

ADVERTISING OF ISLAMIC BANKING PRODUCTS

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Banking has earned a significant place in our lives. Banking influences us individually as well as collectively, as a society. Individually, we benefit from the personal products offered by banks, like safekeeping, and maintaining and enhancing value of monetary assets. Collectively, we benefit from the products that facilitate optimal use of funds available in the economy, like intermediation in the flow of funds from the economic sectors surplus in funds to the sectors short of funds. In addition, banks have been instrumental in the execution of domestic and international trade transactions undertaken by companies to bring such products to market that can effectively satisfy the needs and wants of their customers. As a result, we, as customers, can maximize the utility of our spending and consumption. In other words, banks have brought forth products that satisfy our multiple needs and wants. However, malpractices in banking sector, as is evident from the contemporary financial crisis, have had disastrous consequences for us, both as individuals and as a society. In the middle of crisis, a subsector of banking sector constituted by Islamic banks has stood tall, experiencing minimal impact of crisis.

Islamic banking system has emerged as a strong subsector in global banking sector. Many people look up to it as an alternative to the conventional banking for satisfying their dynamic financial and investment needs and wants. The system, constituted by interest-free financial intermediaries operating in accordance with Islamic Shariah, has added a new dimension to the contemporary economic models (Fazlan & Mohammad, 2007). The Islamic banking system is built on the prohibition of *riba* (interest), one of the fundamental principles of Islamic Shariah. In this vein, Islamic banking products are developed on the principle of profit and loss sharing between banks and their customers.

Islamic banking products are developed either from the existing conventional banking products by purging them from any prohibited elements to make them Islamic Shariah-compliant or through innovation by applying the principles of Shariah (Damirchi & Shafai, 2011). In either case, Islamic banking products have to possess unique features. They must be Shariah-compliance and approval by the Shariah board of the bank, be backed by asset-backed, balance profit-maximization and social responsibility objectives, involve risk, and profit and loss sharing, and not finance non-Islamic economic activities (Hussein, 2010; Damirchi & Shafai, 2011). Within the precincts of

Shariah, in order to stay competitive, Islamic banks must be innovative in developing new products that cater to the changing needs and demands of the customers (Thambiah et al, 2011).

Islamic banks have launched an array of financial products and services with objective of satisfying different types of financial and investment needs of their individual and institutional customers. For example, Bank Islam Malaysia (as per their official website) offers a number of products, which have been grouped into personal banking and business banking products. The **Personal banking products** are designed for individual customers. The various types of personal products are:

- **Deposit products:** Deposit products are offered for safekeeping of money. Bank Islam offers a range of depository services that cater to needs of different income and age groups. For example, basic savings and current accounts are for low-income consumers; Wadi savings account and Ijraa savings accounts are designed for youngsters, below the age of 18. The accounts allow the withdrawal of money on demand. The accounts are usually complemented with bankcard services.
- **Financing products.** Financing products are a source of funds to consumers. The financing products offered by bank are home financing for consumers planning to buy of houses, personal financing for meeting additional financial needs, personal cash line, and vehicle financing for buying cars.
- **Takaful products** offer insurance packages to the individuals.

Business banking products are designed for business community. The various types of business products are:

- **Trade financing:** Banks offer a number of products that facilitate businesses in making transactions and funding their operations. For example, letter of credit issued by banks ensuring payment to the suppliers of a business; working capital financing provides business with funds to meet their short-term operational requirements, and export credit financing is used in international trade transactions.
- **Asset backed financing** allows business to buy or lease assets. According the financing includes leasing, equipment and commercial property financing, business and project financing. **Treasury services** are offered to business for a number of activities, which included inter-corporate investment, issuance of sukuk for raising funds from market, and foreign exchange services
(source: <http://www.bankislam.com.my>).

