

The Perception Paradox: Conventional Private Bankers' Understanding and Acceptance of Islamic Banking in Bangladesh

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Abstract

This research paper examines the perception paradox undergone by the conventional private commercial bankers in Bangladesh over Islamic banking. Although Islamic banking has experienced rapid expansion in Islamic countries, among which is Bangladesh, the adoption by conventional banking experts is skewed. The study examines the level of understanding,

acceptance, benefits, and challenges of Islamic banking within the context of the conventional bankers' perspective. Using a case study approach based on theoretical underpinnings, including Diffusion of Innovation Theory, and Institutional Theory, the paper seeks to bring out the cognitive and institutional barriers that impact perception. Interviews with the senior bankers in leading private banks shed light on the attitude, knowledge gap, and the reluctance or support of Islamic banking. The report reveals a significant gap between theoretical acceptance and practical scepticism, which calls for an integrated training, regulatory congruity and strategic synergy between banking systems.

Keywords: *Islamic Banking, Perception, Conventional Bankers, Financial Institutions, Bangladesh, Acceptance, Institutional Theory, Banking Innovation*

1. Introduction

Islamic banking has been developed as an important position of choice against conventional banking systems, particularly in the Muslim-majority countries, such as Bangladesh. (Akhter et al., 2023). Based on the Shariah, Islamic banking forbids interest (riba), encourages sharing of risks and makes the financial activities harmonious with Islamic ethical values (Ali et al., 2023). Even with a consistent increase in popularity and acceptance in institutions, a paradoxical belief still exists amongst traditional private bankers in Bangladesh – most of them recognised its suitability, yet they display reluctance to comprehend or adopt its practices (Latif et al., 2021).

Bangladesh is a unique case as it is a dual banking system in which Islamic and conventional banks run parallel to each other (Bin Latif et al., 2024). Although Islamic banks have managed to grab a huge share in the financial market, the conventional banks have taken time to react to the needs of increased demand in Shariah-compliant services (Uddin et al., 2023). The factors contributing to this inertia indicate inadequate awareness, up to ideological bias, while perceived operational complexities and lack of exposure to Islamic financial tools add to it (Latif et al., 2023).

This study aims to discover cognitive dissonance and institutional hesitations that underlie the attitudes of conservative private bankers about Islamic banking (Bin Latif et al., 2024; Latif & Yasin, 2025). Using Bangladesh as a case study, the research adds to the macro discussion about financial inclusivity, innovation diffusion, and institutional transformation in the emerging markets (Latif, 2022).

1.1. Research Objectives

The primary objectives of this research are:

- a. To assess the level of understanding that conventional private bankers in Bangladesh have about Islamic banking.
- b. To explore their attitudes and perceptions regarding the adoption and integration of Islamic banking practices.
- c. To identify institutional, cognitive, and operational barriers that hinders the acceptance of Islamic banking in conventional settings.
- d. To propose policy recommendations that can bridge the perception gap between conventional and Islamic banking systems.

1.2. Research Problem

Apart from the rapid growth of Islamic banking in Bangladesh, an extensive perception paradox is realised among the conventional private bankers (Latif et al., 2024). Although these bankers are aware of the growing market appeal and the ethical notion of Islamic finance, they lack understanding and reluctance in adopting Islamic banking aspects in their institutions (Latif et al., 2024). This misconception forms a barrier for integration and co-operation in their entirety between conventional and Islamic banking systems and may cap the growth and quality of the dual banking set-up in Bangladesh (Raj et al., 2019). The research problem is therefore about grasping the cognitive, institutional and regulatory features conducive to this paradoxical perception and locating pathways which would close up the acceptance gap (Karim et al., 2019).

