

Factors Influencing Russians to Patronize Islamic Financial Products and Services: Case Study in Dagestan and Tatarstan

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Abstract

Russia is the largest country by area in Europe with many Muslims as part of their population. With some newly established financial institutions offering shariah compliance products and services in Tatarstan and Dagestan, this study is aimed at investigating the factors influence Russians to patronize Islamic financial products and services by using the theory of planned behavior. The questionnaires were distributed in two regions of Russia i.e. Dagestan and Tatarstan, and the structural equation model was used to test the relationship among the latent variables examined. The results show that awareness and subjective norms are significantly influencing Russians to deal with Islamic financial products and services.

Keywords: *Russia, Dagestan, Tatarstan, Islamic finance*

1. Introduction

Russia is the largest country in the European continent in terms of area and population, with 27.3 million Muslims living in the country. As a country with the largest Muslim population in Europe, it is interesting to explore the acceptance level and factors influence them to patronize Islamic banking products and services. Furthermore, as one of the biggest economy in the region, the development of Islamic finance in Russia will significantly influence the development of the industry in European region. However, due to the time and fund constraints, this study focuses the data collection in the Republic of Dagestan and the Republic of Tatarstan.

Dagestan and Tatarstan have more than 85% of Muslim population in each area, which made them a big potential market for Islamic banking and finance. Currently, there are three financial institutions offering Islamic finance products in Dagestan, namely,

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LaRiba Finance, Massraf and Fikrah finance and consulting; and six in Tatarstan namely the Islamic business and finance development (IBFD) fund, Financial House “Amal”, TatAgroProm Bank, the Tatarstan International Investment Company, the Centre for Islamic Economics and Finance Development and the Russian Centre of Islamic Economics and Finance.

Therefore, as an initial thinking framework for the industry to formulate the best strategy on how to attract more people in Russia to patronize Islamic financial products and services, it is imperative to study the factors influencing people in the two regions, especially Muslims, to patronize Islamic financial products and services.

This paper is organized as follows. Part two discusses the relevant literature on the topic of Islamic bank patronizing behavior and part three describes the data and relevant methods of analysis used in this study. Part four displays the findings and provides the discussion based on the findings. Part five is the conclusion and recommendation for future studies.

2. Literature Review

2.1 Islamic Bank Patronizing Behavior

To date, Islamic bank patronizing behavior is not a new issue in the discipline of bank marketing and many studies have been done under this topic. However, most of the studies were done within the context of Islamic banking in Asian and Middle Eastern countries. For instance, Erol and El-Bdour (1989) collected information from Jordanian individual customers about their bank selection criteria. Interestingly, despite the country is known as one of the Muslim majority countries, religiosity is not the main reason in selecting and patronizing a bank. Factors like bank's reputation, facilities and services provided, and the rate of return are becoming the main factors influencing the respondents to patronize a bank.

Afterwards, Erol et al., (1990) repeated the study using the respondents from depositors of Islamic and conventional bank. Although the result looks similar with Erol and El-Bdour (1989) in term of the selection criteria, the paper, on the other hand, found that Islamic and conventional bank's depositors have a different opinion upon the bank pricing policies but not to other services.

In Malaysia, two studies done by Abduh and Omar (2012) and Zabri and Abduh (2013) investigated 279 respondents and 394 respondents respectively in different time frame and states to study the Islamic bank selection criteria. The former conducted the survey in Kuala Lumpur while the latter was conducted in Penang Island. Abduh and Omar (2012) reported that shariah-compliant attribute is ranked the highest with regard to

the respondents' selection criteria for an Islamic bank. The next important attributes are profitability, facilities, bank's status, bank's reputation and services, and friendly personnel. However, Zaidi and Abduh (2013) evidenced that instead of shariah issues, other aspects including ease of obtaining financing, working environment, extensive branch network, return on deposits, professional advice and asset size are the imperative factors influencing their decision in patronizing a bank.