Islamic banking products, irrespective of their utility and scope, must be based on the principles of Shariah. Bank Negara Malaysia has set forth the following Shariah principles as guideline for developing Islamic products (source: <http://www.bnm.gov.my/>):

- **Wadiah (Sakekeeping)** Banks act as custodian and ensure safety of cash assets deposited in them.

- **Mudharabah** is an agreement between an investor and an entrepreneur, in which bank represents the fund providers as an investor or as an entrepreneur. The parties share profits in a predetermined ratio. The losses are borne by the fund supplier.
- **Bai' Bithaman Ajil** represents a sales deal whereby a buyer pays the seller an agreed upon profit on the sold goods. The payment is made in lump sum or in installments.
- **Murabahah (Cost plus)** is similar to BBA with the difference that seller must inform buyer about the cost of the asset and profit margin at the time of sales agreement.
- **Musyarakah** refers to business partnership or joint venture wherein partners share profits an agreed upon ratio, which may different from the proportion of their investment; losses, however, are shared in the proportion of investment.
- **Ijarah Thumma Bai'** is usually used to finance consumer goods, particularly vehicles. Two separate contracts are involved namely ijarah contract and Bai' contract, which deal with leasing/renting and purchase respectively.
- **Wakalah** is an agreement in which one part authorizes other party to represent it in a specific task. The authorizing party is called principal and the authorized party agent. Agent is paid fee or commission for the services provided
- **Qard** is an interest-free loan paid to a borrower on good will basis. Borrower pays back only the borrowed amount.

Like any other business, Islamic banks have to communicate with their customers regarding the availability of the products. Mere existence of a product, without customers knowing about them, guarantees product's failure. In the following sections, we present an account on advertising in general, followed by principles of Islamic advertising, advertising of Islamic banking products, and effectiveness of Islamic banking advertising. The essay concludes with suggestion and recommendations for improving the effectiveness of Islamic banking advertising.

ADVERTISING

The Arabic word 'Islam' literally means 'to surrender', but as a religious term in the Quran, it means 'to surrender to the will or law of Allah'. One who practices Islam is a Muslim. According to the Quran, Islam is the primeval and universal religion, and even nature itself is Muslim, because it automatically obeys the laws Allah has ingrained in it. As Islam is a complete way of life that all Muslims must follow to win this life and the life hereafter. For this reason, Muslims on basis of their belief are structured in a way that they should believe in the words of Allah (Holy Quran), and also follow the Sunnah (practice by the Prophet (PBUH)). Adding further, while interacting with others either with Muslims or Non-Muslims, a Muslims must display and practice the Islamic ethics, principles and values as stated by Quran and Sunnah.

Haque et al., (2010) in one of his papers state that, Islamic ethical system is based on religion and Muslims develop their ethical systems, approaches, teachings of ethics directly from the Holy Quran and Sunnah.

Quran and Sunnah play an essential and a fundamental role in constituting Islamic laws and regulations that describes and administers the duties, morals, and behavior of Muslims as an individual or collectively in all facet of life (Luqmani et al., 1987; Terpstra and Sarathy, 1994). The laws govern what is halal (lawful) for a Muslim in an Islamic society and forbid that it considered being against the will of Allah and his Prophet Muhammad (PBUH) (haram) (Al-Bukhari, 1976; Al-Qardawi, 1999). Few things are strictly prohibited for all Muslims apart from exceptional circumstances, such as a serious threat to life. These include *adultery, gambling, liquor, pork, interest on money, blood of animals and the meat of a dead animal scarified in the name of other than Allah*. Thus, it is to be taken under serious consideration that the products that are made of or include liquor, pork, blood of dead animal, and services such as contemporary commercial banking become haram (forbidden) for devoted Muslims (Ford et al., 1997). Therefore, it is important to understand that those products that are considered haram (forbidden) in Islam are bound to create controversy when promoted or advertised in a Muslim society. Hence it is essential to recognize as what are controversial products.

