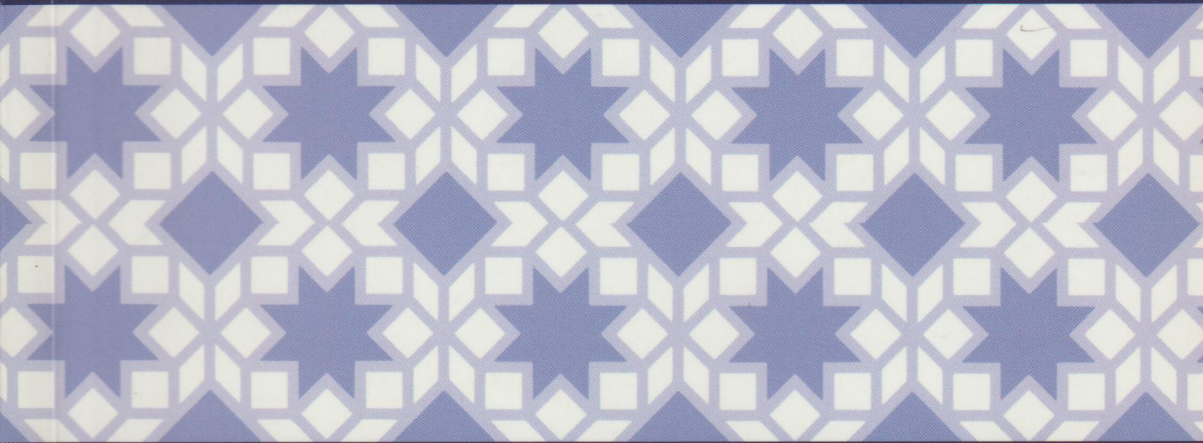


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Malaysian Islamic Bankers' Perceptions of *al-Qard al-Hasan*

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Abstract: This paper studies the perceptions of Islamic bankers in Malaysia about the concept and operation of *al-qard al-hasan*. It is based on a questionnaire survey of 13 full-fledged Islamic banks in Malaysia to which there was a 46.9% response rate. The findings show that the Islamic bankers in Malaysia are familiar with *al-qard al-hasan* and that they agree that Islamic banks should offer *al-qard al-hasan* in order to enhance corporate social responsibility and to help needy people. However, due to zero profit elements and high risk, it is very difficult to offer *al-qard al-hasan*. The paper concludes that Islamic banks need to diversify the products and services they offer so as to balance their orientation to profit with a stronger commitment to products and services, like *al-qard al-hasan* that will demonstrate their status as Islamic entities and improve their public image through good corporate social responsibility. However, offering zero profit and high risk services entails improvements in policy and operational guidelines.

JEL Classification: O16, O53, P46, Z12.

1 Introduction

Islamic law forbids the lending (or borrowing) of money on interest, but it does not forbid lending as such. *Al-qard al-hasan* is one of the permitted forms of lending. The loan is interest-free, with the borrower required to repay only the principal and permitted to pay an additional amount at his

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absolute discretion, as a token of appreciation. The purpose of such lending is to help the needy, that is, to promote social welfare. It is important for Islamic banks also to provide such loans in order to meet social needs in the community among whom they do business – it is one way in which the banks can express their ‘corporate social responsibility’ (CSR).

CSR is an issue that is being actively discussed by governments, corporations, civil society and international organizations in both developed and emerging markets. CSR sees businesses as being responsibilities not just to their owners or share-holders but also to various stakeholders in the wider society. Islamic banks are formally established and supposed to operate within the Islamic Law (*Shari‘ah*). Accordingly they are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and wellbeing. Among the services that could be provided by Islamic banks that relate to CSR are *al-qard al-hasan* and *zakāh*. The former are zero-return loans that the Qur‘ān encourages Muslims to make to the needy, and where the financier is allowed to charge the borrower a service-fee to cover the administrative expenses of handling the loan provided that the fee is unrelated to the amount and period of the loan. *Zakāh* is a religious tax on wealth above a certain minimum; the funds thus collected being distributed among the needy.