1.3. Scope of the Research

This research is contextually limited to private commercial banks operating in Bangladesh, excluding the public sector and foreign banks (Akhter et al., 2023). It focuses primarily on senior

and mid-level banking professionals within conventional institutions. The research scope includes:

- a. Evaluating perceptions based on roles, years of experience, and exposure to Islamic finance (Latif et al., 2017; Taj, 2024).
- b. Exploring the influence of institutional culture, regulatory policies, and market demand on perception (Latif et al., 2021).
- c. Theoretical analysis through the lens of innovation diffusion and institutional legitimacy (Latif et al., 2014).

While the scope does not include direct consumer perceptions or the operational dynamics within Islamic banks, it offers critical insights into one of the most influential stakeholder groups in the banking ecosystem (Latif et al., 2014).

1.4. Significance of the Research

This study is significant for several reasons:

- a. **Theoretical Contribution:** It advances the academic understanding of how financial innovations like Islamic banking are perceived within conventional frameworks, particularly in emerging economies (Latif et al., 2014).
- b. **Policy Relevance:** Insights can inform regulatory bodies and financial institutions in designing training, awareness, and integration strategies (Latif et al., 2015).
- c. **Practical Application:** Bank executives, HR departments, and financial strategists can use the findings to align their services with shifting market expectations (Latif et al., 2014).
- d. **Socioeconomic Impact:** By understanding and addressing perception barriers, the research can contribute to greater financial inclusion and ethical banking growth in Bangladesh (Latif et al., 2014).

2. Literature Review

Islamic banking has been a rising area of interest across the world, most prominently in Muslim-dominant communities. Uddin et al. (2023) claim principles of Islamic banking are based on the prohibition of interest (riba), risk-sharing, and ethical investment. This unique

the framework puts a question mark on the conventional banking paradigm that frequently results in a rather specific institutional culture (Alam & Miah, 2024).

Scholars have been studying consumers' acceptance of Islamic banking, but only a few have looked at perception in conventional banking institutions (Uddin et al., 2024). Ahmad & Haron (2002) say that there is a tendency to become reluctant due to knowledge gaps and misconceptions regarding Islamic financial products. Within the context of Bangladesh, (Hossain, 2023) discover that even as Islamic banking is growing, conventional bankers' skepticism is a barrier to integration.

Social norms and regulatory frameworks determining banking practices can be better examined using the insights from Institutional Theory (Turner & Wright, 2022). It shows that there are legitimacy pressures that can either promote or discourage the adoption of innovation. We can also use Rogers' Diffusion of Innovation Theory (2003) to explain the adoption process through stages of awareness, interest, evaluation, trial, and adoption, which is very important in explaining cognitive and behavioral responses to Islamic banking by bankers (Atikur et al., 2023; Sayed et al., 2023; Rogers, 2003).

Literature suggests a nuanced interaction between cognitive, cultural, and institutional factors influencing Islamic banking perception and reception, within conventional banks, which warrants further empirical support, particularly in emerging countries such as Bangladesh (Latif et al., 2016).

2.1. Theoretical Framework

This study is based on two main theories.

a. Diffusion of Innovation Theory (Rogers, 2003):

This theory identifies how, why and at what speed ideas and technology diffuse cultures. The theory's stages – knowledge, persuasion, decision, implementation and confirmation provide a structure to measure the way old bankers become aware and make a decision to accept/reject Islamic banking.

b. Institutional Theory (Turner & Wright, 2022):

Institutional theory focuses on the role of social norms, regulation and cultural-cognitive factors in determining behaviour of an organisation. This perspective can explain

how banking institutions react to the pressures to legitimate or challenge the Islamic banking innovations based on the system of established conventionalism. Taken together, these theories present an inclusive background for understanding the perception paradox among mainstream private bankers of Bangladesh; both individual cognitive processes and higher-level institutional factors are covered (Ali et al., 2023; Latif et al., 2014).

3. Methodology

This study is conducted using a qualitative research design to identify the perceptions and the level of acceptance of Islamic Banking among the conventional private bankers of Bangladesh. The qualitative approach enables a detailed understanding of subjective attitudes, beliefs, and institutional contexts that influence these perceptions as well.

