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## CUSTOMERS' PERCEPTIONS ON THE OBJECTIVES, CHARACTERISTICS AND SELECTION CRITERIA OF ISLAMIC BANK IN THAILAND

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*Due to relatively new establishment of islamic bank in Thailand and paucity of empirical research undertaken in the area, this study intends to capture the perceptions of Thai customers towards the objectives and characteristics of the islamic bank. In addition, this study aims to determine the important bank selection criteria as perceived by the customers and the differences in the perceptions of moslem and non-moslem customers were identified. The study surveys a sample of 462 respondents. The empirical findings show that the Thai customers know that the essential characteristic of the islamic bank is interest prohibition. They tend to support the idea that the islamic bank should strive to achieve its social objectives more than the commercial objectives. In addition, the results showed that there are differences between the Thai moslem and non-moslem customers' preferences toward various bank selection criteria. The moslems highly considered the interest-free saving facilities, while the non-moslems tended to concern more about its reputation and image, and knowledgeable and competent personnel.*

**Keywords:** characteristics; islamic bank; selection criteria; Thailand

## Introduction

Since the establishment of the islamic bank in the early 1960s, the bank has continued to play an important role as a financial intermediary institution until today. The bank has received wide acceptance, not only in the moslem countries but also in the non-moslem countries (Iqbal and Molyneux 2005; Abdelhamid 2005; and Balz 2007). As one of the most important players in the banking service industry today, the islamic bank has no longer been regarded as a business entity striving only to fulfil religious obligations of the moslem community, but more significantly, it has been regarded also as a business entity that is unavoidably in need of winning over new customers whilst retaining the regular ones (Wilson 1995). This necessitates the islamic banks to understand the perception of their customers towards the islamic banks in terms of their characteristics, objectives and the important criteria in selecting the bank (Haron et al. 1994; Garrard and Cunningham 1997; Metawa and Almossawi 1999; Dusuki 2005).

Due to the fact that islamic bank in Thailand is relatively new, a study on customers' perceptions towards the islamic bank in terms of characteristics, objectives and the customers' selection, particularly in Thailand, is almost nonexistent. Therefore, this study attempts to fill this gap in the literature by assessing the perception of the customers towards the objectives, characteristics and criteria of selecting islamic bank.

This paper provides evidence not only on the perceptions of the customers as a whole but also evidence based on different customer groups (i.e. moslem versus non-moslem) particularly in the context of Thailand. The evidence obtained may provide useful information to the market segmentation of the islamic banks, so that different products and services can be provided for different groups of customers (Kader 1995).

The remaining part of this paper is structured as follows. Section 2 describes the development of islamic banking in the international context as well as in Thailand. Then, Section 3 reviews the relevant literature on important areas in islamic bank. A description of the methodology adopted in this study is discussed in Section 4. Section 5 presents the results and discussions of the study. Finally, concluding remarks appear in Section 6.

## Development of Islamic Banking

The islamic banking refers to a system of banking which is consistent with the *Shar'iah* (Islamic Law). The *Shari'ah* does not allow the paying and receiving of interest (*Riba*) and promotes a greater level of fairness and equity in the conduct of the banking business (Al-Quran; 2:275). The islamic banking system has become one of the important financial intermediaries that facilitate various financial schemes throughout the world. The first modern experiment with the

islamic banking system was established in 1963 in Cairo, Egypt, by Ahmed El Najjar in Mit-Ghamr (Ahmad 2000b). Since then, the number of the islamic banks have increased substantially around the world. In Iran, Pakistan, and Sudan, only the islamic banking system has been allowed to operate. In other countries like Bangladesh, Egypt, Indonesia, Jordan and Malaysia, however, the islamic banking system co-exists with the conventional banking system.

The islamic banking system is not limited to countries which the majority of their populations are moslem. There have been various cases in which the banks have been operating in countries which majority of their populations are non-moslem. The first bank licensed by a country which majority of its populations are non-moslem to engage in the islamic banking system was the Islamic Bank of Britain. Additionally, the HSBC, University Bank in Ann Arbor and Devon Bank in Chicago have been offering the islamic banking system products in the United States (Chong and Liu 2005). Thailand is one of countries which the majority of its populations are non-moslem that has been entering into the islamic banking system arena and developing its own islamic banking system divisions. The background of the islamic banking system in Thailand is reviewed in the following section.

### ***Islamic Banking in Thailand***

The islamic banking system in Thailand was started in 1985 with in-

formal financial arrangements that provide financial support to the moslems without paying interest. In the same year, Jamaat Nasratul moslemin group set up a *Bait al Maal* which served both as a cooperative and a saving club for its members in Nakon Sri Thammarat. Two years later, a cooperative society was set up, called, *Pattani Islamic Saving Cooperative* that operated and based on the *Shariah* principle in Pattani.

