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Customers' Perception Towards Islamic Banking Services of Bangladesh

Report on
Customers' Perception regarding Islamic Banking Services of Bangladesh

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Subject: Submission of Internship Report

Dear Mr. Tanvir Ahmed

With great gratification I am submitting my internship report on “Customers’ Perception regarding Islamic Banking Services of Bangladesh” that you have assigned me as a requirement of Internship program. It is really an enormous prospect for me to congregate vast information and grasp the subject matter in an appropriate way. I have found the study is quite interesting, beneficial and insightful and tried my level best to prepare an effective report.

I honestly, not only anticipate that my analysis will assist to provide a clear idea about the “Customers’ perception regarding Islamic Banking Services of Bangladesh”, but also hopeful enough to believe that you will find this report worth for all the labor I have put in it. I also want to thank you for your guidance and I would warmly welcome your any kind of query regarding the paper.

Sincerely Yours,

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Acknowledgement

This paper is the outcome of the hard work and the support of all the people related to the preparing process of this report. Without the cooperation of each and every person related to this paper it would not be possible for me to complete the paper. I am grateful to my internship supervisor Mr. Tanvir Ahmed, Assistant Professor, BRAC Business School, BRAC University for providing me detailed feedback and support all the time on this project work. I would also like to thank my friends and family and the respondents for helping me with the relevant information regarding the topic of my report that I needed to complete my paper. Without their contribution, it would not have been possible for me to conduct this report work.

Executive summary

This report is originated in result of my internship program which I have done as a requirement of BBA program. This is an orientation report to the difference between customers' expectations and their level of satisfaction and their way of accepting the Islamic banking services.

The objective of this study is to analyze the customers' perception regarding Islamic banking services. To prepare this report both primary and secondary sources of data have been used. Apart from this a questionnaire has been made and did a survey on 10 customers of Islamic banking services. The introductory part is actually developed for the proper execution of the entire report. The remaining part of the paper actually consist the analysis, findings and conclusion.

Though Islamic banking is not a very old concept, it is experiencing a rapid growth and now competing head to head with conventional banking system. In Bangladesh it seems to have a good future prospect and the banks are trying to tap this market by offering services to the customers based on Islamic Sahriah principles. While choosing a banking service the customers are some specific factors to differentiate the services of both banking systems. Religious view, risk factor, reference groups, convenient location, educational qualification, relationship with other banks, all these factors are having impact on the decision making process of the customers. Though the religious appeal has the utmost priority to the customers, the other factors are also having important roles while choosing the services. The level of impact these factors are having on the customers' mind also varies depending on some other factors that are discussed in the paper. Finally it can be said that all these factors are interrelated and are interacting with each other to help the customers to choose the best possible options and in most of the cases are ending up with a positive perception in the customers' mind regarding these services.

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Introduction

Islamic banking is banking or banking activity that is consistent with the principles of Shariah and its practical application through the development of Islamic economics. As such, a more correct term for 'Islamic banking' is “Shariah compliant finance”. Shariah prohibits acceptance of specific interest or fees for loans of money (known as *riba*, or usury), whether the payment is fixed or floating. Investment in businesses that provide goods or services considered contrary to Islamic principles (e.g. pork or alcohol) is also *haraam* ("sinful and prohibited"). Although these prohibitions have been applied historically in varying degrees in Muslim countries/communities to prevent un-Islamic practices, only in the late 20th century were a number of Islamic banks formed to apply these principles to private or semi-private commercial institutions within the Muslim community. Islamic banks also contribute towards economic development and prosperity within the principles of Islamic justice. Islamic banking has experienced a phenomenal growth and expansion in Bangladesh based on strong public demand and support for the system along with its gradually increasing popularity across the world. As a result, a number of full-fledged Islamic banks have been established, while a good number of conventional banks have come forward to offer services compliant with Islamic Shariah through opening of Islamic branches along with conventional ones. There is also a trend of conversion of conventional banks into Islamic banks. It has, therefore, become necessary to ensure that activities of the fast growing Islamic banks are carried out properly and uniformly according to the principles of Islamic Shariah. Keeping that in mind, Bangladesh bank constituted a Focus group comprising representatives of the central Bank, a number of Islamic Banks and the Central Shariah Board for Islamic Banks of Bangladesh to formulate an integrated guideline for conducting banking business of the Islamic Bank/Islamic bank branches of conventional banks. Based on the recommendations of the Focus group this guideline embodying different terminologies used in Islamic Banking operations, definitions of the terminologies, the principles and modes of deposits and investments has been prepared.

