



Brand preference in Islamic banking

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Abstract

Purpose – University students have a clear need for bank accounts as they have fees, expenses and cash needs. The usefulness of a current account is therefore pre-evident and Islamic banks need to focus on their brand image and the services they offer. Indeed, understanding bank selection from Muslim customer's perspective can provide useful information to banks' senior management to help them allocate resources and design products that promise to attract and better satisfy customers. Literature collected so far suggests a strong Islamic brand reputation as well as better financial and banking services are the main factors which influence the selection of a brand. The purpose of this paper is to test this within a positivistic empirical framework and amongst the younger generation in Malaysia.

Design/methodology/approach – The sample was based on 300 students at the International Islamic University of Malaysia. The study utilised five selection criteria based on previous research, personal experience and interview with bank officials and university students. The study also provides some insight into the younger generation's awareness of Islamic banking and the processes involved in the selection of their preferred brand.

Findings – It would seem that whilst the importance of religion is a major driver in the choice of Islamic banking the fundamental differences between Islamic and conventional banking are poorly understood. What is important is brand, ease of use and the quality of the customer interaction.

Originality/value – The paper investigates the factors which determine a customer's choice of a particular bank and provides insights into cementing relationships with existing customers as well as how to gain new ones.

Keywords Islam, Marketing, Banks, Malaysia

Paper type Research paper

1. Introduction

Previous literature suggests that factors such as banks' strong Islamic reputation as well as better financial and banking services are to be among the leading factors in the selection of the respective Islamic bank. Although the idea of the Islamic banking system is still in its infancy, it has nevertheless attracted a great deal of attention of many local and foreign investors. Being a nascent idea, Islamic banking has a potential for attracting new customers and consequently, enhancing a bank's future market share. This needs to be tested. The aim of this study, therefore, is to examine the bank selection criteria being employed by students in Malaysia. Henceforth, the choice of younger customer would reflect the future potential market for Islamic banking marketing services whose average age would be between 19 and 25 years.

Some parts of this paper's findings are presented in international conference elsewhere.



Customers and financial institutions both seek mutual relationships (Cronin, 1997). Hence, exploring relationship information through survey studies is relevant especially to the banks' management that need to formulate the appropriate brand and marketing strategies necessary to attract new customers and also retain existing ones (Kaynak and Kucukemiroglu, 1992). This is generally applicable to all types of banks including Islamic banking institutions. Lately, Islamic banking and finance has emerged as one of the most important trends in the expansion of the financial sector. With the development of viable Islamic alternatives to conventional banking and finance, Muslims and to a certain extent non-Muslims are seeking *Shari'ah* based solutions to their financial needs.

According to Kapur (2008), the world's largest Islamic banks have outpaced conventional banks with an annual asset growth of 26.7 per cent. The Islamic institutions reported growth of nearly \$350 billion in assets beating the 19.3 per cent growth rate of the mainstream banks. This growth rate is well above the previous estimates of 15-20 per cent.

The remarkable growth of an industry still in the infancy stage of branding carries a significant message to the world that Islamic banking has indeed proven a worthwhile alternative to that of conventional finance. A greater understanding of the social, economic and cultural background which underlies this growth necessitates further study and research, in which this paper may make a small contribution.

Islamic banking and finance rest on certain principles and ethos that govern not only the interest-free mechanism but also several other prohibitions and unethical practices discouraged by the *Shari'ah*. These include such practices as uncertainty (*gharar*), cheating (*ghish*) and gambling (*qimar*).

As a result, Islamic banks of national financial systems not only in Muslim dominated countries like Malaysia but also countries with Muslim minorities such as Singapore, the UK and Kenya. Even more interesting is that many non-Muslims have also come to realise certain desirable aspects of Islamic banking (El Qorchi, 2005).

The benefits of this study obtain from the understanding of how to cement relationships with existing customers as well as how to gain new ones. This study attempts to investigate the factors which determine a customer's choice of a particular bank as a provider of their financial services needs.

The research seeks to address the following questions:

- RQ1. What are the main factors that motivate customers to deal with either an Islamic bank or a conventional bank or both, and to what extent are customers satisfied with their brand choice?
- RQ2. What can banks do to attract new customers whilst retaining the old?
- RQ3. What influences the customers in the present environment in their choice of brand?
- RQ4. What differences does an Islamic bank product carry and how does this influence customers choice of bank?

