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A study of customers' perception of Islamic banking in Oman

Islamic
banking in
Oman

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Abstract

Purpose – The concept of Islamic banking (IB) as a discipline and the introduction of the full-fledged Islamic banks and Islamic windows are relatively newer developments in the banking sector in Oman. This paper aims to assess customers' perceptions of the Islamic banks and IB windows in Oman.

Design/methodology/approach – Following the interpretive paradigm and an exploratory research design, data collected through personal interviews with a group of 60 respondents in two of the prominent cities in Oman were analysed qualitatively.

Findings – The study found that customers in Oman had mixed feelings about the Islamic Banks. While some of them were not sure if the banks follow the Islamic principles, a majority of them had not opened an account with the Islamic banks or Islamic windows. The study revealed some vulnerabilities in the areas of their operations, marketing practices, staff knowledge of products and customer-dealings, as well as customers' understanding of Islamic banks, their principles and practices.

Practical implications – As the advent of IB is relatively new to Oman, the insights gained by this study will have wider implications for the growth of IB locally. The outcomes of this study would appraise the officials and regulators of Islamic banks and Islamic windows with customers' perception of IB. The elimination of the identified weaknesses would help them to improve the knowledge, quality and the marketing and promotion of products and services while competing with the conventional banks.

Originality/value – This study is a pioneering effort to know the status of IB and customers' motivations in Oman towards IB.

Keywords Oman, Islamic banking, Consumer perceptions, Conventional banking

Paper type Research paper

Introduction

Islamic history is full of evidence that Muslims established an interest-free (usury free) financial system for mobilizing resources to finance productive activities as well as fulfilling the financial needs of the society (Chapra and Khan, 2000). Financial institutions in the Islamic world followed this system since then; however, Western banks and institutions took over this Islamic tradition when the centres of economic activities shifted to their side (Chapra and Khan, 2000).

Sultanate of Oman is an Islamic monarchy, which is located in the Middle East overlooking the Arabian Sea, the Sea of Oman and the Arabian Gulf, with a population of 4.4 million (NCIS, 2017). Oman was introduced to Islamic banking (IB) in 2011 when the Central Bank of Oman (CBO) announced its decision to licence IB services and issued the 'Islamic Banking Regulatory Framework' on 18th December 2012 (CBO, 2018). A Royal Decree amending the banking law and the legal authorization of IB was issued in December 2012



with an objective to diversify and widen the net of banking services (Stubing, 2014). Besides the launch of IB, a need was articulated to create awareness of IB, its products and services and for developing innovative deposits and financing products (Stubing, 2014). Bank of Nizwa and AlIzz Bank were the first two banks to offer fully functional IB services in Oman (Mubeen *et al.*, 2014).

Whilst the launch of IB in Oman is, relatively, a new phenomenon, Islamic banks in the other parts of the world have endured more than three decades. Despite their long existence, people's experience with IB in those countries reveals a mixed feeling about the products, services and operations of Islamic banks. The outlook of some people that Islamic Banks just function for the names' sake and are not different from other (commercial) banks, is the most perturbing to their reputation. A few global studies also highlight that a substantial divergence exists between the ideals of IB Finance (IBF) and its practices and claim that much of IBF remain functionally indistinguishable from the conventional banking (El Gamal, 2006; Khan, 2010). Evidence state that no study in Oman, so far, investigates consumer perceptions of IB and their motivation to adopt the offers of the Islamic Banks (Hafsa Orhan Åström, 2013, p. 297). This research aims to assess, first, the status of IB in Oman; second, the extent to which people are willing to adopt IB; third, how customers and prospects perceive Islamic banks in Oman, and finally, the growth of IB in Oman, based mainly on people's perception.

Islamic banking in Oman – literature review

What is Islamic banking?

The Institute of IB and Insurance (IIBI) introduces IB as “A system of banking or banking activity that is consistent with the principles of the *Shari'ah* (Islamic rulings) and its practical application through the development of Islamic economics” (IIBI, 2018). One of the key points of differentiation of IB is the concept of *Ribā* (usury). According to Haque (1992, p. 1069), *Ribā* is an unearned income charged in loans, as well as in sales, a concept that extends into all areas of economic life such as loans, exchange, production and trade. Zarrokh (2010) claims that Islam is not against the earning of money but forbids any unfair trading or socially harmful practices; and, in Islam, earning a profit by lending it through *Ribā* is considered a form of unfair trading. According to Khan (1986), IB principles prohibit fixed interest rates on risk-taking financial activities but allow uncertain rates of return on the basis of actual profits.

