

**“THE IMPACT OF AMANA BANK (PLC) PERFORMANCE” ON
ISLAMIC BANKING SECTOR DEVELOPMENT IN SRI LANKA
“SPECIAL REFERENCE IN AMPARA DISTRICT”**

Mohamed Ilyas Fathima Rusdha ⁽¹⁾, Mohamed Zuhair Zufa Zereen ⁽²⁾

¹A Graduate from South Eastern University of Sri Lanka,

²Temporary Assistant Lecturer in Islamic Banking and Finance,

South Eastern University of Sri Lanka

zereenzuhair@gmail.com

Abstract

Amana Bank (PLC) is one of the most prominent banks providing Islamic based services across the country. The reason for the popularity of Amana Bank (PLC) is due to the high recognition and consent of the CBSL. The main objective of this paper is Identify the challenges faced by Amana Bank (PLC) which is impact on its performances, identify the opportunities and solution to develop the Islamic banking sector and emphasizing the importance of Amana Bank (PLC) performance to Islamic banking sector development. This study uses the primary and secondary sources to obtain data. Mainly primary data are collected from employees of Amana Bank (PLC) through the questionnaires. Also secondary data are collected from annual reports and official web sites of Amana Bank (PLC). The results of the study reveals that the Amana Bank (PLC) positively impact on development of Islamic Banking Sector, even though the Bank faces many challenges to practice Islamic Finance, such as Poor in product and Shari’ah knowledge, Lack of trained employees and absence of separate governance framework . The Amana Bank (PLC) has a major responsibility to overcome these as a one and only licensed Islamic Bank in Sri Lanka. Implication of this research will guide for the decision makers, policy makers as well as future researchers.

Key Words: Performance of Amana Bank (PLC), Islamic Banking Sector, Development of Islamic Banking Sector

Introduction

Sri Lanka is considered as a Buddhist Country, but follow Islam, a Sub religion of the country are living amongst the population. Sri Lankan Muslims are given total freedom to fulfill all their religious obligations that should be offered as an act of worship at any time or any place within the Island.

Gradually all the fields provide opportunities to practice activities according to the Islamic Law. Similarly, the Islamic Banking Sector has also obtained an important phase of growth

nowadays although it faced multi issues during the initial stages. Islamic banking is being taught as an academic lesson in many learning centers in this growing period.

Amana Bank (PLC) is one of the most prominent banks providing Islamic based services across the country. The reason for the popularity of Amana Bank (PLC) is due to the high recognition and consent of the CBSL. The growth influenced the Islamic Finance sector.

On that note we would like to state that we have considered the Impact of Amana Bank (PLC) for Islamic Banking system as the purpose of this research along with the methods they undertake to reach their goals & the challenges that they come across due to serving in the field of Islamic banking.

Objectives

- Identify the challenges faced by Amana Bank (PLC) which is impact on its performances
- Identify the opportunities and solution to develop the Islamic banking sector.
- Emphasizing the importance of Amana Bank (PLC) performance to Islamic banking sector development

Literature Review

Many studies have undertaken by researchers on the performance of commercial banking. The studies have focused on ratio analysis, CAMEL rankings, liquidity, and profitability and so on. There have been studies which prove that there has been significant difference in performance of public and private sector banks (Tatuskar, Svetlana, 2010, Makkar, Anita; Singh, Shveta, Sharma, Vijay Kumar; Kumar, Anuj 2013). The other studies have shown that non-performing assets have been rising in recent years (Bansal Disha 2010, Mishra, Akshay Kumar 2013). The banking services in retail segment have also improved over the last couple of years (Haque, Imamul 2011).

Several studies try to estimate the Islamic banks return and its effects on the real economy. Some of these studies concern the ratios of performance: Samad and Hassan (2000), Masood and al. (2009). Other studies try to compare the Islamic banks with the classic banks in term of the performance and the profitability: Achraf and Zia-ur-Rehman (2011), Jaffar and Manarvi (2011), Siraj and Plundered (2012), Usman and Kashif Khan (2012). Among the studies which try to find the determiners of the performance of the Islamic banks: Haron (2004), Izhar and Asutay (2007), Sraïri (2009), Idris and al. (2011), Hidayat and Abduh (2012).