In order to understand the trends in *al-qard al-hasan* financing in Malaysia, table 1 provides bank based data over the years. As can be seen, from 2001 to 2010, only four Islamic banks in Malaysia provided any *al-qard al-hasan* financing with the amount varying from one bank to another. In the case of BIMB (Bank Islam Malaysia Berhad), the bank provided *al-qard al-hasan* financing only between 2001 and 2008. BMMB (Bank Muamalat Malaysia Berhad) only began providing *al-qard al-hasan* financing in 2004, with Al Rajhi starting to do so only in 2006. KFH (Kuwait Finance House Malaysia) only provided *al-qard al-hasan* financing for the years 2006 and 2007.

Table 1: Trends in Al-Qard al-Hasan Financing in Malaysia

| Year Banks | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------|------|------|------|------|------|-------|-------|-------|------|------|
| BIMB | 7.71 | 8.09 | 7.55 | 6.77 | 8.10 | 10.37 | 12.81 | 15.14 | - | - |
| BMMB | - | - | - | 0.16 | 0.17 | 0.12 | 0.23 | 0.43 | 0.07 | 0.07 |
| Al Rajhi | - | - | - | - | - | 9.66 | 0.15 | 0.12 | 0.10 | 0.09 |
| KFH | - | - | - | - | - | 0.01 | 0.001 | - | - | - |

From the trends in Table 1, it can be inferred that Islamic banks in Malaysia have yet to enter into the spirit of offering *al-qarḍ al-ḥasan* financing: only four banks have done so, and the amount offered is minimal.

This paper reports the findings of an exploratory study on the perceptions of Malaysian Islamic bankers about *al-qarḍ al-ḥasan*. The objective of Islamic banking is not merely to make profits but also to cater to the needs of the society as a whole. This study proposes that Islamic banks should offer *al-qarḍ al-ḥasan* as an expression of social responsibility. The paper discusses the problems for Islamic banks in offering *al-qarḍ al-ḥasan* and it tries to identify the differences in perceptions about *al-qarḍ al-ḥasan* among Malaysian Islamic bankers.

Following this introduction, section 2 presents a review of the available literature after discussing the role of *al-qarḍ al-ḥasan* in enhancing CSR. Section 3 explains the research methods used in this study and how they were applied. The findings are presented in section 4 followed in the final section 5 by a summary of the findings and their implications. Before moving on to the next section, it is worth looking at the figures in Table 1 below, which indicate the *al-qarḍ al-ḥasan* financing provided by Islamic banks in Malaysia as a percentage of their total financing between 2001 and 2010.

II. *al-Qarḍ al-Ḥasan*: Concept

The primary reference for *al-qarḍ al-ḥasan* is the Qur'ān, where we find at least three mentions of the term:

Who is he that will lend to Allah a goodly loan so that He may multiply it to him many times? And it is Allah that decreases or increases (your provisions), and unto Him you shall return (2:245).

Who is he that will lend to Allah a goodly loan, then (Allah) increases it manifold to his credit (in repaying), and he will have (besides) a good reward. (57:11).

... So recite as much of the Qur'ān as may be easy (for you) and offer the prayers perfectly, and give *Zakāt*, and lend to Allah a goodly loan, and whatever good you send before you for yourselves, you will certainly find it with Allah better and greater in reward ... (73:20)

Al-qarḍ al-ḥasan is here clearly characterized as a loan to Allah, which He will return many times over and reward.

The Prophetic hadiths likewise contain clear reference to *al-qarḍ al-ḥasan*. One such hadith is reported by Ibn Majah, Ibn Hibban and Baihaqi, and another by Ibn Majah and Baihaqi (Antonio, 2000: 186–7). Both these

ḥadīths strongly urge Muslims to lend to fellow Muslims in need. The value of such lending is said to be equivalent to the practice of *ṣadaqah* or charity. Interestingly, in the second hadith, which refers to the *mi' rāj*, the Prophet saw the statement in paradise, where the reward for lending is eighteen-fold, much higher than the rewards for charitable giving which is tenfold.

