

CHAPTER II

LITERATURE REVIEW

The Islamic banking may be broadly defined as a system of banking that is consistent with Islamic law principles and guided by Islamic economics. The contemporary movement of Islamic finance is based on the belief that all forms of interest (*riba*) payments and excessive uncertainty (*gharar*) or gambling (*maysir*) speculation are prohibited.

The stipulation of an excess for the lender in a loan contract is clearly prohibited as it is tantamount to *riba*. Whether the excess is in terms of quality or quantity or a tangible item or stipulated at the time of the contract or while determining a period of delay for satisfaction or whether in writing or in part of a customary practise (Dusuki & Smolo, 2011).

Meaning that any transactions and contracts made must be free from *Al-Ribâ or Ribâ*. *Ribâ* means excess or interest. Its prohibition implies that rewards are not for time preference alone. At all times, liability or risk also must determine reward, returns or benefits (Hassanain, 2016). Basing on financial Institutions on Islamic laws that have been introduced near about in 1970s. Egypt, Indonesia and Malaysia are the pioneer countries in this regard. The main importance of Islamic banking system was to reform financial services and products in the mold of Islamic principles so as to comply with the requirements and demands of consumers, especially the ones who seriously consider the religious restrictions e.g. interest.

This research is going to look at what factors pull costumers to choose Islamic banks basing on their level of satisfaction.

A. Theorotical basis

1. Consumer behavior model

This model is among many models that help in understanding consumer beahavior also referred to as the input, process output model. Input in the consumer perception is the firms marketing effort (product,price, promotion and place) and the social environment (family,reference groups,friends,social class and culture) that influence their decision making process.The decision making process is the output involving purchase and post-purchase behavior (Kotler, 2006).

a. Religious motive

Religion shapes people's behaviour as it is enclosed in culture. Precisely, people that are religious have certain values that influence their decision making process. Religion has a significant influence on people's behavior, values and attitude (Kotler, 2006).

Al-Hunnayan & Al-Mutairi (2016) there are many empirical studies that have examined the attitudes of customers towards IBs in various countries.This study found that it is not religion that attracts customers towards IBs, but it is the products and services which attract customers towards any business firm. Religion plays an important role in shaping peoples beliefs and attitudes as well as its influence on customer decision

and action because it teaches about the non-prohibited and prohibited things (Rehman A. and M.S. Shabbir (2010). Religious attributes that customers regard when choosing Islamic banks are interest free transaction, conformation of Shariah laws, social contribution in form of zakat, transparency and honesty but Islamic banks not only take favor from religious aspect of customer but also provide quality products and services.

Consumers of Islamic banks are observed to open up their account with their current bank if they are made satisfied. Ahmad *et al.* (2010) nowadays customers are having more knowledge, they know their role and they asked for better quality services. Once the customer is satisfied it leads to customer retention if not so then it's easy for that customer to select another bank. Researches also reveal that most of the clients' decision to choose Islamic banks is because of their religious motives.

Among muslim customers, bank selection determinants are more detectable, religious preference is more considered other than bank reputation and expectation of profit on deposits (Hameedah & Hela, 2013).

Abduh & Omar (2012) study in Malaysia showed that shariah-compliant attribute was the highest priority before an individual decided to patronize an Islamic bank. Next priorities were given to profitability, bank's reputation, bank's status, facilities and services, and friendly personnel respectively. His results are similar between male, female and overall. The final recommendation was that Islamic banks cannot be too

liberal by following all the footprints of conventional bank without giving attention to shariah principles and objectives of shariah.

Okumus & Genc (2013) in their study done in Turkey to investigate customers' awareness towards interest free products and services and determine their bank selection criteria and satisfaction towards financial products and services. Religious factor was of huge importance in choosing Islamic banks, the findings also found a low level of customer satisfaction on the limited number of branches, the availability of a wide range of credits with favourable terms and high service commission and fees. Muslims with a high level of spirituality are most likely to choose Islamic banks for their financing (Ahmad, Ab Rahman, Seman, & Ali, 2008).

b. Service quality

Kotler (1994) service quality is not only assessed on its outcome by the consumer but also as a process through service delivery. In reference with the consumer behavior model by Kotler, service is an intangible good or product, understanding how a consumer perceives a given service will help in administering quality service. Service quality is the consumer perception less their expectation (Bateson , 1995).

