2007

An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods

A. H. Gait

A. C. Worthington
University of Wollongong

Publication Details

This working paper was originally published as Gait, AH and Worthington, AC, An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods, Accounting & Finance Working Paper 07/08, School of Accounting & Finance, University of Wollongong, 2007.

07/08

An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods

University of Wollongong
School of Accounting & Finance

Working Papers Series

Alsadek H. Gait

Andrew C. Worthington

School of Accounting & Finance
University of Wollongong
Wollongong NSW 2522
Australia

Tel +61 (2) 4221 3718
Fax +61 (2) 4221 4297
eMail george@uow.edu.au
www.uow.edu.au/commerce/accy/

An Empirical Survey of Individual Consumer, Business Firm and Financial Institution Attitudes towards Islamic Methods of Finance

Alsadek H. Gait and Andrew C. Worthington*

School of Accounting and Finance, University of Wollongong

Islamic finance – financial institutions, products and services designed to comply with the central tenets of *Sharia* (Islamic law) – is one of the most rapidly growing segments in global financial services. However, despite its growing importance, it is only relatively recently that attempts have been made to evaluate the attitudes, perceptions and knowledge of current and potential consumers and providers of Islamic financial products and services. This article provides a synoptic survey of the comparatively few empirical analyses of attitudes, perceptions and knowledge of Islamic finance. Individual consumer, business firm and financial institution attitudes to Islamic finance are examined and briefly compared with the larger body of extant work on attitudes, perceptions and knowledge of conventional financial services and products.

JEL classification: D12; G20; Z12.

Keywords: Islamic finance; Islamic banking.

I. Introduction

Islamic finance – financial institutions, products and services designed to comply with the central tenets of *Sharia* (or Islamic law) – is one of the most rapidly growing segments of the global finance industry. Starting with the Dubai Islamic Bank in 1975 (and operations in the United Arab Emirates, Egypt, the Cayman Islands, Sudan, Lebanon, the Bahamas, Bosnia, Bahrain and Pakistan), the number of Islamic financial institutions worldwide now exceeds over three hundred, with operations in seventy-five countries and assets in excess of US$400 billion (El-Qorchi 2005).

Though initially concentrated in the Middle East (especially Bahrain) and South East Asia (particularly Malaysia), Islamic finance principles are now increasingly found elsewhere. This includes developing economies where the financial sector is almost entirely Islamic (Iran and Sudan) or where Islamic and 'conventional' financial systems coexist (Indonesia, Malaysia,

* Corresponding author. School of Accounting and Finance, University of Wollongong, Wollongong NSW 2522, Australia Tel. +61 (0)2 4221 3616; Fax. +61 (0)2 4221 4297; E-mail: andreww@uow.edu.au.

Pakistan and the United Arab Emirates) (El-Qorchi 2005). It also includes developed economies where a small number of Islamic financial institutions have been established and where large conventional banks have opened Islamic financing windows (such as in Europe and the United States).

While Islamic finance has been practiced for many centuries, it is important to recall that only in the last thirty years have the Islamic financial institutions offering *Sharia*-compliant products and services become more widespread and substantial. Indeed, even in Muslim countries it is only very recently that analogous Islamic finance products and services have been offered in direct competition to the financial products and services offered by conventional banks. Clearly, as Islamic products and services enter these markets, an important consideration is the attitudes, perceptions and knowledge of market participants towards these new methods of finance. For individual consumers and business firms, these factors determine the extent to which they choose to patronize these alternative products and services. Key concerns include the influence of religious persuasion and the relative pricing, costs and benefits, convenience and access of Islamic products and services vis-à-vis conventional bank products and services. For conventional financial institutions, the presence of financial institutions offering Islamic financial products and services may affect their competitive position and how they construct new marketing strategies. It may also influence to their decision to introduce *Sharia*-compliant products and services themselves.

This purpose of this paper is to provide an empirical literature review of the comparatively few studies of attitudes, perceptions and knowledge of Islamic methods of finance (primarily those offered by Islamic banks). The paper is structured as follows. Section II provides a brief review of Islamic finance, including its religious sources, principles and most-common products and services. Section III discusses the literature on individual consumers’ attitudes towards Islamic finance. Business firms’ attitudes towards Islamic banks and other institutions are reviewed in Section IV. Section V includes a discussion of financial institutions’ attitudes toward Islamic methods of finance. The final section includes some concluding remarks and directions for future research.

II. A brief review of Islamic finance

Islamic finance is defined as a financial service or product principally implemented to comply with the main tenets of *Sharia* (or Islamic law). In turn, the main sources of *Sharia* are the

Holy Quran, *Hadith*, *Sunna*, *Ijma*, *Qiyas* and *Ijtihad*. The *Holy Quran* is the book of revelation given to the Prophet Muhammad; *Hadith* is the narrative relating the deeds and utterances of Muhammad; *Sunna* refers to the habitual practice and behaviour of Muhammad during his lifetime; *Ijma* is the consensus among religion scholars about specific issues not envisaged in either the *Holy Quran* or the *Sunna*; *Qiyas* is the use of deduction by analogy to provide an opinion on a case not referred to in the *Quran* or the Sunna in comparison with another case referred to in the *Quran* and the *Sunna*; and *Ijtihad* represents a jurists' independent reasoning relating to the applicability of certain *Sharia* rules on cases not mentioned in either the *Quran* or the *Sunna*.