Another point of difference according to Zarrokh (2010) is that Islamic financial systems relate to investors as partners – based on equity – whereas conventional banking systems relate to investors as creditors – based on loans. While profit earned through equities is an acceptable source of income in IB, the profit earned through interest (*Ribā*) is not. Thus, the main thrust of Islamic financial contracts is on profit and loss sharing, which can be deemed as equity (*Musharakah*) and hybrid (modified *Muḍārabah* and *Ijara*) facilities, in compliance with the law of the Land (Jurisdiction) and the Islamic Law (*Shari'ah*) (Ahmad, 1994; Ebrahim and Joo, 2001). Proponents of IB believe that unlike conventional banking, IB does not need quality institutions or major reforms, and it can function and survive even under the premise that Islamic world often lacks well-functioning institutions (Kuran, 1997; Imam and Kpodar, 2013). However, Islamic banks complement, rather than substitute, the conventional banks (Imam and Kpodar, 2013).

The emergence and growth of Islamic banks globally

Historically, in the Middle East, the first official Islamic bank was established in 1971 in Egypt and was named “Nasser Social Bank” (Venardos, 2012). Other Islamic banks such as

the Islamic Development Bank in Saudi Arabia and Dubai Islamic Bank in UAE emerged soon after in 1975 (Venardos, 2012). These banks offered banking and investment services to individuals in accordance with Islamic *Shari'ah*. Following suit, Faisal Bank of Sudan, Kuwait Finance House, Faisal Islamic Bank, Egypt, and Jordan Islamic Bank for Finance and Investment emerged in the late 1970s in the IB sector. In the 1980s, a number of other banks – Baraka Islamic group, Saudi Arabia and the Bank of Qatar – appeared further (Oti, 2011).

Several Western multinational banks, including Citibank, Hong Kong and Shanghai Banking Corporation and Chase Manhattan started offering Islamic financial products in the 1990s (Wilson, 1997). The Islamic finance industry was one of the fastest-growing industries and exhibited a great potential to excel. Estimates revealed that the market size of Islamic transactions was about \$160bn in 1997 and it rose at an annual rate of 10-15 per cent (Llewellyn and Iqbal, 2002). Taking lead from this initial headway, many Islamic banks emerged further, and their numbers reached to 400 in 58 countries by the year 2014 (Global Financial Development Report, 2014). This number does not count the IB subsidiaries of conventional banks.

The history and growth of Islamic banking in Oman

The CBO announced its decision to licence IB services in 2011 with the objective of diversifying banking services and augmenting their financial inclusion (World Finance, 2013). Although Oman was the last amongst the six Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE) to welcome Islamic finance, the introduction of IB in the Sultanate was anticipated by the global Islamic finance community much earlier (Oman Islamic Finance Report, 2015). The introduction of IB in Oman was propelled by strong economic growth projections, government's interest in launching the infrastructure projects and its potential to develop and flourish the nascent industry. Additionally, a young *Shari'ah*-sensitive population and an enabling environment fostered by the CBO were also considered suitable for its success (Oman Islamic Finance Report, 2015).

IB in Oman, in the form of a limited offering of Islamic home financing, actually took off in December 2012 with the establishment of Bank Nizwa – the first full-fledged Islamic bank (Oman Islamic Finance Report, 2015). Alizz was second to join the bandwagon in January 2013 (Time of Oman, 2013). Furthermore, six IB windows – Meethaq (Bank Muscat), Muzn (National Bank of Oman), Al Hilal (Al Ahli Bank), Maisarah (Bank Dhofar), Al Yusr (Oman Arab Bank) and Sohar Islamic (Bank Sohar) – joined the operations as the subsidiaries of banks mentioned in parentheses (Gulf News, 2017). Table I exhibits major financial services as approved by the CBO to be offered by Islamic banks in Oman. According to IB Regulatory Framework of CBO, Islamic finance contracts include *Muqarabah*, *Musharaka*, *Diminishing Musharaka*, *Murabahah*, *Musawamah*, *Salam*, *Istisna`a* and *Ijarah* amongst others. A brief description of some of these major financial products, as explained by Bank Nizwa in its official website, is given in Table II.

With a total branch network of 28 IB entities in 2013, the sector had total assets of Omani Rial (OMR) 808m, deposits of OMR 170m and Islamic financing of OMR 425m to its credit, at the end of the first year of its operation (CBO, 2014). IB assets, which were in excess of OMR 1bn, made up of 4.4 per cent of the banking industry in 2014 (Oman Islamic Finance Report, 2015). Oman, from this perspective, performed better than Indonesia (5 per cent), Turkey (5.6 per cent) and Egypt (5 per cent), the countries that were home to older and more established Islamic finance sectors (Oman Islamic Finance Report, 2015). Despite all these favourable