Though further study done in Malaysia it was noted that not only religion motives customers to IB's but other factors considered by Muslim customers in selecting their financial institutions could be provision of fast and efficient service, confidentiality of banks, bank reputation and image,

a wide range of services provided, and friendliness of bank personnel (Selamat & Abdul-Kadir, 2012).

Interpersonal contact and individual effort were considered as important roles in terms of attracting individuals to select banking services offered through Islamic banks (Erol & El-Bdou, 1989). Consumer selection criteria for banks in Poland bank reputation, price and service were given higher priority (Kennington & Rakowska, 1996). Islamic bank customers in Indonesia were found to be more satisfied by service quality that is measured basing on bank-staff, profitability, bank-physical appearance, accessibility, and costs/charges (Muhamad, Salina , & Zainurin , 2012).

Taimoor (2012) concluded that many factors like customers' satisfaction, trust and customer perception has a immediate impact on customer loyalty. With higher customer loyalty comes high customer satisfaction thus a positive customer perception about Islamic banks. When customer are satisfied that Islamic banks are dealing according to Islamic norms and values and having no element of interest it go towards loyalty. Trust is also a major factor because a customer trusts the Islamic bank they deal with it creates customer loyalty. To sum it up, Islamic banking must focus on the extent of customer loyalty if they want to sustain their current as well as expected customer loyalty.

Haron *et al* (1994) futher compared Muslims and non-Muslims,it was seen that they valued the similar traits when selecting their banks. But the

most important factor considered by Muslims when selecting their financial institutions is fast and efficient service. Chebab and Zribi (2012) examined dominant factors behind customers moving from a conventional bank to an Islamic bank in Tunisia. They found that the quality of the relationship between the customer and the bank, the quality services provided by the bank and the bank image are the most important factors determining customer choice.

c. Low charges / Price

The consumer behavioral model begins with marketing stimuli with 4 p's product, price, promotion and place. Price is the value of the product or service received. In the banking industry price is taken as services charges in relation to bank product including costs from deposit account services, loan related services, foreign exchange, trustee services, safe custody services, utility payment services. In addition to ATMs charges, Electronic fund transfer (ETF) charges, Internet banking charges, Account holding charges, credit charges to mention but a few (Jha.S.M, 2009). It is important to consider customers perception about price of a product or service (Erickson & Johansson, 1985).

In Kuwait customers think that the most important factors for any bank customer satisfaction are the quality of service and low service charges offered by the bank. Customers also think that the bank mass media is the least important item (Al-Hunnayan & Al-Mutairi, 2016). Muslims are aware of Islamic banks, though their rate of use is low and further regard

efficiency, lower bank charges, the availability of automatic teller machines and an extensive branch network as important factors when it comes to choosing a bank, unlike religious motivations for choosing Islamic banking services. The bank image and customer interests were of a higher factor (Martenson , 1985). Al-Ajim *et al* (2009) added that Islamic religious belief and social responsibility are the most important factors.

Naser *et al* (1991) investigated that customers in Jordan need fast and efficient services, the factors determining attitudes towards Islamic banks were bank reputation then religion and that majority of customers were satisfied with Islamic banks' products and services. Supplementary study by Ramadan (2013) added that Jordanian customers consider while selecting an Islamic bank friendly personnel, bank reputation and the services price provided by the bank. He also found that the least important factors are bank location and convenience. Ramadan finalized that religion aspect is not enough to attract customers to IBs; they need to meet the expectations of customers too.