The islamic banking system products and services were first introduced to the moslems in Thailand with the implementation of the "Islamic Window" by the Government Savings Bank (GSB), in 1998 (Haron and Yamirudeng 2003). Afterwards, a similar concept was also introduced by the Bank for Agriculture and the Agricultural Cooperatives (BAAC) in 1999. In 2001, four islamic saving cooperatives were established in Southern Thailand, namely, *Ibnu Affan Saving Cooperative* (Pattani), *As-Siddiq Saving Cooperative* (Songkla), *Saqaffah Islam Saving Cooperative* (Krabi), and *Al-Islamiah Saving Cooperative* (Phuket). In the same year, the Krung Thai Bank offered a full range of basic banking products and services based on the islamic principles. This is the first bank that set up an islamic branch. Moreover, the islamic banking system gained more support from the government through the establishment of the Islamic Bank of Thailand (ISBT) in 2002 under the Islamic Bank of Thailand Act 2002. This was the first full-pledged islamic bank in Thailand. The

establishment of the ISBT is similar to many islamic banks in various countries. The purpose of the establishment of the bank is to improve the quality of life of the moslem community, particularly those in the Southern provinces, by providing financial services under the islamic principles which prohibit interest (*Riba*).

The Islamic Bank of Thailand was incorporated in October 2002 with a branch in Bangkok, with a capital of THB1,000 Billion (USD24.90m) at par value of THB10 per share. The current paid up capital was THB696.86 (USD17.35m). Of the 69.686 million shares, 10.453 million shares were owned by foreign interests representing 15 percent of the total shareholders. According to the ISBT Regulations, it limits foreign holding to 33 percent participation (THB40.15/USD as at Sep 30 2003). Presently, the ISBT has been pushing the Stock Exchange of Thailand (SET) to establish an index for the *Shariah*-compliant equities to attract the local and the international moslem investors (The Nation, 9 July 2009). Another key milestone of the islamic banking system in Thailand was the merged the ISBT's business with Krung Thai Bank Public Company's (KTB) *Shari'ah* Banking Service on 9 November 2005, resulting in an even more widespread banking network and financial services for their customers as well as increasing the income and business transactions for the ISBT. Today, the ISBT has 27 branches located mainly in the urban areas throughout Thailand.

## Literature Review

The review of the literature will mainly focus on the following topics, namely: 1. Characteristics and objectives of islamic bank; and 2. Criteria for bank selection by customers

### *Characteristics and Objectives of Islamic Banking*

As a *Shari'ah* oriented business entity, the islamic bank is strongly expected to be guided by the islamic business philosophy as has been revealed in the *Quran, Hadith and Sunnah*. The islamic banking system operates under the *Shari'ah* that prescribes specific patterns of economic behavior for individuals and society as a whole (Khan and Mirakhor 1987). Not only does the islamic banking system prohibits interests and conforms with the *Shari'ah* requirements on offering the islamic financial products, but also the system aims to contribute into the fulfillment of the socio-economic objectives of the society (Ali 1994; Haron and Yamirudeng 2003; and Balz 2007). Many islamic philosophers stated that the islamic banks perform mostly the same functions as the conventional banks, but the islamic banks do this in distinctly different ways (Ali 1994; Ahmad 2000; Hason 2005; Iqbal and Molyneux 2005; Balz 2007).

*Firstly*, the islamic banking stands for a system of equity-sharing, risk-sharing and stake-sharing. Under these principles, the investor and the entrepreneur will be sharing the result of a

project, either its profits or losses in an equitable way (Ahmad 2000; Iqbal and Molyneux 2005). For instance, in the case of profits, both of them would share the profits in pre-agreed proportions. On the other hands, in the case of losses, all financial losses would be borne by the capital provider while the entrepreneur would borne the losses of his labor/time (Iqbal and Molyneux 2005). As a result, the system is provides a just distribution between the parties.

*Secondly*, the islamic banking system is based on the islamic law (*Shariah*) in the sense that the islamic banks have to operate within the ethical and moral frameworks of the *Shari'ah*. Under this framework, the islamic banks are prohibited from dealing with activities that are considered unlawful (*haram*) in Islam. For instance, the islamic banks cannot finance a wine factory, a pig farm, a casino, a night club and other activities that are, from the islamic point of view, considered harmful to the society or considered *haram* (Ahmad 2000; Iqbal and Molyneux 2005). The islamic banks should be involved in lawful (*Halal*) activities that benefit the society. Furthermore, the islamic banks have been supervised by a Shari'ah Supervisory Board to ensure that all the banking activities conform with the *Shari'ah* framework (Ali 1994). Consequently the islamic banks have to comply with the islamic accounting standards since the conventional accounting standard is not suitable to them and not compliant with the spirit

of the Shari'ah. All information has been provided as transparent as possible to the customers in order to show that the banks comply with the *Shari'ah* principles (Ali 1994).