JIMA		
	Accepting deposits	This refers to the acceptance of money for safekeeping based on Islamic contracts
	Managing unrestricted investment accounts (URIAs)	Investment account holders (IAHs) authorize the Licensee to invest their funds on the basis of an Islamic contract (e.g. <i>Muqārabah</i>) in a manner which the Licensee deems appropriate without imposing any restrictions as to where, how and for what purpose the funds should be invested
	Managing restricted investment accounts (RIAs)	IAHs authorize the Licensee to invest their funds on the basis of an Islamic contract (e.g. <i>Muqārabah</i>) and impose certain restrictions on the Licensee as to where, how and for what purpose the funds should be invested
	Providing Islamic finance products	Entering into or making arrangement for another person to enter into a contract to provide a financing product in accordance with <i>Shari'ah</i> rules and principles
	Providing money exchange/ remittance services	The provision of currencies exchange facilities, wire transfer, or other remittance services
	Issuing/ administering means of payment	The selling or issuing of payment instruments, or the selling or issuing of stored value instruments (e.g. credit cards, travellers' cheques and electronic purses)
	Other authorized business/ transactions	Licensees may undertake IB business not listed hereunder and activities and transactions incidental to IB business, subject to specific approvals and conditions
Table I. Major authorized financial services of Islamic banks in Oman	Source: IB regulatory framework, CBO, available at: www.cbo-oman.org/news/IBRF.pdf , pp. 6-7	

conditions, Islamic Banks in Oman did not perform as intended and there are many challenges that need to be identified and addressed.

To tackle the above challenges, the study of IB and its adoption in Oman, therefore, requires a deeper probe that looks into perception, attitude and behavioural intentions of the prospective customers for Islamic banks and their products and services.

Consumers' perception and Islamic banking

Consumers' behaviour towards IB products can be understood from the perspective of Ajzen's (1991) theory of planned behaviour (TPB), which subjects behavioural intention to be determined by a joint function of the attitude, the subjective norm and the perceived behaviour control (Ajzen, 1991). Where behavioural intention represents an individual's readiness to act, attitude represents the positive/negative evaluations of the individual towards that act, and subjective norm represents the perceived social pressure to perform or not to perform that act (Ajzen, 1985; Ajzen, 1991). The TPB has been instrumental in studying consumer perception from the perspective of purchase and sales. Lo and Leow (2014), in the Malaysian context, advocate for understanding consumer behaviour using empirical studies to capitalize on consumer market growth. Studying the behavioural issues related to IB products and services can give a good insight in identifying and dealing with the challenges of marketing these products.

Islamic Banks have developed several investment products, e.g. *Shukūk*, *Musharakah*, *Ijarah*, *Salam* and *Muqārabah*. Some of these products like *Salam* have a higher potential of

<i>Muqābahah</i>	This is an agreement between two parties whereby one party (<i>rabb al-māl</i>) provides funds which the other party (<i>muqārib</i>) invests in a <i>Shari'ah</i> compliant enterprise or activity for a share in the profits. The risk of loss is borne by the party providing the funds
<i>Murābahah</i>	This is an agreement whereby one party sells to another a commodity or asset which it has purchased based on a promise from the second party to buy the item on specific terms. The selling price comprises the cost of the asset and an agreed profit margin
<i>Musharaka</i>	This is an agreement between two (or more) parties to contribute to a particular investment enterprise, existing or new, or to the ownership of a property either permanently or under an arrangement resulting ultimately with one party acquiring full ownership. Profits are shared in accordance with the agreement between the parties. Losses are shared in proportion to relative shares of capital
Istisna`a	This is an agreement between the bank and a customer whereby the bank sells to the customer a developed property according to a set of previously agreed terms. The bank develops the property either on its own or through a subcontractor, and then hands it over to the customer against an agreed price
<i>Ijarah</i>	This is an agreement whereby the bank (lessor) purchases or constructs an asset for lease according to the customer's (lessee) request based on the customer's promise to lease the asset for a specific period and to pay rent instalments. <i>Ijarah</i> may result in an eventual transfer of ownership of the asset to the lessee
Salam	This is an agreement for advance payment in exchange for goods to be delivered at a future date. When the Salam contract is entered into, the goods are not yet in existence. The goods must be defined and the date of delivery fixed. Ownership of the Salam goods is transferred immediately
Ṣukūk	This is an asset-backed security where the ownership of tangible assets is divided into units of equal value and securities issued as per value. Generally, a <i>Ṣukūk</i> bears a fixed or variable profit rate payable to the investor, which is set out in the contract terms of the <i>Ṣukūk</i>

Table II.
The description of
some major IB
financial products

Source: Bank Nizwa, available at: www.banknizwa.om/islamic_banking_terms.html

attracting investments as they combine the most advantageous and the most popular methods of investments (Muneeza *et al.*, 2011). However, IB has not been able to attract customers in many instances. Naser *et al.* (2013) claim that even after a long time since its establishment in 1977, Kuwait Finance House could not make its customers aware of many Islamic financial products and services. The Islamic banks have even been unsuccessful in capitalizing upon the power of the Internet. For example, Islamic bank websites promote Visa cards by stressing discounts, reward points, and prizes, but lose the opportunity to connect these products with *Shari'ah*, *Qur'anic* or *Hadith* while targeting and appealing to the proponents of Islam. Mohd Thas Thaker *et al.* (2018) reveal the merits of transmitting the element of religion into the public relations activity of IB websites.