3.1 Research Design:

There is a use of case study method is used with emphasis on private commercial banks in Bangladesh. This approach allows for the study of complicated phenomena in their actual context, which is essential due to the shading-in of institutional and cultural dynamics.

3.2 Sampling:

A Purposive sampling technique, which involves the selection of individuals from a whole group of individuals was used to recruit 12 senior and mid- level bankers from high growth commercial banks operating in Bangladesh. Selecting the participants was based on their experience, knowledge about Islamic banking products, and their decision-making roles in their respective institutions.

3.3 Data collection:

Data on the project was collected using semi-structured interviews, face-to-face and via video conferencing. Comprehensive expressions of views by participants were sought during 45 to 60-minute interviews, which took place. A guide for the interview was prepared using research objectives and a theoretical framework for consistency.

3.4 Data Analysis:

Interview transcripts were analyzed thematically. The coding was done manually to extract major themes on understanding, attitude, perceived barriers, and institutional factors that

influence acceptance. The occurrence of triangulation was with the comparisons of findings among different participants and banks.

3.5 Ethical Consideration:

Participants gave their written informed consent; strict confidentiality of their identity was ensured. The study's approach to research was ethical to social sciences standards.

3.6. Case Study Perspective: Bangladesh

Bangladesh provides a motivating context in studying the perception of Islamic banking amongst the conventional bankers in that it has a dual banking system. In the 1980s, when Islamic banking was introduced in the country, the sector has grown rather steadily and currently represents 20% of the country's total banking sector assets (Hossain et al., 2025). This expansion represents high demand for Shariah-compliant financial services of the population who are predominantly muslims, and governmental policies favouring financial inclusion.

Although there has been expansion in this aspect, traditional private banking institutions have been slow to adopt the Islamic banking concepts. A lot of traditional bankers see Islamic banking as a niche, complex, or contrary to the existing business models. This perception is influenced by minimal exposure to Islamic financial instruments, regulatory confusion, and firmly established organizational cultures that preach interest-based banking practices (Hossain, 2023). Moreover, Bangladesh's regulatory platforms necessitate Islamic banks to adhere to conventional banking rulings and Shariah supervisory boards, which bring about operating complexity (Akhter et al., 2023). The knowledge about these hybrid regulatory requirements on part of the conventional bankers is often misunderstood, leading to skepticism or resistance.

Bangladesh's socio-economic environment, comprising a fast-rising productive population and expanding digital financial service adoption, is both an opportunity and a difficulty for the industry. Traditional banks are in dire need of innovation, but at the same time have the double task of ensuring profitability whilst accommodating religiously informed consumer expectations (Latif et al., 2016). The lens of this study, therefore, sheds light on how the conventional private bankers manage these contradictions, shedding light on common implications for countries with structurally similar banking arrangements, such as that of Bangladesh (Latif et al., 2021; Nazir et al., 2024).

4. Findings

Analysis of interviews with traditional private bankers in Bangladesh found several themes, which represented the understanding and acceptance of Islamic banking among them:

a. Knowledge and Awareness:

Most of the participants exhibited a general understanding of Islamic principles of banking. To many, Islamic banking was thought to be clear with interest-free banking while forgetting niceties like profit and loss sharing and ethical investment requirements. The insufficient knowledge that resulted from it led to misconceptions regarding the business viability and profitability of Islamic banking (Salman, 2023).

b. Attitudinal Ambivalence:

Bankers showed a paradoxical attitude because they realized how the demand of the market and the ethical call for Islamic banking was rising; however, they were unsure of whether such banking suits could be accommodated within the structures of conventional banking. Issues of rising operational complexity, compliance burden, and potential reputational risks were rampant.

c. Institutional and Cultural Barriers:

Some of the interviewees pointed out the entrenched cultures of the organization that are resistant to changes. Incentive structures and policies regarding risk management of the conventional banks are inclined to predictable interest products rather than Islamic finance's more variable returns. In addition, there was the perception that Islamic banking was a niche market and this dampened the zeal towards the expansion of the service.