In brief, the principles of Islamic finance are as follows: (i) the prohibition of *Riba* (usually interpreted as usury or interest) and the removal of debt-based financing; (ii) the prohibition of *Gharar*, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk-taking; (iii) the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and pork); (iv) an emphasis on risk-sharing, the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and losses; (v) the desirability of materiality, a financial transaction needs to have 'material finality', that is a direct or indirect link to a real economic transaction; and (vi) consideration of justice, a financial transaction should not lead to the exploitation of any party to the transaction [see El-Gamal (2000), Warde (2000), Lewis and Algaoud (2001), Iqbal and Llewellyn (2002), Abdul-Gafoor (2003), Obaidullah (2005) and Iqbal and Molyneux (2005) for suitable introductions to Islamic finance]

In practical terms, these prohibitions and recommendations manifest themselves as the following commercial products and services offered by Islamic financial institutions: (i) *Mudarabah*, the provision of capital to a partial-equity partnership in return for a share of profits, but where the losses on funds lent are borne by the lender; (ii) *Musharakah*, full-equity partnerships where the provider of funds and the entrepreneur directly and wholly share in the business, (iii) *Murabaha*, an instrument used for financing the purchase of goods and services where the financial institution purchases these on behalf of the customer; (iv) *Bai muajjall*, deferred payments on products encompassed under *Murabaha*; (v) *Bai Salam*, advance or pre-paid sale contracts of goods and services; (vi) *Istisna*, or manufacturing contracts to cover work in progress and paid by the financial institution on behalf of the customer; (vii) *Ijarah*, lease financing in the form of operating leases only; (viii) *Takaful* or Islamic insurance in the form of cooperative self-help schemes, and (ix) *Quard Hassan*, benevolent loans offered interest free.

In turn, these commercial products and services underlie the various depositor and investor accounts offered to retail customers. In terms of Islamic banks, these are again very similar to the products and services offered by conventional banks with the exception that Islamic financing principles apply to the underlying bank assets and liabilities. For example, unlike a conventional savings account, interest is forbidden on balances in Islamic accounts. Depositors can, however, obtain benefits in the form of 'voluntary prizes', whose value depends, in part, on the deposit's balance and the bank's profitability. These services are often offered fee-free to depositors.

Islamic products and services also increasingly manifest themselves as mutual funds underpinned by investments in *Sharia*-compliant equity or property, *Sukuk* (Islamic bonds), *Takaful* (Islamic insurance) or *Ijarah* (Islamic leasing) constructed with Islamic principles in mind. For example, a *Sharia*-compliant equity mutual fund would, through a process of sector screening and dividend 'purification', normally exclude: banking, insurance or any other interest-related activity; alcohol, tobacco, gambling, armaments; any activity related to pork; other activities deemed offensive to Islam; and any sectors or companies significantly affected by any of the above.

III. Individual customers' attitudes towards Islamic finance

A substantial literature on individual consumers' attitudes towards conventional financial products and services is already in place, especially concerning selection criteria (or patronage) and customer satisfaction. Moreover, most of this work is focused on banking. Although, the following section focuses on individual consumers' attitudes towards Islamic banks, it is useful to first briefly summarise the most-recent findings concerning individual retail consumers' attitudes towards conventional banks.

Bank selection criteria have been studied in a large number of studies. Kaynak and Whiteley (1999), for example, observed that the convenience of a bank was a primary motivation for customers in selecting a specific institution. Further, the convenience motivation include location or other factors such as service quality [see, for instance, Wel and Nor (2003) and

Lee and Marlowe (2003)]. By way of contrast, Kennington et al. (1996) and Almossawi (2001) concluded that the bank's reputation was the most significant factor in the use of conventional banks' services, while Owusu-Frimpong (1999), Ta and Har (2000) and Kaynak and Harcar (2005) found that profitability factors, such as low service charges and high interest rates, were the major reasons why customers chose a particular bank. Kaynak and Harcar (2005) also concluded that a fast and efficient service was also an attractive feature valued by current and potential customers, while Gerard and Cunningham (2001) considered that for most customers the most important criterion for bank selection was feeling secure. In related work, Devlin (2002) showed that professional advice was the most significant motivation for the choice of a home loan institution by customers in the United Kingdom.

At the same time, the increasingly competitive environment in which conventional banks operate has seen customer satisfaction become the focus of increasing attention. Generally, there is a consensus among many studies that service quality is the primary factor in customers' satisfaction with conventional bank services (Taylor and Baker 1994; Levesque and McDougal 1996; Jamal and Naser 2002). Moutinho and Smith (2000), for instance, considered customer satisfaction with human and automated banking and found that consistent and efficient service delivery was most-highly valued. Al-Hawari and Ward (2006) likewise considered the impact of automated banking on the perception of service quality. In terms of outcomes, Pont and McQuilken (2005) concluded that a high level of customer satisfaction impacted positively on the continued loyalty of a customer towards a particular bank.

In sharp contrast to the voluminous work on consumers' perceptions, patronage and satisfaction with conventional bank services, relatively little work has been undertaken including Islamic banks. Selected details of studies including Islamic banks are included in Table 1. Of these, Erol and El-Bdour (1989) is considered to be the first study of individual consumers' attitudes towards Islamic banking. A self-administered questionnaire was used to ascertain the attitudes, behaviour and patronage factors of bank customers (both Islamic and conventional) in Jordan. The main finding was that factors such as a fast and efficient service, the bank's reputation and image, and confidentiality were the primary bank criteria for the choice of bank, whether Islamic or conventional. This implied that a religious motivation in bank selection did not appear very important. Interesting, the study also found that bank customers (at least in Jordan) were generally aware of Islamic banks and their methods, usually from information provided by relatives and neighbours, but that expansion in the number of Islamic bank branches appeared to be insignificant in determining patronage.

Subsequent work by Erol et al. (1990) employed the same survey data with a different technical methodology to again examine the patronage behaviour of Jordanian bank customers. In general, there was much agreement between the two studies about the awareness of Islamic banking in Jordan and that a fast and efficient service, the bank's reputation and image, and confidentiality of the bank were the significant factors for the choice of a bank. However, it was also found that the patronisers of Islamic banks differed significantly from the patronisers of conventional banks in their viewpoint of bank pricing policies. But once again, religious motivation was found to have no significant effect on the overall use of Islamic banks' services.

Later, Omer (1992) surveyed three hundred Muslims in the United Kingdom on their patronage factors and awareness of Islamic financing methods. At the time, *Sharia*-compliant products and services were primarily available though Islamic finance 'windows' at conventional banks. The main finding was that a high level of ignorance prevailed among Muslims in the UK concerning Islamic finance principles. This is generally consistent with findings elsewhere in the literature that Muslims living in a notionally Muslim country have a greater awareness and knowledge of Islamic banking than immigrant Muslims. That said, although UK Muslims were largely ill-informed about Islamic methods of finance, religious motivation comprised the most significant factor in their strong preference for Islamic banking services. Metwally (1996) also used factor analysis to study the attitudes of Muslims in three Arabic dual-banking systems (Kuwait, Saudi Arabia and Egypt) towards Islamic banking. The results indicated that Islamic banks did not significantly differ from conventional banks in the benefits and costs of bank products and services and that Islamic banks equalled conventional bank in terms of staff competency and speed of the services. On this basis, and similarly to Omer (1992), it was concluded that religion was the primary factor in the choice of an Islamic banking institution.