The significance and importance of this study can be viewed in two dimensions: the theoretical contribution and the practical implications. Theoretically, the study fills a gap in the literature which is the exploration of the bank selection criteria for potential young customers – in this case, undergraduate students in Malaysia. The findings of this study also add a further dimension which is that of a non-Western study where the current literature has been primarily based.

On the practical side, this study can help marketeers in banks to identify the major factors that determine bank selection decisions among young and future decision customers. Such information should assist Islamic banks in devising the appropriate marketing strategies for reaching and attracting young customers. Islamic institutions can also use the findings of this study to develop their competitive advantage around those salient selection attributes and to address their relative strengths and weaknesses in what is a very competitive industry. Finally, the information provided in the study can be utilised by Islamic banks to achieve a better understanding of their customers' selection process and to develop programmes to better develop specific market segments.

1.1 Research objectives

The study of how customers select their bank has been an important issue in the field of banking services marketing. Although the existing literature provides a number of different studies on bank selection decisions, there has been little research on Islamic banking decisions of students in the Asia Pacific region, particularly Malaysia. Two unpublished Master's degree dissertations (Awang, 1997; Bakri, 2006) conducted studies of selection criteria in Malaysia and Indonesia, respectively. Neither, however, focussed on young customers. Thus, the aim of this paper is to redress this gap in the literature by exploring the decision criteria of university students (who are likely to move onto careers as professionals employees) in their brand choice of Islamic banking services.

The sub-objectives are as follows:

- (1) to determine the demographic profile of Islamic bank customers in IIUM;
- (2) to study the brand awareness and usage of various Islamic bank product/services among Islamic bank customers in the university;
- (3) to identify any demographic relationships with the usage of different products and services offered by Islamic banks; and
- (4) to measure the level of customer satisfaction with various basic brand attributes.

The abundance of relevant literature such as Anderson *et al.* (1976), Laroche *et al.* (1986), Balachander *et al.* (2000), Tan and Chua (1986), Boyd *et al.* (1994), Crane and Clarke (1988), Denton and Chan (1991), AlMossawi (2001), Lymperopoulos and Chaniotakis (2006), Blankson *et al.* (2007), Martenson (1985), Mannan (1984), Yousef (1996), Cohen *et al.* (2006) and Kaynak *et al.* (1991) demonstrate the effort that has gone into investigating brand selection criteria for banking services customers. In this paper, we particularly focus on five factors, convenience of location, financial benefit, technology/physical facilities and brand itself.

1.2 Methodology

The sample for this study was selected from a population of over 15,000 undergraduate students at the International Islamic University of Malaysia at their main campus in Gombak. The majority of these are young – aged 19-25. The sample size of 300 represents about 2 per cent of the student population. Students were selected as respondents because they are young and future potential bank customers. In order to construct a representative sample, students were selected from all six *kulliyahs* (faculties), namely Engineering, Law, Economics and Management Sciences, Islamic Revealed Knowledge and Human Sciences, Information and Communications Technology, Architecture and Environmental Design

and the Institute of Education in variable proportions. Using a convenience selection criteria, students were selected from each *kulliyah* in a 50:50 male:female split.

1.2.1 Data collection. The required data were collected by means of a specially designed questionnaire. The questionnaires were passed to and received from students through the help of other students and by face-to-face interaction with a researcher. In total, 214 of the 300 questionnaires were returned comprising a 71 per cent return rate. The questionnaire consisted of two sections. The first section elicited demographic information. The second asked respondents to rate the relative importance of eight factors on their selection of an Islamic bank using a five-point Likert importance ranking scale ranging from “very important” to “not important at all”. The factors were adapted from the relevant literature, particularly the work of AlMossawi (2001), personal experience and interviews conducted with the branch manager of Bank Muamalat Malaysia Bhd in the IUM main campus. A pilot test confirmed that students were familiar with the chosen factors. Respondents were not asked for their names and were assured of the confidentiality of their responses.

1.2.2 Data analysis. The data collected were analysed using SPSS (version 13) and mean ranking technique. Factor analysis was then used to identify the five evaluative criteria using eigenvalues greater than one rule.

2. Findings and results

2.1 Respondent profiles

Of the 300 distributed questionnaires, 214 were received back with an almost identical split between male and female respondents (Table I).

