

## **The Impact of 9/11 Incident on Islamic Finance Growth Perceptions Towards Islamic Finance in Brunei**

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### **Abstract**

*Due to stigmatization of Islam as a religion of the terrorists after the 9/11 event, perceptions and attitudes towards Islamic Finance have also altered. There are both positive and negative reactions towards the system in the West. As a Monarch Islamic Malay state, the perceptions are definitely different. Hence, this study was conducted with an objective to know the consumers' awareness of Islamic finance in Brunei in general. This study also aimed to relate the attitudes of the Bruneians towards Islamic Finance in relation to the 9/11 incident. Whether this incident has an impact towards the consumers' perceptions or not, are part of the points the authors were exploring. From the analysis done, the results revealed that the perceptions towards Islamic Finance in Brunei are by large positive and pleasing. Most respondents did not find the 9/11 incident as a deterring factor for them to invest into Islamic Finance institutions.*

**Keywords:** Perceptions, 9/11 incident, Islamic banking (IB), Conventional banking (CB), Brunei.

### **1. Introduction**

Since 2008, Islamic Finance has witnessed a spectacular growth with total Islamic assets under management reached \$1 trillion in 2010 (Alani, Yaacob, 2012). 'Islamic banking is just part of the overall Islamic finance sector, which includes asset management and increasingly more sophisticated investment products' (Isfin.net, 2012). This particular type of banking that complies to a set of Islamic Laws is popular not only among the Muslims but also to the non-Muslims all over the world. However, due to four coordinated suicide attacks upon the United States of America's World Trade Center in September 11 of the year 2001, various literatures have proven that despite the negative reactions towards Islam, Islamic Finance has surprisingly boosted in growth. Islamic banking has become increasingly famous and the interests of Islamic financing among the non-Muslim states have risen. The escalation of more and more commercial conventional banks that are adapting and executing the Islamic financing system in their respective banking organization tells how popular Islamic Finance is. This is relatively caused by the accelerating rate of Muslim population all over the world. In Brunei Darussalam itself, besides having Islam as the official religion, Islamic banks are the most preferred among the residents of the Sultanate. This is because Bruneian Muslims are aware of managing their finance based on the Shariah compliance. In His Majesty's Titah on the New Year's Eve of 2011, he emphasized on Brunei Darussalam's vision as one of the leading financial centre worldwide. Muslim markets are indeed very special, as we are not just sharing a religion, but also values, history, geographic ties and unique economic links (Minister of Energy at the Brunei Prime's Minister Office, 2012).

Islamic finance is limited to financial relationships involving entrepreneurial investment subject to the moral prohibition of (i) interest earnings or usury (riba) and money lending, (ii) haram (sinful activity), such as direct or indirect association with lines of business involving alcohol, pork products, firearms, tobacco, and adult entertainment, (iii) speculation, betting, and gambling (maisir), including the speculative trade or exchange of money for debt without an underlying asset transfer, (iv) the trading of the same object between buyer and seller (bay' al inah), as well as (v) preventable uncertainty (gharar) such as all financial derivative instruments, forwarding contracts, and future agreements. (Jobst, 2007).

## **2. Purpose of the study**

This study was aimed to find out what Bruneians think Islamic Banking is. In addition to that, the extent of the comprehension of Islamic Banking in this country was also part of the research. Besides that, the perceptions and attitudes of Bruneians, both of Islamic and non-Islamic beliefs, were also intended to be collected. The study also was aimed to analyze the correlation between the 9/11 tragedy and how it may have affected people's perceptions towards Islamic finance over time in this country particularly.

## **3. Research Questions**

The following research questions direct the conveyed to the people within the designed sample:

Research Question 1: How far do people in Brunei Darussalam know Islamic Finance? Are they aware of the Shariah law?

Research Question 2: What are the perceptions and reactions of the Bruneians towards Islamic Finance in Brunei Darussalam?

Research Question 3: Have the perceptions changed over any certain course of time or sustained?

## **4. Significance of the study**

The research findings may provide beneficial support towards the implementation of Islamic banking globally. Albeit the reputation of Brunei is small in the World, but the success of Islamic Finance in this state may be an exemplary instance to other parts of the world. In addition to that, in the local context, as Brunei is officially an Islamic state, the significance of Islamic banking is definitely important. The implementation of Islamic laws and conducts into banking system is certainly a concern to the country. Majority of the people are Muslims hence explain how the study may also matters to them.

