Examining Awareness level of Islamic Finance among Customers of Banks in Algeria - Exploratory Study

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Abstract
The low level of awareness about Islamic finance (IF) can be one of the most important obstacles facing the development of Islamic finance. So, the purpose of this research is to examine the level of awareness about Islamic finance (Awareness of fundamental terminologies; basic rules and principles; products and services) among customers of banks in Algeria. Data were collected from 68 respondents based upon convenience sampling that was analyzed through SPSS version 16. The findings revealed that there are low levels of awareness of fundamental terminologies of Islamic financing. Further, results showed that respondents had little awareness of the Islamic finance products and services. on the other hand, the research found that there is a high level of awareness of basic rules and principles of Islamic financing. The research has some theoretical and practical implications for researchers, practitioners and policy makers.

Keywords: Awareness, Islamic economics, Mudarabah, Musharakah, Ijara.

JEL Classification: M31, N37.

دراسة مستوى الوعي بالتمويل الإسلامي لدى زبائن البنوك في الجزائر – دراسة استطلاعية

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الملخص:
يمكن أن يشكل انخفاض مستوى الوعي بالتمويل الإسلامي أحد أهم العقبات التي تواجه تطوير التمويل الإسلامي. لذا، فإن الغرض من هذا البحث هو دراسة مستوى الوعي بالتمويل الإسلامي (الوعي بالمصطلحات، المبادئ والقواعد الأساسية، والوعي بالمنتجات والخدمات) لدى زبائن البنوك في الجزائر. تم جمع البيانات من 68 مستجوب بالاعتماد على عينة ملاءمة، وتم تحليلها من خلال برنامج SPSS إصدار 16. كشفت النتائج عن ضعف مستوى الوعي بالمصطلحات الأساسية للتمويل الإسلامي. علاوة على ذلك، أظهرت النتائج أن لدى المستجوبين القليل من الوعي بمنتجات وخدمات التمويل الإسلامي. ومن ناحية أخرى، وجد البحث أن هناك مستوى عال من الوعي بالمبادئ والقواعد الأساسية للتمويل الإسلامي. يحتوي البحث على بعض الآثار النظرية والعملية للباحثين والممارسين وصانعي السياسات.
الكلمات الدالة: الوعي، الاقتصاد الإسلامي، المضاربة، المشاركة، الإجارة.

1. Introduction:

Islam supports ethical market activities and the principles of social justice and equity (Sarea, 2020, p.263). Islam provides a framework that shapes the moral and ethical behavior of a growing number of Muslim customers around the globe (Saeed, Ahmad &

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Mukhtar, 2001). In Islamic economy, priority is given to the production of products and services that alleviate poverty and promoting equality in the distribution of wealth among diverse members of a society (Sarea, 2020, p.263). Financial systems is predicated upon Islamic canons in order to eliminate all sorts of interest payments and receipt (Kettell, 2011, p.32).

Islamic finance (IF) is a financial system that operates on the doctrine of Shariah (Islamic law). It's based on a simple rule, which is to avoid trading present for future money at a premium (Al-Jarhi, 2017, p.118). IF is a fascinating phenomenon since it provides an alternative to traditional finance which is not confined to Muslim countries only, but also to the rest of the world, and sometimes gaining more attraction and acceptance from non-Muslims alike (Visser, 2009). It can be a candidate as a reform agenda for conventional finance (Al-Jarhi, 2017). Also, it protects the exchange/transaction role of a banking system by limiting the risk on deposit balances (Mohieldin, 1995). The Fundamental doctrine of the Islamic finance is the prohibition of interest and sharing of profit and loss (Khattak & Rehman, 2010).

The basis for IF lies in the principles of the Shariah, which is taken from the Qur'an and from the example of Prophet Muhammad (peace be upon him) (Alamad, 2017, p.4). IF is a form of ethical investment and ethical lending (Chowdhury & Arifuzzaman, 2013, p.77). Islamic fnancial assets stand at almost US$2.5 trillion and the annual growth rate is about 18% (Billah, 2019). It's available in 56 countries through 1,389 fully-fledged Shariah-compliant financial institutions and windows around the world (Alam, Gupta & Zameni, 2019, p.63-64). And according to the report published by Islamic Financial Services Board (in July 2019), Algeria not really being interested in adopting an Islamic finance system. In practice, there are not signs (indications) that Algeria is moving towards activating IF.

