Muslims to use these banks. This action would also persuade Islamic banks to be more user-friendly and offer quality Islamic products. In this regard Table 2 reveals that 25.7% agree and 20% strongly agree that conventional banks should adopt the PLS principles in their competitive business environment. However, with the mean of 2.63 and standard deviation of 1.215, the results further reveal that 37.1% of the respondents remain neutral regarding this statement. This would mean that some of the respondents want only Islamic banks to offer PLS products and that all the financing activities of these banks should be according to the true spirit of Islamic finance.

To investigate the role of Islamic banks in society, statement 10 asks about the perception of respondents on the philosophy and objectives of the Islamic banking practices. The results indicate that 42.8% of the respondents agree with the statement, while 28.5% remain neutral. With a high mean of 2.20 and a low standard deviation of 0.933 the results imply that respondents have reached a strong consensus on the goal of Islamic banks in society. This finding is again in line with the Chapra (1985) model. It also represents a high expectation among the respondents about the commitment and strong welfare role of Islamic banks in society. Here the expectations of the respondents go beyond the traditional capitalistic view of corporations as having the sole purpose of profit maximisation and neglecting the interests of society. Similarly, findings in Dusuki and Abdullah (2007) imply that all the customers of Islamic banking place equal emphasis on the social responsibility of Islamic banking. However, these findings are in contrast to Ismail's (2002) model, which highlight that Islamic banks should focus mainly on maximising profits, as long as it is done according to Shariah law.

The overall findings of this study thus highlight that equity based products based on profit and loss sharing principles are viable alternatives to the interest based system and should be adopted by all Islamic banks in their true form. The findings also reveal that a true profit and loss sharing system will not only benefit the banks and the clients but also the economy as a whole. The findings further reveal that the debt based products offered by Islamic banks appear to be similar to the conventional banking products, and they are used mostly by the Islamic banks in order to compete with their counterparts. While discussing the legitimacy of Islamic banking products and services, Khan (2004) argues that Islamic banks devote much of their time to convincing sceptical individuals. This study therefore recommends exploring the legitimacy of the current Islamic banking products and services under the principles of Quran and Sunnah. If the Islamic banking products and services are found legitimate then more efforts will be required to identify how these practices actually work in practice and adopt effective marketing strategies for customer awareness and growth.

5. Summary and Conclusion

The main purpose of this study was to investigate user perceptions about the Islamic banking practices in the UK. To achieve this purpose the researchers provided empirical evidence about the real nature of Islamic banking products and services. An online survey was conducted sampling 35 individuals in the UK. The aim was to gauge their perception and understandings about Islamic banking. The results reveal that the majority of the respondents regard Islamic banks as entities with distinctive characteristics which distinguish them from their counterparts. The respondents also regard Islamic banking as an interest free system that may serve different roles in society; in particular, they perceive Islamic banks as financial institutions characterised by ethical norms.

There is a general consensus among respondents that Islamic banks should operate according to Shariah law, which is predominantly based on the PLS principle. However, in practice most of these banks do not operate under the PLS system and only follow the traditional interest based system with different names. As a consequence, Islamic banks should gradually resort to the PLS system rather than relying on debt based financial products. The results further indicate that the PLS principle should not only be adopted by Islamic banks but also by conventional banks in the UK. This emphasises the importance of the PLS system in the current economic system and will help these banks to survive in a competitive business environment. The majority of the respondents also believe that Islamic banks promote social objectives by providing a unique quality of products and services to society.

Apart from perceiving Islamic banks as operating on a PLS based system and promoting social economic welfare, conversely, it is believed that the products of Islamic banks are similar to those of conventional banks in the UK. Islamic banks in practice are just twisting the names of the products and services they offer. This is mainly due to the severe competition faced by Islamic banks from their conventional counterparts, where the users demand comparable returns on their deposits. Also there is a lack of regulatory framework, expertise and standard procedure and tools in the Islamic banking practices. All these problems pose as a challenge for Islamic banks in the global business environment. Thus it is essential for both the Islamic and conventional banks offering Islamic products to reflect Shariah law in their banking practices. The results also indicate that not enough marketing has yet been done by banks to create awareness about Islamic products in the local market.

To realise the full benefits of Islamic banking practices the users should be fully aware of the main characteristics of Islamic banking practices. It is also evident from the literature that many conventional banks are now offering Islamic products and services in their daily interest based transactions on the one hand, and interest free transactions on the other hand. Hence, there is a need for further research in order to understand the real nature of such practices by conventional banks and to explain the Islamic nature of the products and services they offer. This is important because the number of conventional banks offering Islamic products and services is increasing at a very rapid pace. This argument is strengthened by Kayed and Hassan (2007), who provide a detailed commentary on the global financial crisis and argue that Islamic banking has the potential to present a viable option towards a healthy global economy. Hence, looking at this issue from a different angle will provide further insights to help resolve the debate on Islamic banking practices; in particular, issues related to the regulation of Islamic banking will be of interest to future researchers.

The overall conclusion drawn from this study can be summarised as suggesting that Islamic banking in the UK is not aligned with the paradigm version of Islamic finance. This is mainly due to the lack of awareness of the user about Islamic finance and the absence of a stronger regulation of such practices in the UK. We thus argue that through research, effective marketing and generating more awareness in the users it is possible to achieve more from the Islamic banking paradigm. In line with this, regulatory authorities in the UK are showing a receptive attitude towards Islamic banking and finance. This will not only benefit the users of Islamic banking but may also be used as one of the alternatives to the global banking system, which has lost user confidence due to the recent financial crises. The main aim should be provision of a clear regulatory framework, which may help in achieving the paradigm version of Islamic banking and finance in its true sense.

Despite all the above arguments, it is fair to acknowledge the limitations of this study. First, the sample size is small. The researchers tried to increase the sample size by contacting various Muslim societies, however, only 35 usable responses were received from individuals who had the experience of Islamic bank accounts. Thus the results may differ with an increase in the sample size. Second, the sample group consisted mainly of people from a particular region of the UK. If other regions of the UK were included in the sample then it would not only provide further insights but would also capture different perceptions about the Islamic banking products and services in the UK. It can therefore be argued that the results of this study should be taken as perceptive and indicative rather than conclusive. A detailed investigation of this issue is therefore left to future research.

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