

Analyzing the Attitude of Customers towards Islamic Banking and Conventional Banking in Bangladesh

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Abstract: Bangladesh is a country where both Islamic and conventional banks contribute to the economic development. Although relatively new in Bangladesh and contributing to a small portion of the banking sector, Islamic banks have played a pivotal role in improving the banking sector by providing services which are more based on the beliefs of the Muslims. This study aims to compare the attitude of Islamic and conventional banks' customers towards various aspects of banking in order to identify which bank has better performance in customer's perspective. To develop this descriptive study a total of 250 customers were interviewed. A structured questionnaire consisting of 18 questions incorporated in 6 categories were used. The study reveals that Islamic banks precede conventional banks on all factors. The study will help not only conventional banks but also Islamic banks to understand in which sectors they need to focus to develop more positive attitude in the minds of the customers.

Keywords: Conventional bank, Customer attitude, Customer satisfaction, Islamic bank, Shariah

I. Introduction

The traditional banks in the world started banking business a few hundred years ago. They were taking deposits from the people in the savings and current accounts and were giving loan to people for interest (riba). Riba (interest) is prohibited in Islam. So, Islamic financial system cannot operate based on riba [1]. The Organization of Islamic Conference (OIC) defined Islamic banking as "a financial institution whose statutes, rules and procedures expressly state its commitment to the Principles of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations"[2]. The Islamic scholars were thinking to operate Islamic banking based on profit-loss sharing mechanism which is approved by Shariah. In 1973, extensive collective efforts were taken by Muslim scholars who are knowledgeable in Islamic fiqh (law), economy and banking system, to establish Islamic banking system which will meet the need of Muslims who do not want to take or give loan for interest [3]. As a result many Islamic banks were established in 1970s and 1980s [4] in different countries of the world.

Bangladesh entered the Islamic banking system only in 1983, with the establishment of Islami Bank Bangladesh Limited. The banking sector of Bangladesh comprises four categories of scheduled banks. These are State-owned Commercial Banks (SCBs), State-owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). The number of banks increased from 47 in 2012 to 56 in 2013. In FY14 out of 56 banks in Bangladesh, 8 PCBs operated as full-fledged Islamic banks, and 16 conventional banks (including 3 FCBs) were involved in Islamic banking through Islamic banking branches.

Researchers have placed emphasis on customer satisfaction in banks, and asserted that banks must focus on understanding the needs, attitudes, satisfactions and behavioral patterns of the market to compete successfully in today's competitive marketplace (Cohen et al., 2006 [5]; Kaynak et al., 1992 [6]). While Islamic banking has gained popularity in Bangladesh, there have hardly been researches in the areas of customer behavior of Islamic banks. Most of the studies in the context of Islamic banking in Bangladesh have so far focused on comparative financial performance of banks and legal issues (e.g., Ahmad, & Hassan, 2007 [7]; Ahmed, Rahman, & Ahmed, 2006 [8]; Alam, 2000 [9]; Hassan, 1999 [10]; Sarkar, 1999 [11]). The issue of customer behavior has hardly received attention. Not only in Bangladesh according to (Dusuki & Abdullah, 2007 [12]), knowledge of consumer motivations for choosing Islamic versus conventional banking services is modest and the research to date is limited. Moreover, the need for understanding of customer behavior of bank customers becomes more intense as competition in the financial services industry is more vigorous than ever as service menu of the firms are becoming alike (Rose & Marquis, 2006)[13].

On the context of the above discussion, this study investigates and compares the attitude of the customers for both Islamic bank and conventional bank in Bangladesh. The objectives of the study are as follows:

1. Measuring the attitude of customers of both Islamic banks and conventional banks towards several factors that influence the performance of the bank

- To compare the level of performance of both Islamic banks and conventional banks on several factors influencing service quality.

II. Literature Review

Islamic banking offers products/services which are very similar to those offered by conventional banks. However, the approaches of Islamic banks are distinctly different from the ones of conventional banks (Ahmad, 2000[14]; Chapra, 2000[15]). Compared to the conventional banks, Islamic banks in Bangladesh have shown relatively better performance in the areas of loan recovery and various other financial measures (Ahmed, Rahman, & Ahmed, 2006[16]; Ahmad & Hassan, 2007[17]).