In Indonesia, Abduh and Omar (2010) studied similar research and distributed self-administered questionnaire to 300 bank customers as respondents. The study found that the main reasons for Indonesian to patronize an Islamic bank are shariah issues, awareness upon the fatwa of the Indonesia Ulama Council, and perception saying that depositing money in Islamic bank is more secure than conventional bank during the financial crisis, respectively. Similarly, Abduh (2011) and Abduh et.al (2012) found that shariah issues placed the first in priority scale by bank customers in Indonesia.

Abduh and Omarov (2013) conducted research on Muslim's awareness and willingness to patronize Islamic banking in Kazakhstan. The research targeted only Muslim population of Kazakhstan, which constitutes 65% of total population and had used self-administered questionnaires to collect the data. From 400 questionnaires distributed in 5 major cities of Kazakhstan only 300 were available for analysis. The study employed descriptive analysis to obtain the information gathered from the respondents. Vast majority of respondents were from 20 to 49 year old, i.e. economically productive age; and most of them (83%) know about existence of Islamic banking in Kazakhstan. Those who are aware of prohibition of interest in Islam are of the same percentage. Yet, when it comes to principles of the Islamic banking, Islamic banking products and differences between Islamic and conventional banking, only 14-16% of respondents know about them. Nonetheless, more than 70% of respondents believe in a high potential of Islamic banking in Kazakhstan and that Islamic banks are able to compete with conventional counterparts and, what is probably most important, they are ready and willing to become clients of Islamic banks in Kazakhstan. They also stated that there is a lack of marketing for Islamic banks. Therefore, it is very important to provide more information pertaining Islamic banking products and services to the public in order to promote this sector.

Mahmoud and Abduh (2014) examined the applicability of the modified theory of reasoned action (TRA) by adding the latent variable of awareness in predicting the people's intention to patronize Islamic Banks in Mauritania. Similar to Razak and Abduh (2012), this study found that attitude and subjective norms have a positive influence towards the intention to patronize Islamic banks which makes the TRA a valid

model in this case. Furthermore, awareness also proven to have a significant influences upon the attitude and thus influences the intention of Mauritanian to patronize Islamic bank. The findings are also supported by Abduh and Alobaad (2015) which studied similar model in Kuwait.

In the case of Mauritius, Abduh and Ramjaun (2015) investigated the motivation among the people to patronize Islamic banking products and tested whether religion can play a significant role upon this issue. As expected, the study confirmed that Muslims are more motivated to choose Islamic banking products and services as an alternative.

2.2 Theory of Planned Behavior

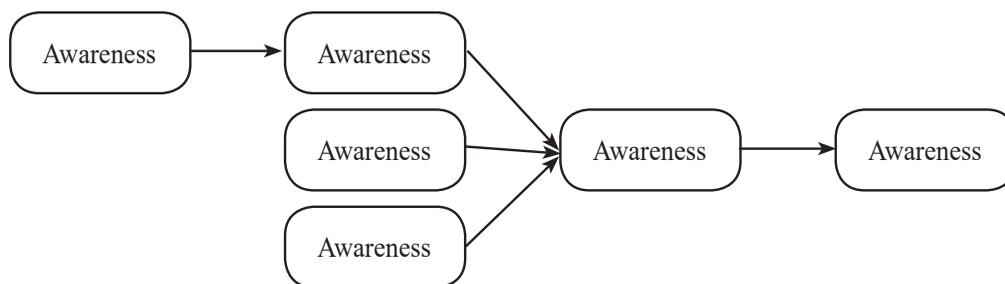
This study attempts to determine the factors influence Russians to patronize Islamic financial products and services, especially in the Republic of Dagestan and the Republic of Tatarstan. In order to achieve this objective, theory of planned behavior (TPB) of Ajzen (1985) is employed. The strength of this theory lies on its ability to predict the behavior using several external and internal factors.

Ajzen (1985) introduced the TPB model in order to predict one's behavioral intention according to his level of attitude towards behavior, subjective norms and perceived behavioral control. The basic proposition of TPB is that behavioral intention determines actual behavior. Therefore, the assumption of this theory is that key components of individual's decision-making process are motives, perceived values and attitudes.