In Egypt, Hegazy (1995) compared the demographic profiles of four hundred customers of two banks: the Faisal Islamic Bank and the (conventional) Bank of Commerce and Development. The results showed that 98.8 percent of the Islamic bank's customers were Muslims married with children, while 32.4 percent of the conventional bank's customers were

Christians and 54.3 percent were Muslims. This suggested that the choice of an Islamic bank is based, in part, on a religious motivation. Regardless, and similarly to Erol and El-Bdour (1989), Erol et al (1990) and Haron, et al. (1994), Hegazy (1995) observed that Islamic bank customers still ranked the speed and efficiency of banking services near the top of their selection criteria, though Islamic bank customers were also motivated partly by the bank's vision to serve the community irrespective of expected profitability. By way of contrast, rates of return offered remained the primary selection factor for conventional bank customers.

Haron et al. (1994) likewise highlighted the differences in the patronage of Islamic and conventional banks in their study of Muslims and non-Muslims in Malaysia. As in Erol and El-Bdour (1989) and Erol et al (1990), factor analysis showed that religious motivation was not the primary reason for Muslims dealing with Islamic banks. Further, no important difference was found between Muslims and non-Muslims in their bank selection criteria with the provision of fast and high-quality bank services being the most significant selected factor for Muslims and non-Muslims alike. The findings also suggested that while Malaysian Muslims and non-Muslims were aware of the existence of Islamic banks, they were usually uninformed of specific Islamic financing methods.

Two subsequent studies also examined perceptions of Islamic banking in Malaysia – generally viewed as the largest centre for Islamic finance outside the Middle East. Hamid and Nordin (2001) focused on the awareness of Malaysian customers towards Islamic banking within the context of the wider promotion of Islamic education. They found that most Malaysians did not differentiate between Islamic and conventional bank products and services, though the majority had sufficient knowledge of the existence and services offered by Islamic banks in Malaysia. Moreover, even though half of respondents of this study dealt with Islamic banks, they were in need of extra understanding of Islamic banks' products. Subsequently, Zainuddin et al. (2004) also surveyed Malaysian bank customers to illustrate the different perceptions of users and non-users of Islamic banking services. They concluded that most Islamic bank users were older than thirty with relatively stable family incomes. On the other hand, most non-users were single, aged less than thirty years with low incomes. One important finding in this study was that the decision-making processes of Islamic banks' users were affected by spouses, friends and relatives, as well as their innate religious motivation.

A number of similar studies were subsequently undertaken in a variety of contexts. In Bahrain, Metawa and Almossawi (1998) concluded that the most important factor in determining the attitudes of Islamic bank customers was religion then profitability. In addition, most Bahraini bank customers were satisfied with the quality of Islamic bank services, especially investment accounts. On other hand, the lowest satisfaction was with more complex Islamic financing schemes because of the relatively high costs. In Jordan, Naser et al. (1999) extended the early work by Erol and El-Bdour (1989) and Erol et al. (1990), but concluded that the bank reputation and the religious beliefs were the two most important factors motivating the use of Islamic banks services. And in Kuwait, Al-Sultan (1999) considered the attitudes of several hundred customers towards the products and services offered by the interest-free Kuwait Finance House. Similarly to Metwally (1996), Al-Sultan (1999) confirmed that adherence to Islam was the primary motivating factor for Kuwaitis dealing with an Islamic bank. That said, slightly more than half of the respondents preferred to deal with a conventional banks because of the better service record. This meant that any religious motivation in preferring an Islamic bank was subsumed by the greater concern for the quality of bank services.

In Singapore, Gerrard and Cunningham (1997) also considered attitudes towards Islamic banking, though in the context of a banking system where no Islamic banks were yet present. While the survey results showed, as expected, that non-Muslims were completely unaware of Islamic methods of finance, Muslims fared little better. Once again, fast and efficient service and confidentiality were the primary motivations for bank selection as in Haron's et al (1994) study of Malaysian bank customers. Finally, Metwally (2002) considered the role of socioeconomic and demographic characteristics in the process of bank selection in Qatar. The results suggested that females, the elderly and public servants preferred to deal with Islamic banks over conventional banks, as did those with relatively low incomes and a moderate level of education. In contrast, conventional banks were favoured in by Qatar by young, well-educated working as professionals or highly-paid public servants, with foreign conventional banks favoured over domestic conventional banks by the relatively well-educated and wealthy.

Two recent studies on the perceptions and understanding of Islamic finance deserve special note. In the first, Bley and Kuehn (2004) surveyed business students' knowledge of financial aspects of Islamic and conventional banks in the United Arab Emirates (Sharjah). This is particularly noteworthy in that this sample included a relatively high proportion of students knowledgeable of general financial practice, and comprised students of both an Arabic and non-Arabic Muslim background. The major finding was that Muslim students preferred Islamic bank services because of religious motivations. A secondary finding was that while Arabic Muslims displayed a high level of knowledge of Islamic financial terms and concepts, non-Arabic Muslims students had a higher level of knowledge of conventional banking. That said most students' banking knowledge was generally at a low level.

The second study of note is work on customer satisfaction with interest-free banking and bank selection criteria in Turkey by Okumkus (2005). This particular study is interesting in that it is set in a set in a predominately non-sectarian Muslim country outside the Middle East or South-East Asia. The analysis itself focused on the degree of satisfaction and awareness of customers dealing with Special Finance Houses offering Islamic banking products services. The most important finding was that the majority of Islamic bank customers responded that religion was the primary motivation in the use of Islamic products and services [see also Omer (1992), Metwally (1996), Metawa and Almossawi (1998), Al-Sultan (1999) and Bley and Kuehn (2004)]. A second motivation was that the Islamic financial institutions in question also offered conventional bank products and services. This led to an even higher level of satisfaction with the offered portfolio of *Sharia*-compliant and non-compliant products and services.

