

Banking Behavior of Islamic Bank Customers in Bangladesh

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Abstract

This study investigates the banking behavior of Islamic bank customers in Bangladesh. By collecting data from a sample of 100 customers of Islamic banks, researchers conducted a comprehensive profile analysis, a number of chi-square tests, and t tests and found a number of key findings as to the behavior of Islamic bank customers in Bangladesh. First, most of the customers of Islamic banks fall in the age category of 25-35 years. Islamic bank customers are highly educated and have durable relationships with the banks. Second, high customer awareness and usage exist for various deposit mobilization instruments but there is not high awareness and usage of any individual financing facilities of Islamic banks. Third, income category and education have a significant role in customers' usage of various Islamic bank products/services. Fourth, customers seem to be satisfied with a number of products/services of Islamic banks. Fifth, among the service delivery elements, 'employees' deserve an immediate attention for improving customer satisfaction. Finally, 'religious principles' is the key bank selection criterion of the Islamic bank customers, while customers' demography plays some role in determining which selection criteria matter more than others do.

Introduction

Islamic financial services industry (IFSI) has experienced a tremendous growth over the last four decades. Estimates suggest that global Islamic financial services grew at a rate of 10%-15% over the period from 1995 to 2005. It is suggested that IFSI assets were worth US\$700 billion in 2005 and at an annual growth of 15% until 2010, the IFSI could grow to US\$1.4 trillion by 2010 and to US\$2.8 trillion by 2015 (IFSB website, 2008). The key institution in IFSI is the global pool of Islamic banks.

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Islamic banks perform similar functions of the conventional banks but carry out such functions in accordance with Islamic principles. Islamic banks fundamentally emerged to fulfill the need of Muslims to enjoy banking products/services in conformity with Islamic principles (grounded in the Holy Qura'n and the Hadith). However, Islamic mode of banking is gaining popularity among the non-Muslim consumers around the world (Dusuki & Abdullah, 2007; Knight, 2007). Such widening appeal of Islamic finance is evident in the initiative by a number of large international banks and various domestic financial institutions to provide Islamic financial services (Hassan & Ahmed, 2001; Knight, 2007).

Some studies have suggested that customers choose Islamic banks mainly on religious grounds. However, one must note that Islamic banking has caught on in non-Muslim countries and non-Muslim consumers as well. According to Thompson, Jr., Strickland III, and Gamble (2005), sustainable competitive advantage requires any firm to have a large pool of customer base who has an enduring preference for the firm. Many writers (e.g. Kotler, 1988; McIver & Naylor, 1986; Engel, Blackwell, & Miniard, 1993) assert that understanding and adapting to customer motivation and behaviour is not an option but an absolute necessity for competitive survival (Owusu-Frimpong, 1999). 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). In this regard, Kaynak, Kucukemiroglu, and Odabasi (1992) noted that today the competition among the banks is not limited to within the boundary of the banking industry. Banks are not only competing among each other; but also with non-bank financial institutions (Cohen, Gan, Yong, & Choong, 2006). Hence, various dimensions of customer behavior of Islamic bank customers have received attention from the researchers. Studies have underscored the need for understanding customer satisfaction, customers' bank selection criteria, and role of customers' demographic factors in shaping customers' awareness and usage of Islamic bank products/services (Dusuki & Abdullah, 2007; Metawa & Almosawi, 1998; Wilson, 1995).

In Bangladesh Islamic banking started its journey in 1983 with the opening of Islamic Bank Bangladesh Limited. The number of Islamic banks as of 2007 stood at 6. 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; Ahmad & Hassan, 2007). Following

such acceptance of Islamic banks in Bangladesh, various private commercial banks and international banks in Bangladesh started offering various financial products/services in accordance with Islamic principles (Hassan, 1999). 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; Ahmed, Rahman, & Ahmed, 2006; Alam, 2000; Hassan, 1999; Sarkar, 1999). The issue of customer behavior has hardly received attention. Not only in Bangladesh, according to (Dusuki & Abdullah, 2007), knowledge of consumer motivations for choosing Islamic versus conventional banking services is modest and the research to date is limited.

At the backdrop the circumstances described above, this study investigates the banking behaviour of Islamic bank customers in Bangladesh. The objectives of the study are the following.

- To find out the demographic profile of Islamic bank customers in Bangladesh.
- To identify Islamic bank customers' history of banking relationship in Bangladesh.
- To study the awareness and usage of various Islamic bank products/services among Islamic bank customers in Bangladesh.
- To find out if length of relationship has any role in customers' awareness of Islamic bank products/services among Islamic bank customers in Bangladesh.
- To study if any demographic factors of customers have any relationship with their usage of Islamic bank products/services among Islamic bank customers in Bangladesh.
- To measure the level of customer satisfaction with different products/services offered by the Islamic banks.
- To measure the level of customer satisfaction with various basic elements of service delivery systems of Islamic banks in Bangladesh.
- To find out the bank selection criteria of Islamic bank customers in Bangladesh.
- To find out whether there is any relationship between the bank selection criteria and customers' demography among Islamic bank customers in Bangladesh.

Literature Review

2.1 Islamic Banking Products/ Services: A Brief Theoretical 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; Chapra, 2000; Dusuki & Abdullah, 2007; Hassan & Ahmed, 2001). Hence, a brief overview of the Islamic banking products and services in Bangladesh are presented here. For ease of explanation, the products and services are discussed under two broad categories: deposit mobilization (sources of funds), and financing facilities (uses of funds) (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

2.1.1 Deposit mobilization

Deposit mobilization in Islamic banks is done through current account, savings account, and savings deposits (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Current account: Islamic banks accept deposits from customers on current accounts as conventional banks do. However, Islamic banks operate current accounts under *Al-Wadia* principle. According to the principle, banks receive the deposits with the promise to repay them on demand by the customers. Banks use such funds with the permission of the customers and at the sole risk of the banks, and hence, the depositors of this type of account are not entitled to any share in the profit earned by the bank (Ahmed, Rahman, & Ahmed, 2006; Ali & Sarker, 1996; IBBL, 2008).

Savings account: Islamic banks accept saving deposits from customers under *Al-Wadia* and *Al-Mudaraba Shariah* principles. In saving accounts under the *Al-Wadia* principle, the bank is given an authorization by depositors to use the fund at the bank's own risk. *Al-Wadia* savings deposit is almost similar to a 'current Account' or 'demand Deposit' except that the bank guarantees its customer the full return of the deposited fund with any voluntary profit. *Murabaha* savings deposits give the banks exclusive rights to manage the deposits. The profit or loss from the use of such deposit is shared between the banks and the depositors at a pre agreed-upon ratio (Ahmed, Rahman, & Ahmed, 2006; Ali & Sarker, 1996; IBBL, 2008).

Term deposits: Islamic banks also source funds through term deposits just like the conventional banks do. However, Islamic bank apply *Al-Mudaraba* principle (IBBL, 2008).

Savings bond: This is another type of savings scheme offered by Islamic banks to the savers. Islamic banks follow *Al-Mudaraba* principle in offering this product (IBBL, 2008).