The consensus of the *ulema*, on the basis of the Qur'ān and hadith, confirms the lawfulness and virtue of *al-qarḍ al-ḥasan* among the valued norms of Muslim social life. The definition is easily found in many text books. For example Ayub (2007: 492) says: 'Qarḍ literally 'o cut'. It is so called because the property is cut off – transferred to the borrower'. He then adds:

Legally, qarḍ means to give anything having in the ownership of the other by the way of virtue so that the latter may avail himself of the same for his benefit with condition that the same similar amount of that thing will be paid back on demand or at the settled time. The repayment of loan is obligatory. Loans under Islamic law can be classified into *Salaf* and qarḍ. The former being for a fixed time and the latter payable on demand. qarḍ is, in fact, a particular kind of salaf. (Ayub, 2007: 492)

Ayub further explains that: '*al-qarḍ al-ḥasan* [is] a virtuous loan. A loan with the stipulation to return the principal sum in the future without any increase; in Islamic law, all loans have to be virtuous, as seeking any benefit from loaning amounts to *ribā'*'.

Abdul Rahman (2006) defines '*qarḍ*' as the transfer of ownership of an asset or money from the original owner to another party on condition that the asset or money will be returned to the owner in the same condition/form/value as when it was first received by the other party from the owner.

He furthermore added as saying that 'borrowing or 'Qarḍ' in Islam is a contract, which is based on the concept of mutual help (*tabarru'*) and contemplation for others' wellbeing especially the people in need' (Al-Mughni, Ibn Qudamah, 4/353). Thus, Islam highly encourages the practice of '*al-qarḍ al-ḥasan*' as stated in the Hadith of the Prophet Muhammad (*pbuh*): 'One who releases his brother from difficulties, Allah will release him from the hardships in the Hereafter' (Hadith Muslim).

A more precise formulation is offered by Bank Negara Malaysia as follows: 'A bank will grant a benevolent loan to the applicant who wishes to pawn his valuable item. The loan will be issued under the concept of *al-qarḍ al-ḥasan*, whereby the customer is only required to pay the amount borrowed'.

According to Karim (2005: 106), the *al-qarḍ al-ḥasan* is usually applied for any of these four purposes:

- (i) As a bridging loan for pilgrimage, whereby a would-be pilgrim is given a loan to meet the requirement of prepayment of the travel expenses for pilgrimage.
- (ii) As cash advance from the *Shari'ah* credit card, whereby a client is given the flexibility to withdraw cash from the bank via ATM. The client has to repay within a given period.
- (iii) As a small business loan, in a situation where, by the bank's estimation, any other financing scheme, such as sale-and-purchase *ijarah* or profit-sharing, would over-burden the client.
- (iv) As a credit loan to the bank's staff which the bank facilitates to enable staff to meet a need. The employee repays the loan by installments or deductions in salary.

Antonio (2000: 187) also lists the same purposes as particularly applicable by the banking industry.

2.2. *Al-qard al-hasan* fund resources

Since the *al-qard al-hasan* is not a profit-oriented service, the funds for it might be obtained from one or more of the following sources: (a) bank capital; and (b) doubtful funds received and controlled by the bank. The latter include, for example, the unavoidable interest earned from some correspondent conventional banks, or funds accruing from penalties imposed on customers.

2.3. Empirical study on *al-qard al-hasan*

The only empirical study on *al-qard al-hasan* was done by Adnan and Puriwardana (2006). This was a case study on the evaluation of non-performing-loans (NPL) in Bank Negara Indonesia (BNI) Syariah, Yogyakarta branch.

Among the findings of this study is that the BNI Syariah in general, and the Yogyakarta branch in particular, offered the *al-qard al-hasan* or benevolent loan service. It is reported that the bank allocated IDR 175,077,500, IDR 247,317,000 and IDR 249,817,000 for 2003, 2004 and 2005 respectively. Unfortunately, the yearly increase of the fund loaned on the basis of *al-qard al-hasan* was matched by the increase in its non-performing loan (NPL), from 21% in 2003 to 25% in 2004 and 26% in 2005.

Among the important findings of that research is that the bank did not manage the service well, as no specific person or group of employees were assigned to plan and control its operation. It is also worth noting

that the main factor related to the high rate of NPL was the character of the borrowers or customers. It is proven statistically that the two variables (character of borrower and NPL) were significantly associated.

