"Religious Sentiment in Banking Sector: Relation with Customer Switchover to Islamic Banking"

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Abstract

The purpose of this study is to evaluate religious sentiment for which customer switchover from Commercial bank to Islamic bank. To find out what people search their banking activities through Islamic banking is the main objective of this study. This study is quantitative in nature. The statistical population consists some customers of Islamic Banks in Dhaka city whose age from 25 to 65 years & income per month from tk 10000 to above. A sample of 100 customers was selected by using stratified sampling method. The data were collected by using Likert Scale (5 item scale) through 22 standard questionnaires. Data analysis was done through Correlation test & R^2 of Regression model. Here also use SPSS software for analyzing this data set. The finding of this research showed that Religious concern about interest, Conceptual dilemma in proper investment & selection, Policy of profit & loss sharing, Customers loyalty towards Islamic banking have positive relationship with Customer switchover to Islamic banking. Finally this study will assist Conventional bank to enhance their understanding about employee service quality to the response to their work climate & also based on customer religious expectation.

Keywords: Customer, Islamic Bank, Conventional Bank, Interest Rate, Religion.

1. Introduction

The Muslim population in Bangladesh was over 146 million in 2011, which makes up 90% percent of the population in the country. The Constitution of Bangladesh declares Islam as the state religion and is the fourth-largest Muslim-populated country (Official Census Results 2011).

A significant portion of the population is demanding interest free banking for quite a long time. In august 1974, Bangladesh signed the charter of Islamic development bank and committed itself to recognize its economic and financial system as per Islamic Shari'ah. According to the Bangladesh bank, the central bank of the country, the total deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at 265.4 billion ($3.79 billion)at the end of June 2011.

This was 23.6% of the deposits of all private commercial banks and 14.3% of the deposits of the total banking system, total investment of the Islamic banks and the Islamic banking branches stood at tk. 286.5 billion ($4.09 billion) at the end of 2012. This was 26.9 % of all private banks and 17.2 % of the total banking system of the country. The remarkable shifting or conversion of the conventional banks and their branches into the Islamic lines signals high acceptance of the interest-free banking by the public in general.

The Islamic banking industry continued to show strong growth since its inception in 1983 in line with the growth of the economy, as reflected by the increased market share of the Islamic banking industry in terms of assets, financial and deposits of the total banking system. Since there are no profit and losses bearing securities in Bangladesh, Islamic banks have been allowed to maintain their statutory liquidity requirement (SLR) with Bangladesh bank at the rate of 10% (recently made 11%) of their total deposit liabilities, whereas the requirement is 18% (recently made 19%) for conventional banks in Bangladesh.

Islamic banks like all banks are in the business of the management of money. The banks perform a socially useful function in transferring financial resources. Islamic bank give the profit. Actually, as religious sentiment people in our country believe

that they have to do better & positive activities by their income. While they deposit, invest, loan through the non Islamic commercial bank, they have to face some factor those are prohibited by Islamic rules and regulations. This study focuses on to find out main reasons to switch over customer towards the Islamic banking.

2. Objectives of the study

1. To find out the reason of customer switchover from commercial bank to Islamic bank.
2. To know out for what people search their banking service or activities through Islamic Banking.
3. To test whether religious concern about interest, conceptual dilemma of proper investment, the policy of loss-profit sharing & customer loyalty have any relationship with customer.

3. Literature review

Islamic banking stands for the use of money as a medium of exchange. Conventional banking, on the other hand, emphasizes the need for maintaining liquidity and hence requires an adequate amount of reserves. The basic principle of Islamic banking being PLS (Profit-Loss sharing) based financing and thereby having been exposed to increased risk; it would conceivably require higher liquidity and reserves. The reason is that its investment in assets has by nature lesser divisibility and reversibility. This means that reserve ratios for interest-free banking are to be calculated on the basis of risk calculation in various forms of investment.

Theoretical models of financial intermediation suggest that the principal-agent relationship affect the banks' activities that include screening and monitoring entrepreneurs (Stigliz and Weis, 1981; Thakor and Lavack, 2003) and allocation of capital (King and Levine, 1993).

Abul Hassan (1997) an article Perspectives on Islamic Banking was indeed very interesting in making the common man aware of the facets of Islamic Banking. In this study it necessary to extend his view points from the corpus of present day economic development since no afford to lose sight of the current realities while dealing with

this important subject.