*Thirdly*, the islamic banking system supports a just and fair society. The system prohibits interest, gambling and all activities that, in the perspective of *Shari'ah*, are harmful to the society. The aims of the system is to protect the interests and benefits of all parties involved in economic activities as well as to promote social welfare (Iqbal and Molyneux 2005).

Several empirical studies have observed the customers' perception of the characteristics and objectives of the islamic banks (Ahmad and Haron 2002; Bank Indonesia 2004 and Dusuki 2005; Ahmad 2007). A study in Indonesia (Bank Indonesia 2004), surveyed 1,047 respondents to determine their perception towards the financial features of the islamic bank. The findings showed that a half of the respondents viewed that the main feature of the islamic bank was profit distribution. In addition, many of them viewed that the islamic bank was operated according to the islamic principles (Bank Indonesia 2004).

Ahmad and Haron (2002) and Dusuki (2005) examined the perception of corporate customers towards the islamic banking system in Malaysia. Both studies reported that the majority of the respondents agreed that the islamic banking system was introduced because the moslems have been prohibited from associating themselves

with the element of interest practiced by the conventional banking system. In addition, many respondents agreed with the view that profit and loss sharing was the only principle representing a true spirit of the islamic banking system. Both studies found that most of the respondents disagreed that the islamic banking products available in Malaysia were similar to the products of the conventional banks except that the islamic banks used different names for those products. Dusuki (2005) revealed that most of the respondents agreed that entrepreneurs by associating themselves with the islamic banks have been perceived to be ethical in conducting their business and the islamic banking was is not about competing in price, but rather in stressing the unique quality of products and services.

Ahmad (2007) who conducted a survey in Bangladesh revealed that customers and bankers in Bangladesh believed that the intention to earn profit was the basis of the islamic banking system. Additionally, the respondents believed that the objectives of the islamic banking system were to contribute to the social welfare of community and to ensure justice in financial transactions.

Dusuki (2005) analyzed the Malaysian stakeholder customers' perception towards the objectives of the islamic banking system operation by considering two main types of objectives, namely commercial objective and social objective. The results showed that the managers, *Shari'ah*

advisors and regulators, tend to be concerned with the commercial aspects of the islamic banking system objectives such as maximizing profits, minimizing cost of operation, and offering viable and quality products and services. In contrast, customers, depositors and local communities tend to be concerned with the social objectives, such as, contribution to the social welfare of the community, poverty alleviation and promoting sustainable development.

Both Dusuki (2005) and Ahmad (2007) supported the philosophy of the islamic banking system that the objectives should emphasize not only on the commercial aspects but also on the social aspects. islamic banking system is not only profit oriented, but also promotes islamic norms and values and protect the needs of the society. Moreover, the objectives of establishing the islamic banking system are to fulfil the religious requirements of the moslem customers and offer a wider choice of financial products to all customers (Iqbal and Molyneux 2005).

### ***Bank Selection Criteria***

There is a significant amount of studies that have investigated the criteria for bank selection by customers for both the conventional and the islamic banks.

### ***Conventional Banks***

The term "bank selection criteria" represents the rationale for which customers choose specific banks. Studies on the bank selection criteria have

been quantitative in nature and extensive in its coverage. It has been given substantial attention by various studies focusing on numerous conventional banks (Ulengin 1998; Javalgi et al. 1989; Ta and Har 2000; Lewis 1982; Thwaites and Vere 1995; Holstius and Kaynak 1995; Kennington 1996; Mylonakis et al. 1998; Owusu 1999; Almassawi 2001; and Bick et al. 2004). The studies have identified a number of factors, such as paying highest interest rates on savings, location, reputation, fast and efficient services and friendliness of the bank staff. These factors may vary from one country to another due to the customers' cultural backgrounds, economic and legal environment (Almassawi 2001).

Ulengin (1998) used hierarchy information integration (HII) to examine customer preferences in banking in Turkey. A survey was conducted involving 658 customers and, the researcher reported that respondents preferred loyalty programs, continuous information flow from the bank, the off-site ATMs, the maximum five minutes waiting time in the branches, and simple application for all the accounts the bank has to offer.

Javalgi et al. (1989) and Ta and Har (2000) used analytical hierarchy process (AHP) to determine the customer's selection of the conventional banks. Javalgi et al. (1989) used the AHP to examine preferences of 15 bank customers, managers and administrators in the USA. While, Ta and Har (2000) used the AHP to determine the opinion of undergraduate students

in choosing the conventional banks in Singapore. Both studies observed that the interest rates on saving and convenience are important factors in choosing the conventional banks. This result is consistent with many studies, such as, Lewis (1982); Thwaites and Vere (1995), Holstius and Kaynak (1995), Kennington (1996), Mylonakis et al. (1998), Owusu (1999), Almassawi (2001), and Bick et al. (2004) which confirm that the convenient factor is considered as an important factor in selecting the conventional banks.

