

**DO CIVIL SERVANTS ACCEPT ISLAMIC BANKING SYSTEM
IN MALAYSIA?**

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ABSTRACT

Nowadays, Islamic banking system is strongly standing and growing in Malaysia with high level of acceptance among people. Institutions that practice Islamic banking system are increasingly sprouting from year to year. The study aimed to evaluate the acceptance of civil servants in Penang on Islamic banking system as an alternative or substitute to the conventional banking system in the future. In addition, the study also aimed to assess civil servants' perceptions about *riba* (interest or usury), level of knowledge, factors that influence the perception about Islamic banking and Islamic banking-related promotions. The study was carried out by selecting 100 respondents that made up of civil servants in Penang who are mostly Malay Muslims. The results indicated that they did not have good knowledge of Islamic banking system and regard it the same way as the conventional banking system. However, they are willing to accept the Islamic banking system. In order to educate people, promotion and exposure of issue pertaining to Islamic banking should be expanded.

KEYWORD: Civil Servants, Islamic Banking, Malaysia

INTRODUCTION

Good economic standing and strategic geography has made Penang chosen as the first state where Islamic banking was introduced in the country. Since the colonial period, Penang has become the country's leading port. Economic activities that are carried out at ports like loading and unloading of trade goods and merchandise certainly require a good financial system so that a smooth trade operation is guaranteed. For that reason, a foreign bank known as the Chartered Mercantile Bank of India, London and China (later known as Mercantile Bank) was established in 1859. Since then, the banking system in this country continues to grow.

Islamic banking system in the state of Penang was founded after conventional banking system was initially introduced 124 years ago. This fact signifies a fairly long historical gap between Islamic and conventional banking system. Islamic banking system breaks its ground in Penang with the establishment of the first branch of Bank Islam Malaysia Berhad (BIMB) at Butterworth in 1983. To date, there are five branches of BIMB operating around Penang that provides electronic services like Automated Teller Machine (ATM), Cheque Deposit Machine (CDM) and Cash Deposit Machine (CQM).

LITERATURE REVIEW

***Riba* (Interest or usury)**

It has been a basic or common practice for conventional banking system to adopt *riba* (interest or usury) in every elements of their business. Elements of justice and indirect consequences are not taken into account but rather concentrate alone on the profit for certain individuals or groups such as the shareholders.

According to Hakimi Ibrahim (May 1997), a financial crisis has started in Asia this crisis should be associated with the international financial regime and it was seen as a declaration of war against *riba*.

Khurshid Ahmad (1991) denotes that any form of interest (usury) is forbidden in the Koran. According to the principles of social justice, the philosophy of Islamic loan is to fulfil the needs of individuals who are in trouble, foster mutual help and instil the love to one another regardless of rank or position. However, the conventional banking system has taken away these principles by fixing high additional charges which exploits those needy individuals.

In contrast, the establishment of interest-free banking is founded on profit sharing. This means that the capital provider and the borrower (the bank and the debtor bank) will equally bear the entire likely outcome. If the banks experience some losses, the risk will then be shared together and so does if the banks experience some gain of profits, the profits will be evenly divided among the stakeholders (M.M. Wetmally, 1997)

Shariah Principle in Islamic banking

Islamic banking system is entirely founded on Islamic law with no involvement of the element of interest (usury) in all offered banking transactions including loans (M.M. Metwally, 1997).

Islamic banking and conventional banking may appear to be similar but they do have differences in term of business practices where Islamic banking practices distinguish concepts which act in accordance with Islamic law and Shariah principles known as *fiqh muamalat* (Islamic transaction rules).

Development and Acceptance of Islamic Banking

Islamic banking system was aggressively criticised at the early stage of its implementation. However, Islamic financial and banking system has shown a robust development at the present day. Currently, there are more than 2,500 branches of Islamic banks, commercial banks, merchant banks and financial companies since the SPTF (Interest-Free Banking Scheme) was introduced in 1993. These growths have allowed Islamic banks to have a drastic increase in assets during the first five and a half years, from RM 2.4 billion in 1993 to 34 billion for the same period.

The existence of the second *takaful* (Islamic insurance) company (Bank Muamalat Malaysia Berhad), Islamic pawn schemes and Islamic cooperatives throughout the country demonstrate a growth pattern of Islamic financial and banking system. In order to enhance the competitiveness of Islamic

banking over conventional financial and banking system, research and development (R & D) will be carried out to introduce more products and services that comply with Islamic (Shariah) law.