Methodology

In order to complete this report I have collected first hand data from the consumers of Islamic banks in Bangladesh using the in-depth interview method and used the thematic analysis method to analyze the collected data. As the main focus was on the respondents, I have followed in-depth interview process where I have not only tried to hear the problem but also tried to go in depth of it through the respondents. Ten respondents were interviewed as in most of the cases of this kind of research work this amount of respondents are considered as ideal numbers to get a reflection of the population. In order to conduct the interview, I have used both the structured and unstructured way to continue the interviews. Though a questionnaire was prepared for the interview, the utmost emphasis was given to the other factors that the respondents were sharing. The questionnaire actually, covered the basic information of the customer and rest of the part of the interview was an unstructured one to one communication where the questions were asked according to the response of the customers. As the study was conducted on the perception of the customers of Islamic banking system of Bangladesh, all the respondents were the customers of Islamic banking services of Bangladesh and I went to Islami Bank Bangladesh Ltd. and Al-Arafah Islami Bank Ltd. to take the interviews. Though it was a tough task to convince the respondents for the interview as it would take a bit long time to properly finish it but at last it was successfully done with the help of both the respondents and the bank employee.

All the details of the interviews were written down so that while analyzing the data we can get a very clear view of the respondents. After completing this important task a thorough analysis was done to find out some key factors that were actually fulfilling the purpose of the study. After that the factors were illustrated in details to have a clear idea about their role in the study which were actually the themes of the analysis process. This was a difficult task to find out the themes because here the themes were chosen based on their role on understanding the data set rather than the frequency of their occurrence.

For secondary data resources I have gone through some articles related to the topic of the study to have an idea of the work which have helped me to prepare myself for the interview sessions. I have also gone through some of the websites which have helped me to get the in details idea of the services offered by Islamic banks in Bangladesh.

Literature Review

Islam is an entire way of life, and Allah's Guidance extends into all areas of our lives. Islam has given detailed regulations for our economic life, which is balanced and fair. Muslims are to recognize that wealth, earnings, and material goods are the property of God, and that we are merely His trustees. The principles of Islam aim at establishing a just society wherein everyone will behave responsibly and honestly. The fundamental principles of the Islamic economic system are as follows:

- Muslims are not to deal in interest. This prohibition is for all interest-based transactions, whether giving or receiving it and whether dealing with Muslims or non-Muslims.
- It is forbidden to gain property or wealth by fraud, deceit, theft, or other falsehoods.
- It is particularly hateful for a guardian to take from an orphan's property.
- Earnings from gambling, lotteries, and the production, sale, and distribution of alcohol are completely forbidden in Islam.
- It is unlawful to hoard food and other basic necessities. Everyone should take what they need and no more.
- A Muslim should be responsible in spending money. Extravagance and waste are strongly discouraged.
- Every Muslim who owns wealth, more than a certain amount to meet his or her needs, must pay a fixed rate of Zakat to those in need. Zakat is a means of narrowing the gap between the rich and the poor, and to make sure that everyone's needs are met.

Islamic banks nowadays have failed to maintain the morals and principles of Islamic economic system. Most of the Islamic Banks operate on Al-Mudaraba, Al-Murabaha, Muazzal, Salam, Istisna, Hire Purchase/ Leasing mode of Investment. Islamic Banks always prefer to run on the basis of markup/ guaranteed profit having Shariah coverage. For this reason some times the conventional Economists and General people failed to understand the real difference between Islamic Banking and conventional Banking.

The first problem is that despite the growth of Islamic banks over the last 30 years, many people in the Muslim and non-Muslim world do not understand what Islamic banking actually is. The basic principle is clear, that it is contrary to Islamic law to make money out of money and that wealth should accumulate from trade and ownership of real assets. However, there does not appear to be a single definition of what is or not an Islamic-banking product; or there is not a single definition of Islamic banking. The uncertainty over what is, or is not, an Islamic product has so far prevented standardization. This is difficult for regulators as they like to know exactly what it is they are authorizing. It is also an added burden on the banks that have to educate customers in new markets.

Many Islamic banks lack liquidity instruments such as treasury bills and other marketable securities, which could be utilized either to cover liquidity shortages or to manage excess liquidity.