IF has recently attracted great interest from academics, practitioners. However, there are several research gaps in field of IF that are underexplored. The understanding and determining the level of awareness of Islamic finance in the Algerian context is one such gaps that have to be filled. And this is the purpose of the current study. Accordingly, this research examines the customer awareness level about Islamic finance products. This research seeks to answer the following questions: (1) what degree of awareness about fundamental terminologies of IF?; (2) what degree of awareness about basic rules and principles of IF?; and (3) what degree of awareness about Islamic finance products and services among customers of banks in Algeria?. Therefore, the objectives of this research are to determine the level of Islamic finance awareness of (1) fundamental terminologies of IF; (2) basic rules and principles of IF; (3) Islamic finance products and services among customers of banks in Algeria; and (4) to provide some recommendations to try to improve public awareness about forms and benefits of Islamic finance.

2. Literature review:

2.1. Islamic Finance:

The history of Islamic finance (IF) is as old as the religion of Islam itself (Visser 2009, p. 34). Alamad (2017, p.16) defines Islamic finance as follows: "it is an approach to finance and undertaking financial activities as founded, governed and illustrated under Shariah". The term Islamic finance is used to refer to "a financial service or product that is consistent or principally implemented to comply with the principles of Shariah or Islamic law" (Gait & Worthington, 2008). Islamic financial institutions "are those based, in their objectives and operations, on Qur'anic principles" (Kettell, 2011, p.31).

Islamic finance is the path that converge economic practices to operate in accordance with the Islamic teachings and principles, it is the most developed field of Islamic economics, or possibly the only plausibly developed field, it does not only includes the mere behest to abstain from a couple of transactions and activities, or to avoid dealing with certain financial securities and instruments (Visser, 2009). It eliminates debt financing, but does not exclude providing interest free loans for exclusively for charitable purposes only (Al-Jarhi, 2017, p.118). Central to IF is that money itself has no intrinsic value (Alamad, 2017, p.4).

A brief outline of the five principles of IF are as follows (Boukhatem & Ben Moussa, 2018, p.232):

(1) The prohibition of riba[3] (interest): Islam explicitly prohibits usury, Allah Almighty says in the Qur'an: "*O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged*" (al-Baqarah 278-279). Practically, it refers to "the “premium” that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity" (Iqbal & Mirakhor, 2011).

(2) The prohibition of gharar (uncertainty): the Arabic word "gharar" is a common broad term used to refer to several prohibited acts such as “deception, danger, risk, and excessive, unnecessary uncertainty (ambiguity)” (Iqbal & Mirakhor, 2011), that might lead to loss. Practically, it refers to "*exposing oneself to excessive risk and danger in a business transaction as a result of either having too little information or asymmetric information about price, quality and quantity of the counter - value, the date of delivery, the ability of either the buyer or the seller to fulfi ll their commitment, or ambiguity in the terms of the deal — thereby, exposing either of the two parties to unnecessary risks*" (Iqbal & Mirakhor, 2011). According to Ayub (2007, p.57) Gharar which refers to "the uncertainty or hazard caused by lack of clarity regarding the subject matter or the price in a contract or exchange." And also, the prohibition of maysir (the acquisition of wealth through chance).

(3) The insistence that all funding be backed by tangible assets:

(4) The limiting of investment to halal activities: only those business activities that comply with the rules of Sharia permitting investment. For example, dealing with alcohol, gambling, pork products, firearms, tobacco and casinos would be strictly prohibited.

(5) The sharing of profits and losses: Islam promotes Muslims investing and partnering in order to share profits and risks in the business, rather than becoming creditors (Kettell, 2010, p.39). Parties signing a pact contracts within the framework of Islamic finance commit from the very beginning to profit and lose sharing pertaining transactions, (PLS) ratio.