A discussion forum on *al-qard al-hasan* is reported in the IBR Review (2008: 10–13), where many express their views on Islamic bank deposits and *al-qard al-hasan*, but the discussion is confined to general observations and theoretical, not practical, issues.

III. Research Method

The objectives of the study are, first, to explore the perceptions about *al-qard al-hasan* among Islamic bankers in Malaysia; secondly, to highlight the problems for the banks in offering *al-qard al-hasan*; and, finally, to determine the differences in perceptions about *al-qard al-hasan* in Malaysian Islamic Banks.

Secondary data were first compiled to get the information on the Islamic banks that offer *al-qard al-hasan* and only then the primary data for this study were collected, through a questionnaire survey to get the respondents' perceptions about *al-qard al-hasan*. The survey approach using the questionnaire is believed to be the most appropriate technique for collecting primary data. It also allows quantitative analysis to be conducted in testing the deductions and it also has potential to generalize the findings (Neuman, 2003). The questionnaire consisted of four sections. The first section was designed to gather information about the respondents' general awareness about *al-qard al-hasan*; the second to gather information about the bankers' perception about *al-qard al-hasan* in general; the third to gather information about the respondents' commitment to *al-qard al-hasan* and the problems they faced. The last section was designed to gather information about the respondents' personal and demographic characteristics.

According to Sekaran (2000), the most appropriate sample size for research should be larger than 30 and less than 500. 130 questionnaires were distributed by post in order to be sure of a response rate that would fall within the sample sizes proposed by Sekaran (2000). This study focused only on the bankers working in the 13 full-fledged Islamic banks in Malaysia.

The data was analysed using the SPSS software, v. 12.0 to tabulate the results. This study used the frequency test to present the information on the profiles of the respondents and the bank facilities they used. The frequency distribution of the respondents was based on their demographic details such as gender, age, religion, educational level, occupation and experience.

In addition, a descriptive test was used to present the perceptions of the respondents about *al-qard al-hasan*.

IV. Findings

This section presents the analysis and findings of the study. The first subsection (4.1) presents results from the review of the Islamic banks' annual reports. 4.2 then discusses the findings from the questionnaire survey, which include the profile of the respondents, the perceptions on *al-qard al-hasan* and the problems in offering *al-qard al-hasan* as experienced/reported by Islamic bankers in Malaysia.

4.1. Review of the Banks' Annual Reports

This section presents the evidence on the Islamic banks that offer *al-qard al-hasan*. The study reviewed 13 full-fledged Islamic banks' annual reports in Malaysia for the years 2007 and 2008. It emerges clearly from this brief review that only three Islamic banks mention *al-qard al-hasan* in their financial statements, namely Bank Muamalat Malaysia Berhad, Al Rajhi Banking and Investment Corporation (Malaysia) Berhad and Kuwait Finance House (Malaysia) Berhad. The details are shown in Table 1.

Table 1: Review of annual report: Malaysian Islamic Banks

| Full-fledged Islamic Banks | <i>al-qard al-hasan</i> (Y/N) | Amounts reported | |
|---|----------------------------------|------------------|-------------|
| | | 2007 (RM) | 2008(RM) |
| 1) Bank Muamalat Malaysia Berhad | Y | 508,219,000 | 396,829,000 |
| 2) BIMB Holdings Berhad | N | | |
| 3) RHB Islamic Bank Berhad | N | | |
| 4) AmIslamic Bank Berhad | N | | |
| 5) EONCAP Islamic Bank Berhad | N | | |
| 6) Affin Islamic Bank Berhad | N | | |
| 7) Hong Leong Islamic Bank Berhad | N | | |
| 8) Al Rajhi Banking & Investment Corporation (Malaysia) Bhd | Y | 2,841,000 | 3436,000 |
| 9) Kuwait Finance House (Malaysia) Berhad | Y | 33,000 | |
| 10) Maybank Islamic Berhad | N | | |
| 11) CIMB Islamic Bank Berhad | N | | |
| 12) Asian Finance Bank | N | | |
| 13) Bank Rakyat Malaysia | N | | |