Paul Samuelson says that at the zero rate of interest, if we could ever quite reach this point on the horizon, the plateau of consumption would be as high as technically possible (Bokare, 1997). With the given labor, land and primary resources, it would be a kind of Golden age. Interest will on its own disappear if the downward trend of prices through 'free-competition' is administered by the state. Optimum production out of optimum employment, including self-employment, will engender abundant supplies of goods, services and capital resulting in the falling prices as secular trend in a competitive economy.

It is therefore requested that the Islamic countries should first establish free competition in the state in its true sense and enjoy benefits of interest-free banking instead of going through the process of interest-free banking as state programmed. The findings of this study show that there is positive relationship between prohibition of interest in Islam and customer switchover to Islamic banking system.

Economist Paul Krugman described moral hazard as "any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly" (https://www.indianeconomy.net/, May 20, 2015. What is moral hazard problem?). Lending institutions need to take risks by making loans, and usually the most risky loans have the potential for making the highest return.

According to the Qur'an, riba is immoral, because it breaks the bonds of natural relationship between human beings, leads to iniquity between borrower and lender, enables the rich to continue to dominate the poor and inevitably leads to social unrest, (Akbar et al, 2010). The profit and loss sharing (PLS) as one of the modes of finance in Islamic banking, offers a difference concept in the banking system.

PLS is a contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss, (Abdul Qawi and Lynn, 2001). By contrast, under conventional banking, the investor is assured a predetermined rate of interest. In conventional banking, all risk is borne by entrepreneur and whether the project succeeds or not, the owner of capital gets

away with a predetermined return.

The role and functions of the banking system in a contemporary economy is of great significance to the development process and thus, it is often considered as the heart of every prosperous economy, (Mustafa et al. 2003). Islamic banking also has spread all over the world with wide acceptance received by both Muslims and non-Muslims, (Yvonne et al. 2011).

The customer perception is often identified by their level of satisfaction towards particular products or services. (Erol and El-Bdour, 1989) said ''the most important criteria by customers while selecting Islamic Banks were the provision of fast and efficient services, banks reputation and image, and confidentiality.'' (Hunnayan & Abdullah, 2016) have found out three important criteria perceived by Muslims in selecting Islamic banks which is provision of fast and efficient service, the speed of transaction, and the friendly bank personnel.

There are also other factors influencing consumer's perception towards choosing banks. (Gerrerd and Cunningham, 1997) considered "parking space" and "interior facilities" as important issues related to customer satisfaction. (Jamal & Naser, 2003) said "among the most important service features used to measure customer satisfaction are convenience, competitiveness and location of service provider''. Outside of banking service this paper focus to find out some religious factors for which customer want to go to the Islamic bank from conventional bank.

CONCEPTUAL FRAMEWORK

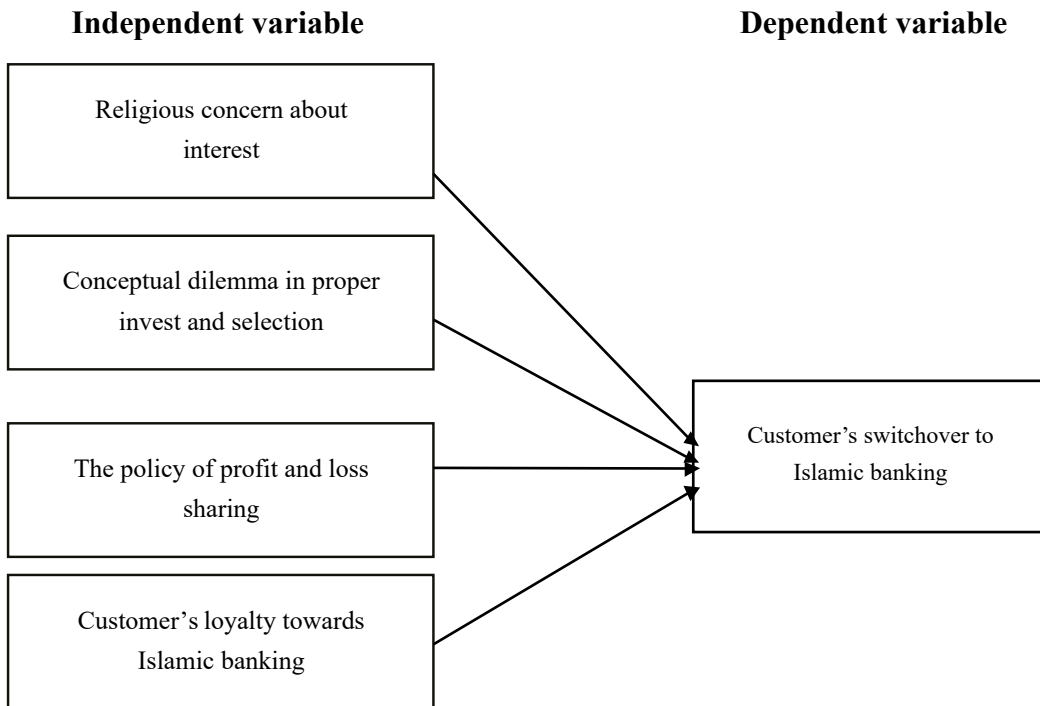**Independent variable**   **Dependent variable**

