

The Extent of Market Acceptance of the Development of an Effective Islamic Banking System in Libya

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Abstract—Measuring the level of citizens' acceptance towards the implementing of Islamic banking system in Libya is an imperative step in the development of the banking industry in the country. In addition, citizens' acceptance of Islamic banking system can ensure success only when incorporated into the prevailing and adequate understanding of this system. Relevant literature was reviewed. The review assisted the researcher in formulating the research objectives, questions, aims, and framework. The quantitative research method was employed to derive the relationship among the variables of the study. The sample of the study consisted of 500 bank clients located in Tripoli, the most important commercial city in Libya in which questionnaires were randomly distributed to the selected sample. The findings indicated that Libyan citizens are not satisfied with the current financing system which deals with usury and they prefer employing an Islamic tool such as "Qard AL-Hasan" in the country.

Index Terms—Qard AL-Hasan, murabaha, satisfaction, banking industry.

I. INTRODUCTION

In the late seventies and early eighties, Muslim communities were awoken by the emergence of Islamic banks which provided interest-free banking facilities. In addition, the practice of Islamic banking was prevalent across several countries with intense activity in Malaysia, Bahrain, Europe and the USA [1], [2]. One of the important observations that should be considered, when studying the Islamic system of economics, is that Islam began to shape the economic life of Muslims from the early days of revelation. Later, it gave the basis and principles of the entire economic system of the Muslim Ummah. The history of Islamic banking began from the early days of Islam. The most important events, which later shaped the practices of banking in Islam, were the revelations that prohibited Muslims from dealing with Riba (usury). In addition to these revelations, the Prophet (peace be upon him) on many occasions condemned the 'taker and giver' of Riba (usury) [3]. In Libya, government has taken several steps to show itself as a devout Islamic government. During the 1970s, Islam in Libya played a major role in legitimizing spheres of political and social reform, but not in the realm of economics and finance. Moreover, during this time the Libyan banking sector witnessed a significant transformation, and characterized for more than three decades by the massive state Intervention in the commercial banking sector. The prospect of Islamic banks in Libya, like

in other countries, began by identifying the reasons that appeared in the report of the experts and specialists who have analyzed the financial crisis, in the East as well as in the West, based on the religious differences, sex, etc. The majority of these experts agree that the causes that led to the financial collapse in the world were brought about by the irregularities that emerging from the rejection of the legitimacy of the Islamic banking system. The mortgage debt crisis is one of the major contributing factors towards the financial crisis, as real estate credit is dependent on an interest-based lending for home ownership at the time of the financial crisis of 2008, the volume of trading in the financial markets stood at almost 250 trillion dollars. On the other hand, the gross national product of the countries in the world at large, stood at only 48 trillion dollars. In this regard, we can figure out the size of deception that has resulted in debt buying and selling [4].

Due to the above-mentioned crisis, the urgent desire of the Islamic banks and other investment vehicles emerged to initiate private, interest-free loans (Qard AL-Hasan). In subsequent studies, it was found that ordinary people in Libya, especially those with limited income and the younger generation, especially those at marriageable age that requested to own houses were thwarted in doing so due to the usurious loans that were being offered.

The literature reviewed in Libya indicates that the public banking has become accustomed to interest (Riba) as being part of the social financing activities of the country [5]–[6]. In addition, there is a lack of effective Islamic banking system which has fragmented a considerable segment of the Libyan population who naturally lead an Islamic life and, in turn, has resulted in financial exclusion. Moreover, the reviewed literature indicates that the citizens are dissatisfied with the conventional banking services, and thus, they seek a banking system in accordance with Islamic doctrines and moral principles that signifies search for a new Islamic identity [6].

Besides, implementing an accurate Islamic financing tool needs to be prioritized in the government's financing agenda. In accordance with the above-mentioned situation, the present study aims to go deeply into the outlook of the consumers as well as the environment in its support for the introduction of Islamic banking principles, products, and services in the current banking system.

II. LITERATURE REVIEW

A. The Libyan Banking System

After the 1st of September 1969 revolution, it was decided to raise the national shareholding in foreign banks to 51%. All foreign banks operating in the country, at this

time, were subjected to this decision. However, Barclays Bank and Banco de Roma decided to procrastinate in implementing this decision and demanded a joint equal share management between the two parties involved namely, the banks and the Libyan government. The procrastination of the British and the Italian banks did not last for long, as all foreign banks became fully nationalized and owned by the state. Moreover, all the banks were given new names in Arabic.

The commercial banking sector in Libya comprises of two types – namely the state-owned commercial banks and the private commercial banks. In addition, there is the Central Bank of Libya (CBL) which is considered as the coordinator and monitor of the sector. The Libyan commercial banking industry employs approximately 15,000 people. The commercial banks are state-owned banks, national banks owned by stock holders, or enterprises owned by companies called bank holding companies and can be defined as "institutions that accept deposits, offer business loans and give related services.". There are now five state-owned Libyan banks. Which were old state-owned commercial banks and now they have changed into the National Commercial Bank (NCB). Libyan banking systems are still primarily conventional in practice and hence they are far behind in catching up with the Islamic banking practices throughout the world. Although the costumers were looking forward to have the full fledge Islamic bank services in the countries, the approach of the government has been to slowly adopt the element of Islamic banking within the current practices of commercial banks.

Banks operating in Libya between Acceptance and Rejection

All the previous studies on the Libyan banks ignored the implications of the Libyan banks operation on the community. This has affected the Libyan economy, but most of the studies discussed in one way or another the negative aspects of commercial banks operating in Libya, and the follower of these negative view have found the reaction of the community when the bank interest was in contradiction with the values of the Libyan Muslim society. However, the picture would be very clear if the results of the studies are traced and conducted on the extent of satisfaction of customer and staff at Libyan banks [5].