Fam et al.,(2002) conducted a study in which all controversial products were grouped in a following manner;

- Gender/sex related products (e.g. condoms, female contraceptives, male/female underwear, etc.).
- Social/political groups (e.g. political parties, religious denominations, funeral services, etc.).
- Addictive products (e.g. alcohol, cigarettes, etc.).
- Health and care products (e.g. charities, sexual diseases (AIDS, STD prevention), etc.).

The same group was consider in one of the other studies conducted by Run et al., (2010).

Adding further Religion is just not a trend that can be allowed to go by the marketer as a temporary change, but rather it is a continuing experience, and should be an area of further research for marketers. For global marketers it is advisable to offer extensive time and resources for understanding religious beliefs upon entering a new market, particularly where Muslims are in majority. Allah condemns all forms of false claims, baseless allegations, distortions, and false testimony (Al-Quran 43:19). In Islam, it is unethical that a company inflates or misrepresents the features of its products (Ibn al-Ukhuwwah, 1938). Illusory promotion giving false impression regarding a product or service is strictly proscribed in Islam, and marketers must hold ethical grounds when creating ads that are neither false or misleading, nor deceptive or manipulative (Damirchi & Shafai, 2011). It is obligatory for a seller to inform a customer about the defects of the products, particularly the one that are easily observable. Prophet (PBUH) condemned all forms of deceptive promotion by saying 'One who cheats is not among

us'. In additions, Islam prohibits any form of advertising that exploits basic human instincts. In this regard, use of 'sex appeal, emotional appeal, fear appeal, false testimonies, and pseudo research appeal' is not permitted (Damirchi & Shafai, 2011).

According to Kotler and Armstrong (2010), companies must position their products and services so that the products could be deemed valuable from the customer's viewpoint. When applying this theory back to the era of Prophet (PBUH), one could find some similarities in product offering. First, the consumers in that time were very much as careful as those in present time. Understandably, they would buy the best product as per their financial capacity. Second, many sellers offer numerous products to sell. Modern marketing theory suggests sellers to position their products in the mind of the consumers. However, an examination from several literatures (Kamaluddin, 2007; Al-Fatih, 2009; Trim, 2009) suggested that Prophet (PBUH) positioned himself as a sincere and honest trader, rather than positioned the products he sold. In other words, it seems that the sellers are more important than the objects being sold. This does not mean that Prophet (PBUH) did not think about the quality of his products. Rather, Prophet (PBUH) did total positioning of his products in a proper ethical manner.

In line to the above discussion it is very much evident that Islamic Banks while advertising their products and services need to follow a complete code of ethics sequentially to shun falling in the category of controversial products and unethical advertising. As one thinks of the basic rule of thumb that a Muslim need to not to forget to do fair dealing and avoid unscrupulous business.

ADVERTISING PRACTICES IN THE MUSLIM WORLD

One of the advertising functions is to inform people about certain product, idea, or service and try to persuade them in some way to buy that product, to adopt that service or encourage that idea. To do so, marketers should observe certain issues to make their advertising effective.

According to Haque et al., (2010), 'marketers need to observe the cultural traits, environments, norms, beliefs, and values of a particular country or region to obtain an understanding of whether their future behaviors will be perceived as ethical'. That is, when doing marketing for the products, cultural, religious, and social sensitivities of the people targeted should be taken into account by placing advertisements to effectively win their hearts and create market charisma. For example, a society that has multi-ethnic groups like Malaysia; Commercial advertisement must recognize those groups' feelings and cultural traits in a way that is considerate to their ways of living.

In addition, Haque et al., (2010) highlighted the issue of exaggerating promoted products. It is considered unethical to overlap and claim that a certain product has features that do not exist in reality and pursuing the customers to purchase it. It is also mentioned that the society is lately affected by a virus of fraudulent exposures. So, advertisements containing excessive exaggeration are regarded as form of lying, and lying is prohibited as it leads to cheating and cheating is also prohibited. Thus,

according to the Islamic teachings, a seller who knows a defect in what he is selling is obliged to disclose it.