In Algeria, Benamraoui (2008) analysed the Islamic banking and examined the performance of the sole bank offering Islamic financial products (Bank Al Baraka d’Alge´rie). The results indicated that Bank Al Baraka offers only a limited number of

[3] The word riba is sometimes very poorly and improperly translated into English as “usury.” “Usury” implies an exorbitant amount of interest, above and beyond what is permissible by law. In Islamic law, any increase above the principle is forbidden. Hence, any positive rate of interest, no matter how low, is both interest and usury in Islamic law. Hence, the word interest is a much better translation for the word riba. (See the following link: http://www.almasjid.com/aspect_of_riba_interest%20)

Islamic financial products to its customers, most of the financial products are geared towards short-term financing, and credit risk remains the main obstacle facing the bank.

2.2. Types of Islamic Financial Products:

Islamic financial institutions have developed many different products and services to better satisfy customer needs and provide sharia (law Islamic) compliant alternatives. A brief outline of products and services offered by Islamic financial institutions are as follows:

(1) **Mudarabah (Trustee finance, also known as qirad):** According to Rahman (2018, p.33) Mudarabah is viable to the general of specific investment, project funding, bridge financing, working capital and small and medium financing, interbank investment, structured products, investment deposits, and so on. The Islamic bank generates profits from a predetermined ratio with investment account holder, and thus share these profits accordingly, whereas in case of losses fund provider will effectively bear them unless in the case of a verified misconduct, negligence or disrespecting the conditions by the Islamic bank.
Mudarabah is viable to the general of specific investment, project funding, bridge financing, working capital and small and medium financing, interbank investment, structured products, investment deposits, and so on.

(2) **Musharakah (Partnership Financing):** In the context of finance, it refers to "a joint enterprise in which all the partners share the profit or loss of the joint venture" (Usmani, 1999, p.203; Usmani, 2002, p.1). Profits are distributed between the partners in accordance with the ratios initially set, whereas loss is distributed in proportion to each one’s share in the capital (Iqbal & Mirakhor, 2011).

(3) Murabaha (Sale at a specified profit margin, also referred to as bay’ mu’ajjal): A sale contract under which the Islamic financial services provider sell an already possessed assets to a client, whereby the selling price is determined by the sum of original price and pre-agreed profit (IFSB, 2019). The payment being settled within an agreed time frame, either in installments or as a lump sum, the seller bears all risks of loss of or damage to the products until they have been delivered to the purchaser (Iqbal & Mirakhor, 2011).

(4) Bai Salam: is a sale contract whereby the purchaser beforehand pays for the products with a deferred delivery, or buyer’s credit, the product does not necessarily be available when bai’salam contract is signed, the purchases must be clearly and exactly determined within the contract in terms of quality and quantity, along with the exact date and place of delivery **(**Visser, 2009, p.60-61**).**

(5) **Istisna'a:** a contract under which a manufacturer(contractor) is committed to produce and deliver a well-described products (or premises) at a determined price on a determined date, without having to pay the price beforehand or may be paid in installments depending on the agreements made between parties (Iqbal & Mirakhor, 2011).

(6) **Ijarah (Leasing):** is a contract that implies the fund provider to purchase and lease an assets required by a customer with the possibility of selling the asset to the lessee, as soon as the expiration of the lease (Visser, 2009, p.59). It could be preceded by a unilateral binding promise from one of the contracting parties (IFSB, 2019[4]).

(7) **Takaful (Islamic Insurance):** It is "a structure in which the risk is shared between all participants, removing the elements of uncertainty and gambling from the contract" (Kettell, 2010, p.46). In other words, it is a co-operative

[4] Islamic Financial Services Board (IFSB).

system wherein a group of persons agree to share a certain risk (for example, damage caused to a building by fire) by collecting a specified sum from each, and any loss is met from the collected funds (Iqbal & Mirakhor, 2011).

(8) **Quard Hassan:** is used to refer to the benevolent loans offered interest free (Gait & Worthington, 2008). It is meant for those who are less well-heeled, such as farmers and other small businessmen and poor consumers. It can also be used for other ends (Visser, 2009, p.62).

Customer satisfaction is important for the success (or failure) of Islamic financial institutions. Anouze, Alamro & Awwad (2019) identified four drivers of customer satisfaction in Islamic banking sector are Sharia' compliance, complaints, pricing and convenience. However, it's not enough that the products offered by the Islamic financial institutions are good quality. They need to embrace good customer services and Shariah knowledge as well to enhance reputation and secure customers allegiance (Rahim & Mohamed, 2015).

