

MAF010

**ISLAMIC BANKING IN SOUTH AFRICA: AN EXPLORATORY STUDY
OF PERCEPTIONS AND BANK SELECTION CRITERIA**

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ABSTRACT

The growth of Islamic banking and finance as an alternative financial management model is flourishing in new regions. One market opening up to Islamic banking and finance is Africa, as the appetite for financial products that comply with *Shariah* is increasing in a number of countries on the continent, mainly in the sub-Saharan region.

As a new democratic state, South Africa is emerging as a significant actor on the African continent and internationally. Islamic banking could be a vehicle for promoting a culture of entrepreneurship and for financing infrastructure projects that could contribute positively to the growth of the South African economy. As a result, South Africa has the potential to position itself as a leading Islamic finance hub, creating more opportunities for foreign investment and trade and new business partnerships.

For the true benefits of Islamic banking to be realised, however, it is important that the practice be well understood by constituents and that perceptions of Islamic banking be well managed. The purpose of this research is to study perceptions of Islamic banking in South Africa. More particularly, the research seeks to explore the level of awareness of the culture of Islamic banking on the part of South Africans.

A comparative quantitative study was conducted. The research was descriptive in nature, exploring the perceptions and attitudes towards

Islamic banking, as well as the criteria used by Muslims and non-Muslims when selecting a bank.

Keywords: Islamic banking, *Shariah*, South Africa, growth, opportunities, perceptions, awareness, bank criteria

INTRODUCTION

Islamic banking and finance are establishing themselves as viable alternatives to conventional interest-based banking and financing (Farook et al., 2011, Samad et al., 2005). Islamic banking refers to a system of banking or banking activity that is consistent with *Shariah* (Islamic Law) principles and guided by Islamic economics (Kolakowski, 2012). Unlike conventional commercial banks, Islamic banks undertake their operations without paying or receiving interest (Karbari et al., 2004), and on an equity-participation system in which a predetermined rate of return is not guaranteed (Hamid and Azmin, 2001).

The growth of Islamic finance as an alternative financial management model is also flourishing in Africa. With a Muslim population of about 495 million, the continent holds promising growth opportunities for Islamic finance (Abdiseid, 2011). Notably South Africa, as a new democratic state, is emerging as a significant actor on the African continent and internationally. It has been identified together with India, Brazil and China as among the fastest growing developing economies, and Islamic enterprises are firmly integrated in this developing process (Badroen, 2008). South Africa's robust regulatory and legislative structures, strict risk

management frameworks, as well as governance and compliance structures, make it a possible springboard for companies into the rest of the continent.

The basic principle of Islamic banking is the prohibition of *riba* (interest), which is the additional amount that is payable to the supplier of funds in return for the utilisation of the funds. To charge interest from someone who is forced to borrow to meet his essential consumption requirement is considered an exploitive practice in Islam. Since *riba* cannot be used in financial transactions, profit and loss-sharing (PLS) arrangements and risk-sharing investments are used in Islamic banking as alternative methods for financial transactions. Under PLS schemes, the rate of return to depositors is uncertain and only known after actual profits are accrued from the productive use of financial assets (Lee, 2001, Saini et al., 2011, Akram et al., 2011, Al-Ajmi et al., 2009). In conventional banking, however, the major source of profit is the difference in interest rate at which the banks pay the depositor, and the rate at which the banks lend to companies and entrepreneurs (Hassan and Kabir, 2011). Islamic banking derives its inspiration and guidance from the edicts of Islam and has to conduct its operations strictly in accordance with the directives of *Shariah* (a set of rules and laws governing the economic, social, political and cultural aspects of Islamic societies). The core of *Shariah* laws originate from the rules dictated by the Quran and the practices and explanations rendered by Prophet Muhammad Peace Be Upon Him (PBUH), Hadith, Qiyas, Ijma and Ijtihad (Gait and Worthington, 2008, Iqbal and Mirakhor,

1999, Noman, 2002, Mumu and Guozho, 2012, Abedniya et al., 2011, Mirza and Halabi, 2003). Although the avoidance of interest had been thought to be a prime concern for Muslims only, the undeniable success and growth of Islamic financial services has been its ability to attract a large number of non-Muslim consumers from all over the world (Muhamad et al., 2012, Mumu and Guozho, 2012), and is now increasingly found elsewhere, including developing countries. This is mainly due to the ethical aspect of Islamic banking (Mumu and Guozho, 2012).

OBJECTIVE OF THE STUDY

Broadly, this research seeks to shed light on the awareness of Islamic banking by both Muslims and non-Muslims in South Africa. It explores the perceptions of Islamic banking by these two broad groups and considers whether Muslims and non-Muslims value certain banking attributes and qualities differently. Accordingly, this research was adapted from an international study to provide a comparative analysis from a developing economy perspective. The outcome of this comparative study, which was exploratory in nature, will provide useful insight into awareness of the principles of Islam relating to banking and finance and the general culture of Islamic banking, in addition to comparing the bank selection criteria of Muslims and non-Muslims.