Another review was done of the annual reports of a few Islamic banks in Bahrain, Kuwait and Indonesia for the years 2007 and 2008. The results are presented in Table 2. In Bahrain, only Bahrain Islamic Bank reported *al-qard al-hasan* financing in its annual reports. For Kuwait, Boubyan Bank disclosed *al-qard al-hasan* under short-term Murabaha and other financing but the actual amount was not disclosed. For Indonesia, both the banks reviewed, Bank Syariah Mandiri and Bank Syariah Mega Indonesia, reported *al-qard al-hasan* in their financial statements.

Table 2: Review of Annual Report: Islamic Banks in Bahrain, Kuwait and Indonesia

| Full-fledged Islamic Banks | al-qard al-hasan (Y/N) | Amounts reported | |
|-----------------------------|------------------------|------------------|---------------|
| | | 2007 | 2008 |
| Bahrain | | | |
| | | BD '000 | BD '000 |
| Bahrain Islamic Bank | Y | 93 | 101 |
| Albaraka Islamic Bank | N | – | – |
| Khaleeji Commercial Bank | N | – | – |
| Kuwait Finance House | N | – | – |
| Ithmaar Bank | N | – | – |
| Kuwait | | | |
| | | KD '000 | KD '000 |
| Kuwait Finance House | N | – | – |
| Boubyan Bank* | Y | Not available | Not available |
| Kuwait International Bank | N | – | – |
| Indonesia | | | |
| | | IDR '000 | IDR '000 |
| Bank Syariah Mandiri | Y | 1,353,762 | 2,049,534 |
| Bank Syariah Mega Indonesia | T | 80,036 | 743,121 |

Note: (*) *al-qard al-hasan* is reported as Short term *murabahah* and other Islamic financing. The exact amount of *al-qard al-hasan* cannot be identified.

4.2. Results from Questionnaire Survey

130 questionnaires were distributed to 13 full-fledged Islamic banks in Malaysia, 10 for each bank. Out of the 130 distributed questionnaires, 61 were returned, a response rate of 46.9 per cent.

Table 3 summarizes the demographic information about the respondents. As shown in Table 3, 59.3% of the respondents are male and 40.7% are female. Most of the respondents are in the age group 31–41 years old (51.7%). In addition, 95% of the respondents are Muslim and only 5% are

non-Muslim and they are well educated, holding at least a bachelor's degree or above (76.6% in total). The majority of them have more than 5 years working experience in either middle or top management (83.4% in total).

Table 3: Profile of Respondent

| Profile Item | | Percent |
|--------------------|---------------------------------|---------|
| Gender | - Male | 59.3 |
| | - Female | 40.7 |
| Age | - Below 20 years | - |
| | - 20-30 years | 23.3 |
| | - 31-40 years | 51.7 |
| | - 41-50 years | 15 |
| | - Above 50 years | 10 |
| Religion | - Muslim | 95 |
| | - Non Muslim | 5 |
| Education Level | - Secondary school | 11.7 |
| | - College/diploma/matriculation | 11.7 |
| | - Bachelor's (first degree) | 48.3 |
| | - Professional qualification | 10 |
| | - Postgraduate (Masters or PhD) | 18.3 |
| Occupation | - Top management | 13.3 |
| | - Middle management | 41.7 |
| | - Lower management | 41.7 |
| | - Others | 3.3 |
| Working Experience | - Less than 1 year | 19 |
| | - 1-3 years | 29.3 |
| | - 3-5 years | 12 |
| | - More than 5 years | 39.7 |

Before conducting parametric test, it was important to test for normality of each variable. The normality of variables was measured using skewness, kurtosis, Kolmogorov-Smirnov and histogram. The results of the normality test are presented in Table 4.

The analysis of normality indicates that most of the variables are negatively skewed with tendency to the right side of a graph (scores clustered to the high end). On the other hand, the kurtosis value shows a slightly positive value indicating the distribution that is clustered a bit at the centre. Significant Kolmogorov-Smirnov statistic shows violation of normality assumption. A non-significance result (significance value of more than 0.05) indicates normality (Pallant, 2001). From the analysis, the study concluded

that the data for all variables are not normally distributed. Therefore, non-parametric tests can be used for this study.