Hidayat and Abduh (2012) tried to estimate the impact of the financial crisis of 2008-2009 on the financial performance of the Islamic banking industry in Bahrain. Hidayat and Abduh (2012) noticed that even if the impact of the financial crisis was not significant on the performance of the Islamic bank of Bahrain for the period of crisis and it was significant after the period of crisis.

Data Source and Methodology

Data Source

This research is qualitative, and based on survey research approach. This is the most suitable methods to explore the research questions and to reach the objectives (Kate, Belinda, Brown & John, 2003). For the purposes of this research, the writer has decided to use a combination of one of the classic social sciences research tools – questionnaires (Winchester, 1999; Sarantakos, 2013; Silverman, 2004; Greenfield, 2002). Questionnaires were chosen for this research because they are a reliable and quick method to collect information from multiple respondents in an efficient and timely manner. This is especially important when it comes to large projects, with several complex objectives, where time is one of the major constraints (Greenfield, 2002; Silverman, 2004; Bell, 2005). Primary sources mainly collected from employees of Amana Bank (PLC) through the questionnaires.

This research uses the Amana Bank (PLC) which is the one and only licensed Islamic Bank in Sri Lanka. The population consists of 29 Branches all over the country. According to probability sampling technique, 4 branches of Amana Bank (PLC) in Ampara district were selected as the sources for sample data. This study considered 4 branches of Amana Bank (PLC) in Amrapa district which are Kalmunai Amana Bank (PLC), Sammandhurai Amana Bank (PLC), Nindhaoor Amana Bank (PLC) and Akkaraippatru Amana Bank (PLC).

Data Analysis

In this study we have examine “The impact of Amana Bank (PLC) Performance” on Islamic Banking sector development in Sri Lanka. The analysis of the questionnaire results took place via thematic analysis. . Because of the small number of respondents and the diverse design and answer sets of the questions, and because of the qualitative research approach of the study, the author use MSO EXCEL statistical software in order to be able to determine trends and tendencies in the answers of the respondents. The results from the questionnaires were presented in the format of tables and charts.

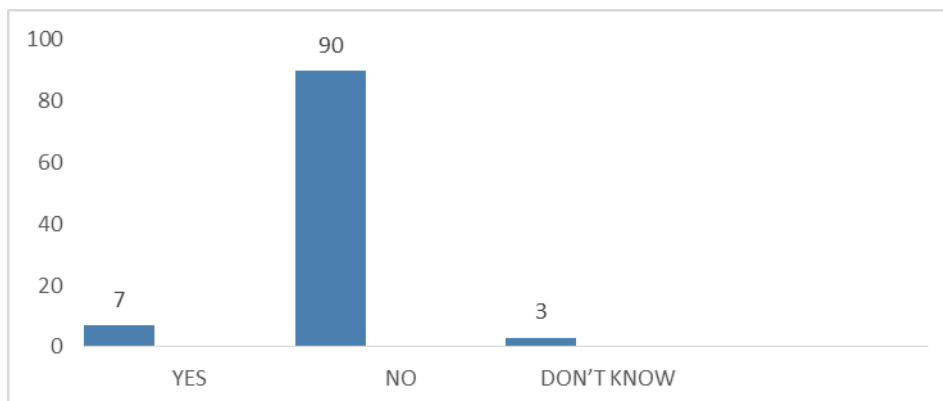
Finding results and Discussions

Response received through questionnaires, are matched with the aim and objectives of the receive paper. More specifically primary and secondary research results are matched in compared to find out the actual position of Amana Bank (PLC) in the banking sector, perforce challenges faced by Amana Bank (PLC) when try to develop the Islamic banking sector through Amana Bank (PLC) performance and underlined the appurtenance and suggestions.