In this context the following three questions were formulated:

Question 1

Will Muslims, in contrast to non-Muslims, be more aware of the culture of Islamic banking and finance and, as a consequence, more aware of the meaning of fundamental terms used in Islamic banking and finance?

Question 2

Are Muslims, in contrast to non-Muslims, more aware of the principles and methods of Islamic banking?

Question 3

Will there be significant differences between Muslims and non-Muslims in the ranking of the certain bank selection criteria?

LITERATURE REVIEW

The Quran sets out its notions of equity, justice, fairness, morality and many other values which underpin the entire Islamic system. The Quran states that Allah (SWT) created and owns everything (Iqbal and Mirakhor, 1999, Lovells, 2004, Farook et al., 2011). Man, therefore, holds wealth on trust for Allah (SWT) and must carry out his duties as trustee in the manner prescribed by Allah (SWT). The acceptance of Allah (SWT) as the role of caretaker to mankind has higher economic and social dimensions, that is, to ensure that no one is disadvantaged in his enjoyment of creation, whether in the marketplace, in the community, or at worship (Ackermann and Jacobs, 2008). Therefore, the purpose of human life in

Islam is to look for the rewards and favours of Allah (SWT) and every activity, including economic activities, will be undertaken to attain such a purpose (Khoirunissa, 2003).

The feature differentiating the Islamic economic system from a conventional system is that the ultimate source of rules is not society but “the Law Giver” – Allah (SWT) (Lovells, 2004). The rules of the *Shariah* cover resource allocation, production and exchange, and the distribution of resulting income and wealth. All dealings, transactions, business approaches, product features, investment focus and responsibilities are derived from the *Shariah*. The foundation of the Islamic bank is based on the Islamic faith and must stay within the limits of Islamic law or the *Shariah* in all of its actions and deeds (Rahman, 2007). According to the *Shariah*, Islamic financial institutions and modes of financing are based strictly on the following principles:

Transactions must be free of interest (*riba*) and debt-based financing must be eliminated; goods and services that are illegal (*haram*) from the Islamic point of view cannot be produced or consumed, such as gambling, drugs, armaments, tobacco, alcohol and pork. Activities or transactions involving speculation (*gharar*) must be avoided; *zakaat* (the compulsory Islamic tax) must be paid; there is a prohibition on monopoly and hoarding and an emphasis on risk-sharing and consideration of justice (Samad et al., 2005, Gait and Worthington, 2008, Thambiah et al., 2011, Al-Ajmi et al., 2009, Ranjbar and Sharif, 2008, Qorchi, 2005, Paino et al., 2011, Subhani et al., 2012, Abedniya et al., 2011, Farook, 2007, Sairally, 2005). The

conventional financial system focuses primarily on the economic and financial aspects of transactions, while the Islamic system places equal emphasis on the ethical, moral, social and religious dimensions to enhance the equality and fairness for the good of society as a whole (Hassan and Kabir, 2011, Iqbal, 1997). An Islamic firm is believed to be distinctive in its behaviour and it cannot be guided by the single objective of profit maximisation (Sairally, 2005). Thus, equitable distribution of income and wealth, and increased participation of the Muslim community in the economy are important social and ethical motivations of Islamic banking. Islam recognises that capital is not costless and the use of capital has to be compensated in some alternative form to interest. Thus, profit and loss-sharing (PLS) arrangements are used in which the rate of return on financial assets is undetermined prior to financial transactions between depositors and banks. The actual rate of return is determined only after the actual profits and losses are accrued from the productive use of financial assets (Lee, 2001, Imam and Zubairu, 2011, Ahmad, 2000). In Zantioti (2009) it is noted that there are five basic categories of financial contracts that Islamic banks offer: (1) non-interest-bearing demand deposit such as cheque accounts (2) *mudaraba* (3) *murabaha* (4) *musharaka* and (5) *ijara*. While the main types of Islamic financial instruments are conceptually simple, they may become complicated in practice as some banks combine aspects of two or more types of instruments to suit customer requirements (Qorchi, 2005). Furthermore, being in competition with mainstream financial institutions, the Islamic financial institutions are keeping pace with new financial developments, with Islamic alternatives to

hedge funds, securitisation and market indices being recent additions to the industry (Sairally, 2005).