To be successful in their pursuits, marketers of IB need to know as to which attributes of IB products would attract customers the most. Studying consumer perception is the most popular approach to know their motivation, attitude, and behaviour towards IB products and services. Giving account of a number of consumer perception studies, Elbeck and Dedoussis (2010) conclude that consumer preferences for Islamic banks are culturally sensitive, driven by a variety of factors, which could differ from countries to countries; e.g. employees' skills and values (UAE); timeliness, cooperation and financial services (Malaysia); image, confidentiality and reputation (Jordan); and service quality (Turkey). Among the prime reasons, religiosity and religious beliefs make the most important impact on attitude towards Islamic banks (Naser *et al.*, 2013; Souiden and Rani, 2015); however,

religious beliefs are not the only influence to select an Islamic bank (Awan and Bukhari, 2011; Usman *et al.*, 2017). Studies inform that a collective set of factors such as attitudes (implicit and explicit), subjective norms, perceived financial cost, branding and the word of mouth affects customer's intention to choose IB products (Sun *et al.*, 2012; Amin, 2013; Wilson *et al.*, 2013; Amin *et al.*, 2014; Ali *et al.*, 2017; Dali *et al.*, 2015; Sumaedi *et al.*, 2015; Setyobudi *et al.*, 2015; Wahyuni and Fitriani, 2017; Butt *et al.*, 2018).

Additionally, several overt and covert factors might induce or control consumers' behaviour. For example, the customers of Kuwait Finance House were found dealing with the bank (not for profitability but) for reasons such as confidentiality, bank credibility, confidence in the bank's management and confidence in its *Shari'ah* Supervisory Committee (Naser *et al.*, 2013). Thambiah *et al.* (2010) find that, in Malaysia, urban customers of Islamic banks were significantly attracted by the lower bank charges, overdraft facilities, higher returns on Islamic deposits and home loans with a fixed repayment period besides other features such as preferences for wide range of investments, additional fringe benefits and flexible repayment for Islamic home loans. However, students in Malaysia were affected by a different group of factors – the brand, convenience, ATMs and their locations, parking space, opening hours, online banking facilities – in their choice of Islamic banks (Ahmad *et al.*, 2011). A difference in perception of Southeast Asian adults towards the adoption of IB based on their religiosity (commitment) found devout Muslims socially oriented whereas casually religious Muslims and non-Muslims utilitarian (Sun *et al.*, 2012).

According to Kamarulzaman and Madun (2013), Islamic banks lack preparation on two counts: first, in providing clear-cut information to the customers for evaluating different products, and second in transferring knowledge to employees about different IB products. Some researchers associate the poor performance of Islamic banks with the lack of communication and differentiation (Khan, 2015). Accordingly, Islamic banks need not only focus on their conviction and communication of Islamic beliefs but also the elimination of the feeling of distrust among customers or prospects about their functioning, mainly to create a favourable perception of their products and services. The lack of awareness of the key propositions may adversely affect IB, which may apply to customers uniformly, age-wise, gender-wise or on the regional grounds (urban v/s rural) (Thambiah *et al.*, 2010; Awan and Bukhari, 2011; Ahmad *et al.*, 2011; Goh and Sun, 2014).

Khan (2010) argues that although IBF, in its philosophy, offers a radically different alternative to conventional finance based on the holy text, it simply replaces conventional banking terminology and offers near-identical services to its clients at a higher cost. Khan (2010) also challenges the overall efficiency of IBF and its claim of providing a "better" alternative to observant Muslims. Researchers suggest that Islamic banks, which are frequently considered as ethical, should differentiate their unique quality of services from their counterparts who focus solely on the price (Wilson, 2005; Saidi, 2009; Widana *et al.*, 2015). Revealing some malfunctioning in the marketing of Islamic banks, Abou-Youssef *et al.* (2015) claim that consumers are not aware of the key differences between the conventional and Islamic banks. Despite their attractiveness, Islamic Banks still need to educate customers and provide them with clear information (Abou-Youssef *et al.*, 2015). Ahmad *et al.* (2011) and Maulan *et al.* (2016) argue that branding strategy of the Islamic banks must focus on gaining competitive advantages and establishing a strong brand image.

Furthermore, customers' awareness, satisfaction and loyalty differ on different grounds. A study in Malaysia found that Muslim customers scored relatively high on satisfaction and loyalty than non-Muslims, and exhibited comparatively lower

intentions to switch, given their satisfaction with products, services, and the monetary benefits (Amin *et al.*, 2011). A study by Goh and Sun (2014) observed significant differences, gender-wise, in the adoption of Islamic mobile banking where financial costs, social conditions and exposure to technology-affected females adversely. Similarly, Haider *et al.* (2018) find that the intention to adopt Islamic mobile banking is significantly impacted by perceived usefulness and perceived self-expressiveness for males and perceived credibility among for females.

According to Abou-Youssef *et al.* (2015), religiosity makes a significant linear relationship with attitudes towards Islamic banks and this can influence consumers' attitudes, future intentions and behaviour. However, a study in Malaysian context suggests that Islamic banks should not use religiosity to market their services, for the religious motivation stands after the quality of services, their provision, positioning and actual delivery (Echchabi and Olaniyi, 2012). Consumers' perception of awareness and understanding of distinctive characteristics, offers and benefits of Islamic banks, therefore, are important to serve their interest well (Ringim, 2014).