2.1.2 Financing facilities

The commercial financing instruments provided by Islamic banks are based on the Islamic Shariah. The instruments along with the mode of Islamic Shariah are described below (Ahmed, Rahman, & Ahmed, 2006; Ali & Sarker, 1996; IBBL, 2008).

Musharaka: The word *Musharaka* stands for a partnership that shares both profit and loss. Such joint venture way of financing is designed to limited production or commercial activities of long duration. Under *Musharaka*, the bank and the customer jointly contribute capital as well managerial expertise and other essential services at agreed proportions. Profit or losses are shared according to the contract agreed upon (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Mudaraba: *Mudaraba* refers to a contract between at least two parties in which the bank as the investor supplies the entire capital of the business. Hence, a relationship is formed in which banks act as the supplier of capital. The entrepreneur acts as the manager of capital only. When the venture ends, the manager of capital i.e. the entrepreneur pays the entire capital back to the bank, along with an agreed proportion of profit. If there is any loss, it is borne by the bank (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Bai-Murabaha: The word '*Murabaha*' means a cost-plus profit/mark-up contract. In this system of financing the bank agrees to purchase for a client. The client will then repay the bank within a stated time period at an agreed upon profit margin. The mark-up price that the bank and the buyer agree to is mainly based on the market price of the commodity. Thus, under *Bai-Murabaha* mode of financing, the bank earns a profit without bearing any risk (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Bai-Salam: *Bai-Salam* means a sale in which an advance payment is made for a later delivery. Usually the seller is an individual or business and the buyer is the bank. Bai-Salam benefits both the banks and seller. The banks locks in the price at which the commodities will be purchased and upon delivery can profit for selling the commodities. On the other hand, by receiving advance payments for commodities, the seller can use the money for meeting various financing needs, particularly any working capital requirements (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Bai-Muajjal: *Bai-Muajjal* refers to a contract resembling credit sale. Under this type of contract, the seller sells certain specific goods to the buyer at an agreed fixed price payable at a certain fixed future date in lump sum or in fixed installments. The sold goods must be allowed under both *Shariah* and the law of the country. Under this type of financing, Islamic banks buy goods for those who need them and then, receive a fixed payment for the goods at a later date (IBBL, 2008).

Ijarah: *Ijara* refers to leasing in Islamic finance. Leasing by Islamic banks is very similar to the leasing of conventional banks. It is argued that: “The leasing agreement is based on profit sharing in which the bank buys the movable or immovable property and leases it to one of its client for an agreed sum by installments and for a limited period of time into a saving account held with the same bank. These installments are invested in *Mudaraba* investment for the customer’s account. The accumulated profit generated from the payments, and the payments themselves are invested in the bank’s investment ventures over the time period of lease, contributing to eventual purchase of the leased assets.” The difference of Islamic banking lease with the traditional lease is that under Islamic banking leasing the risk related to leasing is shared between the lessee and lessor. There are various modes of leasing under Islamic banking, discussion of which does not fall under the specific purview of this report (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

Hire Purchase under Shirkatul Meelk: Under this mode of financing, Islamic banks share equity with the client in purchasing some assets. Both the bank and the client share the ownership and the share of benefit and loss in operating the asset. The portion of the asset owned by the bank is leased out to the client for use under specific conditions (like rent) and then, the client buys the bank’s portion upon agreed upon terms (IBBL, 2008).

Qard: Qard refers to interest-free loan provided by Islamic banks to its clients. According to various authors ‘the main aim of this loan is to help needy people in a society in order to, make them self-sufficient and to raise their income and standards of living’ (Ahmed, Rahman, & Ahmed, 2006; IBBL, 2008).

2.2 Customer Satisfaction

In almost every industry, customers are becoming ever more demanding, and in most markets customers have more options to choose from than ever before. Fornell (1992), upon a study on Swedish customers assert that although customer satisfaction and quality appear to be important for all firms, satisfaction is more important for loyalty in industries such as banks, insurance, mail order, and automobiles.

Customer satisfaction is the feeling or attitude of a consumer toward a product/service after it has been used (Metawa & Almosawi, 1998; Wells & Prensky, 1996). In the context of services, according to Naser, Jamal, and Al-Khatib (1999) customer satisfaction is often related to factors such as service quality and service features (for example, convenience, competitiveness, and location of service provider). 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; Kaynak et al., 1992). A number of other researches also asserted increasing emphasis on increasing customer satisfaction and customer retention through improved quality of their services (File & Prince, 1992; Goode & Moutinho, 1996; Levesque & McDougall, 1996; Naser et al., 1999).

Holliday (1996) 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) 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

Now, what are the things to be considered while measuring customer satisfaction? Leeds (1992) showed in a study that about 75% of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also found 'increased use of service quality' and 'professional behaviors' (such as formal greetings) improved customer satisfaction and reduced customer attrition.

Stafford (1994) found in context of USA that customers want courtesy, friendliness and convenience. But that consumer also views "fair prices, concerned management and institutional stability as integral components of the service process" (Kennington, Hill, & Rakowska, 1996).

A study conducted in semi-urban Pennsylvania, indicates that commercial bank managers can utilize the evaluative criteria used by bank customers in selecting a commercial bank to patronize. The six evaluative constructs extracted from importance measures can be used to explain customers' commercial bank choices. Commercial banks' efforts to attract or retain existing customers should focus on the following issues (Kaynak & Harcar, 2004): behavior of bank employees, bank service charges; extra services offered by the bank; confidence in the bank; positive bank image; and convenience.

Kaynak and Harcar (2004) also added that managing service quality in a commercial bank is rather challenging because so much depends on how well the bank employees (internal customers) respond to the needs and expectations of the customers. Bank customers, in most cases, evaluate commercial banks on the bank employee dimension when they place a heavy emphasis on positive staff attitude, knowledgeable staff, friendliness of bank personnel, employee professionalism, courtesy of personnel, and timely employee responses to correspondence. Arasli, Katircioglu, and Mehtap-Smadi (2005) asserted that customer contact personnel played a vital role in the delivery of high quality service.

Following a similar study conducted by Metwa and Almosawi (1998), the current study measured customer satisfaction with various products/services of Islamic banks, and with four basic elements of the service delivery system of Islamic bank: employees, physical facilities of the bank, location, and evening (late) banking hours. These criteria (i.e., satisfaction with products/services and satisfaction with basic service delivery elements) tend to cover a broad array of factors to be considered for customer satisfaction in a service industry like Islamic banking.

2.3 Banking Products/ Services: Awareness and Usage

In any service industries, it is important to investigate customers' awareness and usage in investigating customer behavior. The assessment of customers' awareness and usage of products/service has become more important as today Islamic banks must not rely solely on religious factors as a strategy to secure customers' allegiances but they should also emphasize providing quality and efficient product and services (Dusuki & Abdullah, 2007).

In a service business like banking perception of quality emerge from both awareness and usage of the products/service. The reason is that unlike the quality of tangible products, quality of banking products/services depends on customers' experience with products/service. Banking products/services are experienced while they are produced (Cronin & Taylor, 1992; Metawa & Almosawi, 1998; Taylor, Steven, & Baker, 1994). In turn, service quality is highly related to (even though not equivalent to) customer satisfaction. Given the importance of awareness and usage in shaping customer behaviour, Metawa and Almosawi (1998) measured customer awareness and usage of various Islamic bank products/services in context of Bahrain.