Table 4: Test of Normality

| | Kolmogorov-Smirnov ^a | | | Shapiro-Wilk | | |
|--|---------------------------------|----|-------|--------------|----|-------|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Familiarity | 0.342 | 30 | 0.000 | 0.719 | 30 | 0.000 |
| Help needy | 0.317 | 30 | 0.000 | 0.742 | 30 | 0.000 |
| Enhance scr | 0.353 | 30 | 0.000 | 0.718 | 30 | 0.000 |
| No return | 0.290 | 30 | 0.000 | 0.771 | 30 | 0.000 |
| Written off | 0.294 | 30 | 0.000 | 0.857 | 30 | 0.001 |
| Paid back on demand | 0.283 | 30 | 0.000 | 0.849 | 30 | 0.001 |
| not offer | 0.270 | 30 | 0.000 | 0.852 | 30 | 0.001 |
| Current account use <i>al-qard al-hasan</i> | 0.246 | 30 | 0.000 | 0.898 | 30 | 0.007 |
| Charge service fee | 0.333 | 30 | 0.000 | 0.805 | 30 | 0.000 |
| Callateral | 0.263 | 30 | 0.000 | 0.882 | 30 | 0.003 |
| Problem 1 | 0.257 | 30 | 0.000 | 0.837 | 30 | 0.000 |
| Problem 2 | 0.236 | 30 | 0.000 | 0.841 | 30 | 0.000 |
| Problem 3 | 0.252 | 30 | 0.000 | 0.866 | 30 | 0.001 |
| Problem 4 | 0.214 | 30 | 0.001 | 0.923 | 30 | 0.033 |
| Problem 5 | 0.279 | 30 | 0.000 | 0.862 | 30 | 0.001 |
| Problem 6 | 0.475 | 30 | 0.000 | 0.425 | 30 | 0.000 |

a. Lilliefors Significance Correction

The results from the frequency tests presented in Table 5 show that the majority of the respondents are familiar with *al-qard al-hasan* (52.5%) and they also agreed that Islamic banks should offer *al-qard al-hasan* (85%).

Table 5: Islamic Bankers' Familiarity with al-Qard al-Hasan

| Items | Frequency (%) |
|---------------------|---------------|
| Very Familiar | 31.1 |
| Familiar | 52.5 |
| Not Sure | 4.9 |
| Not Familiar | 6.6 |
| Not Familiar at all | 4.9 |
| Total | 100 |

This study also aims to explore Islamic bankers' perceptions about *al-qard al-hasan* by using the descriptive tests. The results are shown in Table 6.

Table 6: General Information on al-Qard al-Hasan (Descriptive)

| | N | Mean | Std. Deviation |
|---|----|------|----------------|
| 1. Help needy | 61 | 4.44 | 0.563 |
| 2. Enhance CSR | 61 | 4.39 | 0.665 |
| 3. No return | 60 | 4.12 | 0.885 |
| 4. Written off | 60 | 3.45 | 0.928 |
| 5. Paid Back on demand | 60 | 3.12 | 1.091 |
| 6. Not offer | 61 | 2.20 | 0.872 |
| 7. Current account use al-Qard al-Hasan | 43 | 3.49 | 1.009 |
| 8. Charge service fee | 60 | 3.68 | 0.892 |
| 9. Collateral | 59 | 3.32 | 1.041 |
| 10. Managed seperately | 60 | 3.92 | 0.787 |
| 11. Does not add value | 61 | 2.30 | 0.955 |

Table 6 shows that the majority of the respondents agreed with item 1: *al-qard al-hasan* financing can help the needy (with high means and relatively low standard deviation of 4.44 and 0.563, respectively). This indicates strong agreement among the respondents.

The majority of the respondents agreed that (item 2): '*al-qard al-hasan* enhances corporate social responsibility'. A mean of 4.39 and high standard deviation of 0.665 indicates that the respondents viewed *al-qard al-hasan* as enhancing CSR. Therefore, it is very important for Islamic banks to offer *al-qard al-hasan* so that the bank is perceived as incorporating corporate social responsibility in its activities.