IV. Business firms' attitudes towards Islamic finance

A number of studies have examined the decision-making criteria business firms use when selecting a conventional bank. For example, Turnbull (1982) studied medium and large-sized companies with European subsidiaries in the United Kingdom and found that the reliability and assurance were the most important factors in the bank selection process. However, Turnbull (1983) obtained somewhat different results when medium-sized companies without European subsidiaries were considered. The key finding here was that the size of the bank was a significant factor in the choice of a conventional bank because of the need for increasing amounts of credit. This was subsequently confirmed by Tyler and Stanley (1999) in work on large firms in the United Kingdom, though bank's reputation and reliability still had an important role to play. Similar results were concluded in studies of firms in Hong Kong by Chan and Ma (1990) and Lam and Burton (2005), while in the Singaporean context, Gerrard and Cunningham (2000) concluded that specific types of businesses often had very particular attitudes towards conventional banks. For example, gazetted hotels in Singapore indicated that the pricing of services and location were important factors implied in their selection due to their historically limited dealing with banks.

In Greece, Athanassopoulos and Labroukos (1999) tested corporate customer behaviour in financial services. This study showed that most Greek corporate customers undertook a product-by-product selection process with banks services. For instance, pricing or service charges seemed to be a significant factor for lending between firms and banks, but this was not necessarily found in other bank products and services. Mols et al. (1997) undertook an analysis of bank preferences by corporate customers across twenty European countries. They concluded that price and service quality were the most important bank selection criteria in general for European business firms. The key role of service quality and delivery in the commercial bank selection process is also evident in Canada (Rosenblatt et al. 1988), South Africa (Turnbull and Gibbs 1989) and the United States (Trayler et al. 2000). However, it is also the case that many business firms prefer to deal with a bank which has the ability to offer services that will serve the firm well over the entire firm life cycle and scope of financial needs [see, for instance, Nielsen et al. (1998), Jones et al. (2002) and Lam and Burton (2005)].

Until recently, there has been very little work undertaken on business firms' attitudes towards Islamic methods of finance. Details of these studies are included in Table 1. The first study that focused on business firms attitudes towards Islamic banks in a dual-banking system (that is, Islamic banks operating side-by-side with conventional banks) was conducted in Kuwait by Edris (1997). Importantly, despite Islam being the dominate religion in Kuwait, and regardless of the apparent preference of individual consumers for Islamic banking [see, for example, Metwally (1996) and Al-Sultan (1999)], the majority of businesses preferred to deal with conventional banks rather than Islamic banks. In fact, Kuwaiti business firms ranked the size of the bank assets to be the most important factor in their bank selection criteria, with Islamic banking practices ranked fifth among the selected patronage factors. The evidence found also suggested that most business firms in Kuwait were multiple-bank users, operating on the desire to obtain specialised services from a selection of banks, rather than a single provider.

In Malaysia, Ahamad and Haron (2002) considered business attitudes towards Islamic banking products and services by forty-five corporate customers. The major finding was again that economic factors, such as profitability and the quality of services, were more significant for Malaysian corporate customers than religious reasons. However, one qualifying factor could be that the majority of respondents were non-Muslims who were generally less aware of the existence of Islamic banks and the substitutability of Islamic finance methods for conventional bank products and services. In fact, most respondents, both Muslim and non-Muslim, had a low level of knowledge about Islamic finance, especially most of the business financing methods. As with the work on individual consumer preferences in Malaysia, this study recommended that Islamic financial institutions in Malaysia needed to better market their products and services.

The only other two studies of business firm attitudes to Islamic finance are drawn from the Australian context. In the first study, Jalaluddin and Metwally (1999) surveyed three hundred and eighty-five small business firms in Sydney about their attitudes towards the profit/loss sharing methods of finance employed by Islamic banks. The results indicated that factors other than religion were relevant in this decision, including the degree of risk-sharing relative to the degree of business risk, the cost of borrowing funds from other lenders, and the expected rate of return. Generally, the probability of applying profit/loss sharing methods of finance was positively related to the levels of business risk, interest rates, and expected rate of return. A mitigating factor found which acted against the use of profit/loss sharing financing arrangements was the extent of management intervention on a day-to-day basis by the funding body.

In the second study, Jalaluddin (1999b) again focused on small business firms' attitudes towards profit/loss sharing methods of finance. Even though most, if not all, decision-makers in these firms were non-Muslims, some sixty percent of respondents expressed an interest in profit/loss sharing methods of finance as an alternative to conventional debt finance. As in Jalaluddin and Metwally (1999), the primary motivation for the Australian business firms to obtain funds on a profit/loss sharing basis was to obtain funds in high-risk business situations where the cost of debt finance could be expected to be prohibitive. On other hand, some of the terms and conditions of the profit/loss sharing schemes, as well as the lack of knowledge in these methods, was the primary reason for firms rejecting possible of use profit/loss sharing methods of finance.

V. Financial institutions' attitudes towards Islamic finance

There are only two known studies that have considered the attitudes of financial institutions towards Islamic methods of finance. Selected details of these studies are provided in Table 1. In the first paper, Jalaluddin (1999a) interviewed eighty Australian financial institutions based in Sydney on their attitudes towards profit/loss sharing methods of (Islamic) finance and whether they would be agreed to lend funds in accordance with these methods. Overall, more than forty percent of respondents were prepared to lend funds on a profit/loss sharing basis, motivated in part by the need to provide business support, strong growth in the demand for funds, the high risks of default under the conventional banking system, and the potential for higher returns to lenders. As in the survey of small business firms conducted by Jalaluddin and Metwally (1999), Jalaluddin (1999a) also found that the major factor for financial institutions, as with business firms, was business support, meaning that both lenders and borrowers could obtain mutual business support through the use of profit/loss sharing methods of finance. On the other hand, complications with firm management, a lack of familiarity with business conditions, and risk sharing with borrowers acted against financial institutions lending on a profit/loss sharing basis.