Behavioral intention of the Russian people towards Islamic financial products and services can be predicted by several factors among which attitude, subjective norms and perceived values which can be done using TPB model. Based on Mahmoud and Abduh (2014), awareness is regarded as external variable and has positively influenced attitude. This research, however, adopts and adapts the aforementioned model and thus awareness of people in Russia toward Islamic financial products and services is considered as an external factor. The proposed model is illustrated in Figure 1.

Based on the aforesaid studies, the following four hypotheses were developed:

- *H1: Perceived values give positive impact towards the intention of respondents to patronize Islamic financial products and services.*
- *H2: Subjective norms give positive impact towards the intention of respondents to patronize Islamic financial products and services.*
- *H3: Attitudes give positive impact towards the intention of respondents to patronize Islamic financial products and services.*
- *H4: Awareness gives positive impact towards the attitude of respondents towards Islamic financial products and services.*

Figure 1. Proposed Model

3. Data and Methods

3.1 Data

The data from the Republic of Dagestan were collected in first half of 2014 and data collection from the Republic of Tatarstan were done in second half of 2014. As many as 400 questionnaires from Dagestan and 517 questionnaires from Tatarstan were available for the analysis.

3.2 Method of Analysis

This study utilizes confirmatory factor analysis (CFA) and structural equation model (SEM) for methods of analysis. To inspect the number of latent variables for the available observed items from the questionnaire, this study uses confirmatory factor analysis (CFA).

Subsequently, structural equation model (SEM), a statistical method that takes a confirmatory (i.e. hypothesis-testing) approach to the multivariate analysis of a structural model is used to uncover the relationship among the latent variables. Byrne (1998) said that this model in most cases is to represent the causal processes which can generate observations on multiple variables. Bollen and Long (1993) explained that every SEM analysis including CFA must go through the steps of model specification, model identification, model testing, and, possibly model modification. All steps will be discussed together with the output in the following section.

4. Findings and Discussion

4.1 Demography

Table 1 below shows the demography of the respondents included in the analysis. With regard to gender, the number of male respondents is more than the number of

female respondents and Muslim respondents are greater in number as compared to non-Muslim respondents.

Table 1. Demography of Respondents

Parameter	Items	Dagestan		Tatarstan	
		Freq.	%	Freq.	%
Gender	Male	224	56	323	62.5
	Female	176	44	194	37.5
Age	18 – 25 years	178	44.5	167	32.3
	26 – 35 years	109	27.3	238	46.0
	36 – 45 years	58	14.5	58	11.2
	46 – 55 years	33	8.3	22	4.3
	56 and above	22	5.5	32	6.2
Religion	Islam	392	98	411	79.5
	Others	8	2	106	20.5
Marital Status	Married	193	48.3	278	53.8
	Not married	207	51.7	239	46.2
Level of Education	Elementary – High school	117	29.3	84	16.2
	Diploma	84	21	82	15.9
	Undergraduate degree	186	46.5	294	56.9
	Postgraduate	13	3.3	57	11.0
Occupation	Entrepreneur	22	5.5	63	12.2
	Government employee	57	14.2	48	9.3
	Employee of private company	125	31.3	169	32.7
	Student	131	32.8	99	19.1
	Teacher	21	5.3	63	12.2
	Others	44	11	75	14.5
	Monthly Income Level	Less than 10000 rub	164	41	136
	10000 – 20000 rub	126	31.5	145	28.0
	20001 – 50000 rub	90	22.5	171	33.1
	50001 – 100000 rub	15	3.8	46	8.9
	More than 100000 rub	5	1.3	19	3.7

It can also be seen from the table that majority of respondents went to diploma and undergraduate degree programs which is showing that our respondents are well informed about general banking products and can be considered as open minded people for new innovations introduced in financial industry. It is also shown in the table that the respondents are group of people who use facilities and products of financial institution since they are dominated by middle income group of people and working in a private company.