It is assured by Haque et al., (2010) that producers of advertisements must ensure that their advertising campaign does not overstep any social or legal norms although many advertising campaigns in Muslim countries or outside reflect the free values of western society, which affects the social norms of other societies.

Another advertising practice in Muslim countries is the usage of religious to reassure consumers of the Islamic integrity of products and services. It is observed that some organizations use religious terms and Quranic words to show that its products are Shariah-compliant. By doing so, the advertised message would make the products more attractive and appealing to customers and as a result, the demand for such products will increase. Examples are the words "Bismillah" (in the name of God) or "Allahu akbar" (God is Almighty) or "Assalamu Alaikum" (peace be upon you), etc. Using these religious terms and Quranic words is encouraged in marketing and advertising products. However, it must be kept in mind that appropriate implementation of precise Islamic terms is crucial. On the other hand, businesses may face unexpected troubles in gaining markets in Muslim populous areas if somehow its advertisements create feelings that are inconsistent with religious sensitivities.

Using religious terms and Quranic words has a great impact in Muslims. They are influenced by their religion in all aspects of life. When they see advertisements including Quranic and religious term, this will give them confidence about the products. However, such message conveyed to customers through ads must be very true and without any exaggerating and without any form of lying.

ADVERTISING OF ISLAMIC BANKING PRODUCTS

Islamic banking is witnessing high demand among not only Muslims but also non-Muslims. Islamic banking products have different forms that suite customer needs that ought to be satisfied, but in a proper manner. The banking sector is marked by turbulent nature and severe competition among its participants. The intensity of competition demands that Islamic banks do not confine to fulfilling 'religious obligations of the Muslim community' but explore innovative ways of satisfying the needs of overall society. These products need intensive advertising to inform people about their existence and availability. However, as in all the business practices, Shariah must be observed carefully in advertising. Advertisers must convey the most appropriate messages that really explain their products and services without any exaggeration and reduce any confusion among customers about such products.

In their study conducted on Bank Muamalat Malaysia, Haque et al., (2010), mentioned that Islamic banking advertising must meet certain criteria that are Shariah-compliant. In this study, a total of 40 different advertisements with different incentives, launched since the bank began its commercial operations in October 1999, were collected and assessed. They were thoroughly evaluated to obtain an understanding of the incentives offered. It was followed by interviews of managers and staff of 30 branches.

It was observed that there were different interpretations of a particular incentive of the advertisement among the branches personnel.

It was also observed in this study the incentives were common and the targeted audience remained the same. After the sorting and screening process of the advertisements, a list of ten advertisements with a differentiated offering of incentives was prepared. This helped the authors to assess incentives in light of the Quran and the Sunnah. Then, further study of a sample of ten ads was performed, and exact verses applicable to the incentives of the advertisements were specified as shown in the table 1.

(Please refer to Table 1 on the next page)