2.4 Customer Profile: An Important Measure of Customer Behavior

Researchers have identified demography as a very important tool for market segmentation to identify target customers and their needs. Bowen and Hedges (1993)

noted that the importance of various quality improvements differs among customer segments (Stafford, 1996). It is particularly important to focus first on those customers who are most valuable to the bank. One possible method of determining those valuable customers is by utilizing customer demographics. Hansman and Schutjens (1993) also support the above researchers by proposing a “rational assumption” that age is a strong predictor of changes in attitudes and behavior (Stafford, 1996).

Kangis and Voukelatos (1997) found that younger clients (age 18-24) appreciated the good appearance of staff and the lower queuing time. Young adults (25-34) appreciated the modern equipment, problem solving, willingness of staff to help, explanations of the services given, friendliness, courtesy, professional knowledge of the staff and the location of the branch. Mature adults (35-45) as well as the other older age groups, showed inconsistencies in their perceptions for most dimensions, other than commonly seeking a reduction in queuing time.

Mathur and Moschis (1994) found that age is inversely related to credit card use; younger adults use credit cards significantly more than older adults (Stafford, 1996). Owusu-Frimpong (1999) in a separate study on the patronage behavior of Ghanaian bank customers considered age, sex, and occupation as three important variables in the customers' demography. They found a significant portion of their customers belonging to the age group of 30 to 50 years of age.

In a study in Hong Kong, the following demographic variables were considered to be important ones in customers' adoption behavior in banking: gender, age, household income, educational level, and occupation (Wan, Luk, & Chow, 2005). In a recent study, Cohen et al (2006) asserted that customers' age groups and level of education contributed to explaining respondents' propensity to stay with their current banks

Metwa and Almosawi (1998) in a study on behavior of Islamic bank customers in Bahrain considered age, income, level of education, and nationality as important socio-demographic variables in associated with customer behaviors.

The current study considered 'age', 'income' and 'education' as customers' demographic factors that form customer profile. 'Sex' was excluded on the ground that Islamic principles on banking do not have any different in treatments between male and female customers. So far, religious principles being a very strong reason for customers' adoption of Islamic banking, this study excluded 'sex'. Such exclusion of 'sex' is also supported by the study of Metwa and Almosawi (1998). In addition, the study excluded 'nationality' as a demographic factor as the population of Bangladesh is highly homogenous on 'Bangladeshi nationality'.

2.5 Bank Selection Criteria

Financial industries, especially banks, are becoming highly competitive day by day due to product differentiation, easiness of service availability, culture/religion based products offering and technology used in service delivery. Customers are selecting banks considering various features of the service proposition. Thus, to attract customers, banks are facing challenges more than ever. But to attract customers it is crucial to know what selection criteria customers are adopting in selecting banks. Such selection criteria of the customers open an area of research on “bank selection criteria of customers”. Various empirical research using different methodologies and approaches have been conducted in various parts of the world to investigate the bank selection criteria of the customers.

From a survey in the USA, Anderson, Cox, and Fulcher (1976) found that convenience customers selected “recommendation by friends” as the most important factor, followed by “location”, “reputation”, “service charges” and “friendliness of bank staff”; whereas the service customers ranked “availability of credit” as the most important factor, followed by “reputation”, “recommendation by friends”, “friendliness of staff” and “interest charged on loans”. These findings are supported by Tan and Chua (1986) stating that advice of friends, neighbors and family members has a stronger influence on customers’ decisions, compared with other variables in selecting financial institutions. This finding is consistent with the ethos of oriental culture which emphasizes social and family ties. Again, Kaynak et al. (1992) reported that the bank's reputation, business hours, parking facilities, range of services, recommendations of friends and relatives, fast and efficient service, and financial counseling services were considered as more important by male customers than the female customers in their selection of a commercial bank in Turkey. Furthermore, the bank location played a more important role for bank customers under the age of 40 as compared to other age groups.

In a study of Islamic Banking in Turkey by Naser et al. (1999) 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), 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.

Boyd, Leonard, and White (1994) investigated the importance of bank selection criteria in terms of the age of the head of the household. They found that for the age group under 21 years, a bank's reputation plays a major role in determining their bank selection, followed by location, hours of operation, interest on savings accounts and the provision of convenient and quick services. The least important factors for this age group were found to be the friendliness of bank employees and the modern nature of their facilities.

Kaufman (1967) from his study of bank selection criteria in the USA found that the most influential factors reported by households were convenient location to home or place of business, length of bank-customers relationships and quality of services offered by the bank.

Mason and Mayer (1974) assessed the factors used by two groups of chequing account customers in USA, high income and low income, in deciding to maintain their accounts at a particular branch. Agreeing with the results of Kaufman (1967), convenient location came on the top of the list. Other factors with high rankings were: friendly personnel, favorable loan experience, advice of Friends, and influence of relatives.

Almossawi (2001) revealed that young customers place more emphasis on factors like a bank's reputation, availability of parking space near the bank, friendliness of bank personnel and those related to Automated Teller Machines (ATMs) such as their availability in several convenient location and 24-hours availability of ATM service.

From the study of literature about bank selection criteria and also the given context of Islamic banks in the current study, the researchers concentrated on few factors that motivate customers in choosing bank. In this case the researchers focused mainly on the religious belief of the customers. Then, they give importance on the recommendations of the family and friends, location of bank, and return. Various other factors such as evening banking hours, behavior of employees were considered as a part of customer satisfaction measurement. Such approach is well supported by Metwa and Almossawi (1998).

Methodology

The study has a descriptive research design. The population of the study comprises of all the Islamic bank customers in Bangladesh. However, no such comprehensive list of customers is available. Such a comprehensive list of customers would have

required all Islamic banks to reveal their customers' list along with the customers contact details. However, such a list could not be availed from the banks due to reasonable competitive reasons of the banks. Hence, the study adopted a non-probability sampling method, instead of a probability sampling.

Data required for fulfilling the objectives of the study were collected from 100 customers approached at the counters of the following five Islamic banks in Dhaka city of Bangladesh, namely, Islami Bank Bangladesh Ltd, Al-Arafah Islami Bank Ltd., Social Investment Bank Ltd., EXIM Bank Ltd., Shahjalal Islamic Bank Ltd. According to Bangladesh Bank, the central bank of Bangladesh, there is six Islamic banks in Bangladesh. But, Oriental Bank Ltd. was excluded from the study as it was listed as a problem bank and now Bangladesh Bank taken over it for reconstruction (Bangladesh Bank, 2006; Bangladesh Bank, 2008). This data selection is the major limitation of this study. Due to various constraints, we had to confine ourselves to the Capital City. A wider geographic distribution of our sample respondents would be an ideal one, which we plan to explore in our future research.

