Does the tag "Islamic" help in customer satisfaction in dual banking sector?

Author(s): Fayaz Ahmad Lone, (Department of Commerce, Higher Education Department, Jammu and Kashmir, India)

Abstract:

Purpose

The purpose of this paper is to find out the importance of the tag "Islamic" in the title of banks. This will help to determine the future strategy of Islamic banks, while expanding to the countries where Islamic banking is seen as a religious banking and not as an alternative approach to the conventional banking.

Design/methodology/approach

Adopting convenience sampling, a total of 596 customers of both Islamic and conventional banks were surveyed from four regions of Saudi Arabia (Makkah, Madinah, Riyadh and Dammam) using a self-structured questionnaire on a five-point Likert scale.

Findings

The results concede that Islamic banks without the tag "Islamic" and conventional banks have same customer satisfaction. There are some factors other than the tag
“Islamic” which are driving customers towards Islamic banking. Those factors include physical aspects of the bank, level of satisfaction with the services, dealing and attendance by the staff and safety and security of the bank. Besides, the application of fundamental principles of Islamic banking works as a key motivation for customer satisfaction with Islamic banking.

Practical implications

Applying the tag “Islamic” is not as important as implementing the principles of Islamic banking. Islamic banks can survive and compete well even without using the “Islamic” tag if they implement the prime principles of Islamic banking and work on improving the factors highlighted by this study. This study can prove to be helpful in the expansion of Islamic banking in the countries where religious banking is not generally preferred by customers.

Originality/value

This is the first study to find out the customer satisfaction in a dual banking system (comprising of conventional banks and Islamic banks that do not use the tag “Islamic”), thereby filling the existing gap in the Islamic banking literature.

Keywords: Saudi Arabia, Islamic Markets, Islamic financial services marketing, Customer satisfaction, Selling to Islamic markets, Islamic tag, Islamic and conventional banking

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Islamic finance is nowadays very popular not only in Muslim countries but also in the West. It is because of its unique features that people prefer Islamic banking throughout the world. Although Islamic banking system started taking a practical shape few decades ago, its popularity indicates it is a centuries old system. Realizing the importance of this banking, some countries have changed their economic and banking laws completely to adjust Islamic banking in their economy, whereas some countries have modified their laws partially to incorporate this banking system (Islam and Rahman, 2017).

A large number of countries in the world have a purely conventional banking system whereas many economies have a dual banking system (both Islamic and conventional). Some countries have stuck to conventional system only but many countries have modified their banking laws over a period of time to adjust the Islamic banking system. But there is not a single country in the world, where banking system is only Islamic. Also, this type of dual banking is not only operating in Middle Eastern counties but also in European countries, South East Asian Countries and North African countries (Iqbal & Molyneux, 2016). Pakistan, Malaysia, UAE, Bangladesh and Indonesia are some of the countries where dual banking (both Islamic and conventional) is in operation (Zaher and Hassan, 2001). But, all these countries have preferred to use the word “Islamic” as a prefix so as to differentiate their banking system from conventional banking. Examples of such banks include Dubai Islamic Bank (DIB) in UAE, Bank Islam Malaysia Berhad in Malaysia, Islami Bank Bangladesh Ltd in Bangladesh, Bank Islami Pakistan Limited in Pakistan, Qatar Islamic Bank in Qatar and so on. Saudi Arabia is the only country in the world where all Islamic banks are without the “Islamic” or Shariah tag in the title of the bank. Al-Rajhi Bank Saudi Arabia, Al Jazeera Bank, Al-Bilad Bank and Alinma Bank are the four banks of Saudi Arabia which are Islamic (Bintawim Samar Saud, 2011) from the total of 12 banks. There is nothing mentioned related to Islamic or Shariah in the title of these banks, which is a totally different practice from the rest of the world and is, therefore, unique as compared to other countries.
As this study was conducted in Saudi Arabia, therefore, it is necessary to understand the features of Islamic banking industry in this country. That will help in understanding the overall banking environment of Saudi Arabia.

1.1 Features of Islamic banking of Saudi Arabia

Islamic banking of Saudi Arabia has unique features which are not present in other Islamic banks operating in the rest of the world (Ahmed and Khababa, 1999). It has the largest share market for Islamic banking assets in the world which accounts for 32 per cent of global share followed by Malaysia, UAE and Kuwait (Figure 1).

*Al Rajhi* bank of this country is the largest bank among all Islamic banks in the world (Melaty, 2008). Among the top five safest banks in the world, it is *Al Rajhi* bank of Saudi Arabia which has been ranked as number one in the world by different rating agencies (Table I).