Figure 1. Conceptual framework of the study

This conceptual framework developed on the basis of evidence available in the above mentioned literature .Here dependent variable is customer's switchover to Islamic banking and independent variables are religion concern about interest, conceptual dilemma in proper investment, policy of loss-profit sharing and customer's loyalty towards Islamic banking. In this study research questionnaires have been created based on these independent variables because these four independent variables influence a customer to move towards Islamic banking.

4. Hypothesis

H1 : There is significantly positive relationship between prohibition of interest in Islam and customer switchover to Islamic banking system.

$H_{1\emptyset}$ **:** There is significantly negative relationship between prohibition of interest in

Islam and customer switchover to Islamic banking system

H2 : There is significantly positive relationship between the tendency of the customers to avoid conceptual dilemma, investment and switchover to Islamic banking system.

$H_{2\emptyset}$**:** There is significantly negative relationship between the tendency of the customers to avoid conceptual dilemma, investment and switchover to Islamic banking system.

H3 : There is significantly positive relationship between the provision of giving interest free loan by the banks to the needy people, profit or loss sharing and customer switchover to Islamic banking system.

$H_{3\emptyset}$ **:** There is significantly negative relationship between the provision of giving interest free loan by the banks to the needy people, profit or loss sharing and customer switchover to Islamic banking system.

H4 : There is significantly positive relationship between the customer loyalty towards Islamic banking and switchover to Islamic banking system.

$H_{4\emptyset}$ **:** There is significantly negative relationship between the customer loyalty towards Islamic banking and switchover to Islamic banking system.

5. Methodology

In this study data analysis was done by using correlation test & R^2 of regression model. For correlation test set four hypotheses to show the relationship between the four independent variables with one dependent variable. Here, I also use SPSS software for analyzing this data set.

5.1 Sample

The reason for using stratified sampling method is it divides the population in to subpopulation or strata and then use simple random for each stratum. For this kind of study here need to control the sample size. So the sample size of this research was 100 respondents.

5.2 Instruments

The questionnaire consists of 22 questions excluding demographic questions. Here use 5 variables which are Customer switchover to Islamic banking, Religious concern about interest, and Conceptual dilemma in proper invest and selection, the policy of profit and loss sharing and Customers loyalty towards Islamic banking. Under these variables numbers of questions have been followed:

1. Customer switchover to Islamic banking: 3
2. Religious concern about interest: 4

3. Conceptual dilemma in proper invests and selection: 5

4. The policy of Profit and loss sharing: 4

5. Customers loyalty towards Islamic banking: 6

The scale of this study is- Strongly disagree, Disagree, Neither disagree or agree, Agree and Strongly Agree.

The demographic questionnaire includes information like Gender, Age and income per month.

5.3 Data Collection

In this research primary data was collected by using survey method by distributing questionnaires among the different consumer and have been given different answers. Primary data was taken from their answers.

6. Analysis & Findings

6.1 Reliability analysis

The questions of customer's switchover to Islamic banking, conceptual dilemma in proper invest and selection and customer's loyalty towards Islamic banking are reliable due to their Cronbach's Alpha .676, .656, and .993. This value is considered as strong or desirable. Because we know that a general accepted rule is that α of 0.6-0.7 indicates an acceptable level of reliability, and 0.8 or greater a very good level.

The questions of religious concern about interest and the policy of profit and loss sharing are not reliable due to their Cronbach's Alpha is .021 and .399.