Religiosity as measured by shariah compliant, awareness of the Ulama Council of Indonesia (MUI) fatwa, and perceptions towards safety of fund and advertisement of Islamic banks in Indonesia (Muhamad & Mohd , 2010). Non-moslems are more concerned with bank reputation, knowledgeable and competent personal while moslems lended towards interest-free saving facilities of Islamic banks (Nasrina, Suhaiza , & Noraini , 2009). Loo (2010) noted differences between the attitudes of

customers toward IBs between muslims and non-Muslims. He found that IBs are recognized to lack professional business orientation.

Yvonne *et al* (2011) It was hypothesized that muslim customers are mostly looking out for accessibility, ATM availabilty and efficiency when choosing a bank to finance with. Other factors included were lower bank and administration charges, and branch networks. The intention to use Islamic banking services relies heavily on attitude, pricing of Islamic financial services and social influence, attitude can be enhanced through the distribution of the “fair bank customer treatment policy” through cogent brochures and pamphlet. The religious motive determinant was found to be insignificant in this study (Hanudin , Abdul Rahim , Stephen, & Ang Magdalene, 2011).

Kaynak et al (1991) gave evidence that educated customers look at kindness, efficient and quick services and bank location are more important factors than the uneducated ones. Customers knowledge on Islamic banking can further impact on their perception (Anowar & Brazendra , 2017).

Student bank account selection criteria examined in the UK using the Analytic Hierarchy Process (AHP) found that despite students not being among the largest contributors to the market due to their low income they still have a higher earners potential in the future so its in the banks best interest to attract them early, they listed personnel service quality, building quality (branch location, parking facilities and accessibility, external bank

appearance, bank decor and atmosphere), financial factors like low fees charges and high interest rates, overdraft facilities and extra benefits like incentives and bonuses (Alessio & Nam , 2012). The same results were reported in (Sajeevan & R.K. Sharma, 2010) for MBA students bank selection determinants in Dehli but in addition were assurance factor, brand name and convenience.

2. Dependent variable (customer satisfaction)

Consumer retention is the key to customer satisfaction (Kotler 1994). Customer satisfaction is a post-purchase phenomenon that expresses how much a customer likes or dislikes a product after using it (Gilbert A. & Carol , 1982). Customer satisfaction as an instrument that contains service quality (staff service and corporate image) and such other attributes as price, convenience, and innovation (Antreas D. , 2000).

A customer being satisfied with a company's products or services is often seen as the key to a company's success and long-term competitiveness, customer satisfaction is often viewed as a central determinant of customer retention. The determinants of customer satisfaction work in hand with the effects of expectation, disconfirmation and performance that may differ between durable and nondurable products. Naeem et al. (2009) study concluded that service quality plays an important role in emerging banking business that depends on the quality of personnel dealing with customers.

Futheron service quality leads to customer satisfaction which is the main goal of every business. Intiaz et al. (2013) disclosed that customers choose an Islamic bank mostly due to two important factors namely religious motives and banking services. In a study made in Indonesia Bali respondents that use Bank Muamalat found that they use Bank Muamalat not because of avoiding usury (riba) factors but because of its service and administrative costs provided by Bank Muamalat lower than conventional banks in addition zero administrative fee charge when making ATM transactions with other banks (Deasy & Ari, 2015).

If the quality of product and service provided is good most likely this can change the perception of non-moslems toward Islamic banks and lead them to switch from conventional banks, uncultivated potentiality due to competition, lower costing products with higher return on deposit are also some of the important factors for which trend of moving to Islamic bank has started. Hence banks have to move towards creating public awareness and removing misconception in order to gain a best position in the banking market (Antreas D., 2000).

B. Conceptual framework

A conceptual framework is the system of concepts, assumptions, expectations, beliefs, and theories that supports the researcher's research its a key part of your design (Miles & Huberman, 1994; Robson, 2011). Miles and Huberman (1994) defined a conceptual framework explains,

either graphically or in narrative form, the main things to be studied; key factors, concepts, or variables and their presumed relationships among them. That is the relationship between the dependent and independent variables.