Hence, government intervention is essential to ensure economic balance in the form of full employment, economic proliferation, stable currency value, globalization harmony and responsibility in maintaining a healthy environment of a market to enable markets' function to be properly practiced (Ismail Awang, 1999).

Former Deputy Governor of Bank Negara, Datuk Mohd Razif Abdul Kadir said that economic recession can be avoided if Islamic banking system is fully practiced in daily transactions. He added by saying that Islamic banking and finance system should be extensively promoted at the world level while conventional banks should follow the Islamic banking system to create a sustainable and balance global economy (Bernama, January 12, 2009).

The strengths of Islamic banking and financial system that need to be applied are special characteristics such as individual interests and social equality, equal distribution of profit and loss, justice, free from any unhealthy and negative elements and rejection of usury. With these strengths, Islamic financial and banking system will certainly be well accepted by Muslims and non-Muslims (Amiruddin Sadali, 1999).

METHODOLOGY

This survey involved respondents who work as civil servants in Penang. They are divided into two groups; Muslim and non-Muslim civil servants. In addition, the selected respondents also made up of consumer and non-consumer of Islamic banking.

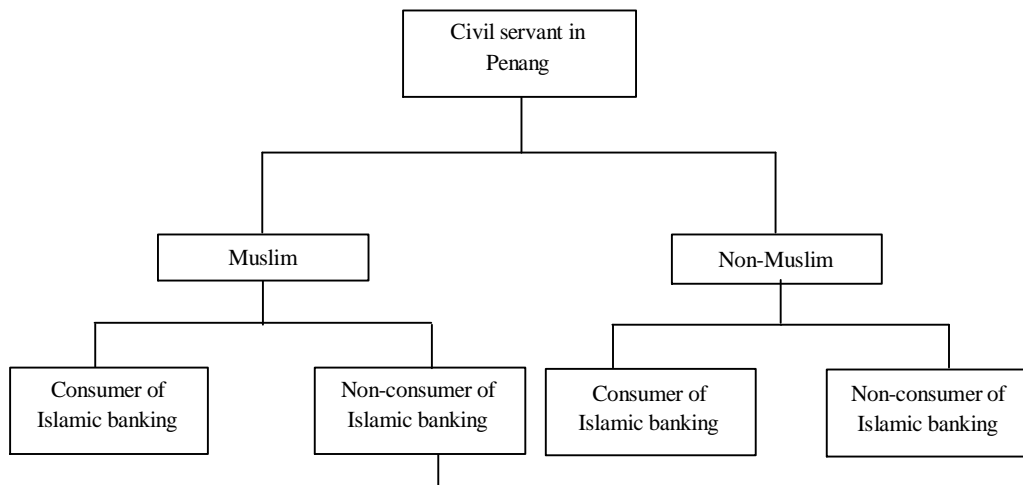


Chart 1.1 Research Population

RESEARCH SAMPLE

This survey involved a sample of 100 respondents representing civil servants. The respondents are civil servants who served in the Office of Domestic Trade, Cooperatives and Consumer of Penang and educators of Sekolah Menengah Kebangsaan Permatang Rawa.

The questionnaire for this survey consists of three parts; Part A, B and C. There are eight questions in part A which pertain to the respondent's background. These questions aimed to understand the demographic profile of the respondents.

Part B consists of eight questions related to respondents' general views on the banking system which include the knowledge on interest-free banking system. These questions aimed to comprehend the perception of civil servants in Penang towards the banking systems which adopt interest rate in their service and the one which are not.

Part C comprised of eleven questions which ended the questionnaire. In this section, the questions aimed to look at the civil servants' perception towards the position and development of Islamic banking system. Acceptance of public servants in term of their readiness to deal with this system is also subjected in this section.

Questionnaires distributed are based on previous thesis by Mohd Kamal Omar, a scholar in the field of management.

RESULTS

In overall, the respondents for this study comprised of 87% Malay followed by 6% Chinese, 5% Indian and 2% other ethnics. 87% of the respondents are Muslim whereas 13% of them are non-Muslim respondents. Based on gender, there are 43 male and 57 female respondents involved in this study. 54% of the respondents fall into the age group between 26 to 35 years old. Meanwhile, 12% of the respondents are of the age between 25 years old and below. 19% of them are between 34 to 46 years old while 15% are of the age group of 46 years old and above. Respondents were also grouped according to their education level or qualification. 27% of the respondents received education until PMR or SPM level. Meanwhile, 30% of the respondents completed their education until certificate or diploma level. The biggest group is the group by which the respondents are university graduates (degree / masters) which gives the percentage of 42%. Only 1% of the respondents have other education qualification. In term of monthly income, majority of the respondents (60%) earn between RM1, 500-RM3, 000 every month. Thus, it can be concluded that most of the respondents are classed into the middle-income group. Hence, this study will generate good results because the overall population profile in Penang is made up of the middle-income group.