All the data were collected through the questionnaire analyzed on the basis of the percentages of extracted from the number of responses to each question by the respondents.

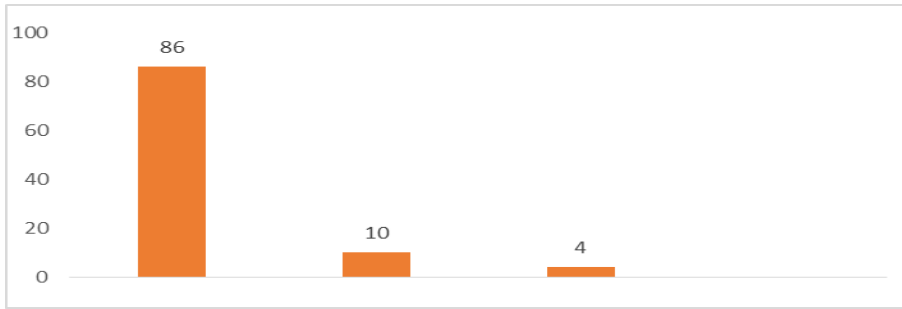
In assessing the responses to the question that, Are you satisfied with the performance of Amana Bank (PLC)?, we have received 90% responses where responded marked “No” to this question whereas 7% Said “Yes” and remaining 3% persons where have no idea to this questions. Please refer the details in Table: 5.1,

Table: 5.1



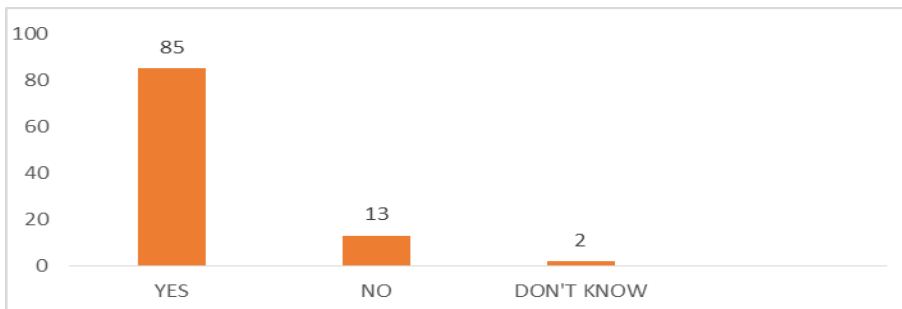
In assessing the responses to the questions that “What is the main issue for slow growth of Islamic banking sector?”, we have received 86% responses where respondent mentioned reasons lack of trained employees trained employees for limited growth of Islamic banking sector, 10% said that it is due to lack of knowledge about the Islamic banking among the public whereas 4% said it is due to product offered by Islamic bank Amana Bank (PLC). Please refer the details in following Table: 5.2,

Table: 5.2



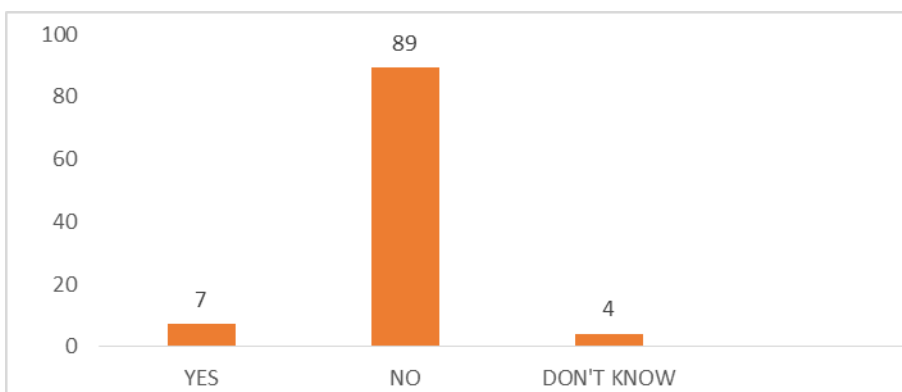
In assessing the responses to the question that “Do you believe that performance of Amana Bank (PLC) is impact on Islamic Banking sector development?”, we have received 85% responses where responded marked “Yes” to this question whereas 13% said “No” and remaining 2% were have no idea to this question. Please refer the details in following Table: 5.3,