Name of the products	Incentives	Shariah specification with verses of Quran	Comments under assessment
1. Takaful Nasional's product (motor vehicle, fire, house owner, personal accident, marine cargo)	Strategic alliance with comprehensive Islamic banking facility	"O mankind! We created you from a single (pair) of a male and female, and made you into nations and tribes, that you may know each other" (<i>Quran</i> 49:13)	Teamwork, international business, workforce diversity and co-operation to achieve any business or investment which is highly encouraged by Islam
2. MEPS Inter-Bank GIRO, electronic fund transfer payment system	Only RM2.00 charge for each transaction, transfer possible in any bank in Malaysia Inter bank giro crediting time is faster than cheques. It can be held without physical attendance of customer	"[. . .] don't outbid one another in order to raise the price" "Wear your beautiful apparel at every time and place of prayer; eat and drink: but waste not by excess" (<i>Quran</i> 7:31)	Common facility should not be presented as extra facility to the customers Some facilities endeavor to make the customer draw more than their savings
3. Muamalat Cash Line Facility-i (Mcash)	Seven years duration with renewable facility, irrespective of base lending rate fluctuation, profit rate is fixed, effective cash flow under fixed payment regime	"Allah does not like those who are self deluding and boastful, the vainglorious (nor) those who are niggardly, enjoin niggardliness on others" (<i>Quran</i> 4:36-7)	Islam prohibited hoarding. Encouraged to spend logically, for the circulation of wealth
4. Muamalat Personal Financing-i	Provided to 18-55 years range customer, 60 percent market value of the property is financed, as a collateral Mudarabah Investment Certificate provided	"If you are on a journey and cannot find a scribe, then a security deposit (should be) taken" (<i>Quran</i> 2:283)	Security deposits or collaterals are not encouraged in Islam unless the agreement held on journey or cannot find scribe in such a situation
5. Muamalat Istisna' Aset Tetap Financing	Flexible payment to suit the cash flow. There will be no additional cost even when there is a rise in their base financing (fixed profit rate)	"O you who have believed, fear Allah and speak words of appropriate justice" (<i>Quran</i> 33:70)	Truthfulness and directness should be more precise in case of advertisement from Islamic organization
6. Muamalat Trade Finance-i	Comprehensive Islamic trade finance facilities for local and global transactions irrespective of the conventional or Shariah-based banks of the world	"O People of the Scripture, why do you mix the truth with falsehood and conceal the truth while you know?" (<i>Quran</i> 3:71)	Concept of "Halal" (authenticated by ethics) transaction should not be mixed with conventional transactions
7. Muamalat Commercial & Industrial HP-I. Flexible, simple, and reliable	Duration seven years. High margin of finance attractive and competitive rates, fixed monthly installment, open to all types of vehicles/machinery and equipment	"Those who consume charged rates (like interest) beaten by Satan into insanity. That is because they say, 'Trade is just like interest.' But has permitted trade has forbidden interest" (<i>Quran</i> 2:275)	The price will be higher than the actual cash purchase (for attractiveness and capturing a competitive rate) which is about two times higher, but the promised incentive kept it ambiguous
8. Electronic Share Application Service	Low charge, fastest trading, ATM slip considered to be as drive of transaction	"[. . .] and spend of your substance in the cause of Allah, and make not your own hands contribute to its destruction; but do good" (<i>Quran</i> 21:195)	Common services should not be exposed in a way that may tempt the consumer to spend unwisely

Table 1: Bank Muamalat overall advertising practices and assessment comments under Shariah observation (*Journal of Islamic Marketing* Vol. 1 No. 1, 2010; p.75)

EFFECTIVENESS OF ADVERTISING ISLAMIC BANKING PRODUCTS

Advertising, like other promotional tools, aims at getting across message to customers about products offered by an organization. Accordingly, effectiveness of ads is assessed in term of the level of awareness they create among customers. However, research on the effectiveness or awareness of Islamic banking products in Muslim countries is sparse. In the following sections, we present the finding of two studies conducted in this area by Thambiah, et al. and Rammal & Zurbruegg in Malaysia and Australia, respectively.

Malaysia is one of the first countries to adopt Islamic banking system in 1983. Thambiah et al. (2011) conducted a study on the 'awareness, perception and preferences of Islamic retail banking' among urban and rural bank customers in West Malaysia. Authors argue that clear understanding of customer awareness, perception, and preferences will help banks in designing adequate strategies for enhancing their presence in the market. They found that Islamic banking is growing, but has not grown to the extent of attracting majority of customers in Malaysia. The market share of Islamic banks is higher in urban areas than in rural areas, however, it is less than that of conventional banks in both areas. The study found that only 45.8% and 38% banking customers in urban and rural areas, respectively, were aware of Islamic banking. Around 50% of respondents, majority from urban areas, are aware of the Islamic banking terms. Rural customers perceive Islamic retail banking as complex and uncertain, which hamper its adoption. The awareness of the Islamic products was more among urban customers than among rural customers. However, some of the products launched by Islamic banks, such as flexible home loans and home loans with fringe benefits, lacked popularity among customers across the board. According to authors, all these factors exist due to lack of awareness among the customers. It is imperative that banks devise appropriate promotional strategies, particularly, advertisements crafted for the various groups of customers.