Table 1.1 : Consumer and non-consumer of Islamic banking

	Frequency	Percentage
Consumer of Islamic banking	75	75.0%
Consumer of non-Islamic banking	25	25.0%

Based on the table, it can be deduced that majority of the respondents with no regard of race and religion have used Islamic banking system. 75% of the respondents of different backgrounds have already used the banking system while 25% of them are not.

Table 1.2 : Result of multiple regressions

Independent Variable	Dependent Variable
	Stand Beta Coefficient
Perception about interest rate	0.045
Knowledge on the existence of Islamic banking system	0.041
Factor that influence customer to deal / not to deal with Islamic banking system	0.729*
Perception about Islamic banking system in Penang	-0.194*
Perception about position and development of Islamic banking system in Penang	0.080
Perception about promotion of Islamic banking system in Penang	0.414*
R2	0.764
Adjusted R2	0.749
F Value	0.000
Durbin-Watson	2.266

*p < 0.05

From the above table, the factors that influence the respondents' decision whether to deal or not with the Islamic banking system are of 0.729. This value proved that the factors that have been used by the Islamic banking system will influence the customers to use services provided by them. In contrast, the knowledge on the existence of Islamic banking system is the lowest, of 0.041. In addition, the shown Durbin-Watson value is 2.266. Based on the F test, this value lies between 1.50 to 2.50. Thus, *R square* value is significant at confidence level of 0.00 ($p < 0.05$).

Table 1.3 : Level of acceptance of Islamic banking system as alternative or substitute to the conventional banking system

Level of acceptance	Frequency	Percentage (%)
Accept	94	94.0%
Do not accept	6	6.0%

Result showed that 94% of the respondents are willing to accept Islamic banking system as an alternative or substitute to the conventional banking system whereas 6% of the respondents are not. This suggests that the respondents have given positive feedback towards Islamic banking system.

DISCUSSIONS

Civil servants' perception about interest rate has recorded a value of 0.045 ($\beta = p < 0.05$). This result is supported by Dr. Mohammed Uzair (1991) who suggested that today's society is determined to reject the implementation of interest rate. A value of 0.041 ($\beta = p < 0.05$) was recorded for civil servants' knowledge on the existence of Islamic banking system. Although the result is negative, it proved that the article in Utusan Malaysia (November 28, 2009) which criticize Islamic banking system is true. Criticisms were existed because of insufficient knowledge on Islamic banking system.

Factors that influence the public servant to deal with the Islamic banking system are of 0.729 ($\beta = P > 0.05$). This result corresponded with the opinions expressed by Amiruddin Sadali (1999).

Negative values ($\beta = -0.194, P > 0.05$) is related to the perception of civil servants in Penang on the position and development of Islamic banking system. The outcome has been widely discussed through articles written by experts and academicians which assumed that the acceptance of Islamic banking system still remains low.

Perception of civil servants in Penang towards products and services offered by Islamic banking system showed a positive result ($\beta = 0.080, P > 0.05$). This result is evidenced by majority of the banks currently offer products and services which similar to the conventional banking but comply with Islamic banking principle.

This study has provided a better understanding for researchers who study issues associated with Islamic banking which is now taking root and growing in Malaysia. Results from this study showed that majority of the customers are now preferred to use and ready to accept Islamic banking as an alternative or substitute for conventional banking in the future.

The study also provides detailed and clear comprehension of issues related to Islamic banking. With this, customers will be able to distinguish between the two banking systems in Malaysia. Furthermore, they will also manage to assess which of the banking systems is better and should be chosen in the future.

CONCLUSIONS

The main objective of the present study is to view the perception and acceptance of civil servants in Penang on Islamic banking system that covers the development of Islamic banking institutions as well as products and services offered by them. This study has clearly revealed that civil servants in Penang can accept Islamic banking system as an alternative or substitute for the Conventional banking system, even though their knowledge and level of perceptions on Islamic banking system is still very low

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