The respondents were all customers of banks within the university and mostly between 19 and 24 years of age. Most of the students were Malaysian (56 per cent) and 44 per cent from other countries as illustrated in Table II.

2.2 Convenience and location

As Table III illustrates, most of the respondents stated that they agreed with the factors measuring convenience. The means for these factors were between 3.82 and 3.22. We can say that all of these items are important dimensions in the selection of a bank. The most important factor was the banks opening hours with a mean of 3.82 followed by the availability of automated teller machines (ATMs) with a mean of 3.76. The location of the main branch was slightly more important than the location of the local branch. Parking was also important (many Malaysian students owning cars) with available parking also scoring well above 3. Hence, it would seem that convenience and accessibility is very important, this accords with the findings of Anderson *et al.* (1976). The availability of ATMs also came out very strongly with all three factors relating to this service ranking high, this was true for both male and female respondents. This seems to indicate that in their bank selection the new generation puts greater emphasis

	Frequency	%	Valid (%)	Cumulative (%)
Male	109	50.9	50.9	50.9
Female	105	49.1	49.1	100.0
Total	214	100.0	100.0	

Table I.
Gender of respondents

Country	Frequency	%	Cumulative (%)
Algeria	1	0.5	0.5
Australia	1	0.5	0.9
Bangladesh	12	5.6	6.5
Bosnia	1	0.5	7.0
Brunei	1	0.5	7.5
Egypt	1	0.5	7.9
Eritrea	3	1.4	9.3
Ethiopia	1	0.5	9.8
India	11	5.1	15.0
Indonesia	11	5.1	20.1
Jordan	2	0.9	21.0
Kenyan	4	1.9	22.9
Kyrgyz	1	0.5	23.4
Malawi	1	0.5	23.8
Malaysia	121	56.5	80.4
Maldives	1	0.5	80.8
Nigeria	3	1.4	82.2
Oman	4	1.9	84.1
Palestine	3	1.4	85.5
Philippines	1	0.5	86.0
Russia	2	0.9	86.9
Saudi Arabia	8	3.7	90.7
Somalia	8	3.7	94.4
Spore	2	0.9	95.3
Tanzania	2	0.9	96.3
Thailand	5	2.3	98.6
Turkey	1	0.5	99.1
Yemen	2	0.9	100.0
Total	214	100.0	

Table II.
Nationality of
respondents

Factor	<i>n</i>	Min.	Max.	Mean	SD
Convenient ATM locations	214	1	5	3.76	1.108
Available parking space nearby	214	1	5	3.33	1.262
Convenient branch locations	214	1	5	3.53	1.069
The area of parking space	214	1	5	3.22	1.184
Convenient bank's working hours	214	1	5	3.82	0.922
Convenient location of the main branch	214	1	5	3.66	0.955

Table III.
Convenience factors

on the factors which give them quick and convenient access to bank services rather than factors relating to the hospitality or condition of the bank's premises.

2.3 Charges for transactions

As might be expected the factors relating to cost were all rated highly with means ranging from 3.05 to 3.57. The highest ranked item was "low service charge" with a mean of 3.57, other factors were ease of obtaining a loan (3.32), attractive exchange rate (3.29), no charge for credit cards (3.23) and finally attractive prizes (3.05) suggesting that students in Malaysia (and indeed probably most countries) are enticed with freebies (Table IV).

2.4 Technology and physical facilities

In Table V, it is possible to see that most respondents strongly agreed on the importance of smart employees and the general appearance of the bank. The means ranged from 3.63 to 3.84. The most important was neatly dressed employees followed by pleasant bank atmosphere (3.79). The 24-hour availability of ATMs can out at 3.77 and ATMs in several locations at 3.67. It is perhaps surprising that smartly dressed employees seem to rate higher than ATM factors. Perhaps, there is more trust in a bank with smartly dressed employees!

2.5 Brand choice

Table VI is key in that it identifies the major factors relating to brand choice. As might be expected, the recommendations of friends and relatives ranks highly as does the (convenience factor?) of the university using the same bank. Confidence and friendliness of bank personnel also show means of above 3.9 which suggest (particularly in the early stages of the interaction) that the human dimension is important – be that approachability or trustworthiness/reliability as evidenced by their confidence. By far, the most important factor, however, was that of the bank’s reputation – or brand. It is probable that with less financial acumen and experience students in their early twenties are more likely to select a bank with a good and well-known brand name (Flavian *et al.*, 2005).