Table: 5.3



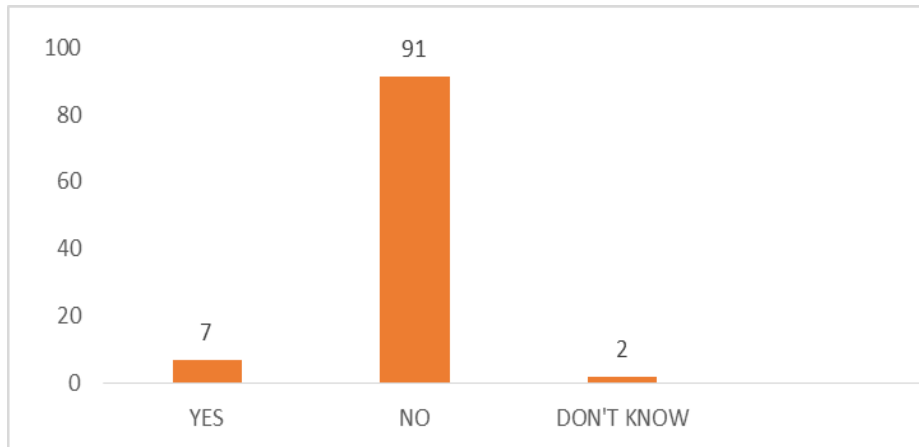
In assessing the responses to the question that “Do you feel that our educational institutes are playing leading role in spreading Islamic banking knowledge to our society?”, we have received 89% responses where respondent marked “No” to this question whereas 7% said “yes” and remaining 4% were have don’t know about this question. Please refer the details in following Table: 5.4,

Table: 5.4



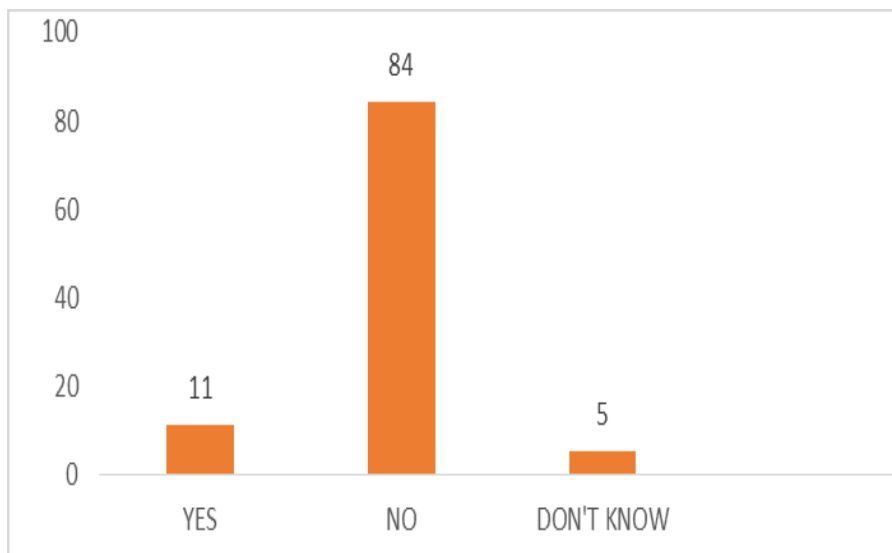
In assessing the responses to the question that “Do you have knowledge about Shari’ah rules and Islamic compliance?”, we have received 91% responses where respondent mentioned reason as “No” whereas, 7% said “yes” and remaining 2% said don’t know please refer the details in following Table: 5.5,