During the period 2010-2015, Saudi Arabia was ranked number one in Islamic Asset growth rate in the world, followed by Qatar and Pakistan as the second and third ranks (Figure 2).

Overall, Islamic banking in Saudi Arabia is progressing day-by-day and is giving stiff competition to countries like Malaysia and UAE which have an open economy as compared to Saudi Arabia. But a sharp drop in the price of oil has affected the banking sector in general and Islamic banking in particular and Islamic banking in Saudi Arabia has reported a negative deposit rate in the beginning of the year 2016 (Figure 3).

In the conclusion, it can be said that some countries have restricted their banking system either on conventional or dual banking system to run their economies. But most of the countries have conventional banking system. There are few countries where both Islamic and conventional banks are working on parallel basis but still Islamic banks have totally differentiated their banking system by the tag “Islam” in their bank names. Saudi Arabia is the only country in the world where dual banking system is working without this tag. But if this banking has to flourish throughout the world then to motivate the non-Muslim customers, it is suggested that the tag “Islamic” is not necessary but only the fundamental principles of Islamic banking (Vizcaino, 2014).

2. Review of literature

Islamic banks started their operations in the 1970s. Islamic Development Bank (IDB) and DIB were established in 1975 (Presley, 2012), and both have given a new look to this banking sector. Before the implementation phase, Islamic banking
was just a concept and was treated as a religious motivating factor to avoid interest (riba). For this purpose, research institutions were established to provide Islamic banking in a modern way. In the beginning, practitioners were facing difficulty in its establishment due to many reasons. With the establishment of IDB, Islamic banking started functioning in many countries, as DIB was a benchmark for them. But in the initial years, all banks were with the tag “Islamic” so as to differentiate it from conventional banks. With the passage of time, many new banks were established and now Islamic finance is estimated at $3.4tn by the end of the year 2018 (Naveed, 2014). Moreover, many new banks have adopted a trend to hide the tag “Islamic” in the title (Vizcaino, 2014).

One thing should be remembered, that the purpose of this banking system is not only to highlight the Islamic system but to provide such a system which is based on risk sharing and not on risk transferring (Hasan, 2015), so as to encourage equal distribution of income (Chapra, 2016). Name has no importance in Islamic finance system but working principles are more important (Vizcaino, 2014). If the principles of Islamic finance are followed by banks, name can be without the tag “Islamic”. This may increase its market share in the world as many non-Muslims do not prefer to deal with a bank which superficially seems to be a religious banking of a particular faith. This is the reason, why many scholars also suggested alternative names like participatory banking, profit and loss sharing banking instead of Islamic banking, etc. (Haque et al., 2009; Mirakhor and Zaidi, 2007).

In dual banking system, Islamic banks are paying attention to Islamic principles, whereas conventional banks are paying attention on competition. It is therefore the reason why conventional banks set lower interest rates where they have strong market power and high deposit rates when their market power is low (Meslier et al., 2016).

Customer satisfaction and some other factors tend to engage customers in positive word of mouth and other favorable activities. A study on bank selection conducted by Erol and El-Bdour, (1989) revealed that religious factor is not the key criteria for customers while selecting a bank. Another study conducted in Malaysia by Haron et al. (1994) on peculiarity in bank selection criteria argued that non-Muslims do not behave different from Muslim customers in bank selection. A research conducted in Libya found out that there is no relationship between the tag and customer satisfaction (Shafii and Khafafa, 2013). These studies revealed that there are factors other than the religious beliefs that are motivating the non-Muslim customers towards Islamic banking (Ahmad et al., 2016). Contrary to this, there are some studies which illustrate that religion is one of the key factors among Muslims while selecting a bank (Akhtar et al., 2016; Iftikhar et al., 2016).
Additionally, few studies have discussed whether the tag “Islamic” helps in customer satisfaction or not in many countries. A study conducted to measure the switching behavior of customers from Islamic to conventional banks in Indonesia stated that bank staff, banks physical appearance, accessibility and costs are the factors which are affecting the switching behavior (Abduh et al., 2012). Tags like Islamic and non-Islamic do not help in satisfaction of customers in dual banking sector. In contrast, there are some studies which have argued that the tag is relevant for enhancing customer satisfaction (Haque et al., 2009).

Some researchers argue that it is the functional quality and not the tag that is more important (Muhammad Awan et al., 2011). A study conducted on cross culture in Pakistan, UAE and the UK also argued that there is no such relationship between the use of Islamic tag and customer (Rehman, 2012). There are many other studies (Maulan et al., 2016) where models are prepared for brand association to improve Islamic banking services for customers. Even religiosity–buying, attitude–purchase intention relationship is also proved by many scholars as customer satisfaction tools (Newaz et al., 2016; Wilson and Liu, 2011).