Convenience, however, is not a dominant factor for selecting commercial banks in Sweden. The most important factors considered by the customers in Sweden were friendliness and helpfulness of personnel, accuracy in transacting and managing account, and efficiency in correcting mistakes (Zineldin 1996). This result is consistent with Lympoeropoulos et al. (2006) who surveyed 1,092 bank customers in the greater area of Athens in selecting their mortgage loans. Lympoeropoulos et al. (2006) reported that service quality and friendliness of the bank staff were considered important factors to the customers in selecting their mortgage loans.

Another determinant factor reported by Javalgi et al. (1989) and Ta and Har (2000) was the bank's reputation. This result is consistent with many studies such as Boyd et al. (1994), Karjalato (2002) and Edris and Almahmed (1997) who reported that the customers considered the bank's reputation as the most important factor

in selecting the conventional banks. This result, however, is inconsistent with Delvin's (2002) who did face-to-face interviews with 4,200 responses. The researchers reported that image reputation was considered a less important factor to the U.K. customers in choosing home loans. The important criteria considered by this group of customers were the location, the recommendation service features, rate of return, and low fees.

### ***The Islamic Banks***

In the case of the islamic banks, the studies of the bank selection criteria are very few. An earlier study by Erol and El-Bdour (1989) examined the importance of patronage factors of 434 middle class, middle income households, professionals, merchants, and businesses in Jordan. The researchers reported that the respondents considered fast and efficient service, bank's reputation and image, friendliness of bank personnel and confidentiality of the bank as important criteria for selecting their islamic bank. This result is consistent with Haron et al. (1994), Gerrard and Cunningham (1997), Metawa and Almoossawi (1998), Nasser et al. (1999), Ahmad and Haron (2002), Otman and Owen (2001) who also reported that these factors were important to customers in selecting the islamic banks in Malaysia, Singapore, Bahrain and Kuwait.

One year later, Erol et al. (1990) conducted the same study as that of Erol and El-Bdour (1989); the study showed that the important criteria con-

sidered by the customers were the availability of parking space, the confidence of the bank manager, mass media advertising, external appearance, and recommendation by friends or relatives. This result is consistent with the study by Zainuddin et al. (2004) who surveyed 123 islamic bank customers in Malaysia to illustrate the different perceptions of users and nonusers of the islamic banking system services.

Dusuki and Abdullah (2007) examined the main factors that motivated 1,500 stakeholders in four states in Malaysia in selecting their islamic banks. The findings revealed that knowledgeable and friendliness of the bank employees were the most important factors considered by the Malaysian customers, while the bank location and product prices were considered the least important factors by them.

Nonetheless, many studies indicated that the religious factor is the main reason for the customers in choosing the islamic banks (Metawa and Almoossawi 1998; and Otman and Owen 2001). Metawa and Almoossawi's (1998) identified the profile and banking habits of 300 islamic bank customers, and perceived the importance and degree of satisfaction with the current products and services provided by the islamic banks in Bahrain. Otman and Owen (2001), on the other hand, examined 360 customers of Kuwait Finance House (KFH). Both studies reported that the respondents considered the islamic principles as the most important factor in selecting their islamic banks. This result is consistent with



the descriptive statistical studies by Nasser et al. (1999), Okumus (2005) and Bley and Kuehn (2004) that religion was an important factor for the customers to select the islamic banks in Jordan, the United Arab Emirates and Turkey.

Metawa and Almosawi (1998) indicated that the second most important factor considered by the Bahraini customers in the selection of the islamic banks was the rate of return. Moreover, the result from the chi-square test indicated that there was a significant relationship between the customers' income and the relative importance of the rate of return criterion. Further, a detailed review of the respondents revealed that the rate of return was considered a relatively important criterion by users of the investment accounts (Metawa and Almosawi 1998). This result is consistent with Haron et al. (1994), and Garrard and Cunningham (1997) who focused on the moslems and the non-moslems respondents.

There have been limited studies on the bank selection criteria focused on the moslem and the non-moslem customers (Haron et al. 1994; Garrard and Cunningham 1997). Haron et al. (1994) examined 301 moslem and non-moslem customers in choosing the islamic banks and the conventional banks in Malaysia. On the other hand, Garrard and Cunningham (1997) surveyed on 190 moslem and non-moslem customers in selecting the islamic bank in Singapore. Both studies reported that religious factor was not the only

reason for the Malaysians and the Singaporeans to choose the islamic banks, instead, the combination between religion and profit was the main reason for them to choose their banks. Moreover, Haron et al. (1994) and Garrard and Cunningham (1997) reported that both the moslem and the non-moslem customers in Malaysia and Singapore showed the same opinion that speed and efficiency were the most important factors, while the least important factors considered by both of them were mass media advertising, external appearance, recommendations by friend/relative and convenience.