Rammal & Zurbruegg (2007) conducted a survey on the awareness of and willingness to buy Islamic banking products among Muslims in Australia. In their survey of 300 respondents, conducted through questionnaires, they found that 94% of the respondents who claimed to be aware of *halal* products were interested in profit-loss sharing products. 21.9% of the respondents conveyed their reservations on using Islamic banking products in absence of credit facilities, while 34.3% disclosed reluctance to use Islamic banking products if losses are expected. In other words, awareness is not harmonious with the fundamental of Islamic banking. A larger percentage, 44%, of respondents who were not aware of the Islamic products showed lack of interest in them when informed about the possibility of losses.

With regard to the respondents who had experienced *halal* products previously, 77% of them showed willingness to buy Islamic banking products, despite the possibility of losses. Even a larger number of respondents, 80.8%, who had used *halal* products previously found Islamic banking products, with possibility of loss, attractive. Authors conclude that Islamic products can be were attractive among customers in Australia, if banks offer credit facilities and other services like ATM services, phone banking, etc.

The results of the surveys, although conducted in markets disparate markets, have a striking similarity in observing lack of awareness among majority of bank customers.

CONCLUSIONS

Islamic banks have launched a wide range of products capable of satisfying diverse needs and wants of individual consumers and businesses. However, the findings of this study reveal mass-scale lack of awareness about the products offered by the banks.

We found that in a country like Malaysia, where Islamic banking has been patronized by government, Islamic banks have not been able to attract majority of the bank customers. There is a conspicuous disparity between the Islamic banks clientele in rural and urban customers; comparatively, they have larger share in urban markets. Some of reasons for the current state of affairs are lack of awareness about Islamic banking products, lack of understanding related terminology, perception among customers, particularly rural ones, that Islamic banking products are complex and have an element of uncertainty. Besides lack of awareness about products among a significant portion of banking customers, the existing customers of banks are not informed about some of attractive products offered by the bank, like Islamic home loan with flexible repayment scheme.

The study conducted in Australia found that some of the fundamental features of Islamic banking products, like profit and loss sharing drive away some customers who know of these products; lack of credit facility impedes adoption of Islamic banking among a good number of respondents. Islamic banks are exposed to challenges of convincing customer about the virtues of profit and loss sharing products and educating them about the availability of a number of financing products that are more beneficial than credit facilities provided by the conventional banks.

The above-mentioned findings point out that the promotional strategies, including advertising, used by the Islamic banks have not been able to serve their purpose fully. Banks have to revisit their promotional policies in order to make them effective. In this regards, we recommend that:

Islamic banks launch customized awareness campaigns on large-scale. For example, the campaigns in rural Malaysia have to be more extensive than in urban Malaysia. Such an approach is commanded by lower literacy and bank usage rate among the people in rural areas. The campaign should focus on explaining the features and benefits of the Islamic products and cast off the perception of complexity and uncertainty of Islamic products.

Islamic banks offer a range of products designed for various groups of customers. In order to get across message to the target customers, banks must use different but appropriate different advertising channels. For example, products directed at the households, like deposit schemes, personal financing products, like housing and vehicle financing may be promoted through family oriented programs on television, telecasted during prime time. Similarly, banks may reach out to the business customers

through business channels and magazines. Islamic banks may use direct mail and phone banking to educate their existing clients about the new offerings.

Finally, the findings of this study are confined to the personal banking products. Islamic banks offer a number of business products and we could not find any detailed study or survey on the advertising of these products. Such a study is warranted because acceptance of business banking products among business communities is indispensable for the long-term survival and profitability of Islamic banks.

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