Perceptions of Islamic banking

It is vital for Islamic banking service providers to know the psychological and/or behavioural attitudes of both the potential Muslim and non-Muslim customer toward the Islamic banking services that are currently available (Haque, 2010). In their study in Bahrain, Metawa and Almosawi (1998) concluded that the most important factor in determining the attitudes of Islamic bank customers was religion, then profitability. In addition, most Bahraini bank customers were satisfied with the quality of Islamic bank services. Based on the study done in Jordan, Naser et al. (1999) concluded that bank reputation and religious beliefs were the most important factors that motivate the use of Islamic bank services. Their findings, however, also indicate that some of the respondents were totally ignorant about some of the specific terms used in Islamic banking. In Singapore, Gerrard and Cunningham (1997) conducted their study in the context of a banking system where no Islamic banks were yet present and showed that non-Muslims were completely unaware of Islamic methods of finance, while Muslims fared little better. This implies that Islamic banks operating in both Muslim and non-Muslim countries need to educate their Muslim clients about Islamic banking (Naser et al., 1999). According to Karbari et al. (2004) it would be plausible to suggest that most of the potential customers of Islamic banks in the UK either tend to be oblivious to Islamic banking or try to avoid it. This can perhaps be observed not only

in the non-Muslim markets, but also in the Muslim markets. There are two main reasons for such reactions or attitudes. Firstly, the idea of Islamic banking is relatively new and many are unaware of it and, secondly, most people (Muslims and non-Muslims) have been accustomed to the conventional banking system and are not prepared to take risks with their hard-earned income (Karbari et al., 2004). What needs to be noted is that very little is known about customer perceptions and awareness in non-Muslim countries (Gerrard and Cunningham, 1997). In a country like South Africa, with a majority non-Muslim population, Islamic banks have to compete with the long-established conventional banks in a dual banking system, and thus customers' positive perceptions are deemed to be more imperative for the Islamic banks. In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment, particularly in a dual-banking system like South Africa, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers (Dusuki and Abdullah, 2007).

Awareness of Islamic banking

An important characteristic for any adoption of innovative service or product is creating awareness among consumers about that service or product (Agarwal et al., 2009). Hamid and Azmin (2001) focused on the awareness of Malaysian consumers of Islamic banking within the context of the wider promotion of Islamic education. They found that most

Malaysians did not differentiate between Islamic and conventional bank products and services, although the majority had sufficient knowledge of the existence of and services offered by Malaysian Islamic banks. Moreover, even though half the respondents currently dealt with Islamic banks, they were still in need of additional understanding of Islamic bank products. Haron et al. (1994), who pioneered the research on bank patronage in Malaysia, found that almost 100% of Muslims and 75% of non-Muslims were aware of the existence of Islamic banks. Moreover, most of them wished to have a relationship with these banks if they had a complete understanding of this system. The study by Abdullah et al. (2012) has also confirmed that the level of acceptance by non-Muslims of banking services is high. The results also indicated that the majority of study respondents have both Islamic and conventional bank accounts. This phenomenon is in line with the wide support worldwide for Islamic banking and is consistent with the study by Haron et al. (1994), which indicated that non-Muslim respondents would consider establishing a banking relationship with an Islamic bank if they had sufficient information on its banking operations. In Adelaide, Australia, a city with a majority non-Muslim population, Rammal and Zurbruegg (2007) found that the majority of respondents surveyed were interested in and prepared to use Islamic methods of finance, but did not know how they functioned. In other words, even though they were aware of the availability of Islamic financial products, they are still unaware of basic Islamic banking principles and methods. Karbari et al. (2004) noted that it is important for Islamic banks to educate people about what they offer and that the Islamic banks need

to be heavily involved in marketing their products and services (Saleh Salman and Zeitun, 2006).

Criteria for the selection of a bank

Due to competition among retail banks and more sophisticated customer demand, it has become essential for banks to determine the factors that are relevant to a customer's choice. A bank's performance is a function of a number of determinants. One of these determinants is the client base. Consumers from any religion will have a common perception when weighing the factors for selecting a bank. In line with this important detail, Islamic banks should not dwell on the religious motive factor as the only basis for attracting more customers (Subhani et al., 2012). Islamic banks need to increase their client base and retain all the clients they have won. Consequently, banks operating in a competitive environment should be aware of the criteria used by consumers to choose their bank (Al-Ajmi et al., 2009), as the intense competition in the banking services industry presents a big challenge to the profitability of retail banking institutions (Hedayatnia and Eshghi, 2011). Kugyte and Slisburyte (2005) report that findings from previous research studies demonstrate that bank selection and choice criteria have evolved from bank location (1980s) to convenience in ATM locations and electronic services. Financial issues like fees charged and interest rates paid are of high importance because they are the essence of any financial product. These differences could be explained by different market segments analysed by age from students to mature customers, service usage (beginners or advanced), income level