According to Visser (2009, p.134) there are potential positive effects to applying IF include: (1) lower danger of insolvency; (2) protection against financial crises; (3) increase of participation in the official financial system; and (4) substantially reduce speculative activities. However, Islamic finance is not without some negative effects as mentioned by Visser (2009, p.138) - as seen through the eyes of the non-Muslim observer- include: (1) risks for depositors; (2) higher costs; (3) principal–agent problems and their effects on growth; (4) inadequate financing of SMEs; (5) limited supply of consumer credit; (6) insurance with pitfalls; (7) less scope for diversification and hedging, and its effects on growth.

2.3. Awareness of Islamic Finance:

Awareness is one of the most important factors to develop positive attitudes towards Islamic finance products and services. According to Cambridge English Dictionary [(5)] Awareness is "a knowledge that something exists, or understanding of a situation or subject at the present time based on information or experience".

SME owner-managers' Islamic financial knowledge do influence their intention to adopt Islamic finance (Al Balushi, Locke & Boulanouar, 2019). Several researches on awareness of Islamic finance has been conducted in many countries. In UK, Omer (1992) found that the preference for Islamic over conventional finance increases with the level of religious commitment and education. In Malaysia, Hamid & Nordin (2001) examined the awareness of consumers towards Islamic banking, they concluded that majority the respondents does not differentiate between products and services of Islamic and conventional banks, though the most had sufficient knowledge about services offered by Malaysian Islamic banks. In Australia, Rammal & Zurbruegg (2007) examined the awareness of Muslim Australians of Islamic banking, the findings show that most of the respondents are interested in purchasing Islamic banking products, but are not properly informed about how they function, also found a lack of awareness about the basic rules and principles of Islamic financing. In Libya, Gait & Worthington (2009) found that while most respondents have at least some knowledge about some aspects of Islamic finance, specifically Musharakah and Quard Hassan, they are generally unaware of many other products. In Thailand, Lateh, Ismail & Ariffin (2009) found that customers have little awareness about the Islamic banking system products and services.

[5] https://dictionary.cambridge.org/dictionary/english/awareness (28/12/2019).

In Pakistan, Khattak & Rehman (2010) found that customers are aware of some of Islamic financial products and services (such as current account 66.7%, time deposit 57.7% and overdraft 51.9%) and they are unaware of other Islamic finance products (such as Musharakah 47.4%, Murabaha financing 45.5% and Ijara financing 43.6%). In Bangladesh, Chowdhury & Arifuzzaman (2013) demonstrated that the awareness level of Islamic Banking and Finance among business students is quite inadequate and in some cases, far away from real concepts. However, most of the students are found to be very interested in knowing about it. In South Africa, Cheteni (2014) analysed consumer awareness level towards Islamic banking products and services. The analysis showed that gender, age, race, and qualification were statistical significant in influencing awareness of customers. Also, there is a lack understanding in the principles of Islamic Banking. In Pakistan, Ahmad & Bashir (2014) analysed the customer's awareness level about products offered by Islamic Banks. The results indicated that there is less awareness among customers regarding Islamic banking terminology, products and services. Also in Pakistan, Raza & Azeem (2014) concluded that customers are not aware about the different financial services and products provided by Islamic banks. In a similar study in Macedonia, Abdullahi & Shaharuddin (2016) examined level of knowledge and awareness about Islamic banking services. The findings show that most of Muslims in Macedonia (Approximately 50% of Macedonia's population is Muslim) are aware on the prohibition of interest (Riba) and avoid dealing with conventional banks, and they have moderate level of understanding about Islamic banking concepts and services. Recently, Islam & Rahman (2017) explored the awareness and willingness of Muslim Indians toward Islamic banking, findings show that majority of the Individuals lack an understanding of how Islamic banking works, and that most of the Individuals are willing to go for Islamic finance if informed properly and delivering a superior customer experience.

3. Methodology:

3.1. Measurement development:

Data were collected using questionnaire that was sent to customers of banks in Algeria. Each customer is asked to express his/her own level of awareness regarding Islamic finance. Survey questionnaire is composed of two sections. The first section of the questionnaire was designed to collect the demographic information like gender, age-group, education qualification and occupation. The second section of the questionnaire includes questions on awareness about Islamic finance. Five fundamental terminologies about Islamic finance, five basic rules and principles of Islamic finance and five Islamic finance products and services, are adapted from literature review on Islamic finance. The survey for this research used a five-point Likert scale ranging from 1 (very unaware) to 5 (very aware).