The survey instrument for collecting the data were a questionnaire including open and closed-end questions. The questionnaire was adapted from a previous study of Metwa and Almosawi (1998). The questionnaire consisted of 5 sections. Part A sought information from the customers on their following demographic factors: age, level of monthly income, and level of education. Part B, asked two closed-end questions: 'did you have any relationship with traditional banks before Islamic Banks?' and 'what is the length of your relationship with Islamic banks?'. Part C asked three types of questions. First, 'yes' or 'no' response to the awareness of each of the 17 Islamic bank products/services offered by the 5 study banks was sought. Second, 'yes' or 'no' response was asked as to whether customers used each of the 17 products/services. Third, customers were asked to indicate their level of satisfaction with products/services on a 5 point likert-type scale ranging from '1' to '5' (with '1' meaning 'highly dissatisfied' and '5' meaning 'highly satisfied'). Part D asked for responses as to satisfaction with the following basic elements of service delivery systems of Islamic banks: employees, physical facilities of the bank, location, and evening (late) banking hours. The responses were sought on a five point likert-type scale ranging from '1' to '5' (with '1' meaning 'highly dissatisfied' and '5' meaning 'highly satisfied'). Part E asked the respondents to indicate their level of agreement with the following four statements, each indicating a bank selection criterion.

- I prefer Islamic banks because they follow Islamic principles.
- I chose Islamic banks because my family members and my friends recommended me.
- I chose the Islamic bank for its convenient location.
- I chose the Islamic bank because it provides higher rates of return.

The responses here were sought on a five-point likert-type scale ranging from '1' to '5' (with '1' meaning 'strongly disagree' and '5' meaning 'strongly agree').

Data analyses were done using descriptive statistics, hypothesis testing using t-distribution, and chi-square tests.

Findings And Interpretations

4.1 Customers' Profile

A summary of findings on customer profile along three variables: age, level of income (average monthly income of the respondent), and level of education has been presented in Table 1. The reason for using monthly income is that in Bangladesh salaried employees are contracted on the basis of monthly payment. So, people have a tendency to remember their salary on a monthly basis hence convenient to respond during surveys.

It has been found that the majority of the customers (58%) range between 25 to 35 years of age. The reason for high concentration in the '25 to 35 years' category may be attributed to the relatively short history of Islamic banking in Bangladesh which started in 1983. About half of the respondents have an average monthly income ranging between BDT10, 000 to BDT20, 000 (Bangladesh currency = BDT). There are 27% respondents who fall below this range and 18% respondent who fall above this income range. A high concentration in that particular income category may be well-explained by the finding on the age variable that the major concentration is between 25 to 35 years of age. It is to note that such age category in Bangladesh generally include entry and mid-level executives and professionals both in the private and public sector. Though no recent compensation surveys are available to validate such arguments, one may still argue, given the observation in reality so rife, that a large number of entry and mid-level position holders in the public and private sector of Bangladesh are most likely to have a monthly basic salary in the range from BDT10, 000 to BDT20, 000.

The respondents have been found to possess a high level of education (29% having a bachelor degree and 44% with either a Master or a PhD degree). Only 17% of the respondents have education at or below high school level. In a similar study in Bahrain, researchers (Metwa & Almosawi, 1998) also found a very small portion (only about 5%) of their sample falling below 'high school' category. However, the concentration of respondents in that study lied in 'high school' and 'college/bachelor' category.

4.2 Customers' Track of Banking Relationship

The track of banking relationship has been presented across two variables: customers' previous relationship with traditional banks and customers' length of relationship with Islamic banks (Table 2). The findings reveal that about 70% of the customers had previous relationship with banks other than Islamic banks. Such relationship can be explained by two interlocking facts. First, Islamic banking has not been in Bangladesh for a very long time. Second, more than four-fifth of the respondents are above 25 years of age. Among them, about one third falls in the age categories above 35 years. So, before Islamic banks came in and caught on, people did need to rely on other types of banks to meet their banking needs.

The customers' track of banking relationship can be reasonably interpreted in the following ways. First, Islamic banks have shown good progress in seizing customers from the traditional banks (as the majority of the customers used to bank with other banks). Second, about half of the respondents have more than 4 years of banking relationship. Such a long tenure of relationship signifies the ability of customer retention by the banks as well as the customers' loyalty to the banks' products/services.

4.3 Customers' Awareness and Usage of Islamic Banks' Products/Services

Table 3 shows the proportion of respondents that are aware of and are using different Islamic bank products or services as available in Bangladesh. High level of customer awareness of current account and saving account has been observed, two very basic types of customers' investment vehicles. Also, large proportions (72% for current account and 85% for savings deposit) of the respondents are using these two products. Respondents are also highly aware of and are using the other two investment products- term deposit (57% aware and 33.7% using) and savings bond (40% aware and 24.5% using).

As for various borrowing products except Quard (Bai- Muajjal, Bai- Murabaha, Hire purchase under Shirkatul Meelk, Musharaka, Izara Bil Baia, and Bai-Salam), customers do not have a high awareness for any particular one (29% for Bai-Muajjal; 25% for Bai-Murabaha; 30% for hire purchase under Shirkatul Meelk; 26% for Musharaka; 10% for Izara Bil Baia; 11% for Bai-Salam). Also none of these products alone has a large proportion of customers using it (only 12.1% for Bai-Muajjal; 13.3% for Bai-Murabaha; 6.1% for hire purchase under Shirkatul Meelk; 7.1% for Musharaka; 2% for Izara Bil Baia; 4.1% for Bai-Salam). The reasons for such low awareness and usage for individual borrowing products may be the following. First, customers' needs for borrowing are diverse and hence, diverse products are offered to meet such needs. So, no individual borrowing product has sole high usage. Second, Islamic banking products (particularly the ones for borrowing) are named in Arabic terms. Bley and Kuehn (2004) suggest that the use of Arabic language terms for naming Islamic finance products and services may impede understanding for non-Arabic speaking Muslims. Third, the majority of the borrowing products are particularly applicable for corporate customers. The study focuses on individual customers instead of corporate treasuries. However, only Quard has a very high awareness (66% aware) with 14.1% of the respondents using. The reasons for high awareness but low usage of Quard may be the following. First, Quard is a very unique Islamic bank short-term lending product which is doled out even without any obligation of profit-sharing by the borrowers. Second, Quard (the short-term loan) is sanctioned for highly reliable and loyal customers and thus, is not supposed to be used by many.

Services offered by Islamic banks such as ATM services, SWIFT for international funds transfer, local documentary bill purchased, foreign documentary bill purchased, letter of credit, locker service are very similar to the ones offered by the conventional banks (excluding implications of interest, if any at all). Among these services, SWIFT has the highest awareness and usage. The reasons may be the following. Bangladesh is a Muslim-majority country (with 83% of the population being Muslims) and the largest portion of its migrants' remittance come from Muslim countries such as KSA, UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iran etc. Over the period from 1998 to 2005, about 70% of the total remittance in Bangladesh came from these Muslim countries. Such remittance may be one very reason why Islamic bank customers have high awareness and usage of SWIFT service (CIA, 2008; Shameem, 2006).