All these research studies were conducted just to measure one aspect, i.e. satisfaction level in Islamic banking in comparison with conventional banking. In all the above mentioned countries like Pakistan, UAE, the UK, Malaysia and Indonesia, dual banking system is working but Islamic tag is attached with Islamic banks. Saudi Arabia is the only country where this Islamic tag does not exist in Islamic banks; therefore, the study is unique to explore the customer satisfaction in dual banking sector in Saudi Arabia. This will help to predict the importance of the tag “Islamic” in the names of Islamic banks. This study will also help to predict the future of Islamic banking in those countries where either government or non-Muslims do not prefer to have the banking which starts with the world Islam. Example of such a country is India, where Islamic banking is not given license because of the tag Islamic in the title (Haque et al., 2009). Therefore, it is suggested that in such countries Islamic banking can be named as participatory banking or profit and loss sharing banking.

3. Research methodology

3.1 Questionnaire design

A 26-item questionnaire (Lone et al., 2017) was used which is based on a five point Likert scale (ranging from strongly agree to strongly disagree). Questions from “1 to 7” measure the “Physical aspect” of the respondents towards banking in Saudi Arabia. Questions from “8 to 14” measure the “Level of Satisfaction”, questions from “15 to 20” measure the “Dealing and Attention” perception of the
respondents and the last six questions from "21 to 26" measure the “Safety and Security” perception of the respondents towards both Islamic and conventional banking. Thus, in the questionnaire, four aspects are measured with the intention to cover different aspects of customer satisfaction. In the questionnaire, it is not mentioned whether the bank is Islamic or conventional but the names of all banks of Saudi Arabia are mentioned so that customers can choose their bank where they have account. The segregation of Islamic and conventional banks were later done while compiling the data in SPSS.

3.2 Data collection process
The data were collected from four regions of Saudi Arabia with a thrust to maximize the number of respondents as much as possible to represent the true mean and minimize the standard deviation by increasing response rate. Data was collected from Riyadh, Damman, Makkah and Madinah regions of Saudi Arabia. Overall, data were collected from all the four regions but maximum responses were collected from Riyadh region. Although there are many other regions in Saudi Arabia, but the choice of selecting these regions is based on many factors including economical and geographical ones. All these regions are very popular for the banking sector and many branches of banks are operating in these regions. As in Saudi Arabia, most of the banks have separate branches for male and female customers. To represent the female customers’ perception, a female investigator was appointed to collect the data from female branches of the banks. Questionnaire was translated into Arabic for the convenience of the respondents.

In total, 723 questionnaires were distributed through convenience sampling by visiting different branches of banks and in return 596 questionnaires were found suitable for further analysis. Of the 723 questionnaires, 127 were returned either incomplete or with multiple responses and therefore were rejected for further analysis. Overall, the response rate was 82 per cent, which is good for further analysis.

3.3 Reliability and validity test
Reliability test was conducted to measure the consistency of measurement. The Cronbach’s alpha is 0.96, which means that the test is 96 per cent reliable and, therefore, fit for further analysis (Table III).

Validity test helps to interpret whether the test measures the same thing which the test claims to measure. For this purpose, there are different ways like content validity (which is pretesting with subject expert) and criterion validity (which is pilot test). Validity helps in deleting repetitive and unclear statements from the questionnaire (Chen et al., 2001; Peter, 1981). The same was followed to reduce,
Data analysis and findings

Section: Choose ▲ ▼

The demographic profile of respondents is given in Table II. This clearly represents all aspects of the questionnaire and includes gender, age, occupation, region, qualification, bank name and bank type:

Hypotheses

H1. The tag “Islamic” is insignificant in customer satisfaction of banks.

4.1 Objectives

4.1.1 To find out whether the tag “Islamic” help in customer satisfaction in dual banking sector.

To test H1, independent sample t-test was used. This test compares the difference between the means of two independent samples, like comparing customer satisfaction of Islamic and conventional banks in Saudi Arabia. If H1 is true then p-value will be greater than 0.05 (significance level) and if alternative hypothesis is true then p-value will be less than 0.05, which means there is a significant difference in the customer satisfaction between Islamic and conventional banks. This thing should be noted that t-test is limited to situations in which there are only two levels of the independent variable (like Islamic and conventional banks). While interpreting the results of independent samples t-test there are outcomes like t-statistic value, degree of freedom (df) and the significance value of the test (p-value).

Table V presents the overall results of the survey. Interpretation of customer satisfaction of both Islamic (without the tag Islamic) and conventional banks in Saudi Arabia is based on the results after processing the data through SPSS. It is
clear from the Table V that the numbers of respondents (N) are 596 in total, of which 378 are from Islamic Banks and 218 are from Conventional banks. The mean of each Islamic and conventional bank is above average and is almost the same in both types of banks. But the standard deviation is more in Islamic banks as compared to conventional banks.