3.2. Population and Sample:

The population for the current research is all customers of banks in Algeria over 18 years of age. Due to time and cost constraints, this study recruited participants through convenience sampling method. The research sample consisted of 100 customers from different commercial banks. 68 customers responded to survey (68% of the total distributed). The survey was conducted between October 25 and December 15 2019. Table 1 shows the proportional distribution of the sample members according to their some demographic.

Table 1 shows that Males comprised 60.29% and females 39.71%. About 8.82% of the respondents were 18–35 year old, 57.35% were 36–50 year old and the remaining 33.83% were 51 year old or more. With respect to education qualification, 27.94% had a high school certificate and 61.75% were diploma/certificate and the remaining 10.29% had postgraduate degrees. With respect to occupation, 20.59% had government jobs, 52.94% had private jobs and the remaining 26.47% had any other jobs.

Table 1 Research Sample Characteristics

Characteristic	Variables	Frequency	Percentage
Gender	Male	41	60.29
	Female	27	39.71
	18-35	06	08.82
Age-group	36-50	39	57.35
	Above 50	23	33.83
Education Qualification	High school certificate	19	27.94
	Diploma/certificate	42	61.75
	Postgraduate	07	10.29
Occupation	Government jobs	14	20.59
	Private jobs	36	52.94
	Any other	18	26.47

4. Data analysis:

4.1. Reliability Analysis:

Cronbach's alpha coefficient was used to calculate the internal consistency coefficients of the items included in the questionnaire. The Cronbach Alpha testing was used as it is the most well accepted reliability test tools applied (Sekaran, 2003).

Table 2 Reliability Analysis

Variables	No. Item	Cronbach's Alpha
Awareness of fundamental terminologies of IF	05	,795
Awareness of basic rules and principles of IF	05	,838
Awareness of Islamic finance products and services	05	,912

As shown in Table 2, the reliability coefficients of all research variables were above 0.6. Cronbach's Alpha value is 0.795 for awareness of fundamental terminologies of IF., 0.838 for awareness of basic rules and principles of IF and 0.912 for awareness of Islamic finance products and services shows high reliability of the scale.

4.2. Descriptive Statistics for Awareness:

Table 3 Descriptive Statistics for Awareness of Fundamental Terminologies of Islamic Financing

No.	Items	Mean	SD
AFTIF1	Sukuk (an Islamic financial certificate, similar to a bond in Western finance)	2.49	0.81
AFTIF2	Mouzaraa (sharecropping, an contract limited to one crop period)	1.93	0.76
AFTIF3	Qardh Al-Hassan or Islamic Loan (an interest-free loan)	2.51	0.92
AFTIF4	Bay' Al-Istisna (a contract to manufacture an item that does not yet exist)	1.77	0.63
AFTIF5	Bay' Al-Tawliyah (sale at cost without profit or loss (sale at cost price))	1.46	0.74

As shown in Table 3, the respondents had weak awareness of the fundamental terminologies of Islamic financing. Average scores are 2.032 while the averages of the responses vary between 1.46 and 2.51. Most respondents were not aware about Bay' Al-Tawliyah (Mean=1.68, Sd. =0.74). This result consistent with findings from Ahmad &

Bashir (2014) they reported that there was less awareness among respondents about Islamic banking terminology.

Table 4 Descriptive Statistics Awareness of Basic Rules and Principles of Islamic Financing

No.	Items	Yes	I do not know	No
ABRPIF1	Dealing with Riba (interest) -based transactions is strictly prohibited in Islam.	100%	-	-
ABRPIF2	Dealing with gharar (uncertainty) -based transactions is strictly prohibited in Islam.	93%	7%	-
ABRPIF3	Investing in businesses involved in prohibited activities is strictly prohibited in Islam.	100%	-	-
ABRPIF4	Sharia strictly prohibits any form of speculation or gambling (maisir).	95%	5%	-
ABRPIF5	Parties entering into the contracts in Islamic finance share profit/loss and risks associated with the transaction.	62%	29%	9%