Holliday (1996) [18] stated that banking is one of the many service industries where customer satisfaction has been an increasing focus of research. The reason is that competition in the banking sector is increasingly growing. Wilson (1995) [19] particularly identified the importance of customer satisfaction in the Islamic banks and stated that today Islamic banking is no longer a business entity serving religious obligations. The customers of Islamic banking rather include a wide array of people cutting across various religions.

A number of studies have been conducted to study customer preferences and identify selection criteria for Islamic banks in many countries by using different approaches and methodologies. Haron et al. (1994) [20] discovered the important criteria for the selection of Islamic banks considered by Malaysian customers include fast and efficient services, speedy transactions and good reputation off the bank. At Poland, study has been conducted to know selection criteria of Islamic bank by Kennington et al. (1996) [21]. Findings of the study showed that reputation of the bank, price of the products and services, these are most important factors followed by image of the bank, stability of the bank, and friendly personnel. Factors like bank's reputation and image, confidential information, convenient location, influence of friends and relatives and provision of quality services are also considered important by the customers for the selection criteria of Islamic bank by the following authors for example, Metawa and Almosawi (1998)[22], Ahmad and Haron (2002)[23]. Okumus (2005) [24] have conducted study in Turkey to know the banking selection criteria of Islamic banks by investigating 161 customers. Results revealed that Turkish customers give importance to the religious factors, friendliness of the banking personnel followed by speedy transaction. Dusuki and Abdullah (2007) [25] discovered that customer consider friendliness of banking staff, effective handling of the matters, knowledge and experience of personnel are important factors that must be considered by the customer while selecting a bank. In addition, researcher found that older, relatively well-educated, low and middle-income customers prefer Islamic banks.

Commercial banks' efforts to attract or retain existing customers should focus on the following issues: behavior of bank employees, bank service charges; extra services offered by the bank; confidence in the bank; positive bank image; and convenience [26]. In a study of Islamic Banking in Turkey by Naser et al. (1999) [27] it was found that most of the Muslim customers chose the Islamic bank from the religious perspective rather than features of the bank such as location, profit and others. On the contrary, from the study on Islamic banking in Singapore by Gerrard and Cunningham (1997) [28], it was observed that there is no significant difference in selection of bank between Muslims and non-Muslims. Rather, the customers had given more priority to the other features of banking services.

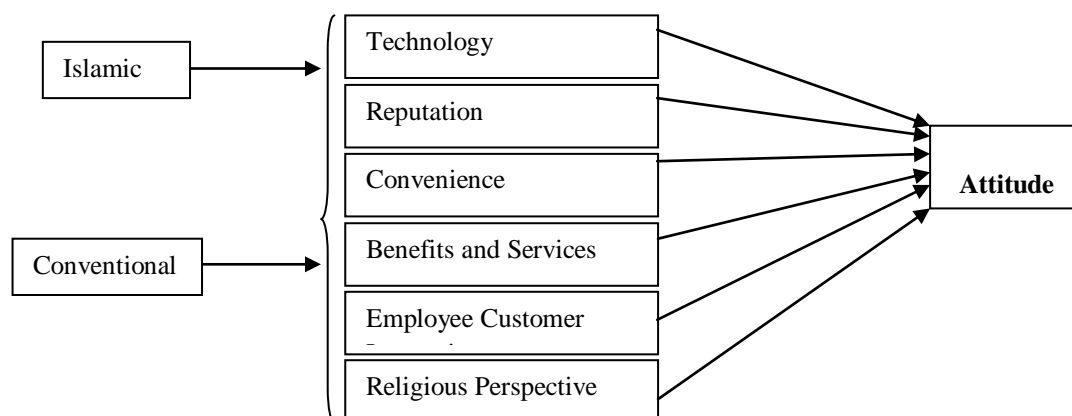


Figure 1: conceptual framework

Ali & Zhou (2013) [29] studied about how service quality is perceived by customers of Pakistani Islamic and conventional banks and also seeks to find out elements of service quality that are more important for bank customers. The results indicate that customer perception is relatively highest on the assurance dimension of Islamic banks and on the tangibles dimensional of conventional banks; however customer perception is lowest in the technology and responsiveness area of Islamic banks. Their study also indicates that overall

perception about service quality is highest in Islamic banks. The study suggests that Islamic banks can improve their service quality by improving their internet facilities and online services. Conventional banks can improve their services by comprehensive training of employees.