and by other demographical variables (Kugyte and Sliburyte, 2005). Muslim and non-Muslim customers of Islamic banks seriously consider whether the banks comply with Islamic *Shariah* rules in all stages of banking activities (Naser et al., 1999, Haron et al., 1994, Metawa and Almosawi, 1998, Ahmad and Haron, 2002). The variables deemed important under religious constructs include compliance with *Shariah* rules, offering of *Shariah* compliant services, offering of interest-free loans etc. Previous empirical studies have, however, also shown that Islamic belief is neither the only reason, nor the primary reason, for choosing Islamic banking, and is not even part of the selection criteria in some instances (Rashid and Hassan, 2009, Erol and El-Bdour, 1989, Haron et al., 1994, Ahmad and Haron, 2002), despite the popular claim that Islamic banks are true reflections of Muslim lifestyles and practices, and that clients respect and believe in their principles (Dusuki and Abdullah, 2007). Haron et al. (1994) concur with these findings based on the results of their study done with Muslims and non-Muslims in Malaysia. They report that Islamic banks should not overemphasise or rely on the religion factor as a strategy in its effort to attract more customers, as there was no significant difference in the selection criteria between Muslims and non-Muslims who patronise commercial banks. As can be inferred by the abovementioned studies, the Islamic aspect or the conformity of Islamic banks with the *Shariah* law is not the only factor that motivates customers to adopt the Islamic banking services, and it may not be the main reason for them choosing their banks (Echchabi and Olaniyi, 2012). Consequently, Islamic bankers can no longer depend on a marketing strategy that attracts pious

and religious customers who might only be concerned about the Islamicity of the financial products. The rating of profit motives as a primary factor in selecting Islamic banks suggests that these banks should put more emphasis on a fair return on funds deposited (Erol and El-Bdour, 1989) and the focus should be more on the provision of quality, efficient services and product and services innovations (Doraisamy et al., 2011). There is also a need to intensify public education on and awareness of the distinctive characteristics of Islamic banks and how they may profitably suit the interest of customers in their financial dealings (Dusuki and Abdullah, 2007). If Islamic banking is to be accepted and used by the target market, the banks will have to understand their customers and make their products and services easily available (Saini et al., 2011). Therefore, banks will need to mount marketing campaigns and live up to the picture they portray in order to attract and retain customers (Gerrard and Cunningham, 2001). As the economic environment is changing rapidly and customers are becoming more demanding and sophisticated, it has become important for financial institutions to determine the factors that are pertinent to the customers' selection process. Thus, the quest lies in determining the basis on which customers, both depositors and borrowers, make their selection when looking for a bank (Rehman and Ahmed, 2008). This could be a valuable input as it could encourage local banks to spread their wings in finding wider markets for their Islamic financial products.

RESEARCH METHODOLOGY

For the purposes of this study, data collection was conducted through the use of a structured questionnaire as the study was exploratory in nature. The questionnaire was distributed to respondents in order to understand the environment of chartered accountants registered with SAICA. A purposive random sample was selected and a total of 115 responses were received. A statistical package, SPSS version 21, was used to analyse the data from the questionnaires for this study. The questionnaire comprised four sections and was designed to be easy and quick to complete in order to maximise response rates and accuracy. The first section of the survey instrument was designed to gather information about the samples' socio-demographic status. The second section of the survey instrument contained terms used in Islamic banking and finance and the respondents were asked to indicate if they knew what each term meant (Naser et al., 1999, Ranjbar and Sharif, 2008, Thambiah et al., 2011, Al-Ajmi et al., 2009, Gerrard and Cunningham, 1997). The third section of the survey instrument contained a series of statements or questions that were styled on those used by and published at the end of the study of (Gerrard and Cunningham, 1997, Erol and El-Bdour, 1989, Ranjbar and Sharif, 2008). In the fourth section of the survey instrument the respondents were be asked to indicate by means of a Likert-type scale (1 = No; 2 = Low; 3 = Medium; 4 = High) how they viewed a series of factors when selecting a bank. Twenty-seven factors were listed in this section many which were adapted from (Al-Ajmi et al., 2009, Bhatti et al., 2010, Hedayatnia and Eshghi, 2011, Naser et al., 1999, Saini et al., 2011, Rehman and Masood, 2012, Gerrard and Cunningham, 1997, Ranjbar and Sharif, 2008, Erol and

El-Bdour, 1989, Haron et al., 1994, Ahmad et al., 2008), with some additional items to represent issues like new product technology and religious and social responsibility.