The majority of the respondents who agreed that (item 3): '*al-qard al-hasan* is less popular due to no return to Islamic banks'. A relatively high mean of 4.12 and standard deviation of 0.885 again indicates a strong agreement amongst the respondents.

The respondents agreed that (item 10): '*al-qard al-hasan* should be managed separately from other products'. A relatively low mean and relatively high standard deviation of 3.92 and 0.787 respectively implies that respondents accorded some importance to *al-qard al-hasan* transactions being managed separately from others.

The study also asked which groups of stakeholders should be offered *al-qard al-hasan*. An examination of mean values for the different groups

suggests that the group considered the most deserving of such financing is 'needy students and other economically weaker sections of the society', followed by 'Islamic banks' staff'. On the other hand, the least deserving groups as perceived by Islamic bankers are 'non clients of Islamic banks' and 'any individuals'.

The study aimed to explore the main problems identified by Islamic bankers in offering *al-qard al-hasan* financing. The respondents were asked to rank the six assigned problems in order of seriousness with 1 the most serious and end with 6. Table 7 shows the problems as laid out in the questionnaire.

Table 7: Problems of al-Qard al-Hasan

| |
|---|
| Not able to generate any profit |
| Not able to cover the financing |
| High administrative and transaction costs |
| High risk |
| No support from top management |
| No demand from customers |

Based on the findings, the majority of the respondents rank 'not able to generate profit' as the main problem of *al-qard al-hasan*, followed by 'high risk' and 'not able to cover financing'. This indicates weak understanding of the respondents on *al-qard al-hasan* because *al-qard al-hasan* should not include any profit elements. 'No support from top management' and 'no demand from customers' were perceived to be the least serious in Islamic banks in offering *al-qard al-hasan*.

The respondents were also asked which of the listed instruments will be most likely to use *al-qard al-hasan*. In general, there were no specific instruments that can apply this *al-qard al-hasan* but majority of the respondents agreed that *al-qard al-hasan* can be mainly used for financing (33.3%).

Lastly, the study aimed to identify differences (if any) among Islamic bankers' perceptions about *al-qard al-hasan* and the problems they perceived as serious. Table 8 shows the significance test for all the items. From the Table, it can be seen that all the Kruskal-Wallis values are more than 10%, with the exception of items 2 and 3, '*al-qard al-hasan* enhances CSI' and '*al-qard al-hasan* is less popular due to no return to Islamic banks', where the Kruskal-Wallis values are less than 10%. This indicates that there is no significant difference in the perceptions of the Islamic bankers as regards the identified statements.

Table 8: Perceptions on the Aspects of al-Qarḍ al-Ḥasan

| Items | Kruskal-Walis |
|---|---------------|
| a) <i>Al-Qarḍ al-Ḥasan</i> can help the needy. | 0.234 |
| b) <i>Al-Qarḍ al-Ḥasan</i> enhances corporate social responsibility. | 0.088 |
| c) <i>Al-Qarḍ al-Ḥasan</i> is less popular due to no return to Islamic banks. | 0.015 |
| d) It is also a belief that <i>Al-Qarḍ al-Ḥasan</i> can be written off. | 0.141 |
| e) <i>Al-Qarḍ al-Ḥasan</i> must be paid back on demand. | 0.209 |
| f) Islamic banks should not offer <i>al-Qarḍ al-Ḥasan</i> | 0.181 |
| g) Current account of Islamic banks can apply <i>al-Qarḍ al-Ḥasan</i> principle. | 0.148 |
| h) Islamic banks can charge some service fee to cover the administrative and transaction costs in <i>al-Qarḍ al-Ḥasan</i> . | 0.260 |
| i) Islamic banks may require collateral to offer <i>al-Qarḍ al-Ḥasan</i> . | 0.439 |
| j) <i>Al-Qarḍ al-Ḥasan</i> should be managed separately from other products. | 0.147 |
| k) <i>Al-Qarḍ al-Ḥasan</i> does not add value to Islamic banks. | 0.792 |

With regard to perceptions about the problems of *al-qarḍ al-ḥasan* financing, there are also no significant differences among different level of Islamic bankers, with the exception of problem 4: 'High risk' where the Kruskal-Walis value is less than 10%.