Not only that, because the Sultanate has a strong economic and political stability, it also has a big potential to become an Islamic Financial centre. In order to do this, by studying the insights or awareness of the people towards the Islamic financing system, negative thinking towards Islamic Finance may be demolished. With good marketing strategy, the society will get to know more on the Islamic terms used in financing and the importance on how the Islamic banking portrays the Islamic nature. Brunei, having strengthened its operational base and regulatory framework, now is taking steps to address the shortage of trained industry professionals in the Islamic financial sector; providing job training, and also, local universities are offering Bachelor, Master's and Doctorate degree programme relating to Islamic finance. Further, it helps developing the society's acceptance of the Islamic finance practices in Brunei Darussalam.

When the results of the research were obtained, the analysis can aid both the Islamic banks and commercial conventional banks to modify strategies to meet the trends of the customers. The banks may amend strategy to accommodate and attract more foreign investors and entrepreneurs to develop and invest their business in the Islamic economy. The results will also show the perceptions of the people and provide more in-depth understanding of the customers' preferences. Both types of banks can develop advertising strategies towards their products through the study of perceptions.

Among other things, because Brunei's revenue is 95 percent of Oil and Gas Industry's generation, pioneering in Islamic Banking with Islam as the official religion may promote Banking industry in this sultanate. In a way this may stimulate the economy and reduce reliance on the Oil and Gas as a main source of income. This is good as Oil and Gas resources are non-renewable and its depletion cannot accurately be anticipated.

## **5. Literature Review**

### **5.1 Perception of Islamic Finance**

The consumer's interest toward Islamic banking was extended when the Turkish media, Daily Vatican newspaper L'Osservatore Romano encourages banks to explore more on the Islamic laws of finance in order to rebuild trust among their clients (World Bulletin, March 2009). In Islamic banking, interest is prohibited and conventional interest rates are not 'halal' or legitimate by Islamic laws (Kamus Perwira, 1998:451). In Malaysia 60% of its population are Muslims which could be an important market for Islamic banking products and at the same time the rise of Islamic banking there is because of the impact on Islamic consciousness. A study conducted by Bley and Kuehn (2004) on 667 business graduates and undergraduate students to find out what are their perception and knowledge on the Islamic finance in United Arab Emirates(UAE).

They found out that Non-Muslim felt that Muslims naturally chooses the Islamic finance as they were interested with the system and not because it is their only option. On the other hand, many Muslims pointed out that they choose Islamic banking because of their religious faith. During the Fifth World Islamic Economic Forum in Jakarta in March 2009, political and business leaders admire the Islamic finance institutions due to its flexibility against recession since they avoid investing in 'toxic assets' (Synovitz, 2009)

### **5.2 Challenges of Islamic Finance**

According to Ahmad (2008), in opening of Islamic banking window in United Kingdom, they are facing the challenge of the new mode of conventional banking. Bank officer (cited in Ahmad, 2008) from Lloyd TSB mentioned that Islamic banking must work on competitive basis to survive in the age of globalization and internationalization. Ahmad (2008) also mentioned that Islamic banking is facing a bigger challenge of competition because Islamic banking is still in the early stage especially on shortage of qualified Islamic scholars and to solved this problem should Increasing the number of students with a major in finance at university level could help but in the long term (Polak, 2009). Based on Khadaroo's (2008) research, a majority (75%) of the views expressed by the professionals/executives working at finance companies in Mauritius do not appear to show positive perceptions for the scope of introduction of the Islamic finance products, into their respective businesses. For Abedifar et al (2012), Islamic finance may still face extra risks because of the complexity of Islamic modes of finance and limitations in their funding, investment and risk management activities. Ali & Syed's (2010) study indicates that coverage of Islamic finance has raised in the Western following the 9/11 mainly the association of the Islamic finance with the terrorism.