Additionally, Haron et al. (1994) and Garrard and Cunningham (1997) reported that there was a significant difference in perception between the moslem and the non-moslem customers on the relative importance of high interest payment on savings. The results revealed that the non-moslems rated this criterion as relatively important compared to the moslems.

## **Research Methods**

### ***Research Instrument***

The questionnaire used in this study was adapted from the instruments developed by Haron et al. (1994), Garrard and Cunningham (1997), Dusuki (2005), Dusuki and Abdullah (2007) and Ahmad (2007). The questionnaire consists of three sections where the first section was designed to gather information about the customers' perception towards the islamic

bank in terms of its characteristics and objectives. The second section was designed to gather information about the factors customers considered in selecting the ISBT. The last section was designed to gather information about the respondent's demographic information such as gender, religion, age, educational level, occupation, income, and the type of banking facilities used.

In particular, section one of the questionnaire consists of two parts where in the first part the respondents were asked to state their level of agreement with the statements on islamic banking system characteristics using the Likert-scale ranging from "strongly disagree" to "strongly agree". Whilst for the second part, the respondents were asked to indicate their view on the importance of the objectives based on the five-point scale ranging from "1" as not important at all to "5" as very important. For both parts, the mean score and the mean rank were produced. Furthermore, one sample t-test and one-sample Kolmogorov-Smirnov test were used to compare the perceptions of the Thai customers on the commercial and social objectives.

In the section 2 on the bank selection criteria, the five-point scale ranging from "1" as not important at all to "5" as very important was used to elicit the respondents' perceptions on factors that motivated them into choosing islamic bank. The mean score of the bank selection criteria was also calculated where the bank selection criteria

were categorized into two groups, the moslems and the non-moslems. In addition, the independent sample t-test and Mann-Whitney U test were used to test the differences between the moslem and the non-moslem customers in their selection of the islamic banking system.

The questionnaire was originally prepared in English but as most Thai people speak Thai, the English version was translated into Thai. Before the questionnaire was distributed, a pilot test was conducted to determine the appropriateness and relevance of the items in the survey as well as the level of difficulty of the language for the respondents to answer the questions. Based on the feedback from the respondents on the instrument, several modifications were made to the rubrics of the questions so that they were more understandable and further, the less relevant questions were also deleted.

### ***Research Sample and Data Collection Procedures***

Five hundred questionnaires were distributed to both the moslems and the non-moslems bank customers. Understanding both the moslem and the non-moslem customers' perception is very important because the information obtained from such studies provides some useful information for the islamic bank in terms of market segmentation so that different products and services can be provided for different groups of the bank customers

(Kader 1995). This will help the bank to formulate strategies that can enlarge their customer base.

With the prospect of a high response rate, a self-administrated questionnaire was used to collect data for this study. The questionnaires were distributed to the customers of the ISBT in Pattani, Yala and Narathiwat. These three states were chosen due to convenience because of the accessibility to the researcher and constraints of time and resources. These three states have five ISBT branches, thus, a total of 500 questionnaires were randomly distributed to the customers of all the branches located therein so as to obtain a wider representation of the customers (Metawa and Almosawi 1998) with the questionnaires being distributed daily during normal working hours on week-day basis.

The respondents were discreetly and politely approached with the purpose of the study being explained to them. The respondents were then asked if they would obligingly participate in this study. If they were unable to participate due to time constraint, the researcher would approach others until one who agreed to participate was obtained. As soon as a good response was obtained, the researcher then handed over the designated questionnaire to the respondent to complete and then returned to the researcher. This process of data collection continued until the researcher was able to get 100 respondents for each bank branch and subsequently a total of 500 questionnaires were collected from the five

bank branches. The process of data collection was continued for three weeks from 26th May 2008 through 13th June 2008.

### ***Response Rate and Profile of the Respondents***

Out of the 500 collected questionnaires, 462 were usable, thus, a usable rate of 92.4 percent was obtained. The 38 unusable questionnaires consisted of 15 questionnaires which were incomplete, while 23 questionnaires were not answered according to the stated instructions.

Fifty three point nine percent of the respondents were female and 46.1 percent were male. In addition, 57.1 percent of the respondents were moslem and 42.9 percent were non-moslem. Most of the respondents were between the age groups of 20-40 years old and they were well educated, holding at least a bachelor's degree or above. The majority of them were professional and merchants or businessman, with earnings between THB 5,001–50,000 monthly and had a saving account and financing account with the bank.