Table: 5.5



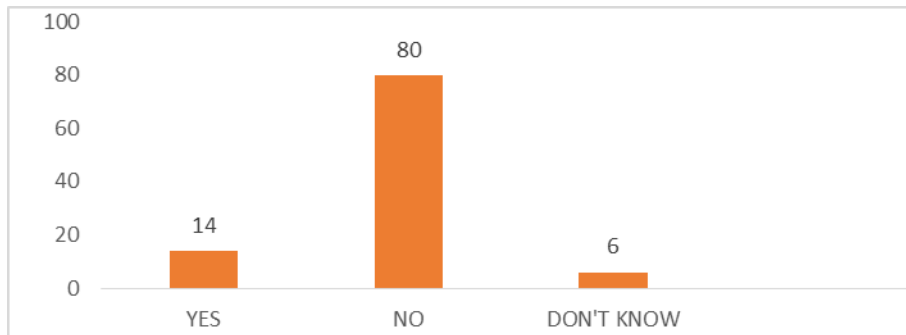
In assessing the responses to the question that “Do you have knowledge about Amana Bank (PLC) product and services?”, we have received 84% response where respondent marked “No” to this question. Whereas, 11% said “Yes” and remaining 5% where have don’t know on this question. Please refer the details in following Table: 5.6,

Table: 5.6



In assessing the responses to the question that “do you feel that Amana Bank (PLC) has employees with knowledge on Islamic banking sector?”, we have received 80% responses where respondent marked “No” to this question whereas 14% said “Yes” remaining 6% where have don’t know to this question. Please refer the details in following Table: 5.7,

Table: 5.7



While reviewing this data presentation, the employees are agreed that performance of Amana Bank (PLC) is impact on development of banking sector, even though we can clearly understand that, there are some issues and challenges which are the reasons for the slow growth of the industry such as,

- The lack of trained employees,
- Lack of public awareness about the products
- Lack of the service quality.

Amana Bank (PLC) has a major responsibility to overcome these issues and challenges as a one and only licensed Islamic Bank in Sri Lanka. It should embark on holistic Shari'ah compliant practices and it is easy for the employees to learn more about the products, services and Shari'ah compliant nature of the products.

Conclusion

Primary focus is made through this research paper to determine the understanding level of employees about concept of Amana Bank (PLC) performance it's present progress in future expectations. Through the study is identified that the lack of knowledge is badly impact on the growth of the institution

Once level of awareness will increase the market share of Islamic banking sector also increase in future. Islamic scholars should also require enhancing the capacity and producing more scholars in banking industries. The proper research and development is also required to flourish the Islamic banking industries.

We can make following conclusion

- Islamic banking Amana Bank (PLC) is more concerned about the viability of a project as compared to conventional banks it's also stimulating economic growth and trade activities there for we can say that Amana Bank (PLC) is more like interspersing.
- Amana Bank (PLC) is presently focusing on short term activities both at their asset and liability sides.
- Amana Bank (PLC) needs to spread it is wings on corporate side and equity financing although short term financing is less risky and good for early period of existence.
- Proper training should be given to resources in Amana Banker and customer. Should also provide guidelines to fresh blood for quick promotion of Islamic banking sector.

Recommendation

- Amana Bank (PLC) need to offer good financing products as per need of Individuals entrepreneurs and industrialist. This will not only be helpful for bank to improve their profitability but also make them eligible to meet the social and economic responsibility.
- Amana Bank (PLC) should focus of small groups of people possibility, for this purpose Amana Bank (PLC) need to make join venture with micro finance bank to meet their objectives.
- Consider promotion for best practice in addition to regulatory requirements in guidelines given by SBP Islamic bank (Amana Bank (PLC)) need to adapt Islamic financial services board (IFS 13) and accounting in auditing Islamic financial institutions (AAOIFI) as per their local or domestic requirements.
- Islamic bank (Amana Bank (PLC)) has been given responsibility to not only practice and promote sharia based principles of Islamic economic system but also the risk management principles by following good corporate governance framework in confirming with guiding principles of Islamic financial service board (IFSB)

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