V. Summary of the Findings

The responses from several groups of respondents were analysed using descriptive statistics and tested using non-parametric tests.

The survey questionnaire received a high response rate (46.9%); therefore, the conclusions below may be considered to be representative of informed opinion among the bankers in Malaysian Islamic banks.

The responses given by the respondents of this survey reflected their perceptions about *al-qarḍ al-ḥasan* and the problems associated with it. The findings are divided into four sections: 'knowledge and awareness about *al-qarḍ al-ḥasan*', 'general information on *al-qarḍ al-ḥasan*', 'problems of *al-qarḍ al-ḥasan*' and 'differences in perceptions among the Islamic bankers'.

The findings show that the majority of the Islamic bankers in Malaysia in the study are familiar with *al-qarḍ al-ḥasan* and agree that Islamic banks should offer such financing to enhance their corporate social responsibility. They are aware that *al-qarḍ al-ḥasan* is offered to help needy people. The findings confirm that the needy, particularly needy students, will be the most

important groups to whom the Islamic banks would offer *al-qard al-hasan*. This is not a surprising finding as *al-qard al-hasan* is a benevolent loan, zero-return financing, that will definitely be favoured by the needy people as repayment instalments will be lower. However, seeming to contradict this finding, Islamic bankers also perceived the most serious problem with offering *al-qard al-hasan* was that it is 'not able to generate profit'. This somehow shows lack of understanding of the very definition of *al-qard al-hasan*, which is not supposed to earn any profit. 'High risk' was also perceived as a very serious problem.

When the perceptions between the top management, middle management and lower management were tested for significant differences, it was found that there were no significant differences among them except for the propositions '*al-qard al-hasan* enhances corporate social responsibility' and '*al-qard al-hasan* is less popular due to no return to Islamic banks'. Similarly, there were no significant differences in respect of the problems with *al-qard al-hasan* financing except for the 'high risk' issue, where there was significant difference among the three groups. In addition, the majority of the respondents agreed that *al-qard al-hasan* should be applied to meet financing needs.

Overall, the findings of this study could provide some encouragement to Islamic banks to diversify their products and services by offering *al-qard al-hasan* financing to their customers. The study shows that Islamic bankers in Malaysia perceived *al-qard al-hasan* as an important service to offer to customers. However, such service can only be provided sustainably if operating procedures are properly developed so that there are no recurring problems with the service. Also, the likely customers should be clearly identified so that *al-qard al-hasan* financing is properly used to meet the needs of the society.

As Islamic entities, Islamic banks are accountable to Allah and to the communities in which they operate and have a duty to be transparent in all their activities. Based on these principles, *al-qard al-hasan* is definitely a service that would meet the expectations of the Islamic community.

The findings confirm the suspicion among some members of the public that Islamic banks have only a strong profit-motive orientation. They do not have the appropriate balance to also function well socially (as opposed to commercially), as is expected according to the tenets of Islam. The Islamic banks' senior management in particular need to be warned about this issue. In the long term, if this imbalance persists, the existence of Islamic banks will come into question as they increasingly and evidently fail to achieve the purpose of Islamic law, which is their reason for existing.

Since the study also found a misunderstanding among Islamic bankers of the *al-qard al-hasan* concept, they need to be taught more the Islamic services that banks could provide: the focus should be not just on commercial or profitable products and services but also on those integrally linked to the Islamic character of Islamic banking, such as *al-qard al-hasan* and *zakāh*.

Since we found that the majority of respondents agree that the *al-qard al-hasan* can help the needy, and also enhance corporate social responsibility, it is perhaps time that Bank Negara Malaysia, the country's central bank, enforced *al-qard al-hasan* implementation on all Islamic banks under its supervision. Two purposes, hopefully, might be achieved by such a measure: first, to balance the profit motive with a socially responsible orientation and, second, to enable Islamic banks with good corporate social responsibility to have a better image with the communities among which they do business.

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