High awareness and usage of ATM service can be attributed to the growing popularity of ATMs for liquidity among customers of banks of all types in the city. A very low awareness and usage of local and foreign documentary bills purchased is very logical. These two instruments are for corporate customers only. So, among the respondent who are aware and have claimed to have used such instruments may have do so for their organizations. Also, awareness and usage of letter of credit (LC) can be similarly explained.

4.4 Customers' Awareness of the Availability of Different Banking Products/Services: Does Length of Relationship With Islamic Banks Play Any Role?

The *p-value* derived from the *Chi-square* test (Table 4) shows that in case of current account, savings deposit, term deposit, Musharaka, Izara Bil Baia, Quard, Local Documentary Bill Purchased, Foreign Documentary Bill Purchased, Bai-Salam, SWIFT, and Locker Service, customers' awareness of the availability of products/services does not depend on customers' length of relationship with Islamic banks. There may be two explanations. First, customers may be generally aware of various common products such as current and savings account. Retail customers usually start relationship with banks by adopting current and/or savings account. Second, in case of the other products/services, customers' length of relationship may not have mattered because the products/services are not usually meant for retail customers. In case of the following products/services, customer awareness depends on the length of customers' relationship with Islamic banks: Savings Bond (at 1% significance level), Bai- Muajjal (at 5% significance level), Bai- Murabaha (at 5% significance level), Hire Purchase under Shirkatul Meelk (at 10% significance level), Letter of Credit (at 1% significance level), and ATM Services (at 1% significance level). The finding for Savings Bond, Bai-Muajjal, Bai-Murabaha, and Hire Purchase under Shirkatul Meelk may be attributed to the long-term nature of the instruments. The latter three are borrowing instruments for customers and such borrowing does not occur frequently. Customers become aware over time depending upon their need for investment in large amounts.

4.5 Customers' Usage of Islamic Bank Products: Role of Demographic Factors

Results of *Chi-square* test on relationship between customers' usage of Islamic bank products and customers' demography (Table 5) shows that customers' usage of the following products/services is dependent on age: current account (at 5% significance level), savings deposit (at 5% significance level), term deposit (at 1% significance

level), savings bond (at 1% significance level) and Bai-Salam (at 1% significance level). Current account, savings deposit, term deposit, and savings bond is most popular in the age category from 25 to 35 years. Only four customers reported usage of Bai-Salam out of which 3 belong to less than 25 years of age category. It is to note here that Metwa and Almosawi (1998) found only usage of current account and usage of ATM cards to be associated with age.

Table 5 also presents the fact that customers' usage of the following products/services are dependent on customers' level of income: Bai- Muajjal (at 10% significance level), Hire purchase under Shirkatul Meelk (at 1% significance level), Musharaka (at 5% significance level), Local Documentary Bill Purchased (at 1% significance level), Bai-Salam (at 1% significance level), Letter of Credit (at 1% significance level), and ATM Services (at 1% significance level). It can be observed from these findings that customers with higher-reported income have the tendency to borrow for various long-term personal and business purposes and thus income level has association with the usage of Musharaka, Hire Purchase, Bai-Muajjal, Letter of Credit etc. Also, customers with higher income may invest more and also, may want to have ready access to liquidity through ATM services. However, it is interesting to note here the most concentration fell in the category BDT10, 000 to BDT20, 000 since 45% of the respondents belong to this category. Metwa and Almosawi (1998) found only usage of 'current accounts' to be dependent on high level of income.

The test further reveals that customers' usage of the following products depends on the level of education: savings deposit (at 10% significance level), savings bond (at 10% significance level), Bai-Muajjal (at 10% significance level), and Hire Purchase under Shirkatul Meelk (at 5% significance level). As observed from the frequency distribution, these products can be said to be popular to the highly-educated customers. This finding is not consistent with that of Metwa and Almosawi (1998) in which 'current account' and 'ATM services' were found to have significant relationship with level of education.

4.6 Customer Satisfaction with Islamic Bank Products/Services

Table 6 presents descriptive statistics on the satisfaction of Islamic bank customers with Islamic bank products/services. It has been observed that except for Local Documentary Bill Purchased, Foreign Documentary Bill Purchased, Bai-Salam, and ATM services, all the Islamic bank products/services have a mean score above the average score of 3. Quard has been rated as the most satisfying product for the users.

The reason may be that Qard is a sort of lending without any profit sharing agreement. Now, to find out whether any particular product/service has above average satisfaction, the following hypothesis has been tested for each product/service.

Null hypothesis: Islamic bank customers have an average satisfaction with each Islamic bank product/service (i.e. $H_0=3$).

Alternative hypothesis: Islamic bank customers have an above average satisfaction with each Islamic bank product/service (i.e. $H_A>3$).

The results as derived after testing the above hypothesis for each product/service (Table 7) shows that Hire purchase under Shirkatul Meelk, Musharaka, Izara Bil Baia, Local Documentary Bill Purchased, Foreign Documentary Bill Purchased, Bai-Salam, Letter of credit, and SWIFT require immediate attention as none of these products/services have customer satisfaction significantly above average level. It is to note that all investment products/services for customers have above average satisfaction.

The results on customer satisfaction with Islamic bank products/services have some resemblance with the results of Metwa and Almossawi (1998). They also found a very low customer satisfaction with various financing facilities and an above average mean on satisfaction with 'current account' and 'savings account'. However, they reported an above average mean on ATM services while in this current study the ATM services enjoyed below average mean of satisfaction.

4.7 Satisfaction with Basic Elements of Service Delivery Systems

Of the four service delivery systems of the Islamic banks namely, employees, physical facilities of the bank, location and evening (late) banking hours, according to mean scores, the highest satisfaction came from the evening banking hours (Table 8). However, it is to note that banks do not remain open for more than an hour in the evening. Hence such a score for evening banking hours means that customers do not also require services very late in the evening. They may be happy with the ATM services for evening banking needs. Mean scores on all the basic elements of service delivery systems were above 3, indicating an above average satisfaction with each element. However, standard deviations are also high for the following dimensions: employees, physical facilities of the bank, and location.

The ranking here contradicts the findings of Metwa and Almosawi (1998) in Bahrain where customers were found to be most satisfied with bank employees. This indicates the scope for Islamic banks in Bangladesh to improve in human resources for better customer satisfaction.

To better understand the problem area in the service delivery systems, the following hypotheses (stated in general for the four basic elements of service delivery systems) has been tested for each element.

Null hypothesis: Islamic bank customers have an average satisfaction with each element in the service delivery systems (i.e. $H_0=3$).

Alternate hypothesis: Islamic bank customers have an above average satisfaction with each element in the service delivery systems (i.e. $H_A>3$).

Table 9 summarizes the results of the hypothesis tests, which suggest that satisfaction with physical facilities of the bank and satisfaction with location are above average (at 1% significance level). Satisfaction with employees needs serious attention as it has not been found significantly above average. Being in a service industry, Islamic banks cannot afford to have below average or even average customer satisfaction. So, it is even not necessary to prove that satisfaction with employees is below average so that Islamic banks can be reasonably asked to improve customer satisfaction with their employees.