6.2 Correlation Analysis

Correlation analysis was conducted on all variables to explore the relationship between measured variables. The guideline suggested by Rowntree (1981) was followed. His classification of the correlation coefficient is as follows:

0.00 to 0.2 Very weak, negligible

0.2 to 0.4 Weak, Low

0.4 to 0.7 Moderate

0.7 to 0.9 strong, high marked

0.9 to 1.0 Very strong, very high

The bivariate correlation procedure was subject to a two tailed of statistical significance at two different levels highly significant ($p<.01$) and significant ($p<.05$).

6.3 Hypothesis Testing

H1

There is Positive relationship between "Customer's switchover to Islamic banking" & value of "religious concern about interest". Because the value of P= .198 and the alpha .263 which is bigger than .05.

H2

There is positive relationship between "Customer's switchover to Islamic banking" & value of "conceptual dilemma in proper invest and selection". Because the value of P= .130 and the alpha .089 which is bigger than .05.

H3

There is positive relationship between "Customer's switchover to Islamic banking"

& "The policy of Profit and loss sharing". Because the value of P= .020 and the alpha .143 which is bigger than .05.

H4

There is positive relationship between "Customer's switchover to Islamic banking" & value of "Customers loyalty towards Islamic banking". Because the value of P= 1.00** and the alpha .1.00** which is bigger than .05.

6.4 Regression Analysis

Linear regression analysis estimates the coefficients of a linear equation, involving one or more independent variables (that best predict the value of the dependent variable).

R - R is the square root of R-Squared and is the correlation between the observed and predicted values of dependent variable. R-Square - This is the proportion of variance in the dependent variable which can be explained by the independent variables. Adjusted R-square - This is an adjustment of the R-squared that penalizes the addition of extraneous predictors to the model. Adjusted R-squared is computed using the formula 1 - ((1 - Rsq) ((N - 1) / (N - k - 1)) where k is the number of predictors.

	1.	2.	3.	4.
	D = Customer's switchover to Islamic Banking **I**= Religious concern about interest	**D** = Customer's switchover to Islamic Banking **I**= Conceptual dilemma in proper invest and selection	**D** = Customer's switchover to Islamic Banking **I**= The policy of profit and loss Sharing	**D** = Customer's switchover to Islamic Banking **I**= Customer's loyalty towards Islamic Banking
Regression	**R=0.198** **R²=0.039**	**R=0.130** **R²=0.017**	**R=0.201** **R²=0.020**	**R=0.160** **R²=0.013**

1. From the table, R value is 0.198ᵃ."R-Square"' tell us that 3.9% of the dependent variable (Customer's switchover to Islamic Banking) is explained

by independent variables (Religious concern about interest).

2. From the table, R value is 0.130ª.”R-Square”’ tell us that 1.7% of the dependent variable (Customer's switchover to Islamic Banking) is explained by independent variables (Conceptual dilemma in proper invest and selection).

3. From the table, R value is 0.201ª.”R-Square”’ tell us that 2.0% of the dependent variable (Customer's switchover to Islamic Banking) is explained by independent variables (The policy of profit and loss Sharing).

4. From the table, R value is 0.160ª.”R-Square”’ tell us that 1.3% of the dependent variable (Customer's switchover to Islamic Banking) is explained by independent variables (Customer's loyalty towards Islamic banking).

7. Significance of this study

This study is significant for the following reasons: -

The findings of this research effort may have practical implications for service providers that strive to organize their service offerings in order to accomplish their corporate objectives.

- The study will help or assist companies to enhance their understanding about sentiment of customer and actual employee service quality to the response to their work climate, so it will be easy for the companies to make decision regarding internal marketing.
- This research may encourage further study and provide useful guidelines for these types of researches.

8. Conclusion

This study has exposed that customer turned to Islamic bank from commercial bank significantly owing to customer's religious sentiment. It is worth mentioning here that customer switchover to Islamic bank based of their religious concern about interest, conceptual dilemma in proper investment, policy of loss profit sharing and customer's loyalty towards Islamic banking. The result of this study also found that conceptual dilemma in proper investment and loyalty towards Islamic banking are most influential about this turnover to Islamic banking followed by religious concern

of interest and loss profit sharing policy. Finally Islamic banks are really doing well compare to conventional banks. People feel safe to make transaction with the Islamic banks and those who are more concern about the religious factors like halal or haram they are more interested to open account in the Islamic banks. This is caused by the fact that in Islam, taking interest is strictly prohibited.