### **5.3 Islamic Finance on the Rise after 9/11**

Patrick Imam and Kangni Kpodar note that the 9/11 attack on the US 'had a positive impact on assets of Islamic banks, perhaps because Muslim investors, who traditionally invested in the West, were compelled to keep more money at home for fear of expropriation. Some institutions are turning to Islamic banking to find low-risk investment opportunities (GlobalPost, 2012). The rise in oil prices after 9/11 allowed many investors, especially those in the GCC (Gulf Cooperation Council) to collect wealth beyond their expectation. Despite of the negative cloud in USA, Islamic financial institutions now exist in more than 75 countries worldwide. However, the current economic meltdown in the US and European markets (which is likely to spread to other regions) will force Islamic finance players to review and redefine their focus on how to survive in a highly turbulent market place (Jamil H., 2008).

## **6. Methodology**

The research study has been designed in such a way that it helps to infer customers' perceptions on Islamic banking with conventional banking. Moreover, developing a successful, practical and complete model of Islamic banking was a complex and difficult task. Therefore, it was decided to promote Islamic banking on parallel basis with conventional banking system. The research was conducted on probability samples and it targeted the users of both Islamic and conventional banks. It used data collection directly from customers from both kinds of banks, annual statements and interviews of relevant authorities. (Since we didn't get to carry out the interview, delete? these highlighted in yellow, same as below) The area of the study is the whole of Brunei where Islamic banks and some selected conventional banks are operating under the same legal, political, social and economic framework. Fieldwork was conducted during 1st of October 2012 to 29th of October 2012. The primary data collection was obtained from customers from filling questionnaires and interview methods in Brunei Darussalam. The questionnaires were distributed through snowballing and were randomly given to 100 people who are banking customers. The searcher used the following technique in this study:

- 1) Comparative analysis technique is applied to compare customers' perceptions on both banks.
- 2) Survey method is applied through questionnaires and distributed through snowballing effect.

In this study there are three banks that were included in the study. Two of which were Islamic banks and one conventional bank. The Islamic banks were Bank Islam Brunei Darussalam and Tabung Amanah Islam Brunei whilst the only conventional bank that was included in the sample is HSBC. One hundred customers were given questionnaires through random sampling and distributed in a snowballing technique.

## **7. Discussion and Analysis**

From 100 questionnaires distributed, only 91 were returned. The results are as follows:

### **7.1 Demographic summary**

Age group of 18-30 is the highest user of both banks where IB users with 45% and 67% of them use CB (as shown Figure 3 in Appendix 2). Also, for both banks, those with Degree qualifications are the highest users. 54% of those surveyed are government employee who are using IB. 51% of those surveyed are private employees who are using the CB. The reasons for a higher number of government servants choosing Islamic Bank in comparison to conventional bank due to practice of MIB ideology in Brunei, the fact that Islamic Bank is based on Shariah Compliance, where they promote “Halal brand” through the prohibition of Riba (usury) which make people feel secured in conducting banking transactions. As for Conventional Bank, government employee opts for Conventional Bank as it can expedite loans/borrowings faster. It also more convenient for people to apply for loans on products such as computers and motor vehicles. Moreover, the process on getting the loans under conventional banks will only takes few days to settle everything.

### **7.2 Nature of bank-client relationship**

The reasons for IB preferences are due to strong religious belief, knowledge/exposure, low interest, MIB, brand, an initiative of going global such as the use of debit cards/credit cards/electronic banking. The government servants choose IB because of MIB security. Some choose both IB and CB because they tend to invest and do borrowings. Parents influences also may take part in the finding since many parents set up their children’s account when they are still young, thus the children just prefer to continue using the bank account until now. They likelihood to change their bank account is low. Another reason for the IB preference is for its security in terms of risk. Most commercial banks operating in Brunei have international shareholders whilst Islamic Banks (BIBD and TAIB) are half-owned by the Government. Thus considering the risk of investment and fluctuating stock markets, investing or subscribing to banks that are government-responsible is of low-risk. That explains why many of the respondents prefer Islamic banking than conventional banking. Moreover, we cannot deny the cultural preferences that play its significance for this finding. Most senior citizens tend to choose Islamic bank (local bank) over international bank. IB especially BIBD is also assigned by His Majesty to convey State’s welfare /Safety Net for an example pence, kurnia, al-garimin, zakat distribution. Furthermore, IB also integrates with the government to deliver social service ; online POWERKAD purchase, Water, Electricity, Dana Pengiran Muda Mahkota Al-Muhtadee Billah, Yayasan Complex Rental. Tabung Haji is only available through TAIB especially since Darussalam Holdings is a subsidiary of TAIB.