4.8 Bank Selection Criteria of Islamic Bank Customers

The result of the descriptive statistical analysis presented in Table 10 reveals that, the most important bank selection criterion among Islamic bank customers in Bangladesh, according to mean score, is that Islamic banks follow Islamic principles of banking. The least important criterion is the rate of returns provided by the Islamic banks. Such ranking on the basis of mean scores has some similarity with the findings of Metwa and Almosawi (1998). In that study, researchers found that Islamic principles ranked *one* as the bank selection criterion. However, their study found that rate of return was the second important reason for preferring Islamic banks in Bahrain, whereas in this current study the rate of return ranked the lowest as a selection criterion.

However, to assess whether the mean score on the selection criteria are above average (i.e. a score of 3) the following hypothesis has been tested for each criterion separately. A general form of the hypotheses is stated below.

Null hypothesis: Islamic bank customers have an average preference for each bank selection criterion (i.e. $H_0=3$).

Alternate hypothesis: Islamic bank customers have an above-average preference for each bank selection criterion (i.e. $H_A>3$).

The test results (Table 11) show that only 'religious principles' has an above-average preference among the customers in Bangladesh. However the *chi-square* test results (Table 12) suggest that among the bank selection criteria, only rate of return is dependent on age (at a significance level of 5%). From the frequency analysis, it is found that majority of the people above 25 years of age put the least importance on the rate of return criterion. Findings for the relationship between bank selection criteria and level of income are the following. First, only the choices of 'family and friends' and 'convenient location' depend significantly (at 5% level) on level of income. Second, frequency analysis suggests that about 80% of the people depending on the suggestions of friends and family have monthly income not exceeding BDT20,000. About 30% of the people in the income category, BDT10,000-20,000 agreed that they followed the suggestions of family and friends in choosing Islamic banks. For even lower income categories, i.e. BDT5,000-10,000 and less than BDT5,000, about 50% of the customers indicated they went by the suggestions of family and friends. Second, customers in the upper categories placed the highest importance on religious principles as a bank selection criterion. More than 50% of the customers preferring Islamic banks because of their pursuance with Islamic principles belong to income categories above BDT20,000. It is interesting to note that none of the customers in the income categories above BDT20,000 preferred 'rate of return' as a bank selection criteria. Third, increasingly higher percentage of the customers in the higher income categories emphasized 'convenient location' as an important bank selection criterion. It may be deduced that people with higher income want to reduce their time for banking by choosing a bank in their nearby location.

Results of the *chi-square* test (Table 12) further show that none of the bank selection criteria have a significant relationship with customers' level of education.

Findings in this study on the relationship between bank selection criteria and customers' demographic factors are contrary to the findings of Metwa and Almosawi (1998). First, unlike the current study, Metwa and Almosawi (1998) found that level of education has significant relationship with 'religious principles' criteria. Second, current study found significant relationship between age and rate of

return as a criterion whereas Metwa and Almosawi (1998) reported a significant relationship of 'Islamic principles' and 'family and friends' with age.

Conclusions and Recommendations

Most of the customers of Islamic banks fall in the age category of 25-35 years. The reason might be the short history of Islamic banks in Bangladesh. About half of the customers under study fall in the income category of BDT10, 000-20,000. Customers' high concentration in this income category is consistent with the findings of age category since entry and mid-level executives and professionals both in the private and public sector of the age category 25-35 years tend to have a similar level of basic monthly income. About three fourth of the customers surveyed were either college/bachelor or master/PhD. Such a finding indicates that Islamic bank customers have high formal education.

Majority of the current Islamic bank customers have previous banking relationship with traditional banks. Also, more than two fifth of the customers have more than 4 years of banking relationship with Islamic banks whereas about one third of the customers have 2-4 years of banking relationship with Islamic banks.

High customer awareness and usage exist for current account and saving account, two very basic types of customers' investment vehicles. Respondents are also aware to a large extent of and are using the other two investment products- term deposit and savings bond. As for various borrowing products except Quard, customers do not have a high awareness for any particular one. None of the borrowing products alone has high usage.

There is relationship between customers' awareness of Islamic bank products/services and customers' length of relationship with Islamic banks in case of the following products/services only: Savings Bond, Bai- Muajjal, Bai- Murabaha, Hire Purchase under Shirkatul Meelk, Letter of Credit, and ATM Services. Hence, it can be deduced that a customer's awareness of borrowing instruments tend to depend on how long customer's relationship with the bank is.

Signification relationship exists between customers' usage of the following products and customers' age: current account, savings deposit, term deposit, savings bond, and Bai-Salam. Current account, savings deposit, term deposit, and savings bond is most popular in the age category from 25 to 35 years. There is a significant relationship between customers' usage and customers' level of income in cases of the following

products/services: Bai-Muajjal, Hire purchase under Shirkatul Meelk, Musharaka Local Documentary Bill Purchased, Bai-Salam, Letter of Credit and ATM Services. Customers with higher levels of education tended to use more of the following products: savings deposit, savings bond, Bai-Muajjal, and Hire Purchase under Shirkatul Meelk.

A number of products/services of Islamic banks have an above-average customer satisfaction. However, customers did not report an above-average satisfaction with the following products/services, most of which are borrowing products for customers: Hire purchase under Shirkatul Meelk, Musharaka, Izara Bil Baia, Local Documentary Bill Purchased, Foreign Documentary Bill Purchased, Bai-Salam, Letter of credit, and SWIFT.

Customers have above average satisfaction with various service delivery elements of Islamic banks except for employees. Such a poor level of customer satisfaction with employees draws serious concern for a service industry like banking. The importance of bank selection criteria are as follows in the order of descending importance: religious principles, convenient location, family and friends, and rate of return. However, only 'religious principles' demonstrated an above average mean, suggesting that Islamic bank customers still prefer Islamic mode of banking mostly because the banks follow Islamic principles.

Customers with age categories beyond 25 years do not care for rate of return as a bank selection criteria. Customers with lower levels of income tend to rely on the recommendations of friends and family in choosing a bank whereas customers in the higher income category selected Islamic banks mainly for religious reasons. Customers in the higher income categories tend to rely on convenient location of the bank in making bank selection decisions. Customers' level of education does not play any significant role in customers' employment of bank selection criteria.

From the conclusions of the study, the following recommendations can be reasonably forwarded for Islamic banks in Bangladesh. First, among the age categories, 25-35 years deserve particular attention. Since this is the age category which has the most usage and more representation in the sample, Islamic banks should target its marketing mix toward this category. Such a technique will ensure attraction of job-market entering people towards Islamic bank products/service and also retention of the people who are likely to remain long-term loyal customers. Second, Islamic banks should try to find out some ways to better familiarize its customers with the

borrowing products for customers. Arabic terms for most of these products in a non-Arabic speaking country like Bangladesh may pose a special predicament in customers' familiarity and recall of products, which may again hinder word-of-mouth of the customers.

Third, besides religious principles, customers in the lower income category tended to rely on the experience of their family members and friends in choosing Islamic banks. Hence, Islamic banks should pay an urgent attention to improve satisfaction of their existing customers. One step towards this would be to find out ways for improving customer satisfaction with employees and for improving satisfaction with the products/services that did not receive above average satisfaction from employees.