	Frequency	%	Cumulative (%)
Very insignificant	8	3.7	3.7
Insignificant	24	11.2	15.0
Moderate	68	31.8	46.7
Significant	65	30.4	77.1
Very significant	49	22.9	100.0
Total	214	100.0	

Table IV.
The importance of low
service charges

Factor	<i>n</i>	Min.	Max.	Mean	SD
24-hour availability of ATM service	214	1	5	3.77	1.384
Availability of ATM in several locations	214	1	5	3.67	1.316
Several branches	214	1	44	3.77	2.985
Pleasant bank atmosphere	214	1	5	3.79	1.018
External appearance of the bank	214	1	5	3.63	0.950
Neatly dressed employees	214	1	5	3.84	0.857

Table V.
Technology and physical
factors

Factor	<i>n</i>	Min.	Max.	Mean	SD
Bank’s reputation	214	2	5	3.98	0.839
Friendliness of bank personnel	214	1	5	3.91	1.001
Confidence of bank personnel	214	1	5	3.95	0.948
Recommendations of relatives	214	1	5	3.54	0.942
Recommendations of friends	214	1	5	3.60	0.972
University uses the same bank	214	1	5	3.72	1.046

Table VI.
Brand choice

From Tables VII and VIII, it is possible to see that there is a strong drive to choose an Islamic bank – but also a need for greater knowledge on what Islamic products the banks offer.

Somewhat surprisingly, a number of students would opt for a non-Islamic bank on campus which suggests that whilst they are hungry for more knowledge of Islamic finance and that Islamic orientation of the bank is an important driver of choice if a convenient alternative was available they may still select it.

3. Summary

This study indicates that knowledge of young customers about Islamic products is limited and that they are unaware of the various services available to them. The brand of the bank serves an indicator of its trustworthiness so it seems that this and convenience factors are the major drivers of choice. There is a strong drive to select an Islamic bank – but it seems probable that convenience factors may over-ride this particularly if the selection of bank is made hurriedly. If indeed students become more interested in the Islamic products offered as they grow older banks can provide more information – but it would seem that the brand itself is of paramount importance in the first instance.

The study proved that the dimensions identified are indeed important in the bank selection process. In addition from the analysis, an overall mean was calculated to ascertain the major factors which were as follows:

- customer interaction (mean 3.78);
- brand and recommendations (3.76);
- technology and physical facilities (3.74);
- convenience (3.55); and
- financial benefits (3.31).

Finally, this study examined one type of young customer, namely university students, whilst important, other segments of young customer who may have different selection criteria should not be ignored. Similarly, the study was carried out in Malaysia, other southeast Asian countries may reveal very different results.

Table VII.
The importance of Islam

Factor	<i>n</i>	Min.	Max.	Mean	SD
Your choice of bank depends on the Islamicness of the product	214	1	5	4.10	1.029
You would like to get more knowledge on Islamic bank products	214	1	5	4.34	0.872

Table VIII.
The importance of choice

Factor	<i>n</i>	Min.	Max.	Mean	SD
Is your choice of bank due to availability of choice	214	1	5	3.98	0.976
Given an alternative non-Islamic bank choice on campus, would you select it	214	1	5	2.93	1.306

4. Conclusions and recommendations

As seen from the above, although the underlying concepts of Islamic banking system are not so similar to that of non-Islamic banking system, Islamic banking institutions face strong competition from both Islamic and conventional banks. As regards, convenience (aka ease of use – see Ndubisi and Guriting (2006)) this seems to drive customer satisfaction and ultimate brand selection in the first instance. Factors such as ATMs and their locations, parking space provided, the attractive location of the bank and its' opening hours all serve to reduce stress (Balachander *et al.*, 2000). Owing to IT savvy characters of younger generation, an attention therefore on technology (which the young and well educated are far more amenable to) such as on-line banking can be expected to pay dividends (Poon, 2008).

Furthermore, speed, lack of time and the impatience of young customers make the factor of convenience a very significant one in their brand selection process. The first source of competing brand is expected to come from the conventional commercial banks, while the secondary level of competition will be posed by the presence of other Islamic commercial banks. Hence, the branding strategy of the Islamic banks must be concerned with its ability to gaining a competitive advantage and establishing a strong brand image.

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