EXAMINING THE PERCEPTION OF ISLAMIC BANKS CUSTOMERS IN KEDAH STATE ON THE MUDARABAH CONTRACT AND ITS APPLICATION BY ISLAMIC BANKS

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Research Paper Submitted to
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
in Partial Fulfillment of the Requirement for the
Master in Islamic Finance and Banking
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ABSTRACT

It is undeniable that the impressive growth and development of Islamic financial institutions in Malaysia is due to the fact that Malaysian government put in place an effective and comprehensive legal framework. 2013, was a landmark in Malaysia Islamic financial service industry, where Malaysia parliament enacted Islamic Financial Service Act (IFSA) that ensures shariah compliant, financial stability and protect the rights and interest of financial consumers. Under IFSA, Islamic banks should use only mudarabah in their investment accounts. Therefore, the overall aim of this study is to examine the perceptions of Islamic banks customers on the concept, applications and implications of mudarabah (profit sharing) contract. The study has used a survey, where questionnaires were distributed to 200 respondents. Descriptive statistics, factor analysis, independent t-test and ANOVA were used in data analysis. The results of factor analysis reveal that highly level of awareness among customers on the concept of mudarabah, its applications in Islamic banking products and services; and its implications to customers, for e.g. in the form of offering high returns positively influence customers perception towards mudarabah related products and services. In other words, the more the customers are informed about the concept of mudarabah, its application in banking products and its implication to them, the more positive perception they have towards mudarabah related products and services. In addition, the independent t-test and ANOVA results reveal that there are no significant difference between gender, race, marital status, and job sectors in relation to the level of their awareness towards mudarabah contract. However there are significant different between customer’s level of education and level of income and customer’s perception towards mudarabah related products. Meaning the highly educated and highincome respondents are more aware about the concept of mudarabah, its applications and implications. These in turns positively influence their perception towards mudarabah related products and services. Therefore, policy makers and financial institutions should find ways to increase on the level of awareness of customers on the concept of mudarabah, its applications and implications. BNM should issue effective guidelines for Islamic banks to explain to customers the concept, applications and implications of any contract before offering the products to the customers. Bankers should educate their customers on various Islamic contracts they used so that the customers become fully aware on their concept, applications and implications before subscribing to any Islamic banking products and services.

Keywords: Mudarabah (profit sharing), perception, concept, application, implication
ABSTRAK


Kata kunci: Mudarabah (perkongsian keuntungan), persepsi, konsep, aplikasi, implikasi
ACKNOWLEDGEMENT

First of all, I would like to thank to Allah who gave me the ability to do this useful task of accomplishing this research paper. Finishing of this research has been one of the best significant academic experiences I have ever had in my life. With his permission and help from Allah, I succeeded one of my life time goals, to pursue Master degree and accomplish it successfully. Completion of this this research paper was possible with the help of certain people that I wish to acknowledge my appreciation to them.

I owe my deepest and heartfelt gratitude to my supervisor, Dr. Umar Ahmed for providing me invaluable information about my topic, significant guidance, and many useful suggestions throughout every phase of my study, I am very fortunate to have him as my research supervisor. I would also like to express my gratitude to my respectable advisor Assoc. Prof. Dr. Abu BakarHamed for his guidance throughout the entire period of my studies. I could not able to finish this report without their support and their constant encouragement of my work. I am very indebted for their continuous inspiration, and patient that helps me to accomplish this research paper. May allah(S.W.T) compensate them with countless rewards for their dedication and support.

My appreciation is extended to all my dear friends who have well fully sacrificed their valuable time to give me support with respectful manner and happily during the process of this research. Most importantly my sincere love and dedication goes to my beloved parents who initially provide me financial and moral support from the beginning until the end of my study. My parents are the main source of my inspiration and strength for finishing this research paper.

Thank you every one of you who helps me to achieve this stage.

Ismail Ahmed Ali Gaani
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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AAOIFI</td>
<td>Accounting and Auditing Organization for Islamic Financial Institutions</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>BIMB</td>
<td>Bank Islam Malaysia Berhad</td>
</tr>
<tr>
<td>BMMB</td>
<td>BankMuamalat Malaysia Berhad</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>DIB</td>
<td>Dubai Islamic Bank</td>
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<tr>
<td>IDB</td>
<td>Islamic Development Bank</td>
</tr>
<tr>
<td>IFSA</td>
<td>Islamic Financial Service Act</td>
</tr>
<tr>
<td>IFSB</td>
<td>Islamic Financial Service Board</td>
</tr>
<tr>
<td>INCEIF</td>
<td>International Centre for Education in Islamic Finance</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offer</td>
</tr>
<tr>
<td>ISRA</td>
<td>International <em>Shari’ah</em> Research Academy</td>
</tr>
<tr>
<td>IBI</td>
<td>Inter-Bank Investment</td>
</tr>
<tr>
<td>MISB</td>
<td>Mit-Ghamr Islamic Savings Bank</td>
</tr>
<tr>
<td>PIDM</td>
<td>PerpadananInsurans Deposit Malaysia</td>
</tr>
<tr>
<td>PLS</td>
<td>Profit and Loss Sharing</td>
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<td>PSIA</td>
<td>Profit-Sharing Investment Accounts</td>
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<tr>
<td>SAC</td>
<td><em>Shari’ah</em> Advisory Council</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package Social Science</td>
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<tr>
<td>UAE</td>
<td>United Arab Emirate</td>
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CHAPTER ONE

INTRODUCTION

1.0 Background of the study

The concept of Islamic banking is fundamentally based on the foundation that Allah (S.W.T) forbids interest (Riba) and allows the trade and business. Al-Quran says: "Those who take riba (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: "Trading is but like riba." And Allah has permitted trading, and prohibited riba. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain forever" (Al-Baqarah, 2:275).

Thus, in order to promote trade, shariah establishes underlying principles governing Islamic finance which include: (i) the prohibition of Riba(usually interpreted as usury or interest) and the removal of debt-based financing; (ii) the prohibition of Gharar, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk-taking; (iii) the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and pork); (iv) an emphasis on risk-sharing, the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and
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**Quran verses and hadith**

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