RESULTS AND DISCUSSION

The culture of Islamic banking and finance

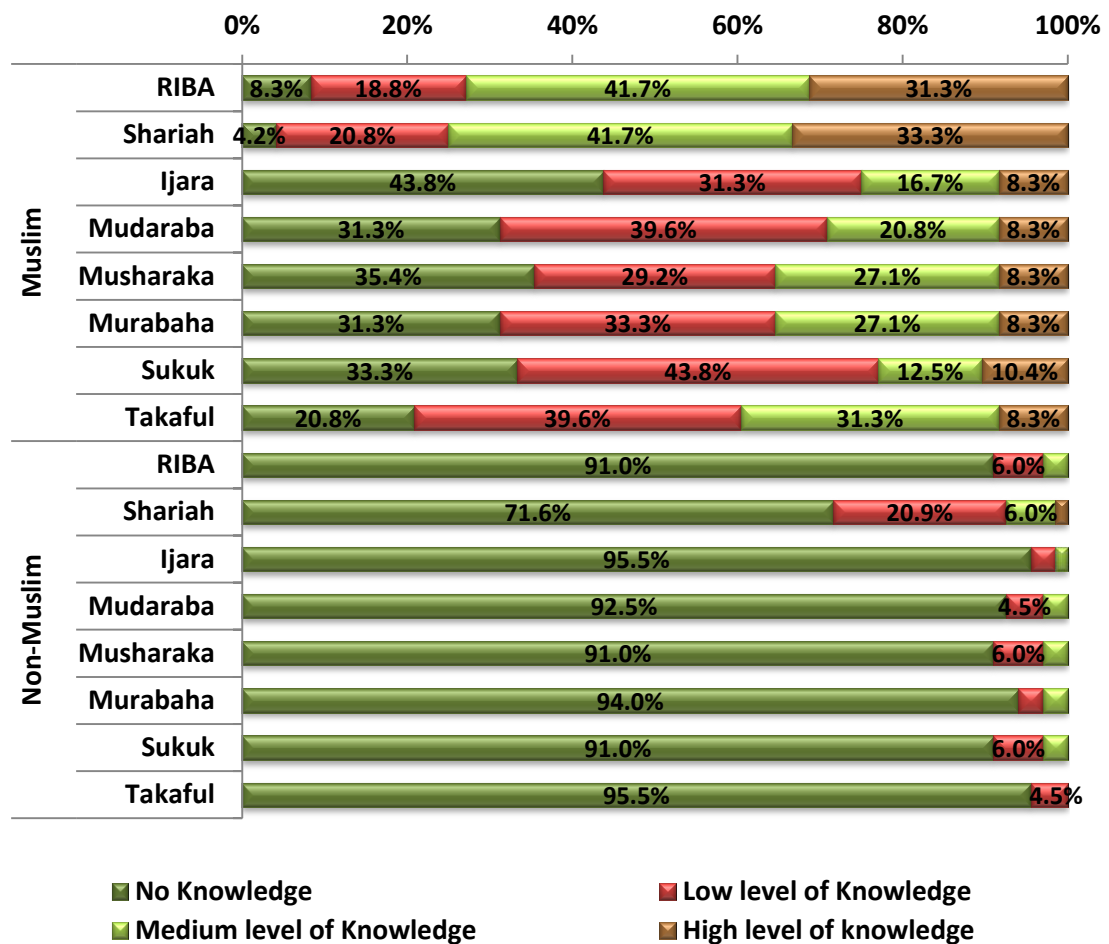


Figure 2: Distribution of respondents among knowledge levels by religion

As shown in Figure 2, most non-Muslim respondents (in excess of 90%) had no knowledge of the meaning of fundamental terms used in Islam and Islamic banking, with the exception of the term *Shariah* (71.6%). Figure 2

also highlights that a medium to high level of knowledge was reported by Muslims regarding the meaning of the Islamic terms *riba* (73%) and *Shariah* (75%). However, there is a no to low level of knowledge with respect to Islamic banking terms such as *ijara* (75.1%), *mudaraba* (70.9%), *musharaka* (64.6%), *murabaha* (64.6%), *sukuk* (77.1%) and *takaful* (60.4%). With regard to Islamic banking terms, Muslims, in comparison to non-Muslims, have a slightly higher mean response with regard to knowledge of terms, but are not significantly different. This is surprising as one would assume that Muslims would have more in-depth knowledge of terms used in Islam and Islamic banking. It is also not surprising that there is the low level of knowledge of Islamic banking terms by non-Muslims, considering the non-Islamic environment of the country. The Islamic banking terms *sukuk* and *takaful* are relatively new products being offered in South Africa, thus the mean response is favourable even though Muslims rank much higher than non-Muslims. From this it is obvious that the terms *riba* and *Shariah* seem to be the most popular terms compared to the other terms used in Islam and Islamic banking. These low levels of knowledge about the culture of Islamic banking and knowledge of Islamic terms reveal a weakness for existing Islamic banks and any potential Islamic banks contemplating setting up operations, or conventional banks wanting to start Islamic windows. For these banks, adequate marketing and advertising campaigns would have to be carried out to provide explanations of terms used in Islam and Islamic banking. This further emphasises that there is huge growth potential for Islamic

banking and finance for both Muslims and non-Muslims in South Africa, especially as it is seen as an untapped market.