Sheikh et al., (2010) [30] had also identified the level of customer satisfaction of Islamic banks and conventional banks in Pakistan. They have concluded by saying that customers are more satisfied by the product and service offered by both banks. Their research reveals that the conventional banks are performing well in providing better facilities in comparison to Islamic banks. Therefore the Islamic banks customer is less satisfied than conventional banks.

III. Methodology

The study collected data from customers regarding the perceptions of Islamic banks and conventional bank with respect to technology, reputation, convenience, benefits and services, employee-customer interaction and religious issues. The analysis of this research is based on primary and secondary data. In this study, we employed non-probability convenience sampling technique. According to the Bangladesh Bank (BB), the central bank of the country, total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at Taka 1178.9 billion at the end of December 2013 which was 18.8 percent of deposits of the total banking system. Total credit of the Islamic banks and the Islamic banking branches of the conventional banks stood at Taka 1003.8 billion at the end of December 2013 which was 21.6 percent of credit of the total banking system of the country [31]. Quota sampling technique was used to represent the population distribution. The sample size for this study was 250 banking customers consisting of 200 from conventional banks and 50 from Islamic Banks. To collect the primary data the questionnaire was designed using a five-point Likert Scale which was used to explore the customer's attitudes about the performance of the bank. Questionnaires were distributed directly to all the respondents of 3 Islamic banks and 6 conventional banks in Dhaka city of Bangladesh by the researchers themselves. The respondents included in the sample were from the diverse category of income and social class. Extensive bank performance related research papers of academicians and practitioners are evolved from renowned international journals, (PROQUEST, EMERALD, EBSCO, IEEE, ACM, JSTOR, Science Direct, etc) annual reports, online database, digital libraries, books and conference papers.

IV. Analysis

Reliability Test

As the questionnaire used for data collection was designed rather than adopted from an existing research, a reliability test was thought necessary. The Cronbach Alpha testing was used as it is the most well accepted reliability test tools applied by social researcher (Sekaran, 2003) [32]. The closer Cronbach's Alpha is to 1.0, the higher is the internal consistency reliability. Cronbach measures;

1. Reliability less than 0.6 considered poor.
2. Reliability in the range 0.7 is considered to be acceptable.
3. Reliability more than 0.8 are considered to be good

The questionnaire used in this research is considered acceptable as its value mentioned in Table -1 are more than 0.80.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.816	.819	18

The present study uses six factors like Technology, Reputation, Convenience, Benefits and Services, Employee-Customer Interaction and Religion to compare the customers attitudes towards Islamic and Conventional Bank.

Table 2: Demographic Profile

Demographic Factors	Islamic Bank		Conventional Bank	
	Frequency	Percentage	Frequency	Percentage
Gender				
Male	41	82%	156	78%
Female	9	18%	44	22%
Age				
18-25	3	6%	22	11%
26-34	14	28%	72	36%
35-42	17	34%	61	31%

43-49	9	18%	36	18%
50+	7	14%	9	5%
Education				
SSC	2	4%	10	5%
HSC	5	10%	11	6%
Bachelors	29	58%	62	31%
Masters	14	28%	117	59%
Occupation				
Student	1	2%	26	13%
Business	18	36%	19	10%
Service	25	50%	137	69%
Others	6	12%	18	9%
Monthly Income				
Less than 20000	4	8%	42	21%
20000-50000	21	42%	68	34%
50000-100000	14	28%	62	31%
100000 or above	11	22%	28	14%

In Table 2, the demographic features of Islamic banks and conventional banks customers are compared. It is evident that majority of the respondents of Islamic (82%) and Conventional (78%) banks are male. According to the survey in the age group of 43-49 (18%) and 35-42 (34%, 31%) there is no significant difference but the conventional bank has more respondents in the age group of 18-25 (11%>6%) and 26-35 (36%>28%). However, the percentage of customers of Islamic banks (14%) falling in the age group of 50 above is higher than that of conventional banks (5%). Looking in to the education of the respondents, it is observed that most Islamic bank customers (86%) and Conventional bank customers (90%) have at least Bachelors degree. Most of the customers of Islamic (50%) and Conventional banks (69%) are service holders. However, it can be seen that a significantly higher percentage of Islamic bank (36%) customers are businessman in comparison to Conventional bank (10%) customers. The monthly income of significant number of respondents from Islamic banks (42%) and conventional banks (34%) fall in the range of Tk 20,000 to Tk 50,000. Moreover, in the range of monthly income of Tk. 50,000 to Tk.100,000 conventional banks respondents are slightly more than the Islamic banks (31%>28%).