### **7.3 Awareness and knowledge of banking concept**

From the Figure 21 in Appendix 2, 86% of IB users responded that the 9/11 incident has no impact on their trust in IB, meanwhile 69% of CB users agreed that the 9/11 incident has no impact on them. 85% of Islamic Bank users understand the concept of Islamic Banking; meanwhile 57% of conventional bank users understand the concept of IB. Here, the majority might know the general concept of Islamic banking, but they don’t understand the concept or idea of Islamic Banking. Some of them may not know the differences between conventional and Islamic banking. This is due to the lack of awareness on the concept of Islamic banking being commercialized fairly recently. Moreover, in the survey we can see that 100% of IB users know the term Riba and 34% of CB know it.

### **7.4 Satisfaction and loyalty with bank.**

As shown in figure 13, 61% of IB users consider changing their banks to CB meanwhile 53% of CB users consider to change to IB. More consumers would change their banks from IB to CB because CB brands have more international recognition therefore service charges don’t matter, especially to those in middle class and above. Nevertheless, those using CB can withdraw money anywhere in the world since it is international banks, unlike IB which may only exist in Brunei. This is very useful especially to those individuals who travel a lot.

## **8. Conclusion**

From the study, there are positive perceptions on Islamic bank developments in Brunei. The 9/11 incident does not affect Islamic majority countries because after 9/11 incident Islamic bank only exists in Islamic majority countries, i.e. they can't survive in non-Islamic majority countries due to bad perception of Islam. On the other hand, there are also the negative perceptions on the Islamic Bank developments in Brunei, for instances the narrow-minded mentality of the public towards Islamic Bank, where the perception that Islamic bank or finance should be managed by Islamic bank, as conventional bank (HSBC Brunei) is also making a move towards entering the "Islamic window" by drawing up Shariah-compliant financial products. From the survey itself, 71% of IB users have good perceptions towards the development of IB in Brunei. Meanwhile 48% of CB has good perceptions and only 40% of those using both IB and CB have good perceptions towards the development of IB. The reason why people choose Islamic banking is because of the negative perception of riba (riba is 'Haram' in Islam). Moreover, the Dubai debt crisis and the 9/11 incidents have no impact on Bruneian's perception towards IB.

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**Questionnaire: Perceptions towards Islamic Finance**

**Age Range**

A. 18 - 30 B. 31 - 40 C. 41- 50 D. 51 - 60 E. 61 - above

**Gender**

Male Female

**Beliefs**

Muslim Non-Muslim

**Educational Qualifications**

A. Primary B. PMB C. O Level D. A level E. Certificate/HND F. Degree  
E. Masters Degree F. PHD G. Professor

**Professions**

A. Student B. Government Employee C. Private Employee D. Self Business

**Monthly Incomes**

A. 200-500 B. 501-1500 C. 1501- 2000 D. 2001 - 2800 E. 2800- Above

**What is your bank?**

A. Islamic B. Conventional

**For what purpose do you use this bank?**

A. Investments/Savings B. Borrowings/Loans C. Others

**Do you understand the concept of Islamic Banking?**

Yes No

**Do you agree that Islamic banking operates under the Shariah compliance?**

Yes No Don't know

**Do you know the term Riba?**

Yes No

**Questions A and B: FOR INVESTMENT/DEPOSIT ACCOUNT HOLDERS:**

**A. did this bank paying any amount on your deposits?**

Yes No

**B. If yes, what do you consider the payment?**

A. Riba on savings  
B. Profit on investments

**If you are subscribing to a conventional bank/Islamic bank and have an opportunity to open an account at an Islamic bank/conventional bank, would you consider the option?**

Yes No Can't be bothered Don't know

**Would you please tell us the reason for the transfer of your account? (i.e. from conventional bank to Islamic bank and vice-versa)**