Many Islamic banks do not have the diversity of products essential to satisfy the growing need of their clients. The importance of using proper advanced technology in upgrading the acceptability of a product and diversifying its application cannot be over emphasized. Some Islamic banks also lack the necessary expertise and institutional capacity for Research and Development (R & D) that is not only necessary for the realization of their full potential, but also for its very survival in this age of fierce competition.

The behavior of economic agents in any country is determined partly by past experience and present constraints. The Islamic banks are still growing in experience in many countries. Regarding constraints, Islamic banks in different countries do not freely choose arrangements, which best suit, their need. As a result, their activities are not demand-oriented and do not react flexibly to structural shifts in the economic setting as well as to changes in preferences. It is known to the bank management that a certain portion of the short-term fund is normally not withdrawn at maturity; these funds are used for medium or long-term financing. However, a precondition for this maturity transformation is that the bank should be able to obtain liquidity from external sources in case of unexpected withdrawals. Islamic banks, without having an interest-free Islamic money and capital market, have no adequate instruments to meet this precondition for effective maturity transformation. On the other hand, Islamic banks can enhance term transformation if there is an interest-free bond market or a secondary market for Islamic

financial papers. Adequate financial mechanism still has to be developed, without which financial intermediation, especially the risk and maturity transformation, is not performed properly.

Islamic banks nowadays are considering to offer microfinance instruments to its poor customers or entrepreneurs who can't afford to finance their own small business to alleviate poverty and empower themselves. But there are some factors of conventional microfinance program that contradict with the Shariyah of Islam. The conventional microfinance schemes and operations based on Riba (Interest) are prohibited in Islam and thus, cannot be used by and for the Muslims. Hence, various Islamic schemes based on concepts of mudarabah, musharakah, murabahah, ijarah etc. have the significant features and characteristics that can contribute towards more ethical economic development of the poor and micro entrepreneurs. The wakalah model which is used by many Islamic takaful insurance companies has the potential to become an alternative structure for Islamic banks to offer Islamic microfinance instruments. In this wakalah model, the microfinance institution will work as an agent where microfinance funds could be provided from zakat or NGO donor agency. A fixed amount of management fee would be paid to the microfinance institution for their management work. The micro-entrepreneurs then will be disbursed the fund by microfinance institution and could repay the fund in a weekly basis. In wakalah model, the institutions will not receive any interest from the borrowers rather they would be provided with a fixed management fee as remuneration from the zakat fund. Although, this model is suggested by many Islamic activists, further studies are needed to examine the wakalah model before considering it as an instrument of Islamic microfinance.

Findings & Analysis

Age group:

From the data collected from the Islamic banking consumers it is found that maximum consumers of Islamic banks belong to the age group of 36-50 years. It indicates that most of the young people prefer the idea of conventional banking rather than Islamic banking and the Islamic banking is preferred mostly by much older people. Islamic banks should create more awareness about their products and services among the young group of people and introduce newer services that might attract the youth of the country.

Medium of education:

The collected data from the respondents suggest that almost all the consumers of Islamic banking have completed their education in Bangla medium. The consumers, who studied in English medium most of the time chooses conventional banking instead of Islamic banking. They are more prone to following western cultural practices and don't really bother much about the religion. So, the medium of education do influence the judgment of the banking preference of the consumers.

Income group:

The collected data indicates that most consumers of Islamic banks belong to the income group of Tk 31,000-Tk 50,000 and some are above that range. Management personnel in Islamic banks need to provide the range of products and services that suit the needs of the customers in these income groups. A detailed study of the spending behavior of the customers in this group can provide Islamic banks with highly useful information that can be used in the development of the appropriate products/services to those customers.

Level of education:

The collected data suggests that most of the Islamic bank consumers have completed their under-graduation or post-graduation which means they are well educated. So, the Islamic bank

management needs to develop certain products/services that can attract less educated customers to expand their customer base.

Banking relationship:

According to the collected data most of the consumers have maintained banking relationship with Islamic banks from 3 to less than 5 years. This result shows that there is a relatively high degree of stability of those customers' relationships with Islamic banks. This means that their attitudes, behavior and degree of satisfaction with Islamic bank services will be of significant importance to the Islamic bank management. This result also indicates that there is a relatively high degree of permanence in the Islamic bank customer base which allows Islamic bank management to implement various long-term banking activities, such as long financing schemes, long-term saving programs, and launching long-term advertising campaigns necessary to achieve a higher rate of growth.