4.2 Awareness on Islamic Financial Products and Services

Table 2 provides the statistical results on the level of awareness of Islamic financial products and services in Dagestan and Tatarstan. Interestingly, those who are “not familiar” with Islamic financial institution and its concept are higher than 82% for both Dagestan and Tatarstan. The statistics shows that only 28 out of 517 respondents (5.4%) are very familiar about existence of Islamic financial services and their advertisement in Tatarstan and only 23 respondents (5.8%) in the case of Dagestan. It is followed by the number of familiar respondents, who denote 12.4% in Tatarstan and 6% in Dagestan. Remaining figures are more significant with 38.1% of less familiar in Tatarstan and 38.8% in Dagestan and 44.1% of those who are not familiar at all in Tatarstan and 49.5% in Dagestan.

More dramatic figures are shown under category of familiarity with contracts in Islamic finance such as murabahah, mudarabah, musharakah, and ijarah. The statistics show that as many as 59.6% of the respondents in Tatarstan and 74.5% in Dagestan are not familiar with Islamic financial contracts. Similar pattern is observable with awareness on profit and loss sharing concept and investment in halal industry. As many as 48.5% of the respondents from Tatarstan and 61% respondents from Dagestan are not familiar with the aforesaid concepts.

Despite the seemingly poor statistics shown in Table 2, where most of the respondents are not familiar with Islamic financial products and services, the situation is actually beyond expectation. It is a good start to develop Islamic financial industry in the area started by approaching the communities contains the 15% respondents who are already familiar with the principles and concepts of Islamic finance.

Table 2. Awareness towards Islamic Financial Products and Services

Parameter	Dagestan		Tatarstan	
	Freq.	%	Freq.	%
Existence of Islamic financial services and their advertisement in Dagestan/Tatarstan				
Not familiar	228	44.1	228	44.1
Less familiar	197	38.1	197	38.1
Familiar	64	12.4	64	12.4
Very familiar	28	5.4	28	5.4
Contracts in Islamic finance: murabahah, mudarabah, musharakah, ijarah				
Not familiar	308	59.6	308	59.6
Less familiar	129	25.0	129	25.0

Familiar	44	8.5	44	8.5
Very familiar	36	7.0	36	7.0
Profit and loss sharing concept, investment in halal industry, no riba				
Not familiar	253	48.9	253	48.9
Less familiar	177	34.2	177	34.2
Familiar	55	10.6	55	10.6
Very familiar	32	6.2	32	6.2

4.3 Reliability Test

The reliability test was done using Cronbach's alpha. Table 3 illustrates the values of Cronbach's alpha for every latent variable in proposed modified TPB model. It can be seen that Cronbah's alpha for all factors are above the minimum required value of 0.6 which indicates that all variables are reliable.

Table 3. Reliability Test

Factor	Number of indicators	Cronbach's Alpha	
		Dagestan	Tatarstan
Awareness (AW)	3	0.659	0.865
Perceived Values (PV)	3	0.879	0.898
Attitude (ATT)	4	0.895	0.909
Subjective Norms (SN)	3	0.863	0.883
Intention to Perform (INT)	3	0.897	0.936

Based on the figures from Table 3, the Cronbah's alpha for respondents' awareness, perceived values, attitude, subjective norms and intention from Tatarstan are 0.865, 0.898, 0.909, 0.883 and 0.936 respectively. Meanwhile, the Cronbah's alpha for respondents' awareness, perceived values, attitude, subjective norms and intention from Dagestan are 0.659, 0.879, 0.895, 0.863 and 0.897 respectively.

4.4 Goodness-of-Fit Test

This study does not pool the data from Tatarstan and Dagestan into one set of data. This study runs the same analysis for each set of data. Therefore, Table 4 displays the initial goodness-of-fit of the models from the two regions. It can be seen that the model fit indices demonstrate inadequate values and thus there is a need for model modification. For model modification, in order to obtain a better fitting for the hypothesized model, the approach techniques provided by the software can be used. This approach can show us which path of covariance should be added or removed to improve the model fit.