Awareness of the principles and methods of Islamic banking

Table 1: Awareness of principles and methods of Islamic banking

Q3_1 The reasons which motivate people to deposit their money at an Islamic bank are:	Muslim		Non-Muslim		TOTAL	
	N	%	N	%	N	%
Religious reasons solely	25	52.1	27	40.3	52	45.2
Profitability reasons solely	3	6.3	2	3.0	5	4.3
Values and principles relating to Islamic banking	19	39.6	19	28.4	38	33.0
Religious and profitability reasons combined	0	0.0	0	0.0	0	0.0
Reputation and image	1	2.1	2	3.0	3	2.6
I do not know	0	0.0	17	25.4	17	14.8
Total	48	100.0	67	100.0	115	100.0
Q3_2 In case an Islamic bank announced that it had no profit to distribute on investment and savings deposits for any one year, if you were a depositor, would you						
Keep deposit at same/different Islamic bank, since placing it with non-Islamic bank contravenes Islamic principles	25	52.1	10	14.9	35	30.4
Withdraw all deposits at once and switch them to one or more banks which guarantee a return	7	14.6	27	40.3	34	29.6
Consult relatives and neighbours, the decide what to do	2	4.2	4	6.0	6	5.2
Consult an Islamic scholar for advice	10	20.8	4	6.0	14	12.2
I do not know	4	8.3	22	32.8	26	22.6
Total	48	100.0	67	100.0	115	100.0
Q3_3 If I unexpectedly acquired a substantial sum of money, I would						
Deposit the money in a commercial bank which guarantees a return in accordance with an interest-based system	1	2.1	32	47.8	33	28.7
Deposit the unexpected sum in an Islamic bank operating in accordance with the profit-loss-sharing system	9	18.8	0	0.0	9	7.8
Invest the money, but not deposit it into an account at either an Islamic or non-Islamic bank	14	29.2	14	20.9	28	24.3
Invest the money with an Islamic Asset manager	20	41.7	1	1.5	21	18.3
Invest the money in the stock exchange	4	8.3	20	29.9	24	20.9
Total	48	100.0	67	100.0	115	100.0

The findings of the analysis using religious criteria as the reasons that motivate people to deposit their money at an Islamic bank suggests that both Muslims and non-Muslims believe religious reasons to be the primary criterion for selecting Islamic banking. The religious reason is proportionally more important for Muslims with 52.1 percent as opposed to non-Muslims with 40.3 percent. However, profitability reasons ranked low for both Muslims and non-Muslims and did not appear to be a primary reason for either religious group.

None of the respondents supported the idea that religious and profitability reasons combined was a reason for depositing money in an Islamic bank. This could perhaps be explained by the fact that Islamic banking fulfils religious obligations only, as evident with Muslims ranking higher at 52.1 percent than non-Muslims at 40.3 percent. What is also interesting to note is that values and principles relating to Islamic banking ranked as the second most important criterion for the selection of Islamic banking services. Values and principles relating to Islamic banking were more important for Muslims (39.6%) than non-Muslims (28.4%).

Based on the results in Table 1 a large portion of Muslim respondents (52.1%) would keep their deposits at the same or a different Islamic bank, possibly since placing deposits in a conventional bank would contravene Islamic principles. On the other hand, this is a less popular reason for non-Muslims, with the option being favoured by non-Muslims (40.3%), as expected, being to withdraw all deposits at once and switching to one or more banks that guarantee a return. Only 14.6 percent of Muslims would

switch banks for this reason. One may infer from this that Muslims would be far more loyal to the Islamic banking movement if an Islamic bank performed poorly in any one year (Gerrard and Cunningham, 1997). As indicated in the above discussion, 20.8 percent of Muslims would consult an Islamic scholar for advice and this can also be linked to the fact that religion is the sole reason for 52.1 percent of Muslims banking with an Islamic bank.

Interestingly, the findings also highlight that, although 40.3 percent of Muslims and 28.4 percent of non-Muslims believe that religious factors and the values and principles relating to Islamic banking are important reasons for people depositing their money in Islamic banks, only 6 percent of non-Muslims suggested consulting an Islamic scholar for advice in the case of no profit distribution, and only 14.9 percent thought that customers would keep the deposit with the same or a different Islamic bank. Moreover, 20.8 percent of Muslims would consult an Islamic scholar for advice. In both groups the proportion of respondents who would consult with relatives and neighbours before making a decision about their deposits was small.

Based on the findings shown in Table 1 there appears to be a significant difference between Muslims and non-Muslims in terms of what they would do with a sum of money. The findings suggest that the most popular choice among Muslims would be, firstly, investing the money with an Islamic asset manager (41.7%) and secondly, investing the money, but not depositing it into either an Islamic or non-Islamic bank (29.2%). These

options may be seen as not contravening the principles of Islam and Islamic banking as both options do not involve *riba* or interest. In comparison, the first choice among non-Muslims is depositing the money in a commercial bank guaranteeing an interest return (47.8%) and the second choice being to invest the money in the stock exchange (29.9%). The proportion of respondents who would invest the money but not deposit it in either an Islamic or conventional bank is similar for both Muslims and non-Muslims, with 29.2 percent and 20.9 percent respectively.