Methodology

The research followed the interpretive paradigm and an exploratory research design. Following a qualitative in-depth interviewing method (laddering interviews), the data were collected from a group of customers and prospects of IB products and services in two prominent cities of Oman: Muscat – the capital city and Sohar – the second big city and the current industrial hub of Oman.

Laddering interviews are qualitative methods that are capable of capturing the salient attributes of product choices, based on the benefits and values these attributes mean to an individual (Roininen *et al.*, 2006). Connecting means (product attributes) to ends (self-relevant consequences and personal values) (Gutman, 1982; Reynolds and Gutman, 1988), laddering provides a good understanding of consumers perceptions of products and the rationale behind their purchase decisions, particularly about their preference and choice behaviour (Olson, 1989; Roininen *et al.*, 2006). By resorting to the means-end theory, this study mainly used the preference-consumption differences method (and alternatively, the differences by occasion method) to secure relevant information on the key questions (see the Interview Guide below), followed further by a set of leading questions until the respondents could no longer offer any new insights (Reynolds and Gutman, 1988). Despite its widespread use in marketing and service research, this method has been used successfully in the areas of banking (Laukkanen and Lauronen, 2005; Laukkanen, 2007; Kuisma *et al.*, 2007).

Interview guide:

- (1) *Customers of Islamic banks:*
 - Are you a customer of IB?
 - What IB services do you mainly use?
 - What are your experiences with IB?
 - How Islamic is IB?
 - How do perceive the future of IB?
- (2) *Customers of conventional banks:*
 - Have you heard of IB?
 - What were the reasons that push you away from using IB?

- What do you think when you see others using IB?
- Do you intend to use IB in future?

Altogether 60 respondents, all Muslims, were interviewed against a predesigned semi-structured interview schedule, which was administered to them by one of the researchers. The key questions as listed in the interview schedule are presented above. The respondents were selected using convenience sampling. They were approached mainly in the bank premises or through personal reference. The respondents were briefed on the purpose of the research, and their informed consent was taken before conducting the interview and they were also informed that they are free to drop out at any stage, if they do not want to participate further, from the interview. Interviews were conducted in Arabic. The data were transcribed and processed using qualitative analysis. Themes of related aspects were created, and the primary data were grouped, compared, critiqued and contrasted within the related themes.

Findings

The profile of sample respondents

Among these 60 respondents, all of them Muslims, there were 45 males and 15 females. Men were mostly government employees, private sector employees and businesspersons, whilst the women were mostly teachers and nurses. They were the customers of Meethaq, Alizz, Maisarah, Al Hilal Islamic, Nizwa and Abu-Dhabi Islamic and were more than 25 years of age. From their outfits, 35 of them looked as traditional while the remaining 25 looked modern (Table III).

Characteristics	Cities		Total
	Sohar	Muscat	
<i>Gender</i>			
Male	29	16	45
Female	11	4	15
<i>Age</i>			
Less than 30	21	13	34
30-40	13	6	19
More than 40	6	1	7
<i>Profession</i>			
Government employee	19	19	38
Private employee	17	–	17
Self-business	5	–	5
<i>Outfits</i>			
Traditional	30	7	37
Modern	11	12	23
<i>Customers (of)</i>			
Meethaq	2	5	7
Alizz	2	3	5
Sohar Islamic	1	–	1
Maisarah	1	1	2
Al Hilal Islamic	4	–	4
Nizwa	5	7	12
Abu Dhabi Islamic	1	–	1
Non - Islamic Banks	25	3	28

Table III.
Profile of sample respondents

Islamic banking services and its use in Oman

Most of the customers currently use IB for financing cars or building/repairing their houses. The main reason, according to them, is the lower interest rate that Islamic Banks charge. "I took a loan of OMR 20,000 for repairing my house, and paid around OMR 3,500 as interest," said one customer. Only 20 per cent of the respondents were found using IB for normal banking transactions. One businessperson reported that he opened it for business purpose, particularly to transfer salaries to his employees (most of them expatriates), who were advised to open their accounts in the same bank. One of the respondents, an engineer by profession working in an oil refinery, opened an account for credit card and future investment—a service that was considered expansive by others than the normal banks. He was impressed by the IB philosophy and the ethical way of banking.

Overall, most IB customers subscribed to few IB products, either for financing cars or building/repairing homes. The IB products and services provider did not introduce other products to customers. Their employees mostly capitalized on low-interest rates and the easy payment terms in closing the sales. Consequently, the customers lacked awareness and knowledge of other products in the product line. Customers unintentionally describe that the Islamic banks charge low-interest rates. The use of the word "interest" rather than "cost/profit" goes against the IB philosophy. These findings are in line with the findings of [Magd and McCoy \(2014\)](#) who report the lack of depth of IB philosophy and product knowledge among the local population.