Awareness and usage of Islamic banking products/services:

The collected data implies that the level of awareness is quite high for the basic deposit schemes- Al-Wadeeah Current Account, Mudaraba Savings Account and Mudaraba Term Deposit Account. This result shows that a significant portion of bank customers are not aware of the Islamic financing schemes, Leasing (Ijara) facilities, Pay order/Demand draft, foreign trade facilities and letter of credits offered by Islamic banks and thus the usage rate of these products is very low. In today's highly competitive environment, Islamic banks need to conduct periodic customer surveys to investigate whether the customers are aware of their products/services and to know how many of those products and services are being used on a regular basis.

Bank selection criteria:

According to the data collected on Islamic banking customers it is evident that the factor receiving the highest degree of importance in the bank selection process is the religious factor. This result indicates that Islamic banks enjoy a strong power base among those customers who emphasize the adherence to Islamic principles in the practices of financial institutions they select. However, this relative advantage has been threatened in recent years with several conventional banks launching their Islamic investment units. In case of conventional banks, the single most

important factor in the bank selection decision is “rate of return offered” while it is “the adherence to Islamic principles” in the case of Islamic banks. From the response of the respondents it is seen that some Islamic bank customers still consider the rate of return, along with their religious commitment, as key factors in the choice of their Islamic banks. The convenience of bank location was also found to have a considerable role in the bank selection decision in case of female customers.

Source of knowledge:

The data collected on Islamic banking customers suggest that all the customers have come to know about Islamic banking products/services from their family, friends or colleagues. These customers only know about those product/services that are used by their family, friends and colleagues and thus lacking knowledge about other services provided by Islamic banks. This means that Islamic banks don't invest much on promotional activities. In order to expand its customer base and make customers more knowledgeable about all the products, Islamic banks should start investing on online advertising and commercials on television and newspaper.

Customer perception about Islamic banks:

According to the responds received from the respondents, it was evident that all the customers of Islamic banking are more or less satisfied with the services provided by their respective Islamic banks. They think Islamic banks are less costly than conventional commercial banks and even if the Islamic banks get costly sometime in future they would still prefer Islamic banking. During the survey when the customers were asked to imagine a picture when they think of Islamic banking they all came up with positive responses such as the image of a handshake, a dolphin, a sun, a tree etc all of which indicates strong positive association towards Islamic banking. Apart from the typical activities of Islamic banking like the interest-free banking system and following the rules of Islamic Shariyah, customers also highly appreciate the social welfare activities of Islamic banks toward the poor, helpless and low income group people to establish equity and justice in the field of economic activities.

Managerial Contribution

Promoting existing products:

Islamic banks of Bangladesh have a decent range of product line in order to serve the various needs of its consumers. Yet, the consumers are not well aware of all the existing products of Islamic banks. They get to know about only those products which are being used by their family and friends. In order to make them aware about other non-popular but useful products, Islamic banks have to invest more on promotional activities. The renowned commercial banks of Bangladesh like DBBL, Prime Bank Ltd, EBL, SCB, HSBC, Dhaka Bank, City Bank Ltd are investing a good amount of money on TV commercials and thus making the customers more knowledgeable about the current products. Islamic banks should also follow their lead and promote their non-popular products through TV commercial or online advertising to sustain in the competitive world of business.

Introducing new products and product segments:

Islamic banks have a decent customer base consisting of people from different educational background and age group, having different range of income. Islamic banks should divide their customer base into different segments and categorize their products according to the demands of different customer segments. They should also think about introducing newer products in the market to cope up with the standards of conventional commercial banks. For example, almost all the commercial banks are now providing the facility of opening Student Savings Account for the students with minimal formalities with a very low amount of minimum deposit. On the other hand, Islamic banks don't have such type of facility for the students. That is why; most of the customers of Islamic banks belong to the age group of 35-60 years. Besides, nowadays all commercial banks are providing Mobile Banking facilities to their customers which are in fact very useful. In mobile banking, customers open an account with their mobile number and the deposited money directly goes to their phone and they can convert them into cash from any authorized store of their locality. It is very useful, easy and safe way of transaction which the Islamic banks are not considering at all. So, it is very necessary for Islamic banks to start providing these modern and useful services to their customers apart from the typical ones.