A. Riba B. Higher Profit C. Other

**Would you continue to deal with Islamic bank even when the risk on investment is higher than the conventional bank?**

Yes No

**In your opinion, how much are the services charged of Islamic bank as compared to conventional bank?**

Higher Lower Same

**Would you continue to deal with the Islamic bank if the service charges are higher than the conventional banks?**

Yes No

**Does your bank inform you properly about your transactions?**

Yes No

**How would you rate your satisfaction with your bank services?**

Satisfied Unsatisfied Don't know

**Does Islamic banking distribute higher profits compared to conventional bank?**

Yes No Don't know

**Have you heard of Dubai Bank Debt Crisis?**

Yes No Don't know

**Does the 9/11 incident affect your trust in Islamic Banking?**

Yes No Don't know

**Your view on the following phenomena that Islamic banking is ..**

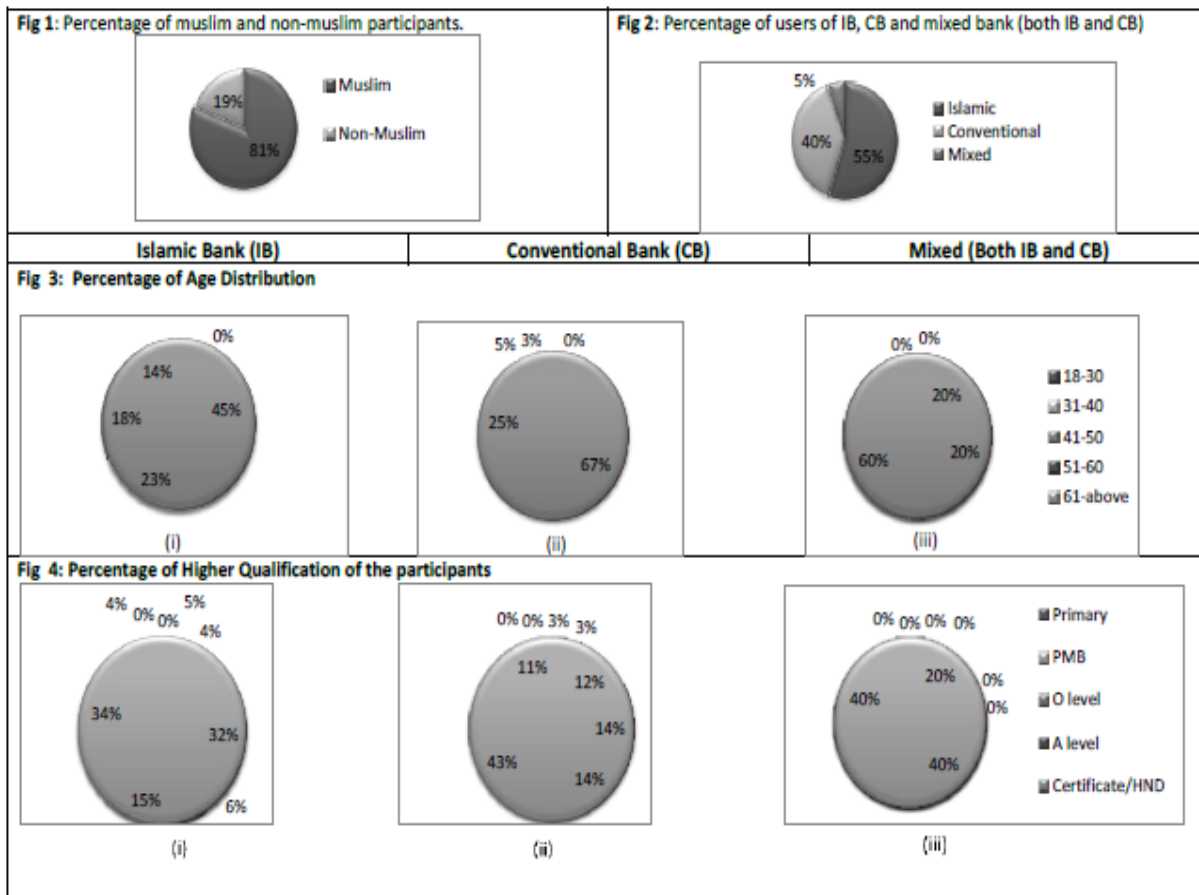
- A. Banking without Riba only
- B. A socially acceptable just banking system
- C. Same as conventional banking with different name only