## **Results and Discussion**

### ***Characteristics of Islamic Banking System***

The results as depicted in Table 1 reveal that the majority of the respondents (74%) agreed with item 1: prohibition of interest (with high mean and standard deviation of 4.09 and 1.139,

respectively). This indicates a strong agreement amongst the respondents as many of the Thai customers are aware that the unique characteristic underlying the practice of the Islamic banking system, which is based on the principle of the *Shari'ah*, is different from the conventional banking system. This result is consistent with the finding of

past studies (i.e. Zainuddin et al. 2004; Dusuki 2005 and Okumus, 2005), that the Malaysian customers were more aware that the main characteristic of the Islamic bank is the prohibition of interest collection.

Furthermore, majority (72.7%) of the respondents agreed with the item "ethical organization." With a mean of

**Table 1. Customers' Perceptions on Islamic Banking System Characteristics**

Items	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std.Dev.
1. Prohibition of interest	4.3	6.5	15.2	23.8	50.2	4.09	1.139
2. Profit-loss-sharing principle	2.2	5.6	22.5	41.1	28.6	3.88	.959
3. Ethical organization	2.2	5.0	20.1	39.6	33.1	3.97	.963
4. Better quality of products and services	2.8	7.6	24.7	38.7	26.0	3.86	2.125
5. Supervise by <i>Shari'ah</i> committee	2.6	9.3	18.6	35.5	34.0	3.89	1.059
6. Operates according to Islamic principles	4.1	8.4	15.4	29.4	42.6	3.98	1.136
7. Complies with Islamic accounting standard	3.2	9.3	17.7	31.2	38.5	3.92	1.106
8. Invests only in businesses and trades which are not prohibited by Islam	3.2	10.8	23.2	34.0	28.8	3.74	1.087
9. The information is made transparent to customers	5.0	5.4	24.7	33.5	31.4	3.81	1.092
10. No difference between Islamic bank and conventional bank products and services, except the names used to highlight the products	5.8	6.3	25.3	35.9	26.6	3.71	1.103

*Note:* SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree

3.97 and relatively low standard deviation of 0.963, it indicates that the respondents viewed the islamic banking system as ethical. As an ethical organization, the islamic bank has to work within the framework of the *Shari'ah*, that is, it not allowed to engage in any unlawful (*Haram*) activities (e.g., operating a wine factory, a casino, a night club) (Ahmad 2000; Iqbal and Molyneux 2005).

Table 1 also depicts that 72 percent of the respondents agreed with item 6 that “the islamic banking system operates according to the islamic principles,” with a relatively high mean of 3.98 and a standard deviation of 1.136. This also indicates a strong agreement amongst the respondents. This result is consistent with the finding by the Bank Indonesia (2004) that the majority of the Indonesian respondents agreed that operating according to the islamic principles is an important characteristic of the islamic bank.

Moreover, 62.5 percent of the respondents agreed with the item of “no difference between the islamic bank and the conventional bank products and services, except the names used to highlight the products.” Only 12 percent of them disagreed with this item. With a relatively low mean and a relatively high standard deviation of 3.71 and 1.103, respectively, it implies that the respondents have little awareness of the islamic banking system products and services. This is not surprising as the islamic bank is relatively new to the Thai customers, and therefore, they are less familiar with the

islamic bank products and services. Thus, they cannot differentiate between the products and services of an islamic bank and a conventional bank. This finding is inconsistent with the finding by Dusuki (2005) that the Malaysian customers disagreed that “the islamic banking system products and services offered are similar to the conventional banks except the names used to reflect islamic products.”

Furthermore, an examination of the mean ranks for the customer groups shows that the most important characteristic of the islamic bank assigned by the moslem customers is “operates according to the islamic principles,” while the non-moslem customers considered “better products and services” as the most important objective. On the other hand, the least important of the islamic banking system characteristics assigned by the moslem customers is “better products and services,” while the non-moslem customers considered “invests only in businesses and trades which are not prohibited by Islam” as the least important objective.

### ***Objectives of Islamic Banking System***

Results in Table 2 above show that the most important of the islamic banking system objectives as perceived by the respondents is “ensuring justice in the financial transactions,” with a mean score of 3.89. In addition, “promoting the islamic values and way of life towards their staff, clients and general public,” with a mean score of

Table 2. Customers' Perceptions on Islamic Banking System Objectives

Variables	Mean	Rank
1. Maximizing profits	3.16	9
2. Contributing to social welfare of the community	3.68	4
3. Ensuring justice in the financial transactions	3.89	1
4. Alleviating poverty	3.67	5
5. Promoting sustainable development projects	3.70	3
6. Minimizing costs of operations	3.51	8
7. Enhancing product and service quality	3.65	7
8. Offering viable and competitive financial products	3.66	6
9. Promoting islamic values and way of life towards their staff, clients, and general public.	3.85	2
10. Mobilizing saving	3.70	3

3.85 indicates the second most important objective as considered by the respondents. On the other hand, the least important of the islamic banking system objective considered by the respondents is "maximizing profits," with a relatively low mean of 3.16. In addition, "minimizing costs of operations" is also considered as the least important objective by the respondents.