Finally, religious principles remain at the heart of people's preference for Islamic banks. This indicates that the banks should remain highly dedicated to Islamic principles. Any attempts to introduce any products/service (particularly the ones that have a fixed amount of profit upfront instead of a ratio of profit sharing) that may have substantial similarity with the traditional banking products/services should be thoroughly explained on the basis on Islamic principles and should be checked for customers' acceptance.

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Table 1: Profile of the Respondents

Variable	Categories	Percent
Age	Less than 25 years	14
	25-35 years	58
	36-50 years	13
	More than 50 years	15
Level of Income*	Lower than BDT 5,000	15
	BDT 5,000-10,000	12
	BDT 10,000-20,000	45
	BDT 20,000-30,000	10
	BDT 30,000-40,000	8
	BDT 40,000-50,000	8
	More than BDT50,000	2
Level of Education**	Below high school	8
	High school	9
	College/Bachelor	29
	Above College/Bachelor (Master or PhD)	44

Source: *Field survey data, 2007*

Note: *1 US Dollar = Bangladeshi Taka (BDT) 68.1545 (as of January 6, 2008 as in Universal Currency Converter, 2008)

**In Bangladesh, completion of high school means achievement of 12 years of schooling starting with class/grade 1.

Table 2: Customers' Track of Banking Relationship

Variable	Categories	Percent
Previous relationship with traditional banks (i.e. the banks other than Islamic banks)	Yes	67.35
	No	32.65
Length of relationship with Islamic banks	Less than 2 years	22
	2 to less than 4 years	30
	4 to less than 6 years	14
	6 years and more	34

Source: *Field survey data, 2007*

Table 3: Awareness and Usage with Islamic Bank Products/Services

Types of Products/Services	Percent Aware	Percent Using
Al-Wadia Current Account	88	72
Mudaraba Savings Deposit	92	85
Term Deposit	57	33.7
Savings Bond	40	24.5
Bai- Muajjal	29	12.1
Bai- Murabaha	25	13.3
Hire purchase under Shirkatul Meelk	30	6.1
Musharaka	26	7.1
Izara Bil Baia	10	2
Quard	66	14.1
Local Documentary Bill Purchased	11	2
Foreign Documentary Bill Purchased	11	2
Bai-Salam	11	4.1
Letter of credit	35	6.1
ATM Services	46	26.5
SWIFT	47	31.3
Locker Service	23	11.1

Source: *Field survey data, 2007*

Table 4: Results of Chi-square Test for Association between Awareness and Customers' Length of Relationship with Islamic Banks

Types of Products/Services	Length of Relationship with Islamic banks		
	χ^2	Degrees of freedom (DF)	<i>p value</i>
Current Account	2.933	3	0.402
Savings Deposit	1.067	3	0.785
Term Deposit	5.866	3	0.118
Savings Bond	15.070	3	0.002
Bai- Muajjal	9.012	3	0.029
Bai- Murabaha	10.665	3	0.014
Hire purchase under Shirkatul Meelk	7.109	3	0.069
Musharaka	2.660	3	0.447
Izara Bil Baia	2.064	3	0.559
Quard	0.582	3	0.900
Local Documentary Bill Purchased	2.456	3	0.483
Foreign Documentary Bill Purchased	2.456	3	0.483
Bai-Salam	3.377	3	0.337
Letter of credit	12.194	3	0.007
ATM Services	21.604	3	0.000
SWIFT	0.245	3	0.970
Locker Service	4.470	3	0.215

Source: *Field survey data, 2007*

Table 5: Results of Chi-square Test on Relationship between Customers' Usage of Islamic Bank Products and Customers' Demography

Types of Products/Services	Age			Income			Level of Education		
	χ^2	DF	<i>p value</i>	χ^2	DF	<i>p value</i>	χ^2	DF	<i>p value</i>
Current Account	8.885	3	0.031	3.384	6	0.759	4.568	3	0.206
Savings Deposit	10.406	3	0.015	2.266	6	0.894	6.560		0.087
Term Deposit	12.863	3	0.005	7.738	6	0.258	4.478		0.214
Savings Bond	11.681	3	0.009	13.705	6	0.033	6.453		0.092
Bai- Muajjal	4.016	3	0.260	11.532	6	0.073	6.645		0.084
Bai- Murabaha	1.529	3	0.676	5.544	6	0.476	4.001		0.261
Hire purchase under Shirkatul Meelk	2.618	3	0.454	30.146	6	0.000	8.175		0.043
Musharaka	6.313	3	0.097	15.821	6	0.015	3.381		0.338
Izara Bil Baia	2.394	3	0.495	8.758	6	0.188	0.908		0.823
Quard	4.102	3	0.251	10321	6	0.112	3.237		0.356
Local Documentary Bill Purchased	1.408	3	0.704	22.969	6	0.001	5.104		0.164
Foreign Documentary Bill Purchased	2.669	3	0.446	2.643	6	0.852	0.908		0.823
Bai-Salam	13.953	3	0.003	20.643	6	0.002	1.873		0.599
Letter of credit	2.351	3	0.503	19.548	6	0.003	2.568		0.463
ATM Services	5.171	3	0.160	26.062	6	0.000	6.119		0.106
SWIFT	1.211	3	0.750	11.201	6	0.082	3.525		0.318
Locker Service	5.112	3	0.164	29.330	6	0.000	7.159		0.067

Source: *Field survey data, 2007*

Table 6: Descriptive Statistics for Degrees of Satisfaction with Islamic Bank Products

Types of Products/Services	Mean	Standard Deviation	Rank on the basis of mean score
Quard	4.5714	0.51355	1
Bai- Murabaha	4.0769	0.64051	2
Bai- Muajjal	3.9167	0.66856	3
Locker Service	3.9091	0.70065	3
SWIFT	3.871	0.6187	4
Savings Deposit	3.6279	0.90809	5
Term Deposit	3.5455	0.93845	6
Current Account	3.5417	0.93353	7
Izara Bil Baia	3.5	0.70711	8
Letter of credit	3.5	0.54772	9
Musharaka	3.4286	0.53452	10
Hire purchase under Shirkatul Meelk	3.3333	1.0328	11
Savings Bond	3.2917	0.7506	12
Local Documentary Bill Purchased	2.5	0.70711	13
Foreign Documentary Bill Purchased	2.5	0.70711	14
Bai-Salam	2.5	0.57735	15
ATM Services	1.88	0.72572	16

Source: Field survey data, 2007

Table 7: Results for Tests of Hypotheses for Above-average Satisfaction with Islamic Bank Products/Services

Types of Products/Services	Calculated t value for hypothesized population mean=3	Conclusion
Current Account	4.923***	H _A is established; H ₀ is rejected.
Savings Deposit	6.412***	H _A is established; H ₀ is rejected.
Term Deposit	3.339***	H _A is established; H ₀ is rejected.
Savings Bond	1.904	Not enough evidence to reject null hypothesis.
Bai- Muajjal	4.750***	H _A is established; H ₀ is rejected.
Bai- Murabaha	6.062***	H _A is established; H ₀ is rejected.
Hire purchase under Shirkatul Meelk	.791	Not enough evidence to reject null hypothesis.
Musharaka	2.121	Not enough evidence to reject null hypothesis.
Izara Bil Baia	1.000	Not enough evidence to reject null hypothesis.
Quard	11.449***	H _A is established; H ₀ is rejected.
Local Documentary Bill Purchased	-1.000	Not enough evidence to reject null hypothesis.
Foreign Documentary Bill Purchased	-1.000	Not enough evidence to reject null hypothesis.
Bai-Salam	-1.732	Not enough evidence to reject null hypothesis.
Letter of credit	2.236	Not enough evidence to reject null hypothesis.
ATM Services	-7.716***	H _A is established; H ₀ is rejected.
SWIFT	7.838	Not enough evidence to reject null hypothesis
Locker Service	4.303***	H _A is established; H ₀ is rejected.