In the second paper on financial institution attitudes towards Islamic finance, Karbhari et al. (2004) undertook focused interviews with financial institutions in London to investigate their attitudes towards the problems, challenges and opportunities facing Islamic banks in the United Kingdom. The major finding of this study was that most if not all respondents were convinced that involving Islamic methods of finance in conventional banks' operations would help promote the establishment of Islamic banks in the UK. In turn, this would increase Muslim and non-Muslim British customers' understanding of Islamic methods of finance. In addition, most of the respondents believed that the UK government did not support the establishment of Islamic banks. Karbhari et al. (2004) concluded that an education program could be a useful way to undertake future change in the UK financial sector with the partial evolution of a dual-banking system.

VI. Concluding remarks

In contrast to the widespread and extensive analysis of attitudes, perceptions and knowledge of conventional financial institution products and services, the parallel analysis of these same concerns in Islamic finance is still in its infancy. This is an important deficiency in the literature given the global growth in Islamic financing techniques and the evolution of dual-banking systems in many parts of the Middle East and South-East Asia encompassing both Islamic and conventional financial services.

In terms of individual consumers, the evidence to date suggests that the presence of Islamic finance involves a substantial degree of market segmentation. While religious conviction is a logical key determinant of the use of Islamic finance services, it is often not the only concern, with most consumers also identifying bank reputation, service quality and pricing as being of relevance in determining their patronage of a particular financial institution. That said, at least some studies have found little evidence of substantial differences in the key features of Islamic and conventional finance products and services, suggesting that religious conviction may have a role to play at the margin. But problematically for the Islamic finance industry, the level of knowledge of Islamic finance methods is generally low among individual consumers, especially among immigrant communities and countries with an Islamic finance system yet to be established. This place a heavy emphasis on the development of marketing and information programs to coincide with the introduction of new institutions, products and services.

For business firms any predisposition to Islamic methods of finance is apparently subsumed to the sort of criteria taken into account when selecting a conventional financial institution’s products and services. Even in the Middle East, the majority of business firms favour (foreign) conventional banks. This has important implications for the ability of Islamic finance firms to compete in commercial banking and other services. Finally, among financial institutions there is some interest in some of the key principles underlying Islamic finance, especially in the notion of profit/loss sharing. However, complications with firm management, a lack of familiarity with business conditions, and the concept of risk sharing with borrowers would serve as a substantial barrier to most financial institutions lending on this basis.

A number of directions for further research are indicated. First, little is still known on how Muslims and non-Muslims are affected by religious convictions in their financial decision-making. Despite the evolving literature on Islamic finance, much work remains to be done on consumer behaviour using more sophisticated choice modelling techniques and more extensive samples. Second, most extant work on attitudes, perceptions and knowledge of Islamic finance has been undertaken in a particular national context. In fact, only a single work provides any semblance of an international comparison. It would then be interesting to compare feedback from a survey administered in, say, a country with a predominately Islamic finance system, to a country with a dual-finance system, and another at an early stage of the introduction of Islamic finance.

Finally, one reason for the growth of Islamic finance worldwide has been the willingness of national governments with a sectarian-orientation to support its establishment. It is not known what particular role these governments have played in attempting to modify the perceptions, attitudes and knowledge of Islamic banking alongside any direct or indirect support or encouragement to the institutions themselves. Frequent reference to a lack of understanding of Islamic finance methods, particularly at the commercial level, suggests that this should be examined more carefully.

References

Ahmad, N and Haron S (2002). "Perceptions of Malaysian Corporate Customers Towards Islamic Banking Products and Services." *International Journal of Islamic Financial Services* 3(4).

Abdul-Gafoor, A. (2003). *Islamic Banking*. A.S. Noor Deen, Kuala Lumpur.

Al-Hawari, M and Ward T (2006). "The Effect of Automated Service Quality on Australia Banks' Financial Performance and the Mediating Role of Customer Satisfaction." *Marketing Intelligence and Planning* 24(2): 127-147.

Almossawi, M (2001). "Bank Selection Criteria Employed by College Students in Bahrain: An Empirical Analysis." *International Journal of Bank Marketing* 19(3): 115-125.

Al-Sultan, W (1999). Financial Characteristics of Interest-Free Banks and Conventional Banks. *Accounting and finance*. Wollongong, The University of Wollongong. Chapter8 in Ph.D. Dissertation.

Athanassopoulos, A and Labroukos N (1999). "Corporate Customer Behaviour Towards Financial Services: Empirical Results from the Emerging Market of Greece." *International Journal of Bank Marketing* 17(6): 274-285.

Bley, J and Kuehn K (2004). "Conventional Versus Islamic Finance: Student Knowledge and Perception in the United Arab Emirates." *International Journal of Islamic Financial Services* 5(4).

Chan, K and Ma V (1990). "Corporate Banking Behaviour: A Survey in Hong Kong." *International Journal of Bank Marketing* 8(2): 25-31.

Devlin, J (2002). "An Analysis of Choice Criteria in the Home Loans Market." *International Journal of Bank Marketing* 20(5): 212-226.

Edris, T (1997). "Services Considered Important to Business Customers and Determinants of Bank Selection in Kuwait: A Segmentation Analysis." *International Journal of Bank Marketing* 15(4): 126-134.

El-Gamal, M. (2000). *A Basic Guide to Contemporary Islamic Banking and Finance.* Rice University, Houston.

El-Qorchi, M. (2005) Islamic Finance Gears Up, *Finance and Development*, 42(4): 46-50.

Erol, C and El-Bdour R (1989). "Attitudes, Behaviour and Patronage Factors of Bank Customers Towards Islamic Banks." *International Journal of Bank Marketing* 7(6): 31-37.

Erol, C, Kaynak E and El-Bdour R (1990). "Conventional and Islamic Banks: Patronage Behaviour of Jordanian Customers." *International Journal of Bank Marketing* 8(4): 25-35.

Gerrard, P and Cunningham B (2001). "Singapore's Undergraduates: How They Choose Which Bank to Patronise." *International Journal of Bank Marketing* 19(3): 104-114.

Gerrard, P and Cunningham J (1997). "Islamic Banking: A Study in Singapore." *International Journal of Bank Marketing* 15(6): 204-216.