Table VI shows the results of independent sample t-test which is the ultimate test used to interpret the differences in perception of customers towards Islamic and conventional banks. The t-value is 0.43 and the significance value is 0.66, which is more than 0.05 (confidence interval). The results clearly indicate that there is no significant difference in the customer satisfaction between Islamic and conventional banks in Saudi Arabia.

Therefore H1 is not rejected, but alternative hypothesis is rejected. Also, our objective (to find out whether the tag “Islamic” help in customer satisfaction or not in dual banking sector) is clear that the tag “Islamic” does not help in customer satisfaction in dual banking sector.

5. Conclusion

An old proverb follows, customer is the king. It is the customer who decides the future of any business. Same is the case with dual banking sector of Saudi Arabia. In many countries, both conventional and Islamic banks work together to boost the economy of the country and satisfy the customers for retention and generating growth rate. Dual banking system is nowadays popular not only in Saudi Arabia but also in Malaysia, UAE, Pakistan, Bangladesh and in many other countries.

Most of the countries preferred to add the tag “Islamic” in the title of the bank during the days when this banking commenced to work separately and in competition with conventional banks. This happened in 1970s, when Islamic banking was at the infancy stage throughout the world. Among all the countries where Islamic banking is working, Saudi Arabia is the only country where tag “Islamic” is neither adopted nor allowed by SAMA (Saudi Arabia Monetary Authority – the central bank of this country). By definition, all banks working in Saudi Arabia are Islamic because of the political and economic system of this country. But changing the old traditional system of conventional banking into this modern Islamic banking system will take time and for this purpose necessary measures are being taken by this country. On the other hand, Saudi Arabia does not recognize the concept of Islamic banking because of the word “Riba” which will affect many macro aspects of the economy. Also due to huge deposits and investments of this country in foreign countries, Saudi Arabia is earning a good
percentage of income through “special commission” which is nothing different from “interest income” (Warde, 2000). Taking these issues into consideration, many customers are not aware about the exact number of Islamic banks in this country. But all banks working in this country are generating a good percentage of profit for their customers.

While compiling the data and interpreting the results of this survey, it is clearly evident that by operating banks without the tag “Islamic” has not changed the satisfaction of customers. The satisfaction level is the same in both types of banks which is about 3.7 in both types of banks and indicates that customer satisfaction is satisfactory. The results of the analysis also indicate that there is no difference in the satisfaction level in both types of banks. So customers are equally satisfied with the dual banking system of Saudi Arabia. They also do not differentiate in the service quality of the banks, which is a good sign for policymakers. Therefore, this study is supported by the studies conducted by other authors (Vizcaino, 2014; Shafii and Khafafa, 2013; Ahmad et al., 2016).

6. Implications

The results of this paper may help the practitioners and policymakers of the banking sector. Banks are mentioning the tag “Islamic” in the title to motivate the customers for Islamic banking. But this survey has changed the perception and, therefore, argue that the tag Islamic is irrelevant in customer satisfaction. What matters are the fundamental principles, on which Islamic banking is based. If it is based on predetermined rate of interest, then it is conventional banking and if it is based on profit and loss sharing, then it is Islamic. This can help to concentrate on boosting this industry in many other countries where most people do not prefer the word Islamic in the title of the banks, especially in many western countries where Muslims are in minority. Such a practice was implemented by Bank Muamalat Berhad of Malaysia and Kuwait Finance House of Kuwait, which are few live examples where Islamic tag in the title is not mentioned. Majority of the customers in the world are not aware about the working principles of their banks. What matters for them is the safety and securities as well as return on investment and the same things are provided by Islamic banks to their customers.

If the future of Islamic banking system can be like this, then it will help in expansion of Islamic banking system throughout the world, where customers will not differentiate this banking system on the basis of a particular faith or religion. Customers will prefer a banking system which is based on fairness and that can help in elimination of pre-determined rate of interest for equal justice and other objectives of Islamic economic system like include economic, social, Islamic and
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The practice needs to be implemented in other countries where Islamic banking is at maturity stage like Malaysia and UAE.

Figure 1. Global share of Islamic Finance Banking Assets in 2015

Figure 2. Growth rate in percentage from 2010-2015

Figure 3. Chart of the week: Deposit Growth in GCC Banks

Table I. Ranking of top five Islamic banks in the world

Table II. Demographic profile of respondents

Table III. Reliability statistics

Table IV. KMO and Bartlett’s test

Table V. Group statistics

Table VI. Independent samples test

References


Further reading