Experiences of customers with Islamic banking

In this section, we present the findings pertaining to customer's experience, which is important to reflect the connection between the customer's feelings and the products or services offered by the Islamic banks. The interviews with the respondents revealed mixed reactions about IB. Most of the respondents were new to the system of IB who had not spent more than two years with their banks. Some of the key responses are presented to share their mixed voice.

"I have been with them for five months now, and I am dealing with two Islamic banks. I think they are committed to the competitive standards," said an engineer working with a large private sector company in Oman. "I joined this bank one year ago, what I observed in the front seems Islamic, but I am not sure what goes at the back," said a government employee. "The bank does not provide any details to their customers about where they invest their money," he added. "I don't have a lot of experience; I am still new to this," said a savings account holder. "I have been with them for a year and a half; it was a good experience because of their good and faster services," said a female university lecturer. "Islamic banks operate in accordance with the philosophy of Islam, which prohibits *Ribā*," said another female teacher working in the government secondary school. "I have been with them for a long time, their service and the way they treat their customer have attracted me," said a businessman citing his experience with a full-fledged Islamic Bank.

"I opened my account with an Islamic Bank one and half years back. I feel that they are earning from us by charging more interest," said a government employee who had saving accounts with two Islamic Banks:

I still don't have much experience about IB, because they are new to Oman. Their concept is clear only to a few people, and a majority still don't understand it, said a male IB customer.

A male teacher said, "From what I see, some of the employees facilitate the transaction just like other banks; they don't care to explain to the customers how it is Islamic". "One of the things I see in IB, employees don't provide enough information and explain to customers

how the system works,” a government employee confirmed. One female subscriber said “I have two points about IB: first, they give loans on easy payment terms and less interest rate; and second, their services implement the Islamic rules of *Shari’ah*.” Overall, customers said they had good experience with IB. No serious issues were expressed except the transparency, which some customers, as cited earlier, expected from the banks to maintain.

This again points to our earlier argument that customers still do not know about all the IB products and they use only a few, such as loans and savings. This lack of information to customers from the service provider indicates a need for a proper introduction of IB products to the customers and prospects.

To what extent IB is Islamic – the perception of customers

As revealed earlier in the literature review, besides attitudes, perceptions and their knowledge of products, religion is an important consideration for patronizing the Islamic Banks and their products. This study sought to seek the perception of customers regarding the key philosophy behind IB and to what extent the respondents believe in it. The following statements and beliefs of the customers and non-customers bring some valuable insights from Oman.

“My bank is 100 per cent Islamic, but there are some banks, which are not,” said a businessman. “I think they are Islamic; I can infer this based upon the composition of their board of directors,” said a respondent. “Yes they are Islamic by principles, but for me, it is hard to judge their transaction, because of my lack of knowledge of banking,” said another respondent. “From what I have heard, it is Islamic, but from my perspective, still not sure as it is a new concept in Oman,” said a government employee having accounts with two Islamic banks. “I don’t know,” said a customer, a government official. “Yes, they are Islamic,” said an experienced government employee. “Yes they are Islamic,” said a woman customer. “Yes, it’s a win-win situation for the customers,” said a women teacher. “Maybe,” said a different woman, “Yes they invest your money in an Islamic way,” said another woman. “Not actually Islamic! Just to attract customers they call it Islamic,” said another woman – a lecturer in a university.

A government employee said, “Although we don’t find any evidence upfront, we believe that there are people up in the ladder who invest our funds in an Islamic way.” “Their services ensure a win-win situation under Islamic principles because rather than dealing with multiple parties while selling or buying any stuff, they deal directly with the concerned,” said a male customer. Another male customer asserted, “This is what they say (they are Islamic); I don’t know anything.” A female teacher said, “In my experience, they work under Islamic system because they have Islamic board (comprising of *Sheikhs*).” One customer said, “By subscribing to IB customers pass the sins to the banks and feel relieved, if the bank doesn’t follow the Islamic principles, they don’t consider it their fault”.

The above responses indicate that although some customers believe in IB, they still have doubts about what happens at the back. Islamic Banks need to explain customers the mechanism of how IB operates and how their operations are different from the commercial banks. This will engender consumers’ trust in IB, belief in its principles and a positive word of mouth.

Prospects’ perception and interest in Islamic banking

It was found in the literature search that Islamic banks lack in providing clear-cut information to the customers and they need to differentiate their products from the conventional banks. The perception of the potential customers in Oman revealed some

similar findings. The highly representative and informative quotes of the respondents are presented below:

"I haven't joined it yet, but I am thinking of joining one of them, mainly for taking up a loan which is available at lower interest rates," a government worker informed. "How IB operates is not clear to me. I might use IB if I have more information on that," said a schoolteacher who is expecting a scholarship for higher studies. "In my opinion, there is no difference between banks, so why should I think of switching to IB," a male respondent working for the government responded. Others felt similarly. "I have already some accounts in other banks, there is no logic of opening one more," said, one male teacher. "Still, I am not clear how the IB work. I have heard that they are not giving loans in cash, so I am not motivated this time," said another male respondent.