d. Regulatory Challenges:

Ambiguous regulatory guidance emerged as a major challenge, indicated by the respondents. The existence of conventional banking regulations, coupled with Shariah supervisory requirements, causes much confusion and additional compliance costs, meaning that, in most cases, conventional banks are discouraged from delving deeper into Islamic finance.

e. Opportunities for Collaboration and Integration:

Despite reservations, some bankers admitted opportunities for conventional banks to collaborate with Islamic banks or create a hybrid product to serve untapped markets.

There was consensus for the need of all-round training, clarity in regulation and strategic measures to enhance mutual understanding and operational synergy.

5. Discussion:

The findings are consistent with the theoretical framework, where the Diffusion of Innovation Theory illustrates the sluggish movement from awareness to adoption because of cognitive and structural obstacles. Institutional Theory explains further how the normative pressures in the conventional banks prevent such acceptance, even if there is market demand from outside. Despite the perception paradox, highlighting the difference between understanding the viability of Islamic banking and the actual reluctance to fully embrace it. To fill in this gap, targeted enhancement of knowledge, cultural change management, and regulatory reforms to establish an enabling environment are needed.

5.1. Limitations and Directions for Future Research

Although this study has brought insights into the attitudes of mainstream private bankers to Islamic banking in Bangladesh, there are some limitations to be recognised.

a. Sample Size and Scope:

Qualitative case study employs a rather small, purposive sample of bankers from private commercial banks and, thus, may impair the generalizability of the findings to the whole banking sector and public and foreign banks (Bin Latif et al., [2024](#)).

b. Subjectivity of Responses:

Considering the data relied on self-reported interviews, there may be social desirability bias and participants may have given more desirable narrations than their mindsets. Also, the process of interpretation of qualitative data is subjective, although one tries to be rigorous.

c. Geographic and Institutional Focus:

The Study was limited to Bangladesh, which has a very distinctive regulatory and cultural environment. The results obtained may not be readily applicable in other countries with a different banking organization or a different stage of Islamic finance maturity.

5.2 Future Research Directions:

a. Quantitative Studies:

Future studies could use large-scale surveys to confirm the patterns found in this study, as a way of making more representative and generalizable conclusions possible.

b. Comparative Cross-Country Analysis:

This could identify some contextual factors for acceptance among different countries that experience different levels of Islamic banking penetration.

c. Consumer and Stakeholder Perspectives:

It would be desirable to extend research to the customers, regulators, and Islamic banking experts to have a joint effect on the ecosystem.

d. Impact of Digital Financial Innovations:

An interrogation on the way fintech and digital banking shape and shape up the adoption and perception of Islamic banking may reveal new faces of changing landscapes of finances.

5.3. Conclusion and Recommendations

Perception paradox among conventional private bankers in Bangladesh about Islamic banking was investigated in this study. Although aware of its increasing significance and ethical basis, many traditionally-minded bankers showed only a meagre comprehension and mixed emotions as to its implementation. Institutional blockades, regulatory complexities and deeply entrenched organizational cultures are some of the main elements that were identified to underpin their reluctance.

The outcomes point to the fact that complete strategies will be required to help close the perception chasm. To develop knowledge on Islamic financial principles and products, more advanced educational initiatives and capacity-building programs should be undertaken in the traditional banks. Regulatory authorities should strive towards simplification of guidelines and alignment towards the dual banking framework to minimize requirements and ambiguities (Ali et al., 2023).

In addition, integration between the conventional and the Islamic banks through partnerships or hybrid financial products may ensure operations' integration and market development. Such measures will catalyze financial inclusivity and innovation in Bangladesh's banking industry. Provided that stakeholders address cognitive, institutional as well as regulatory problems, they can turn perception into acceptance, thereby creating grounds for a more consolidated and resilient dual banking system.

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