The results can be summarized as follows:

- Customer dissatisfaction stems from commercial banking services that require interest rates on loans.
- Owners refuse to deal with banks because of interests, and as result, the bank system will be in shortage of cash.
- Citizens only deal with banks operating in Libya because such behavior is imposed on them. For instance, employee salaries are directly transferred to a particular bank.
- Demand for interest-based loans is only due to the lack of an alternative option. Urgent needs to build a house, among others, force clients to accept interest-based loan schemes.
- Some bank employees ask about the legitimacy of the banks that employ them.

Moreover, a number of employees immediately resign from their position due to the reasons related to Islamic

advisory opinions on the legalities of banks that deal with interests. These factors increase dissatisfaction with Libyan banks. Despite the presence of a number of commercial banks and specialized branches located throughout the country, the following table displays the number of banks and their operating branches in Libya.

III. METHODS

Most researchers believe that qualitative and quantitative methods can be used together as a valuable option to obtain complementary findings and to strengthen the results. To achieve the aims and objectives of this study, both quantitative and qualitative method were employed and cross-validated in order to produce more reliable empirical data which cannot be produced from any single method. However, in order to go deeply to the heart of matter, the researcher used two kinds of techniques for data collection and investigation. The first technique is the interview in which the basis of the Libyan banking system, information on its background and the possibility of establishing Islamic banking in the country will be considered. The second technique is the use of the questionnaire as an investigative tool to learn about the Libyan banking sector's clients.

IV. FINDINGS AND DISCUSSION

This section presents and discusses the findings obtained from 500 questionnaires. The sample responses to the questionnaire were analyzed. The results shown in this section have already been processed and analyzed. In addition, the findings demonstrate the potential for merging theory and practice. Overall, descriptive statistical analysis was used to identify frequencies and percentages to answer all of the questions in the questionnaire and to confirm or refute its hypothesis.

The statistical significance of relationships among selected variables was determined via using the level of significance set at 0.05.

The results of the study indicated that customers in Libya support the introduction of the Islamic banking system in Libya. The obtained data confirmed that a large number of customers support the introduction of the Islamic banking system and its Islamic tools such as (Qard al Hassan). In which the t-counted for depositors' support (X) is 14.223 with p-value 0.000 lower or "<" than 0.05. This means that, the observed effect is statistically significant. Therefore, it is revealed that "Depositors' will give strong support to the introduction of Islamic banking system in Libya". In line with the obtained results, the current research optimizes that the Islamic banking system will assure progress in Libya.

V. DISCUSSION

The findings obtained in the current study indicate that Libyan people are actually forced to open accounts with conventional banks rather than Islamic ones even if they do not like the interest rate and that AL-Quran also forbids it. However, one of the main obstacles existing in the country is that the Islamic banks are not adequately introduced in the country. This situation may be due to the 1st of September

1969 revolution which enforced Libyan banking system to become primarily conventional in practice and hence is far behind in catching up with the Islamic bank practices throughout the world.

This was due to the raised national shareholding in foreign banks to 51%. All foreign banks operated in the country and became fully nationalized and owned by the state. Moreover, all of the banks were given new names in Arabic which also created a level of confusion among the Libyan citizens with regards to the banking system.

As it was indicated, there was a significant positive influence of depositors' support (X) on the dependent variable of introducing Islamic banking system in Libya (Y). The strong signals of citizens' support to the Islamic banking system in Libya will positively develop a strong Islamic banking industry in Libya which in turns reflects on strengthening the institutional financial infrastructure, the Sharia, and legal infrastructure as well as enhancing intellectual capital development and consumer education.

The successful employment of AL-Qard al- Hassan requires a strong support from the relevant stakeholders in creating a more supportive environment to enhance the Profitability of the banking sector. Researchers had argued that, the introduction of new banking industry cannot succeed unless its construction is combined with a sufficient support from the customers and the surrounding environment, which in turns requires new strategies to be created in order to enhance the customers' support and develop a conducive environment [7].

The reviewed literature indicated that citizens were dissatisfied with conventional banking services, and as a result, they were looking for a banking system that is in accordance with Islamic doctrines and moral principles as a part of their search for a new Islamic identity.

The problem of the study has been crystallized as the search for an alternative for the public other than the conventional banking services. Although Islamic banks are currently operating in Libya, it was discovered that these banks were immune to interest benefits and therefore were looked at negatively.

As a respond to this problem, the government initiated a process of Islamizing the financial system in Libya. This process started with prime minister's order on January, 2011 to establish pure Islamic instruments as an initiative to enhance the version of Islamic banking industry in Libya. The law highlights various ways in sufficient details for eliminating interest from the financial system in Libya. This law was a strong starting point in the efforts for Islamizing the banking system in Libya.

The effect of this sudden Islamization may not produce the required results due to lack of sufficient knowledge concerning Islamic banking services. One of the main problems may be in isolating Islamic and conventional

banking preset belongings and developing Islamic banking infrastructure and Islamic instruments such as AL-Qard AL- Hassam.

However, from the findings, it can be argued that vital potentials will be driven from the introduction of Islamic banking in the country as the current study maintained throughout the reviewed literature that Islamic banks in most cases competed with conventional banks and in some cases provided a better substitute for conventional banking system [8], [9]. Currently, two main challenges could face such an introduction of Islamic banking services in Libya. The first challenge is how to introduce Islamic banking to all over Libya. The second challenge is how to create interest free Islamic banking services in parallel with the conventional interest-based banking services.

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