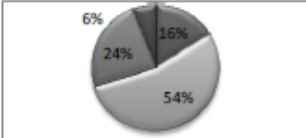
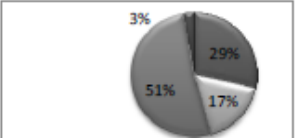
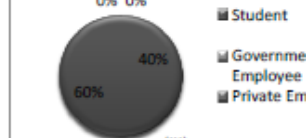
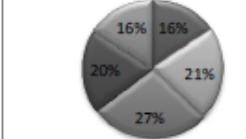
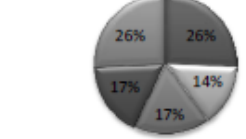
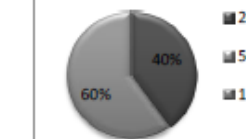
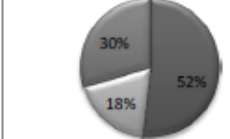
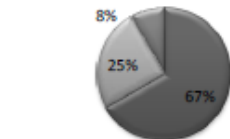
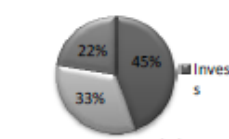
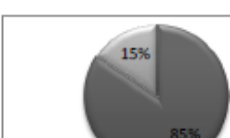
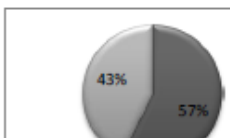

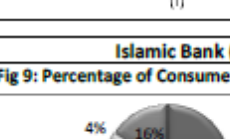
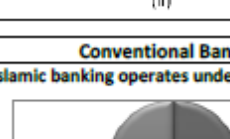

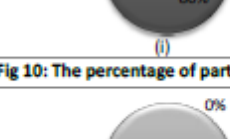
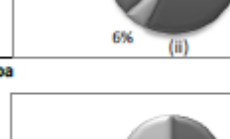
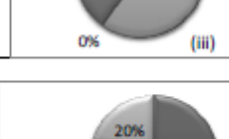
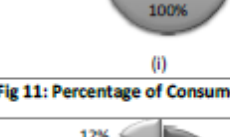


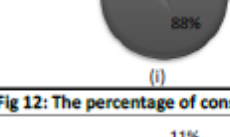
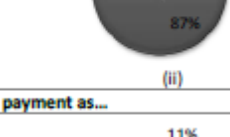
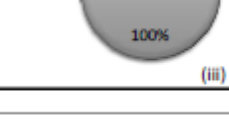
**What are your perceptions on the development of the Islamic Banking in Brunei?**

- A. Good B. Doesn't make a difference C. Bad

**Appendix 2**

Data representation of the samples.



| Islamic Bank (IB)  | Conventional Bank (CB)  | Mixed (Both IB and CB)   |
|--|---|--|
| <b>Fig 5: Percentage of profession of the Participant</b>  |   |  |
|  <p>(i)</p>                   |  <p>(ii)</p>   |  <p>(iii)</p>   |
| <b>Fig 6: Salary distribution of participants</b>  |   |  |
|  <p>(i)</p>                   |  <p>(ii)</p>   |  <p>(iii)</p>   |
| <b>Fig 7: The Purposes of Using Bank</b>   |   |  |
|  <p>(i)</p>                   |  <p>(ii)</p>   |  <p>(iii)</p>   |
| <b>Fig 8: Participant's understanding toward the concept of Islamic Banking</b>                                |   |  |
|  <p>(i)</p>                   |  <p>(ii)</p>   |  <p>(iii)</p>   |
| <b>Fig 9: Percentage of Consumer understanding that Islamic banking operates under the Shariah compliance.</b> |   |  |
|  <p>(i)</p>                 |  <p>(ii)</p> |  <p>(iii)</p> |
| <b>Fig 10: The percentage of participants who know Riba</b>  |   |  |
|  <p>(i)</p>                 |  <p>(i)</p>  |  <p>(iii)</p> |
| <b>Fig 11: Percentage of Consumer paying deposit/investing</b>   |   |  |
|  <p>(i)</p>                 |  <p>(ii)</p> |  <p>(iii)</p> |
| <b>Fig 12: The percentage of consumer considering the payment as...</b>  |   |  |
|  <p>(i)</p>                 |  <p>(ii)</p> |  <p>(iii)</p> |