These results are inconsistent with the findings by Dusuki (2005) and Ahmad (2007) that the customers in Malaysia and Bangladesh considered maximizing profits as the most important objective of the islamic bank. However, the least important objective considered by the Malaysian customers is promoting the islamic values and way of life towards their staff, clients and the general public, while the Bangladesh customers considered

ensuring justice in the financial transactions as the least important.

In further analyzing the customers' perceptions towards the objectives of islamic bank, the items on the islamic banking system objectives were categorized into two broad objectives, which are commercial (i.e. *maximizing profits, mobilizing saving, minimizing costs of operations, enhancing product and service quality, offering viable and competitive financial products, and ensuring justice in the financial transactions*) and social objectives (i.e. *contributing to social welfare of the community, alleviating poverty, promoting sustainable development projects, and promoting islamic values and way of life towards their staff, clients and the general public*). The mean score of each category was calculated by averaging the total points

Table 3. Mean Scores of Commercial and Social Objectives

Category	Mean Score
Commercial objective	3.59
Social objective	3.73

indicated by the respondents on each item that represents the islamic banking system objective category.

Based on the mean scores result shown in Table 3, it indicates that the Thai customers considered the social objectives as more important than the commercial objectives. The one sample t-test reveals that there is significant different in the importance of the commercial and the social objectives of the islamic bank as perceived by the customers. The finding is consistent with Dusuki's (2005) finding that the respondents in Malaysia do not apply an equal degree of importance to the commercial and the social objectives of the islamic bank.

The study also investigated the islamic banking system objectives as ranked by the moslem and the non-moslem respondents. The results indicated that the moslem customers assigned more importance to the social objectives, such as, promoting the islamic values and way of life towards their staff, clients, and the general public, promoting sustainable development projects, and contributing to the social welfare of the community than the non-moslem customers. On the other hand, the non-moslem customers were more concerned with the commercial

objectives, such as, offering viable and competitive financial products, ensuring justice in the financial transactions, and enhancing the product and services quality.

### *Bank Selection Criteria*

Table 4 below presents the mean score and rank for each bank selection criteria as perceived by the moslem and non-moslem respondents.

The results in Table 4 above showed some similarities and differences in the ranking of the bank selection criteria between the moslem and the non-moslem respondents. The moslem respondents considered "fast and efficient services" and "confidence in the bank's management" as seventh and fourth important factors, respectively, and fourth and second important factors, respectively, by the non-moslem respondents. "Recommendations of relatives and friends" and "Mass media advertising" were ranked twelfth and ninth important factors, respectively, by the moslem respondents and ninth and eleventh, respectively, by the non-moslem respondents.

On the other hand, there were differences in the ranking of the bank selection criteria between these two groups. The most important factor considered by the moslem respondents when selecting their islamic bank was "the interest free saving," but this factor was ranked seventh by the non-moslem respondents. "Its reputation and image" and "knowledgeable and competent personnel" were considered as the most important factors by the

non-moslem respondents; however, these factors were ranked fifth and ninth, respectively, by the moslem respondents. "Religious reasons only"

was ranked third by the moslem respondents, but this factor was considered as the least important factor by the non-moslem respondents. The least

Table 4. **The Independent T-Test**  
*The Moslems and the Non-Moslems' Perception Towards The Bank Selection Criteria*

Variables	Moslem		Non-Moslem		Sig. (2-tailed)
	Mean	Rank	Mean	Rank	
1. Religious reasons only	4.09	3	2.62	12	.000
2. Profitability reasons (high return on saving) only	3.48	14	3.27	9	.024
3. Religious and profitability reasons combined	3.85	8	3.19	10	.000
4. Lower service charges	3.57	13	3.29	8	.007
5. Wider range of products and services offered	3.64	11	3.39	6	.013
6. Profit and loss sharing investment	3.67	10	3.48	5	.057
7. The efficiency of bank operation	3.96	4	3.59	11	.000
8. The interest free saving	4.26	1	3.35	7	.000
9. The opportunity to get interest free loans	4.16	2	3.58	3	.000
10. Recommendations of relatives and friends	3.61	12	3.27	9	.001
11. Fast and efficient services	3.86	7	3.55	4	.002
12. Confidence in the bank's management	3.96	4	3.59	2	.000
13. Its reputation and image	3.91	5	3.62	1	.002
14. Knowledgeable and competent personnel	3.88	6	3.62	1	.008
15. Mass media advertising	3.74	9	3.17	2	.000



important factor considered by the moslem respondents was “profitability reasons (high return on saving) only,” but this factor was ranked ninth by the non-moslem respondents.