Gerrard, P and Cunningham J (2000). "Gazetted Hotels in Singapore: A Banking Study " *International Journal of Bank Marketing* 18(3): 135-147.

Hamid, A and Nordin N (2001). "A Study on Islamic Banking Education and Strategy for the New Millenium-Malaysian Experience." *International Journal of Islamic Financial Services* 2(4).

Haron, S, Ahmad N and Planisek S (1994). "Bank Patronage Factors of Muslim and Non-Muslim Customers." *International Journal of Bank Marketing* 12(1): 32-40.

Hegazy, I (1995). "An Empirical Comparative Study between Islamic and Commercial Banks' Selection Criteria in Egypt." *International Journal of Commerce and Management* 5(3): 46-61.

Iqbal, M. and D. Llewellyn (eds.) (2002). *Islamic Banking and Finance: New Perspectives on Profit-Sharing and Risk* (Cheltenham, UK: Edward Elgar).

Iqbal, M. and Molyneux, P. (2005). *Thirty Years of Islamic Banking: History, Performance, and Prospects*. Palgrave Macmillan, Houndmills: New York.

Jalaluddin, A. (1999a). “Attitudes of Australian Financial Institutions towards Lending on the Profit/Loss Sharing Method of Finance”. Chapter in *Attitudes of Australian Small Business Firms and Financial Institutions towards the Profit/Loss Sharing Method of Finance*. PhD Dissertation, University of Wollongong.

Jalaluddin, A. (1999b). “Attitudes of Small Business Firms Towards the Profit/Loss Sharing Method of Finance”. Chapter in *Attitudes of Australian Small Business Firms and Financial Institutions towards the Profit/Loss Sharing Method of Finance*. PhD Dissertation, University of Wollongong.

Jalaluddin, A and Metwally M (1999). "Profit/Loss Sharing: An Alternative Method of Financing Small Businesses in Australia." *The Middle East Business and Economic Review* 11(1): 8-14.

Jamal, A and Naser K (2002). "Customer Satisfaction and Retail Banking: An Assessment of Some of the Key Antecedents of Customer Satisfaction in Retail Banking." *International Journal of Bank Marketing* 20(4): 146-160.

Jones, R, Nielsen J and Trayler R (2002). "The Bank Selection Process and Market Definition in Australia." *Journal of Financial Regulation and Compliance* 10(1): 22-30.

Karbhari, Y, Naser K and Shahin Z (2004). "Problems and Challenges Facing the Islamic Banking System in the West: The Case of the UK" *Thunderbird International Business Review* 46(5): 521-543.

Kaynak, E and Harcar T (2005). "American Consumers' Attitudes Towards Commercial Banks." *International Journal of Bank Marketing* 23(1): 73-89.

Kaynak, E and Whiteley A (1999). "Retail Bank Marketing in Western Australia." *International Journal of Bank Marketing* 17(5): 221-232.

Kennington, C, Hill J and Rakowska A (1996). "Consumer Selection Criteria for Banks in Poland." *International Journal of Bank Marketing* 14(4): 12-21.

Lam, R and Burton S (2005). "Bank Selection and Share of Wallet among Smes: Apparent Differences between Hong Kong and Australia." *Journal of Financial Services Marketing* 9(3): 204-213.

Lee, J and Marlowe J (2003). "How Consumers Choose a Financial Institution: Decision-Making Criteria and Heuristics." *International Journal of Bank Marketing* 21(2): 53-71.

Levesque, T and McDougall G (1996). "Determinants of Customer Satisfaction in Retail Banking." *International Journal of Bank Marketing* 14(7): 12-20.

Lewis, M. and Algaoud, L. (2001). *Islamic Banking.* Edward Elgar, Cheltenham.

Metawa, S and Almossawi M (1998). "Banking Behaviour of Islamic Bank Customers: Perspectives and Implications." *International Journal of Bank Marketing* 16(7): 299-315.

Metwally, M (1996). "Attitudes of Muslims Towards Islamic Banks in a Dual-Banking System " *American Journal of Islamic Finance* 6: 11-17.

Metwally, M (2002). "The Impact of Demographic Factors on Consumers' Selection of a Particular Bank within a Dual Banking System: A Case Study." *Journal of International Marketing and Marketing Research* 27(1): 35-44.

Mols, N, Bukh P and Blenker P (1997). "European Corporate Customers' Choice of Domestic Cash Management Banks." *International Journal of Bank Marketing* 15(7): 255-263.

Moutinho, L and Smith A (2000). "Modelling Bank Customer Satisfaction through Mediation of Attitudes Towards Human and Automated Banking." *International Journal of Bank Marketing* 18(3): 124-134.

Naser, K, Jamal A and Al-Khatib K (1999). "Islamic Banking: A Study of Customer Satisfaction and Preference in Jordan." *International Journal of Bank Marketing* 17(3): 135-150.

Nielsen, J, Terry C and Trayler R (1998). "Business Banking in Australia: A Comparison of Expectations." *International Journal of Bank Marketing* 16(6): 253-262.

Obaidullah, M. (2005). *Islamic Financial Services*, Islamic Economics Research Centre, Jeddah.

Okumus, H (2005). "Interest-Free Banking in Turkey: A Study of Customer Satisfactin and Bank Selection Criteria." *Journal of Economic Cooperation* 26(4): 51-86.

Omer, H (1992). The Implication of Islamic Beliefs and Practice on Islamic Financial Institutions in the UK. PhD Dissertation, Loughborough University.

Owusu-Frimpong, N (1999). "Patronage Behaviour of Ghanaian Bank Customers." *International Journal of Bank Marketing* 17(7): 335-341.

Pont, M and McQuilken L (2005). "An Empirical Investigation of Customer Satisfaction and Loyalty across Two Divergent Bank Segments." *Journal of Financial Services Marketing* 9(4): 344-360.

Rosenblatt, J, Laroche M, Hochstein A, McTavish R and Sheahan M (1988). "Commercial Banking in Canada: A Study of the Selection Criteria and Service Expectations of Treasury Officers." *International Journal of Bank Marketing* 6(4): 19-30.