Other, who felt that the loans are tied to the purchase of cars or house, gave a similar excuse. "Because I don't have much information about it, so I don't want to take a risk going to them," said a female respondent. "There was no IB before, and it's a new concept; we need more information about its working," said a teacher working in a college. "The costs of service of IB are high," said another woman who added, "I am comfortable with the bank I am dealing now." "Islamic banks are newly listed, and may not have specialists and trainees who can apply and explain it well," a nurse said. Another female nurse said, "In my view, Islamic or Non-Islamic banks are the same." "Islamic banks are not available everywhere like the commercial banks, and usually, they are far from our place [. . .]. Mainly in big cities!" said a prospect of IB.

Therefore, most of the prospects have this feeling that IB is not different from the other banks, and there is no need to switch to IB. Others do not want to take the risk of switching because the concept of IB is still new to them.

Perceptions of customers about the growth of Islamic banking

Most of the female customers are positive towards IB and believe that IB will be more attractive than other banks in future. A woman said, "IB is close to the people as they are Islamic and follow *Shari'ah*." On the other hand, some have different opinions. A female teacher said, "If they are not applying the Islamic principles, they will lose their customers." "They need to start taking good steps, increasing the number of Islamic banks and improving their services," another teacher said.

Only a few male customers expressed their doubts about the future of the IB. "They have to work harder and attract more customers if they want to achieve their goals in future," a male customer said. Another worker in his forty said, "The future is not clear yet for the IB." "We hope that it fulfils all the commercial transactions customers need on daily basis, so it overtakes the commercial banks," a male worker said. However, more than eighty per cent of the male customers had a positive impression about the future of IB. A male engineer working in the private sector said, "There is a good turnout of banks and an open competition now. There is no monopoly and we hope they continue at the same pace." "The future will be for the IB because they are far from financial adventures and gambling like commercial banks and carry a lower risk," another engineer said. "I think they will overtake the commercial banks in future," a male customer said. Some male customers repeated "Bright or great future for IB." "They will have bright future because there is no risk in using IB," a male teacher replied.

To summarize, the majority of IB customers see that the future of the IB is going to be good; however, few customers warn that Islamic banks need to work harder to attract more customers and achieve their goals.

Perceptions of prospects about their inclination to use Islamic banking in future

This study built its foundation on the TPB, where behavioural intention, i.e. an individual's readiness to act, is the major behavioural outcome. The study received more conditional affirmations than the reservations concerning their planned behaviour to use IB in future. The respondents' inclinations to adopt IB and the related products and services are presented by the following statements:

"Yes I will prefer to use IB, for it follows the Islamic way," said a female student from the university. "No, I feel more comfortable with the bank I am using," said a female teacher. "No!" said a woman bluntly. Another woman working in the health sector said "Why not! If these banks follow our Islamic law, faith and do not have any usury." "Yes because it is related to my religion more than other banks," a woman said. Another female prospect said, "Yes, because nowadays lots of people are using it. It has more benefits than the non-Islamic banks".

"Yes! IBs charge low-interest rates, so less interest to pay," said a government employee. "No, since I don't know how they deal with their customers," a male teacher said. "I don't mind using it if they provide better services and demonstrate how it works and operates," said a male employee, which was similarly expressed by a couple of others. "Yes! Because they are Halal," said a male teacher. Less than a quarter of the male said "Maybe in future" while the rest said "Yes" if they have more branches, more knowledge about the positive aspects, and a clear differentiation of its operations from other banks." Another male respondent from the private sector said "Why not! I want to subscribe if they give me a loan with easy payment terms at a low-interest rate".

Altogether, respondents were positive but shared a mixed feeling towards IB, which again reflected a lack of knowledge and information about the IB. This is one of the main issues IB management and marketers need to fix.

Discussion, limitations and direction for future studies

One of the major findings of our study was that some of the IB customers do not have a good understanding of the IB concepts. Our findings are not much different from the findings observed in other Islamic countries (Thambiah *et al.*, 2010; Awan and Bukhari, 2011; Ahmad *et al.*, 2011; Goh and Sun, 2014; Mahdzan *et al.*, 2017). Our study indicates that this happens mainly because of either the lack of explanations given by the employees of the Islamic banks or their unfamiliarity with the IB concepts, operations and associated mechanisms. The research conducted by ul Hassan (2007) in context of Pakistan support these findings. However, our findings contradict with the observations of Loo (2010) that Muslims have a strong understanding of the concept of IB. There is a need to look further into whether Islamic banks ensure consumers' understanding while marketing their products and whether the staff of Islamic banks who deal with customer do have a clear understanding and knowledge of the IB operations of their banks. For unlike consumer banks, they need to communicate their customers transparently how their money follows the philosophy behind IB.