Table 2: Agreement with statements about Islamic banking

		Strongly agree	Agree	Disagree	Strongly Disagree	Total
Q3_4 To what extent do you agree that if more branches of Islamic banking institutions open up throughout the country, more people will utilise the services provided by these banks.	Muslim	15 34.1%	24 54.5%	5 11.4%	0 0.0%	44
					Mean	1.77
	Non-Muslim	3 7.1%	15 35.7%	21 50.0%	3 7.1%	42
					Mean	2.57
Q3_5 To what extent do you agree that the granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner?	Muslim	23 51.1%	13 28.9%	5 11.1%	4 8.9%	45
					Mean	1.78
	Non-Muslim	8 14.8%	22 40.7%	20 37.0%	4 7.4%	54
					Mean	2.37
Q3_6 To what extent do you agree that if the pre-determined interest rates charged on loans is eliminated (provided for housing and purchasing of cars) that the financing on the basis of profit-loss-sharing between the bank and the borrower will be advantageous to the borrower	Muslim	15 36.6%	17 41.5%	8 19.5%	1 2.4%	41
					Mean	1.88
	Non-Muslim	5 10.9%	24 52.2%	16 34.8%	1 2.2%	46
					Mean	2.28

The analysis for question four in Table 2 reveals that the majority of Muslims (88.6%) agreed that if more branches were to open up in the country, more people would make use of their services compared to 42.8

percent of non-Muslims. This, in combination with an increase in the awareness of the principles and methods of Islamic banking and finance, could result in an increase in patronage of Islamic banks in South Africa. On the other hand, 57.1 percent of non-Muslims disagree that if more branches of Islamic banks were to open up in the country, more people would make use of their services.

The results of the fifth question indicate that while 57.4 percent of the respondents agreed with this statement, 29.7 percent of the sample disagreed with it. While 80 percent of Muslims agreed with this question, only 55.5 percent of non-Muslims agreed. This could imply that it is not an important consideration for non-Muslims, while Muslims are in agreement as it could possible link to the charity obligations of all Muslims. Charity or *zakaat* as it is called, is one of the five pillars of Islam.

The results of the sixth question of Section 3 found that 53.1 percent of the respondents agreed that the elimination of predetermined interest rates charged on loans would be advantageous to the borrower, while 22.6 percent of the sample disagreed with the statement. The majority of Muslims (78.1%) agreed that if predetermined interest rates charged on loans were eliminated, financing on the basis of profit-loss-sharing between the bank and borrower would be advantageous to the borrower, compared to 63.1 percent of non-Muslims. Non-Muslims ranked slightly higher on this score than the previous two scenarios, which could suggest that they were more in agreement with this. However, based on the findings it could also imply that the awareness of all the respondents,

especially non-Muslims, regarding the principles and methods of Islamic banking, was not as high as expected.

Bank selection criteria

Table 3: Ranking of bank selection criteria by religion

Q No		Muslim		Non-Muslim		t
		Mean	Rank	Mean	Rank	
1	Provision of fast and efficient service	3.875	1	3.746	3	1.280
2	Confidentiality of bank	3.833	2	3.776	1	.714
3	Confidence in bank's management (skills & expertise)	3.830	3	3.776	1	.606
5	Bank's reputation and image	3.813	4	3.657	5	1.695
6	Friendliness of bank personnel	3.681	5	3.552	10	1.120
15	Financial strength and soundness	3.646	6	3.742	4	-.779
11	Lower bank charges/service fees	3.617	7	3.597	8	.169
13	Fulfilment of religious obligations	3.563	8	2.045	26	9.220**
25	Availability & location of ATMs and cell phone banking	3.500	9	3.385	12	.713
4	A wide range of products & services provided	3.479	10	3.227	13	1.996*
10	Convenient location & easily accessible	3.447	11	3.463	11	-.104
24	Innovation in product development	3.417	12	3.194	14	1.670
27	Availability of new banking methods such as rewards programs e.g. eBucks, air miles	3.417	12	3.000	18	2.806**
9	Availability of credit on favourable terms	3.375	14	3.612	7	-1.728
22	Social responsibility to the community	3.250	15	2.955	19	2.011*
8	Lower interest charges on loans	3.234	16	3.657	5	- 2.875**
26	Recommendation of religious leaders	3.229	17	1.909	27	7.681**
7	Financial counselling services provided (including estate services)	3.222	18	3.104	15	.716
18	Recommendation/advice of friends	3.125	19	2.881	20	1.939
17	External appearance of bank	3.125	19	2.833	21	1.741
19	Available parking space nearby	3.125	19	2.642	23	2.537*
23	Environmental practice and impact	3.063	22	3.075	16	-.081
20	Counter partitions in bank	2.875	23	2.463	24	2.172*
21	Recommendation/advice of relatives	2.708	24	2.652	22	.336
16	Mass media advertising	2.646	25	2.439	25	1.233
12	Higher interest payment on savings	2.500	26	3.582	9	- 5.879**
14	Overdraft privileges on current account	2.362	27	3.030	17	- 3.511**

Ratings were based on a four-point scale, where 4 = very important; 3 = important; 2 = not important; and 1 = of no importance

Significance levels are: *p < 0.05; **p < 0.001

Based on the findings shown in Table 3, the five most important criteria considered by Muslims are provision of fast and efficient service, confidentiality of bank, confidence in bank's management (skills and expertise), bank's reputation and image and friendliness of bank personnel. Interestingly, for non-Muslims, the first four criteria are in a similar sequence to that of Muslims, with the fifth important criteria being financial strength and soundness. These findings suggest close similarities between Muslims and non-Muslims in South Africa when considering a financial services provider where fast and efficient service is of the greatest importance. These findings could also suggest that both Muslims and non-Muslims value their time highly and expect their banking transactions to be completed as quickly as possible. In this particular type of industry where the products and services are similar, the differentiation from a competitor would be how fast and efficient the service is provided in order to obtain the competitive advantage.