Source: *Field survey data, 2007*

Note: *** means significant at 1% level.

Table 8: Descriptive Analysis for Degrees of Satisfaction with Basic Elements of Service Delivery Systems

Basic Elements of Service Delivery Systems	Mean	Standard Deviation	Rank on the Basis of Mean Score
Employees	3.1200	1.13066	3
Physical facilities of the bank	3.1200	1.13066	3
Location	3.3400	1.01723	2
Evening (late) banking hours	4.2000	0.69631	1

Source: *Field survey data, 2007*

Table 9: Hypotheses for Above-average Satisfaction with Basic Elements of Service Delivery Systems

Types of Products/Services	Calculated t value for hypothesized population mean=3	Conclusion
Employees	1.061	Not enough evidence to reject null hypothesis.
Physical facilities of the bank	3.342***	H_A is established; H_0 is rejected.
Location	17.234***	H_A is established; H_0 is rejected.
Evening (late) banking hours	-4.031***	H_A is established; H_0 is rejected.

Source: *Field survey data, 2007*

Note: *** means significant at 1% level.

Table 10: Descriptive Statistics on Bank Selection Criteria

Bank selection criteria	Mean	Standard deviation	Ranking on the basis of mean score
I prefer Islamic banks because they follow Islamic principles.	3.9800	1.21423	1
I chose Islamic banks because my family members and my friends recommended me.	2.6000	1.34840	3
I chose the Islamic bank for its convenient location.	3.1800	1.47285	2
I chose the Islamic bank because it provides higher rates of return.	1.9600	1.20538	4

Source: *Field survey data, 2007*

Table 11: Tests of Hypotheses for Above-Average Preference for Bank Selection Criteria

Bank Selection Criteria	Calculated t value for hypothesized population mean=3	Conclusion
I prefer Islamic banks because they follow Islamic principles.	8.071***	H _A is established; H ₀ is rejected.
I chose Islamic banks because my family members and my friends	-2.966	Not enough evidence to reject Null Hypothesis.
I chose the Islamic bank for its convenient location.	1.222	Not enough evidence to reject Null Hypothesis
I chose the Islamic bank because it provides higher rates of return.	-8.628	Not enough evidence to reject Null Hypothesis.

Source: *Field survey data, 2007*

Note: *** means significant at 1% level.

Table 12: Results of Chi-Square Tests for Relationship between Customers' Preference for Bank Selection Criteria and Customers' Demographic Factors

	Age			Level of Income			Level of Education		
	χ^2	DF	p value	X ²	DF	p value	χ^2	DF	p value
Religious principles	12.387	12	0.415	20.048	24	0.694	11.779	12	0.464
Family and Friends	17.753	12	0.123	41.309	24	0.015	14.459	12	0.272
Convenient Location	13.493	12	0.334	38.661	24	0.03	12.234	12	0.427
Rate of Return	23.049	12	0.027	27.821	24	.268	15.033	12	0.24

Source: *Field survey data, 2007*

Appendix

Survey Questionnaire

This is a survey on your opinions of Islamic banking product/services in Bangladesh. The survey intends to provide inputs to the banks for improving their customers' satisfaction and service delivery. Please feel free to provide your opinions. Your frank opinions may generate important developments in the service delivery of the banking products in Bangladesh, especially those offered by the Islamic banks. Your anonymity will be strictly maintained as we do not ask for your name here. Thank you for your cooperation!

Part A: Demographic Information

What is your age?

- Less than 25 years 25-35 years
 36-50 years More than 50 years

What is your average monthly income?

- Lower than BDT 5,000 BDT5, 000-10,000
 BDT10, 000-20,000 BDT20,000-30,000
 BDT30,000-40,000 BDT40,000-50,000
 More than BDT50,000

What is your level of education?

- Below high school High school
 College/Bachelor Above College/Bachelor (Master or PhD)

Part B: History of Banking Relationship

1. Did you have any relationship with traditional banks before Islamic Banks?
 Yes No
2. What is the length of your relationship with Islamic banks?
 Less than 2 years 2 to less than 4 years
 4 to less than 6 years 6 years and more

Part C: Satisfaction with Islamic Bank Products/Services

3. Please indicate your awareness and usage of the products/services by 'yes' or 'no'. If you use, please indicate your satisfaction by using the following scale.

5-Highly Satisfied
4-Satisfied
3-Not sure whether satisfied or not satisfied
2-Dissatisfied
1-Highly dissatisfied

Type of product/service	Awareness		Usage		Satisfaction				
	Yes	No	Yes	No					
Current Account					1	2	3	4	5
Savings Deposit					1	2	3	4	5
Term Deposit					1	2	3	4	5
Savings Bond					1	2	3	4	5
Bai- Muajjal					1	2	3	4	5
Bai- Murabaha					1	2	3	4	5
Hire purchase under Shirkatul Meelk					1	2	3	4	5
Musharaka					1	2	3	4	5
Izara Bil Baia					1	2	3	4	5
Wazirat Bil Wakala					1	2	3	4	5
Quard					1	2	3	4	5
Local Documentary Bill Purchase					1	2	3	4	5
Foreign Documentary Bill Purchased					1	2	3	4	5
Bai-Salam					1	2	3	4	5
Letter of credit					1	2	3	4	5
ATM Services					1	2	3	4	5
SWIFT					1	2	3	4	5
Reuter					1	2	3	4	5
Locker Service					1	2	3	4	5
VISA Card					1	2	3	4	5

4. How satisfied are you with the following aspects of your Islamic bank? Please, circle one number per product by using the following scale.

5 -Highly Satisfied
4 -Satisfied
3 -Not sure whether satisfied or not satisfied
2 -Dissatisfied
1 -Highly dissatisfied

Employees	1	2	3	4	5
Physical facilities of the bank	1	2	3	4	5
Location	1	2	3	4	5
Evening (late) Banking hours	1	2	3	4	5

Part E: Bank Selection Criteria

5. How do you agree with the following statements? Please circle one number per statement by using the following scale.

5-Strongly agree
4-Agree
3-Neither agree nor disagree
2-Disagree
1-Strongly disagree

I prefer Islamic banks because they follow Islamic principles.	1	2	3	4	5
I chose Islamic banks because my family members and my friends recommended me.	1	2	3	4	5
I chose the Islamic bank for its convenient location.	1	2	3	4	5
I chose the Islamic bank because it provides higher rates of return.	1	2	3	4	5