Table 4 shows that all respondents were aware that Islamic finance system is the prohibition of riba (interest or usury) in financial transactions. Also, all respondents were aware that investing in businesses involved in prohibited activities is strictly prohibited in Islam, such as investing in production, distribution and/or sales of alcohol. Similarly, 95% of the respondents are aware about prohibition of speculative behavior or gambling (maisir) while 5% of them were neutral (without awareness) on this basic principle. 93% of them are aware that dealing with gharar (uncertainty) -based transactions is strictly prohibited in Islam, but 7% are unaware of that. Overwhelming number of the respondents (62%) are aware that Islamic finance system encourages equitable sharing of risks (discourages risk shifting or risk transfer) and profits between the parties involved in a financial transactions, while 29% of respondents were neutral (without awareness) on this basic principle and 9% of them have wrong idea on this principle. This result is not consistent with some of the findings of the previous study. For example, Rammal & Zurbruegg (2007) found that a lack of awareness about the basic rules and principles of Islamic financing among Muslim Australians. Also, Cheteni (2014) found that a lack understanding in the principles of Islamic Banking in South Africa. This difference in awareness level was probably related to the different in socio-cultural environment of respondents.

Table 5 Descriptive Statistics Awareness of Islamic Finance Products and Services

No.	Items	Mean	SD
AIFPS1	Mudarabah (Trustee finance, also known as qirad)	2.68	0.91
AIFPS2	Musharakah (Partnership Financing)	2.54	0.97
AIFPS3	Murabaha (Sale at a specified profit margin)	2.33	0.75
AIFPS4	Ijarah (Leasing)	2.40	0.99
AIFPS5	Takaful (Islamic Insurance)	2.37	0.88

Not surprisingly, as shown in Table 5, the respondents had little awareness of the Islamic finance products and services. Average scores awareness about Islamic finance products and services are 2.46. While the average of the responses vary between 2.33 and 2.68. Awareness of *Mudarabah* is the highest awareness level (Mean=2.68, Sd. =0.91) and awareness of *Murabaha* is the lowest awareness level (Mean=2.33, Sd. =0.75). These findings show that respondents who participated in the survey, they have low levels of awareness about Islamic finance products. This result is consistent with the findings of Hamid & Nordin (2001) that a majority the respondents don't have ability to distinguish between products and services of Islamic and conventional banks. And is consistent with findings from Ahmad & Bashir (2014) they reported that there was less awareness among customers about Islamic banking products and services.

5. Conclusion:

The purpose of this research was to examine the awareness level of Islamic finance among customers of banks in Algeria. Islamic finance awareness is becoming more important nowadays. It is not only among investors, but also among customers. Low level of awareness and knowledge about Islamic finance could be barriers for adopting Islamic finance. From the results of this study, it is found that the customers of banks in Algeria are more aware about the basic rules and principles of Islamic financing. Furthermore, it is also noted that customers of banks have less awareness about Islamic finance products and services, and there are low levels of awareness of fundamental terminologies of Islamic financing even though they are in the country Islamic. This finding has important implications for researchers, practitioners and policy makers to participate and contribute in enabling the adoption of Islamic finance.

The promotion of Islamic finance was articulated as a key policy initiative in several countries (as in Hong Kong). to provide a level playing field for Islamic finance, Algerian policymakers should take the initiative to overcome barriers to adopting Islamic finance; such as encourage conventional banks to open Islamic windows, grant a full tax exemption to Islamic finance institutions Therefore, the Algerian government should rapidly open the door for Islamic finance institutions. This means that intensive promotion is real needed to make individuals more aware of the Islamic finance products and services. Therefore, must increase the level of awareness and knowledge about forms, types and benefits of Islamic finance. Many ways are available to creating and increase awareness of Islamic finance, including (1) lessons and lectures in mosques on Islamic finance; (2) mass media (television, radio, newspapers); (3) social networking sites; (4) seminars; and (5) distribution of educational books and brochures in shopping malls and schools. In fact, these are just a few of the tools that can be an excellent promotion tools for Islamic finance. Finally, researchers should pay more attention to identifying political, economic and social obstacles to adopting Islamic finance in Algeria.

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