9. Limitations & further research direction

Although the present study contributes significantly to literature, it has some limitations. The limitation of the study was that a very small sample size as well as a confined geographical area; therefore it is difficult to generalize the results of the study. So if the sample size and area of study is increased then the result will be more significant and accurate. There might be some sampling error because of convenience sampling process. Some of the respondent did not properly answer the questions due to language barrier. They had problem with understanding research word.

However the future study, customer from other city are more encourage to be involved and other more specific variable (such as - religious banking environment, satisfaction of particular product & service) may be considered to explain that customer move forward to Islamic banking system from commercial bank. This paper also helps to further research about customer satisfaction on Islamic banking.

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APPENDIX - 1

Research Questionnaire

Questionnaire

Personal information

1. Gender**:**   ☐ Male

                   ☐ Female

2. Age: ☐ 25-35

                   ☐ 35-45

                   ☐ 45-55

                   ☐ 55-65

3. Income per month:

                   ☐ 10000-20000 TK
                   ☐ 21000-30000 TK
                   ☐ 31000-400000 TK
                   ☐ 41000-and above

1	Strongly Disagree	4	Agree
2	Disagree	5	Strongly Agree
3	Neither Disagree or Agree		

Please circle the answer, which most clearly responses to your thinking

Customer switchover to Islamic banking:____

1	Customer service staffs are always courteous with customers.	1	2	3	4	5
2	People feel safe in the transaction with the Islamic bank.	1	2	3	4	5
3	When the Islamic bank promises to do something by certain time, it does do.	1	2	3	4	5

Religious concern about interest:_____

4	Banking system provides interest against deposit is doing better in Islamic sentiments.	1	2	3	4	5
5	Products are lunched through banking should be apart from interest that is prohibited in Islam.	1	2	3	4	5
6	Alternatives of interest (Riba) are positively accepted through Islamic regulations.	1	2	3	4	5
7	Taking interest is not preferred in Islam.	1	2	3	4	5

Conceptual dilemma in proper invests and selection: _____

8	"It is believed that people to make deposit in Islamic banking, it is accepted to use that money for Islamic activities purely."	1	2	3	4	5
9	People invest in deposit to those sectors that are beneficiary for the people in accordance with Islam.	1	2	3	4	5
10	Loans are issued by Islamic commercial bank to those sectors are accepted by Islam.	1	2	3	4	5
11	Through the Islamic banking, investments are more safety than other non-Islamic bank.	1	2	3	4	5
12	The Islamic bank tells me exactly when services will be performed.	1	2	3	4	5

The policy of Profit and loss sharing: _____

13	People like to take types of loan from bank to which profit and loss would be shared by lender and borrowers.	1	2	3	4	5
14	In Islamic banking there is no interest rate for loan, that's why it is helpful for needy people.	1	2	3	4	5
15	Quard-e-hasan or interest free loan is provided to the poor and needy student through Islamic banking to follow the Islamic sentiment.	1	2	3	4	5
16	I believe that I can trust my current Islamic bank because the company will not try to cheat me.	1	2	3	4	5

Customer's loyalty towards Islamic banking: _____

17	Using the Islamic bank enhances my self-confidence.	1	2	3	4	5
18	My Islamic bank has the overall capabilities that I need.	1	2	3	4	5
19	My choice to use this Islamic bank was a wise one.	1	2	3	4	5
20	Using this Islamic bank has been a good experience.	1	2	3	4	5
21	I feel that I can rely on my current Islamic bank services to serve me well.	1	2	3	4	5
22	I am satisfied with this Islamic bank.	1	2	3	4	5

APPENDIX - 2

SPSS output

Descriptive analysis

gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	M	16	53.3	53.3	53.3
	F	14	46.7	46.7	100.0
	Total	30	100.0	100.0	

age

		Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	25-35	10	33.3	33.3	33.3	
	36-45	13	43.3	43.3	76.7	
	46-55	6	20.0	20.0	96.7	
	56-65	1	3.3	3.3	100.0	
	Total	30	100.0	100.0		

income per month

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10000-20000	2	6.7	6.7	6.7
	21000-30000	9	30.0	30.0	36.7
	31000-40000	11	36.7	36.7	73.3
	41000-50000	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

Hypothesis testing & analysis

Customer switchover to Islamic banking:

Reliability Statistics

Cronbach's Alpha	N of Items
.676	3

Religious concern about interest:

Reliability Statistics

Cronbach's Alpha	N of Items
.021	3

Conceptual dilemma in proper invest and selection:

Reliability Statistics

Cronbach's Alpha	N of Items
.656	5

The policy of profit and loss sharing:

Reliability Statistics

Cronbach's Alpha	N of Items
.399	4

Customer's loyalty towards Islamic banking:

Reliability Statistics

Cronbach's Alpha	N of Items
.993	6

Correlation analysis

Correlations

		customers switchover to Islamic banking	religious concern about interest
customers switchover to Islamic banking	Pearson Correlation	1	.198
	Sig. (2-tailed)		.295
	N	30	30
religious concern about interest	Pearson Correlation	.198	1
	Sig. (2-tailed)	.295	
	N	30	30

Correlations

			customers switchover to Islamic banking	religious concern about interest
Spearman's rho	customers switchover to Islamic banking	Correlation Coefficient	1.000	.263
		Sig. (2-tailed)	.	.161
		N	30	30
	religious concern about interest	Correlation Coefficient	.263	1.000
		Sig. (2-tailed)	.161	.
		N	30	30

Correlations

		customers switchover to Islamic banking	conceptual dilemma in proper invests and selection
customers switchover to Islamic banking	Pearson Correlation	1	.130
	Sig. (2-tailed)		.495
	N	30	30
conceptual dilemma in proper invests and selection	Pearson Correlation	.130	1
	Sig. (2-tailed)	.495	
	N	30	30

Correlations

			customers switchover to Islamic banking	conceptual dilemma in proper invests and selection
Spearman's rho	customers switchover to Islamic banking	Correlation Coefficient	1.000	.089
		Sig. (2-tailed)	.	.641
		N	30	30
	conceptual dilemma in proper invests and selection	Correlation Coefficient	.089	1.000
		Sig. (2-tailed)	.641	.
		N	30	30

Correlations

		customers switchover to Islamic banking	the policy profit and loss sharing
customers switchover to Islamic banking	Pearson Correlation	1	.020
	Sig. (2-tailed)		.915
	N	30	30
the policy profit and loss sharing	Pearson Correlation	.020	1
	Sig. (2-tailed)	.915	
	N	30	30

Correlations

			customers switchover to Islamic banking	the policy profit and loss sharing
Spearman's rho	customers switchover to Islamic banking	Correlation Coefficient	1.000	.143
		Sig. (2-tailed)	.	.451
		N	30	30
	the policy profit and loss sharing	Correlation Coefficient	.143	1.000
		Sig. (2-tailed)	.451	.
		N	30	30

Correlations

		customers switchover to Islamic banking	customers loyalty towards islamic banking
customers switchover to Islamic banking	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.000
	N	30	30
customers loyalty towards Islamic banking	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.000	
	N	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

Correlations

			customers switchover to Islamic banking	customers loyalty towards islamic banking
Spearman's rho	customers switchover to Islamic banking	Correlation Coefficient	1.000	1.000**
		Sig. (2-tailed)	.	.
		N	30	30
	customers loyalty towards Islamic banking	Correlation Coefficient	1.000**	1.000
		Sig. (2-tailed)	.	.
		N	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

Regression analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.198[a]	.039	.005	2.12405

a. Predictors: (Constant), religious concern about interest

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta			
1 (Constant)	21.634	3.053		7.087	.000
religious concern about interest	.251	.235	.198	1.068	.295

a. Dependent Variable: customers switchover to Islamic banking

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.130[a]	.017	-.018	2.14858

a. Predictors: (Constant), conceptual dilemma in proper invests and selection

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta			
1 (Constant)	22.136	3.968		5.578	.000
conceptual dilemma in proper invests and selection	.174	.252	.130	.692	.495

a. Dependent Variable: customers switchover to Islamic banking

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.201[a]	.020	-.035	2.16640

a. Predictors: (Constant), the policy profit and loss sharing

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	24.443	3.969		6.158	.000
	the policy profit and loss sharing	.021	.194	.020	.107	.915

a. Dependent Variable: customers switchover to Islamic banking

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.160^a	.013	-.035	2.16656

a. Predictors: (Constant), customers loyalty towards Islamic banking

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	25.140	3.177		7.913	.000
	customers loyalty towards islamic banking	-.018	.203	-.016	-.087	.932

a. Dependent Variable: customers switchover to Islamic banking