Since its introduction, not many Muslim subscribers of conventional banking services have opened their accounts in Islamic banks or IB windows in Oman. Our study observed that most of the customers and prospects still prefer dealing with their conventional banks. The customers have not defected to Islamic banks rather they have purposefully opened accounts to take benefits of loans and are not aware of the full product line. Additionally, opening IB windows not the stand-alone branches also dilutes the importance of Islamic Banks. This leaves a chance for the proponents of Islam to believe that "Islamic banks do not completely follow Islamic principles" (Butt *et al.*, 2011). For a clear differentiation and

focus, it is important to offer these products from separate premises and through a separate team of employees to prepare well-qualified teams, ready to clear the doubts of the concerned customers (Kamarulzaman and Madun, 2013). Similar to the context of Brunei, much needs to be done in designing, developing, implementing innovative products/services and marketing those (Ebrahim and Joo, 2001). The Islamic banks need to move beyond *Murabahah* arrangements to a broader portfolio of products and services, for they are not only competing with other Islamic banks but the Islamic windows of the commercial banks (Naser *et al.*, 2013). Marketers at the Islamic banks need to address these issues.

Contemporary IB practices, like conventional banking, focus on the form and design rather than on substance and “collect resources from a large spectrum of people, to benefit a few” (Mansour *et al.*, 2015, p. 71). IB has been, therefore, questioned for its adherence to the ethical norms. Some modern researchers advocate to rediscover and expand the Islamic Marketing philosophy by moving beyond “meat and money” concept that gives an undue weight to 'Halal Meat and Islamic Finance' and advise to observe the highest commitment towards ethics (Dusuki and Abozaid, 2007; Wilson, 2014; Ahmad, 2018). On the socio-economic fronts, loan concentration in IB is associated with high cost of uncertainty in the GCC and is considered welfare-neutral than welfare-enhancing, unlike conventional banking. This raises another immediate concern for the future of IB in Oman.

Limitations and directions for future research

The study was conducted only in Sohar and Muscat and included only a few customers and prospects of Islamic Banks. The non-Muslim consumers were not targeted because of their limited exposure to IB. Some banks denied access to their premises, and some IB windows could not be accessed. Furthermore, the presence of cultural biases and respondents' biases cannot be ruled out. Some of the respondents might have supported IB just to uphold their faith in Islam or they might not have disclosed anything that goes against IB. Research covering more subscribers and prospects can be suggested at this juncture that profiles the growth of IB in Oman, compares different Islamic Banks in terms of their offers, assesses people's awareness and perception (including non-Muslims) specific to these products and provides some better marketing strategies to segment, target and position the products according to the customers' need. This study used the qualitative analysis approach. Although this type of analysis has its own advantages, the quantitative approach can be followed to gain specific and structured responses to the issues in question.

The usage of IB products and services is still in its initial stage in Oman and, therefore, demands more research in the field to gain a deeper understanding of the phenomenon. Understanding the values that customers perceive in various IB products can help in improving the overall acceptance of IB philosophy, the market share of Islamic banks, customer satisfaction and loyalty. Furthermore, a comparison of IB in the entire GCC region will help in devising appropriate marketing strategies.

Implications

This study brings a significant contribution to understanding customer perception of IB from the perspectives of the point of parity and point of difference with the conventional banking in Oman. Since the advent of IB is relatively a new phenomenon, the insights gained by this study will have wider implications for the growth of IB in Oman. The outcomes of this study would appraise the officials and regulators of Islamic banks and Islamic windows about customers' perception of IB and would encourage both the customers and the bankers in not only improving their product knowledge but also raising the bar of the quality of products and services in the Sultanate. To be competitive in IB,

Islamic banks and the Islamic window in Oman should focus their marketing efforts on creating awareness, differentiating products and services, increasing knowledge of dealing clerks, brand positioning and brand building. The findings of this study will be useful for Islamic banks and windows in Oman to strategize their marketing and promotional efforts while competing with other commercial banks.

Conclusions

The idea of IB is not yet clear to most of the people in Oman. People have not shown much interest in this concept. Most of the customers have subscribed to IB for loans, and other financial products have not yet made any inroads to their minds. Only a few people have subscribed to other products. Most of the subscribers have shown some faith in IB; however, some of them do not find any difference between conventional and IB. The customers still do not understand how IB operates and there is still confusion among them with respect to how and where their money is invested. The non-subscribers of these services are contented with conventional banking and lack the motivation to join IB, despite having a positive attitude towards this concept. The study did not reveal any difference in perception of customers or prospects according to their gender. Interestingly, this study reveals that people in Oman are open to IB; they do not feel shy in discussing it. Their openness, frankness and fair concerns can open the door for marketers to improve their products in line with customers' expectations. Our brief interactions with respondents also revealed that they do not feel any religious, cultural or family pressure to subscribe to internet banking. Overall, the perceptions of customers and prospects indicate that IB has to coexist with conventional banking and there is no indication that the former is going to replace the latter. Banks have a clear option to increase the share of IB in the overall market for both banking and financial services.

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Further reading

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