Ta, H and Har K (2000). "A Study of Bank Selection Decisions in Singapore Using the Analytical Hierarchy Process." *International Journal of Bank Marketing* 18(4): 170-179.

Taylor, S and Baker T (1994). "An Assessment of the Relationship between Service Quality and Customer Satisfaction in the Formation of Consumers' Purchase Intentions." *Journal of Retailing* 70(2): 163-178.

Trayler, R, Nielsen J and Jones R (2000). "How Small Business Firms Select a Bank: Comparisons between the United States and Australia." *Journal of Financial Services Marketing* 5(1): 73-85.

Turnbull, P (1982). "The Purchasing of International Financial Services by Medium and Large-Sized Uk Companies with European Subsidiaries." *European Journal of Marketing* 16(3).

Turnbull, P (1983). "Corporate Attitudes Towards Bank Services." *International Journal of Bank Marketing* 1(1): 53-67.

Turnbull, P and Gibbs M (1989). "The Selection of Banks and Banking Services among Corporate Customers in South Africa." *International Journal of Bank Marketing* 7(5): 36-39.

Tyler, K and Stanley E (1999). "Uk Bank-Corporate Relationships: Large Corporates' Expectations of Service." *International Journal of Bank Marketing* 17(4): 158-170.

Warde, I (2000). *Islamic Finance in the Global Economy*. Edinburgh University Press, Edinburgh.

Wel, C and Nor S (2003). "The Influences of Personal and Sociological Factors on Consumer Bank Selection Decision in Malaysia." *Journal of American Academy of Business* 3(1/2): 399-404.

Zainuddin, Y, Jahyd N and Ramayah T (2004). "Perception of Islamic Banking: Does It Differ among Users and Non Users." *Jurnal Manajement and Bisnis* 6(3): 221-232.

Table 1. Summary of studies concerning attitudes towards Islamic methods of finance

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Erol and El-Bdour (1989)	Self-administered questionnaire	434 Jordanian Islamic and conventional bank customers	Demographic factors, bank services and selected patronage factors.	Univariate and multivariate statistical techniques and factor analysis.	Religion is not the primary motivation for customers dealing with Islamic banks. More important factors are a fast and efficient service, the bank's reputation and image, and confidentiality. Relatives and neighbours play a significant role in the awareness of respondents with knowledge of Islamic banking.
Erol, Kaynak and El-Bdour (1990)	Self-administered questionnaire	434 Jordanian Islamic and conventional bank customers	Demographic factors, bank services and selected patronage factors.	Multivariate techniques and factor analysis.	Important factors for those selecting Islamic banks are a fast and efficient service, the bank's reputation and image, and confidentiality. Significant differences between patrons of conventional banks' and those of Islamic banks in their pricing policies. No impact of religion on bank selection criteria.
Omer (1992)	Self-administered questionnaires.	300 Muslims residing in the United Kingdom	Selected patronage factors.	Descriptive analysis.	High level of ignorance among UK Muslims about Islamic finance principles. Religious reasons are the principle motivation for Muslims in the UK dealing with Islamic financial institutions.
Haron, Ahmad and Planisek (1994)	Self-administered questionnaire	301 Muslims and non-Muslims in Malaysia	Demographic factors, bank services, selected patronage factors and knowledge of Islamic finance.	Univariate and multivariate statistical techniques and factor analysis.	Muslims and non-Muslims have similar perceptions in selecting bank services. Religious motivation is not the primary motivation for Muslims in dealing with Islamic banks. Both groups value the provision of fast service and the quality of services highly in their patronage factors. Most respondents have some awareness of Islamic banking but are unaware of specific methods and the differences between conventional and Islamic banks.
Hegazy (1995)	Self-administered questionnaire.	400 Egyptian customers of the Faisal Islamic Bank and the Bank of Commerce and development.	Demographic elements (including sex, age, occupation, education, income level, religion and marital status). Selection criteria (including efficiency of personal, speed of service, ease of access, friendliness of personal, availability of parking, etc.).	Parametric tests and factor analysis.	Most of Islamic bank customers were Muslims choosing to comply with Islamic law. Islamic bank customers also ranked speed of delivering banking services and efficiency at the top of their selection criteria. Conventional bank customers included mix of Christian and Muslims who ranked the rates of offered return highly in their bank selection criteria.
Metwally (1996)	Telephone interviews.	385 respondents each in Kuwait, Saudi Arabia and Egypt	Selected patronage factors, including religion, reputation, staff, statement, hours, profit, cost, easiness, speed, branches, and community.	Factor and correlation analysis.	The most important factors in determining attitudes of Muslims towards Islamic banks are religion, convenience and traditional services. Most Muslims within a dual banking system choose their banks for religious reasons. Islamic banks do not differ from conventional banks in the returns and costs offered to customers. Staff competence and speed of services of Islamic banks same as conventional banks.