Development of human resource:

Employees are one of the most essential resources of an organization. Employees are the group of people who represent an organization and keep the company running. An employee who is well mannered and have sound knowledge about the products and operations of an organization can make the customers happy. However, most of the employees of Islamic banks have completed their graduation in Science and Arts subjects. These graduates having no knowledge about business education understand little about business and cannot handle the customers efficiently and might as well take some wrong investment decisions. Bank employees must have adequate knowledge regarding money, banking, finance and accounting. Without sound knowledge of these subjects efficiency cannot be optimized. So, it is necessary for the Human Resource department of Islamic banks to recruit graduates from business background or arrange effective training program for graduates from other backgrounds to get the best result.

Upgrading websites and ensuring proper maintenance of files:

In today's modern and IT based world, maintaining a website is very crucial for an organization to sustain in the market. A good website should contain all necessary information about the company and the details of the products and services offered by the organization. Among the Islamic banks operating in Bangladesh, Islamic Bank Bangladesh Limited has developed a decent website and updates it in a regular basis. A website is the easiest source to get to know about a bank and its services and a well maintained website can actually influence the judgment of consumers' preference of choosing a banking service. All the Islamic banks of Bangladesh should develop and maintain a decent website with all the necessary information updating regularly to attract customer attention and serve them properly. In addition, Islamic banks try to provide personalized services to its customers and so the banks maintain customer profile with all the essential information of every customer. Before giving any service to its customers the staffs of Islamic banks look for the customer document files kept in the archive room and it takes a lot of time to find a file of a particular customer from a huge pile of documents. During the rush hours of a bank it is not proper to keep the customer waiting until the staffs find the customer profile document from the archive room. To solve this problem, Islamic banks should maintain a database of every customer with essential detail of the customers in the computer. It would save a lot of time and help to serve the customers without making them annoyed.

Conclusion

Banks play a very vital role in the economic development of the country. The popularity of banks is increasing day by day which leads to increase competition as well. All the Commercial banks are offering almost the same products and services. But the way they provide the services are different from each other. So people choose their bank according to their satisfaction and need. On the other hand, Banks innovate new products and services to attract their desired customer. Islamic banks are growing faster in Bangladesh because of its rapid customers' satisfaction. These banks are committed to run all its activities as per Islamic Shariah. IBBL through its steady process and continued success has, by now, earned the reputation of being one of the leading private sector banks of the country. Other Islamic banks are also playing an important role in establishing Islamic Economics by combing the economic values with social and moral values. By following the novelty of Islamic Economics the Islamic banks are trying to make a balance development between spiritual and material life. IBBL will be more effective in our economy by launching new financial products to attract deposit as Consumer Credit Scheme, Pension Scheme, and Child Education Scheme and contribute more to develop the living standard of middle class people. Bangladesh is one of the largest Muslim countries in the world. The people of this country are deeply committed to Islamic way of life as enshrined in the Holy Quran and the Sunnah. Naturally it remains a deep cry in their hearts to direct and design their economic lives in accordance with the principles of Islam. The establishment and commencement of Islamic banks in Bangladesh, is the true reflection of this inner urge of its people.

Reference

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Appendix

Name:

➤ **Demographic information:**

1. Your age:

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

2. Your level of education:

- Below high school
- SSC
- HSC
- Undergraduate
- Post graduate

3. Your medium of education:

- English
- Bangla
- Madrasa

4. Your profession:

- Public sector
- Private sector
- Business
- Student
- Others:

5. Your monthly income:

- Less than TK. 10,000
- TK 11,000-TK 30,000
- TK 31,000-TK 50,000
- TK 51,000-TK 70,000

More than TK 70,000

6. Your marital status:

Married

Unmarried

➤ **Information regarding banking activity:**

7. Do you have existing relationship with banks offering Islamic banking services in Bangladesh?

Yes

No

8. What is the length of your relation with Islamic banks?

Less than 1 year

1 to less than 3 years

3 to less than 5 years

5 years and above

9. How did you come to know that banks are offering Islamic banking?

Family/Friends/Colleagues

Internet

Media (Newspaper/TV)

Bank employees

10. Do you think Islamic banking is more costly than conventional banking?

Yes

No

Not sure

11. If Islamic banking becomes costly would you still prefer it?

Yes

No

12. Why have you preferred Islamic banking?

Religion

Ethical reason

- Rate of return
- Convenient bank location

13. How do you differentiate banking services?

- Interest
- Islamic principles
- Convenience
- Others.....

14. What image pops up to your mind when you think of Islamic banking?

15. Which feature or characteristic of Islamic banking attracts you most?