Table 3: Factors Influencing Customer Attitude

Category	Islamic Bank		Conventional Bank	
	Mean	SD	Mean	SD
Technology	3.8733	0.55895	3.79	0.5839
Reputation	3.825	0.47716	3.7763	0.62224
Convenience	3.6533	0.5171	3.615	0.62258
Benefits and Service	3.62	0.43649	3.465	0.65475
Employee customer Interaction	4.07	0.64689	3.98	0.69427
Religion	3.6	0.50395	2.3383	1.08925

Table 4: Perception of customers towards Islamic and conventional bank

Questions	Islamic Bank		Conventional Bank	
	Mean	SD	Mean	SD
Bank has Counter Service Efficiency	4.08	0.634	3.88	0.734
Bank has Transaction Efficiency	3.96	0.638	3.92	0.755
Bank Provides E-Banking Facility	3.58	0.758	3.58	0.894
Bank's Reputation is Excellent	4.06	0.74	3.88	0.767
Bank is Recommended by Friends and Relatives	3.72	0.73	3.58	0.779
Bank is Transparent in its Transaction	3.7	0.763	3.83	0.892
Bank Employee Behaves Ethically	3.82	0.72	3.82	0.783
Bank has Convenient Branch Location	3.52	0.677	3.4	0.987
Bank has Pleasant Atmosphere	3.92	0.829	3.9	0.746
Bank has Sufficient Branches	3.52	0.646	3.56	0.866
Bank has Low Service Charge	3.6	0.728	3.17	1.097
Bank has Easy Loan Processing Procedure	3.42	0.575	3.27	0.831
Bank has Easy Account Opening Procedure	3.84	0.65	3.96	0.701
Bank has Skilled and Experienced Management	4.08	0.695	3.99	0.783
Bank has Friendly Employees	4.06	0.712	3.97	0.838
Bank Follows Islamic Law	3.7	0.678	2.3	1.13
Bank Provides Islamic Product and Service	3.6	0.7	2.37	1.175
Bank has Provision of Profit Sharing for Investment	3.5	0.614	2.35	1.18

From Table 3 the study indicates that the customers have more positive attitude towards Islamic banks than Conventional banks in all the above mentioned six factors. Looking deeper in Table 4 we can understand that Islamic bank scores higher (3.8733>3.79) than Conventional bank in the technology criteria especially because respondents consider Islamic banks has higher counter efficiency than Conventional banks. In the reputation criteria Islamic bank scored higher (3.825> 3.7763) than that of Conventional bank because clients consider that Islamic banks have better reputation and is more recommended by family and friends. Table 3 indicates that Islamic bank scored slightly higher (3.6533>3.615) in the convenience category as well. The reason for the finding is clear in table 4 which illustrates that customers believe Islamic banks have more convenient branch location. According to table 3, the customer perceive that Islamic bank's benefits and service are superior (3.62>3.465) than that of Conventional banks as Islamic banks have lower service charge and easier loan processing procedure. Islamic banks also scored higher (4.07>3.98) in Employee-Customer interaction criteria because respondents identified that Islamic banks have more skilled and experienced management and also has friendlier employee than conventional banks. Lastly it is evident that Islamic banks scored significantly higher than conventional banks in the Religious criteria mainly because customers believe that Islamic banks follow Islamic law, provide Islamic products and service and has Profit Sharing for investment which is not quite true for Conventional banks.

V. Conclusion

This study covers the opinion from the respondents of both Islamic bank and Conventional bank in Bangladesh regarding the factors which influence their attitude. On the basis of results we can conclude that in terms of technology, reputation, convenience, benefits and services, employee customer interactions, religious perspective the attitude of Islamic banking customers' is more positive than conventional banking customers'.

Islamic banking is a comparatively new stream of banking in Bangladesh which has high growth potential. With increasing number of satisfied Islamic banking customers, conventional banks will be facing greater challenges. As the competition is increasing, the Islamic bank should enhance their transparency in transaction procedure, provide sufficient branches and easier account opening procedure for sustainable development. On the other hand the conventional banks should focus to improve counter service efficiency and reputation. In addition they should also lower their service charges and effective loan processing procedure. Ensuring the above mentioned strategies the Conventional banks can remain competitive in the market. Further research can also focus on the relationship of demographic factors affecting the attitude towards Islamic and Conventional Banks.

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