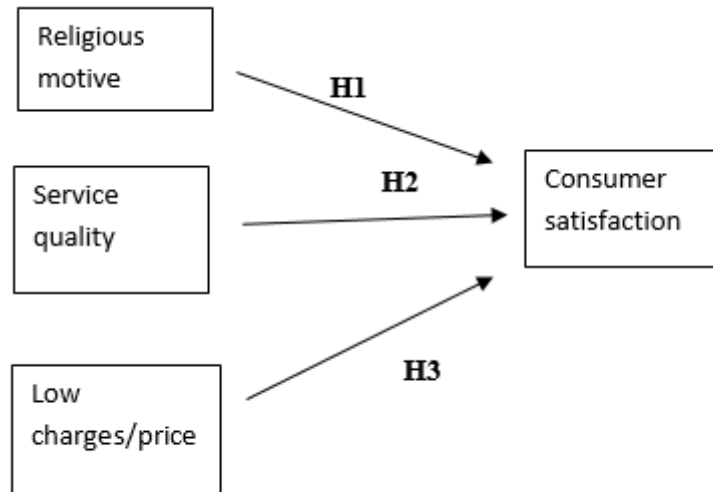


Figure 2.1 Conceptual framework

C. Hypothesis

In this study the author proposes the following hypothesis

Relationship between religious motive and customer satisfaction

Kirkpatrick (2005) defines religion as psychological attachment a powerful emotional relation to things. Delena (1990) further adds religion as unified systems of beliefs and practices relative to the sacred things. While religiosity is viewed as the degree to which beliefs in specific

religious values and ideal are held and practiced by an individual” Islamic principles especially interest free banking is a source of attraction for consumer to select Islamic banking. Zaher and Hassan (2001) also confirmed that religious motives have an influencing factor on customer for selecting Islamic banks. Alam et al. (2011) study conducted in Malaysia religion has a strong influence in controlling the behavior of customer in social and personal aspect.

Religion influence consumer behavior in selecting Islamic bank as human beings are not born with a set of behavior.

H1: There is a positive and significant effect of religious motive on customer satisfaction.

Relationship between service quality and customer satisfaction

Parasuraman et al.(1988) furthermore recognizes that service quality is the degree and direction of inconsistency between the consumer’s perceptions and expectations, or the extent to which a service meets or exceeds customer expectations.

Consumers are highly concerned with the fast speed and efficiency of services

delivered to them while making choice for Islamic banks. So in order to maintain consumer satisfaction, Islamic banks should be more cognisant to improve and increase their services so customers do not have any complaints.

Rahim Mosahab (2010) study in Iran found that customer association with the bank leads to customer satisfaction in long run. So when customer expectation correlates to service quality it consequently create customer satisfaction. In the banking sector where competition is relatively high, banks should pay more attention to customer satisfaction and relation by improving service quality provided.

H2: There is a positive and significant effect of service quality on customer satisfaction.

Relationship between low charges/price and customer satisfaction.

Under the consumer behavior model price is seen as the value of a product or service received and in banking this price is the service charge issued by the bank from atm charges, account holding charges, credit card fees. Low bank charges is another attractive factor for selecting Islamic banks which is also suggested by Gerrard and Cunningham (1997). Customers are satisfied with paying less charges for services offered by Islamic banks. Customer price perceptions directly influences customer satisfaction. Thus pricing plays a huge role towards consumer behavior.

Hallowell (1996) revealed that customer satisfaction is related to customer loyalty as loyal customers are satisfied customers. Pricing plays a central role in customer satisfaction. A study on the effects of price comparison and the effects of comparative price claims on consumers' perceptions of a comparatively priced product's pricing and value (Compeau and Grewal, 1994) found that price directly influences

satisfaction. Given that a customer has a relative price comparison with that of a competitor during their decision making process, this will have an influence on their satisfaction if one is lower than the other (Matzler, K., Würtele, A., & Renzl, B., 2006).

H3: There is a negative and significant effect of low charges on customer satisfaction.