There are many similarities and differences between the findings of this study and the findings of previous studies. The results from Table 4 revealed that religion is not the main reason for the Thai's choice of the islamic bank in Thailand. This result is consistent with the findings by Erol and El-Bdour (1989), Erol and El-Bdour (1990) and Haron et al. (1994), that religion is not the primary motivation for respondents in choosing islamic banks in Jordan and Malaysia. This result, however, is contradictory to the findings by Nasser et al. (1999), Okumus (2005), and Bley and Kuehn's (2004) who postulate that religious factor is the main reason for the respondents in selecting the islamic banks in Jordan, the United Arab Emirates and Turkey, respectively.

The selection of “confidence in the bank's management” considered as one of the important factors in selecting the islamic bank by the moslems and the non-moslems is consistent with the findings by Haron et al. (1994) and Garrard and Cunningham (1997) that the moslems and the non-moslems in Malaysia and Singapore also considered this factor as important.

Besides, “fast and efficient services” was considered an important factor by the non-moslem more than the moslem respondents. However, this result is inconsistent with the findings

by Haron et al. (1994) and Garrard and Cunningham (1997) that both the moslems and the non-moslems in Malaysia and Singapore value the provision of this factor highly in their bank selection criteria. Furthermore, “profitability reasons (high return on saving) only” is considered more important by the non-moslem than the moslem customers. This is supported by the Singaporean respondents in Garrard and Cunningham's (1997) study that the non-moslems considered high rate of return more when selecting their islamic bank than the moslems.

Moreover, “its reputation and image” which is also ranked highly in this study was also considered as an important factor by Haron et al. (1994), Garrard and Cunningham (1997), Metawa and Almosawi (1998), Nasser et al. (1999), Ahmad and Haron (2002), Otman and Owen (2001) in their studies. Besides, the selection of “recommendations of relatives and friends” considered as one of the unimportant factors in selecting the islamic bank by the moslems and the non-moslems is consistent with the findings by Haron et al. (1994) and Garrard and Cunningham (1997) that this factor was considered the least important by the moslems and the non-moslems in Malaysia and Singapore.

In addition, the study also examines the average mean score of the moslems' and non-moslems' perception towards the bank selection criteria. This is obtained by averaging the total points assigned by the respon-

dents of each group for all the 15 criteria of selecting the bank. The result indicates that the mean score of the moslem's group is greater than non-moslem's group, with a mean of 3.77 and 3.37, respectively. The independent sample t-test indicated that at 5 percent significant level, there is significant difference between the moslem and the non-moslem customers' perception on the ranking of the various bank selection criteria.

## Conclusion

The study provides empirical results of a survey conducted to determine the Thai customers' (moslem and non-moslem) perceptions towards the characteristics, objectives of the islamic bank and the perceptions in selecting the islamic bank. In summary, majority of the Thai customers were aware that the unique characteristic underlying the practice of the islamic banking system was different from the conventional banking system, i.e., the prohibition of interest. But, they have little awareness about the islamic banking system products and services. They perceived that there are no differences between the islamic bank and the conventional bank products and services, except in the names used to highlight the products. Moreover, there were differences in the ranking of the islamic banking system characteristics between the moslem and the non-moslem customers. In terms of the perception of customers on the objectives of islamic bank, the

social objectives were perceived as more important than the commercial objectives especially by the moslem customers. Also, the moslem customers highly consider interest-free saving, while the non-moslems concerned on its reputation and image, and knowledgeable and competent personnel.

The results of this study can be used as a message from the customers to the islamic bank. The islamic bank has to recognize that the customers do not view them just like any other banks operation in Thailand. Therefore, the islamic bank has to emphasize and upgrade on the quality of products and services offered and the quality must be compatible with that of the conventional banks. These expectations may provide a foundation for the islamic bank in planning strategic decisions to achieve the competitive advantages. In addition, the Thai customers considered the social objectives as more important than the commercial objectives. The islamic bank should strive to achieve these social objectives to enhance its corporate social responsibility.

The Thai customers viewed that there were no differences between the products and services of the islamic bank and the conventional bank, except in the names used to highlight the products. This implies that the Thai customers have little awareness of the products and services of the islamic banking system. In order to make the customers more aware of the islamic banking system products and services, the islamic bank needs to strategise and

to have aggressive marketing through various channels to provide comprehensive information on the products and services of the Islamic banking system.

Evidence on the main factors that influence customers in choosing the Islamic bank was undoubtedly useful

in making sure that the customers' needs and expectations were fulfilled in order to retain the existing customers and to attract the new ones. Hence, future research may want to investigate the issue of customers' behavior in assisting the bankers and other relevant parties to make wiser decision.

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