Table 4. Initial Goodness-of-Fit Indices

	χ^2/df	NFI	RFI	IFI	TLI	CFI	RMSEA
Dagestan	11.461	0.741	0.696	0.758	0.715	0.757	0.162
Tatarstan	22.025	0.704	0.652	0.713	0.662	0.713	0.202

Table 5. Goodness-of-Fit Indices after Modification

	χ^2/df	NFI	RFI	IFI	TLI	CFI	RMSEA
Dagestan	2.557	0.947	0.932	0.967	0.958	0.967	0.062
Tatarstan	3.841	0.957	0.943	0.968	0.957	0.968	0.074

Following suggestions provided by the IBM-SPSS version 21 software, upon which path of covariance should be removed or added, Table 5 shows the improved and acceptable goodness-of-fit after the necessary modification.

4.5 Hypothesis Testing

After the goodness-of-fit of the models from the two regions are achieved, the model can be used to evaluate the four hypotheses developed in this research based on previous literature. Table 6 shows the results of the hypotheses testing whereby, one can find the estimates and the corresponding p-values.

It can be seen from Table 6 that in the case of Tatarstan, only two hypotheses are supported by the findings with p-value less than 0.01. While two hypotheses are rejected due to the fact that they were found to be insignificant as p-value greater than 0.05, the finding indicates that subjective norms provide a statistically significant and positive influences towards the intention to patronize Islamic financial products and services among the people in Tatarstan. This means that the respondents are heavily considering the opinion or words of what people perceived important to them and put aside their own opinion on this matter.

Table 6. Estimates of the Hypothesized Model

	Structural Path	Dagestan		Tatarstan	
		Estimates	p-value	Estimates	p-value
Attitude	<--- Awareness	2.51	***	3.72	***
Intention	<--- Attitude	0.85	***	0.03	0.65
Intention	<--- Subjective Norms	1.74	***	1.32	***
Intention	<--- Perceived Values	0.03	0.34	-0.12	0.21

Note: *** means statistically significant at alpha 1%.

Meanwhile, the awareness was proven to be positively and significantly affecting the attitude while perceived values and subjective norms were proven to be positively and significantly affecting the intention of the people to subscribe to Islamic financial products and services in Dagestan. However, there was not enough evidence to support that the intention was influenced by their individual perceived values in both area.

Interestingly, in both Tatarstan and Dagestan, awareness has successfully influence the people's attitude towards Islamic financial products and services positively and subjective norms has successfully provided a positive influence towards the intention to patronize Islamic financial products and services.

These findings show that there is a strong need upon the improvement concerning the educational programs and campaigns about Islamic financial products in order to enhance the people's awareness towards Islamic financial products, principles, and services. Furthermore, the emergence of subjective norms as the significant factor influencing the intention to subscribe to Islamic financial products and services indicates how people are attached each other and thus, approaching leaders, either religious leaders or political leaders, is one of the best way in promoting Islamic financial products and services in Russia in general, particularly in Dagestan and Tatarstan.

4. Conclusions

This study is driven by the fact that some Islamic financial institutions were established in Russia recently and a big question upon what factors influencing people in Russia to patronize Islamic financial products and services. Russia is the biggest country in Europe by size and population; however, due to limited funds and time, this study is focused only in the Republic of Dagestan and the Republic of Tatarstan. This study uses a self-administered questionnaire to collect the data and adopts the established theory of planned behavior to predict the intention of the people to patronize the Islamic financial products and services.

The findings show that people in Tatarstan and Dagestan have shared common driving factors in patronizing Islamic financial products and services which are awareness and subjective norms. The implication is that the related parties, especially the Islamic financial institutions, must provide adequate educational programs and campaigns about Islamic financial products and services. Furthermore, the Islamic financial institutions must also approach people perceived important and respected by the community in order to give positive influence to the community with regard to Islamic financial products and services.

Future research may be directed to a more comprehensive research by collecting bigger sample size and gather them from different parts of the Russian Federation, and by utilizing more sharp and sophisticated instruments and methods of analysis.

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