For Muslims, the five criteria not considered important at all are higher interest payment on savings, overdraft privileges on current account, mass media advertising, counter partitions in bank, and recommendation/advice of relatives. The higher interest on savings and overdraft privileges on current accounts are not an important criterion for Muslims, as this criterion is in line with the principles and methods of Islamic banking. On the other hand, the five criteria not considered important for non-Muslims are fulfilment of religious obligations, recommendation of religious leaders, counter partitions in bank, available parking space nearby and mass

media advertising. These findings suggest that religion plays no role in the selection of banks, with the religious obligations and recommendations of religious leaders ranking very low. Convenience in terms of counter partitions in bank and available parking space nearby also seem not to be influential in any way, as non-Muslims consider availability and location of ATMs and cell phone banking more important. This could mean that they may not necessarily have the need to physically visit a bank, but rather do their banking by more convenient means. This result is consistent with the fact that Muslims would be more concerned about religious connotations compared to non-Muslims, who appear to be only interested in the financial consequences of their banking. The relative importance of bank selection criteria varies from one country to another depending on age, gender, marital status, occupation, income and background, as well as the type of bank (Islamic or conventional) (Naser et al., 1999). Islamic banks should thus offer more convenient goods and services to customers in order to differentiate themselves from other existing banks. By improving their communications they will have a greater chance of their customers recommending them to others (Echchabi and Olaniyi, 2012).

CONCLUSION

The purpose of Islamic banking is primarily to expand the ring of unity among Muslims and to ensure a fair distribution and utilisation of funds in compliance with Islamic principles and teachings (Abdullah et al., 2012). Despite its name, Islamic banking and finance is fast gaining ground with non-Muslims throughout the world owing to its strict lending principles,

reflecting industry efforts to transcend religious beliefs to gain greater market share. Moreover, since the onset of the global credit crisis that has cast doubt on many Western risk management practices, non-Muslim investors have also been looking for less risky alternatives (Abdullah et al., 2012).

In contrast to the widespread and extensive analysis of attitudes, perceptions and knowledge relating to conventional financial institution products and services, the parallel analysis of these concerns in Islamic finance is still in its infancy (Gait and Worthington, 2009). This is especially evident in countries where Muslims are in the minority. As Islamic banking is becoming more international and is part of the financial scene in many countries, this should possibly narrow the gap in the availability of published information on Islamic banking and finance. This is, accordingly, a deficiency in the literature, given that the financial services industry has witnessed unprecedented growth during the last decade particularly in the Islamic finance and banking industry which is a fast growing sector that has spread to all corners of the globe. This growth in Islamic finance and banking has also been seen in Africa, and notably in South Africa, with new opportunities arising for the Islamic banking industry as an alternative to conventional interest-based banking, including the dual banking system that is in its evolution phase in many parts of the Middle East and Southeast Asia (Gait and Worthington, 2008). South Africa has begun to widely promote Islamic banking and finance. In the age of globalisation the provision of effective and quality services to customers is a key

determinant in the growth and prosperity of the banking sector. The Islamic financial system is not limited to Muslims only but it is open to anybody who is looking for an alternative to the conventional interest-based system.

This study, although exploratory in nature, provides useful information to academics and those that manage both conventional and Islamic banks in South Africa. It provides an insight into customers' perceptions, attitudes and awareness of Islamic banking, together with the criteria deemed important for bank selection. For academics, the present study makes an important contribution to research in the area of Islamic banking in South Africa, particularly in the context of an important developing economy. For providers of Islamic banking products and services, this study indicates that not enough is being done to educate customers and market their products.

Management at the banks should realise that the dynamics of the financial services industry are changing: with the advent of deregulation, the introduction of sophisticated technology, the internationalisation of competitors and the shift in bargaining power to the customer, the rules of the game have changed. Therefore, the success and survival of Islamic banks will depend on the bankers' ability to understand the customer and his/her needs and to find effective ways to satisfy those needs (Haron et al., 1994).

FUTURE RESEARCH

Future research could focus on the following:

The sample size could be extended to include other professionals, such as doctors, lawyers, pharmacists and engineers, as this could provide better insight into customers' perceptions of and attitudes towards Islamic banking and finance.

The relationship between customers' perceived quality and satisfaction regarding Islamic banking and finance in South Africa could be investigated in order to influence the practices of these institutions.

An equivalent study to the current one could be conducted about two years after Islamic banking has been offered at other conventional banks and more Islamic-based products and services have been introduced, as this could validate the results of the current study.

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