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Edris (1997)	Self-administered questionnaire	304 business customers of commercial, specialized and Islamic banks in Kuwait.	Dealing behaviour questions, bank services and selected patronage factors by business firms.	Descriptive analysis and multiple discriminant analysis.	Majority of business firms deal with commercial banks more than specialized or Islamic banks. Islamic banking practices ranked highly among patronage factors. Most business firms in Kuwait are multiple-bank users.
Gerrard and Cunningham (1997)	Self-administered questionnaire	190 respondents in Singapore.	Selected patronage factors by Muslims and non Muslims, basic terms Islamic bank knowledge.	Univariate and multivariate statistical techniques and factor analysis.	Muslims differ from non-Muslims in their attitudes towards Islamic banks concerning religious and profitability motivations, new branches and usefulness of interest-free loans. Fast and efficient services and confidentiality are primary factors in selecting bank services. Muslims more aware of the culture of Islamic banking than non-Muslims.
Metawa and Almossawi (1998)	Self-administered questionnaire	300 Islamic banks customers in Bahrain	Demographic factors, bank services, selected patronage factors of customers and knowledge questions.	Profile analysis and non-parametric statistical tests.	Most Islamic banks' customers in Bahrain satisfied with Islamic banks' services, especially investment accounts. Customers dissatisfied with high costs of services. The most important factors for the use of Islamic bank services is religion then profitability. Most Islamic banking customers were aware of fundamental Islamic terms, excepting more complex financing schemes.
Jalaluddin and Metwally (1999)	Self-administered questionnaire	385 small businesses in Sydney, Australia.	Independent variables including risk sharing, cost of borrowing and profitability linkage, cost variability of finance, motivation for business expansion and management intervention.	Logit and Probit analysis.	Religion is not the only factor that motivates small businesses in Australia to use profit/loss sharing methods of finance. The probability of borrowing funds on a profit/loss sharing basis increases when business risk or interest rates are high. Expected rate of return and degree of intervention in management are considered more than financing in a profit/loss sharing system.
Jalaluddin (1999a)	In-person interview	80 financial institutions in Sydney, Australia	Favoured lending factors and independent variables.	Factor and multiple discriminant analysis.	41.2% of financial institutions indicated their readiness to lend on a profit/loss sharing basis. Business support is the main motivation in motivating financial institutions to apply profit/loss sharing methods of finance. Respondents suggested interest payments sometimes create difficulties for business. Management complication, unfamiliarity and risk sharing with borrowers are the main reasons for financial institutions being not prepared to lend on a profit/loss sharing basis. The growth in the demand for funds is the most significant factor in discriminating between financial firms who were prepared to lend on the basis of profit/loss sharing.
Jalaluddin (1999b)	Self-administered questionnaire	385 small businesses in Sydney, Australia.	Favouring factors, rejecting factors and independent variables.	Factor and multiple discriminant analysis.	59.5% of small business firms interested in using profit/loss sharing methods of finance. Business support is the main motivation in applying profit/loss sharing methods of finance. Terms and some conditions of profit/loss financing are major reasons for the rejection of profit/loss sharing methods of finance. Risk sharing between borrowers and lenders is the most significant factor in discriminating between businesses who agree with profit/loss financing.

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Naser, Jamal and Al-Khatib (1999)	Self-administered questionnaire	206 Jordanian Islamic banks customers.	Demographic factors, Islamic banking services, reasons for dealing with an Islamic bank, reasons for banking with conventional and Islamic banks and degree of satisfaction with the services of the Islamic bank.	Descriptive analysis.	The most important factors determining attitudes towards Islamic banks were bank reputation then religion. Majority of customers satisfied with Islamic banks' products and services and most had a high level of awareness of at least some Islamic methods of finance. Limited number of respondents used Islamic financing methods elsewhere.
Al-Sultan (1999)	Self-administered questionnaire	385 respondents in Kuwait.	Socioeconomic demographic factors, Islamic bank services and reasons for preference.	Factor analysis.	Adherence to Islamic religion is primary motivation for dealing with Islamic banks, though 52% of respondents prefer to deal with conventional banks because of better services. No difference between Islamic and conventional banks in cost and return to individual customers.
Hamid and Nordin (2001)	Self-administered questionnaire	967 bank customers in Kuala Lumpur.	Demographic factors and knowledge questions.	Descriptive analysis.	Majority of respondents know about the existence of Islamic banks in Malaysia. Approximately 50% of respondents deal with Islamic bank but more than 60% of respondents cannot differentiate between Islamic and conventional banks' products.
Ahmad and Haron (2002)	Self-administered questionnaire	45 financial directors, financial managers and general managers of finance in Malaysia.	Demographic factors, Islamic and conventional banking services, knowledge questions and selected patronage factors by respondent and role.	Descriptive analysis.	Most respondents indicated that economic factors and religion were important factors for selecting bank services. But even though most respondents were non-Muslims, most were aware about Islamic banks as an alternative to conventional banks. Most respondents had a low level of knowledge about Islamic banking products, especially financing. 75% of respondents agreed that Islamic banks in Malaysia need to promote their products and services better.
Metwally (2002)	Telephone interviews.	385 bank customers in Qatar.	Socioeconomic and demographic factors	Multiple discriminant analysis	Females, older people and public servants prefer to deal with Islamic banks. Banked customers with relatively low income and moderate education also prefer Islamic banks. Conventional banks favoured by mature, well-educated male professionals with relatively high incomes. Conventional banks also favoured by young well-educated males working as professionals or public servants.
Bley and Kuehn (2004)	Self-administered questionnaire	667 university business graduates and undergraduates	Perceptions of conventional and Islamic banking products and services, knowledge questions and demographic factors.	Principal components analysis, descriptive analysis and regression techniques	Muslim students prefer Islamic banks' services. High-achieving students have a better level of knowledge of Islamic finance terms and concepts. High-achieving non-Arabic students had the highest level of conventional finance knowledge. Generally, student knowledge of both Islamic and conventional finance methods was relatively low.

Author(s)	Methodology	Sample	Variables	Technique(s)	Main findings
Karbhari, Nasser and Shahin (2004)	Focused interviews	Six executive across four Islamic financial institutions in London, United Kingdom.	Questions concerning the main problems and challenges confronting Islamic banking.	Qualitative analysis.	All respondents convinced about involving Islamic banks' products and services in conventional banks to promote establishing of Islamic banking and to improve customers' understanding about these new services. Most respondents replied that UK Muslims were generally unaware of Islamic banking products and services. Most respondents suggested that the UK government did not support the establishment of Islamic banks.
Zainuddin, Jahya and Ramayah (2004)	Structured questionnaire	123 bank customers in Penang, Malaysia	Socioeconomic and demographic factors, Islamic banking product information and perceptions of Islamic banking.	Descriptive analysis.	Most Islamic bank users were married, more than 30 years old with stable incomes. Most non-users were single, aged less than 30 years earning low incomes. Spouse, friends and relatives, as well as religion, impact on attitudes towards Islamic bank products.
Okumus (2005)	Self-administered questionnaire	161 Islamic bank customers in Turkey.	Demographic factors, bank services and selected patronage factors of Islamic bank customers.	Descriptive analysis.	Most respondents agreed that religion was the primary reason for the use of Islamic bank products. A secondary motivation was interest-free principle. Most customers aware of basic Islamic products and services, but not more advanced Islamic financing techniques. More than 90% of respondents satisfied with the services and products offered by Islamic banks.