

THE MIGRATION TO ISLAMIC BANKING IN OMAN: CUSTOMER PERCEPTION AND
INTENTION TO SWITCH

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Discussion

Traditionally, banking institutions have been dominating the sector of financial service for many years. Several decades ago, the international banking sector had to cope with deregulation. More recently, banks faced the increased level of competition from both financial institutions and non-banks institutions. Modern customers are becoming more aware of banking systems and are taking greater control of financial institutions. For this reason, the banking sector is facing the issue of bank switching that has already become a global phenomenon. It has been estimated that banks on average lose almost 20% of their customers every year. The global phenomenon makes a negative influence on financial institutions decreasing their profitability, income and reputation.

Customer perception and satisfaction are of vital importance in the modern business environment since they greatly influence their intention to use the service for the second time whereas dissatisfaction is one of the main reasons why customers decide to switch their main bank (Mohsan et al. 2011, p. 263). Effective satisfaction results in customer loyalty that is a measure of how likely a customer is to repeat the use of services. Satisfaction is considered to be a critical scale of meeting customers' demands and needs. Dissatisfied customers tend to tell other people about their negative experiences with a particular bank. Analysis of the relevant literature has shown that the overall number of customers who are going to change their main banks has increased since 2011. 50% of customers find fees and charges the main attrition drivers. Nowadays, customers tend to use the service of several banks (Global Consumer Banking Survey 2012). Moreover, customers may be categorized as related to the criteria of bank selection consisting of personal opinions, knowledge dimensions, attitudes as well as preferences.

Demographic characteristics are used to distinguish the main groups of respondents in a questionnaire which will be useful for later analysis (e.g. gender, age group, occupation status and others). 50.1% of males and 49.9% of females took part in the questionnaire. The research findings show that males and females aged 31-40 formed the largest group of the people surveyed (46.9%). 39.1% of participants are aged 18-30 whereas those who are aged 41-50 and 51 and more represented 11.8% and 2.2%. The majority of customers surveyed held a university degree (49.7%), only 9.6% of participants hold a Masters Degree or higher. Almost half of the people surveyed have General or High Diplomas. Questionnaire results show that almost all participants (94%) were salaried employees having a monthly income 501-1000 Omani Rials (OMR), whereas the rest of the participants were students, self-employed people and others.

Consumers have a variety of choices in banking. Hence, they look for better opportunities and services switching their main banks. It was found that three out of four people would switch the bank in case it did not offer remote deposit capture. In 2005, a University of Auckland undertook a survey showing that 20% of customers were likely to switch their main banks. However, it was noted that such intentions were not usually fulfilled because of switching costs (Steeman 2005). The costs of bank switching include non-financial factors, such as the actual financial switching costs, losing the customer's relationship with the existing bank staff as well as finding a new service provider. The importance of switching costs is based on the influence on market operation, with monopolistic profits, allocative inefficiency, and barriers to entry.

Last year, Aite Group carried out a survey which showed that about 10% customers switched banks in 2011. The main reason why people switched the main bank was fee (Shevlin 2012). Furthermore, the research carried out in New Zealand indicated that 6.1% of people aged 14 and older were going to switch banks. Another research was carried out in Australia. It was

found that 80% of respondents (the total number of participants was 26,000) expressed their desire to change the provider of financial services (Rogers 2007). A more recent survey in the US showed that 10% of respondents would switch their financial institution since they were very dissatisfied. However, difficulties of bank switching prevent them from such actions (Customers Prefer Their Local Branch 2004, p. 7). In the UK, over 14 million of bank customers announced their intentions to move accounts in case the switching process is not so difficult.

The questionnaire provided us with information that people do not tend to switch the main bank (almost 67% of respondents have not switched their main bank during the past 5 years and over 59% are not going to do it in the future). Moreover, respondents claimed that the main reason of switching is customer service issues (10.2%) attractive offers (7.2%) interest rates (6.4%) and others. However, the need for Islamic banking is the main reason among those customers who have the intention to switch their existing bank. It was revealed that almost 59% of customers deal with a single bank for their banking needs. More than half of the respondents claimed that they feel the need to migrate from conventional banking to Islamic banking in spite of the fact that more than 60% present of respondents are satisfied with their existing banks. 56% of participants expressed their intention to migrate to Islamic banking. Hence, it should be noted that faith makes an influence on the customers' behavior and the decision to choose the appropriate banking institution. Literature analysis has shown that awareness of the prevalence in interest-based business deals with traditional banking institutions make a lot of Muslim customers switch to Islamic banks (Omar 2008).

Analysis of the relevant literature has shown that privacy, reputation and standing are the factors which are often taken into consideration while choosing the preferred bank. Swiftiness, competence and responsiveness are also essential (Rose & Marquis 2006). Colgate and Hedge

(2001) stated that three general problems influence the customers' decision to switch. They are service failures (inflexible, mistake, unprofessional, inaccessible), pricing issues (charges, fee, interest rate) and denied services (no advice, denied loan). Bank switching also relates to the way customers are treated including confidentiality, provision of information, facilities, and service issues. According to Gerrard and Cunningham (2000), the decision to change the financial institutions is influenced by the attraction by competitors, involuntary/seldom mentioned incidents, unacceptable behavior, service failures, pricing, inconvenience as well as the attitude or knowledge of staff.

It was also found that the factors which influence customer, decision to switch the main include service quality, advertising rivalry, reputation, pragmatism, pricing. Sometimes it may be a mere spontaneous or involuntary switching (Matthews & Murray 2009). One fourth of the Muslim customers find religion the most essential factor in selecting a bank. However, financial institutions show no discrepancies between Muslim and non-Muslim customers. It has been researched that the difference in the effectiveness of traditional and Islamic banks is insufficient (Suan 2006; Sensarma 2006).

In spite of the fact that there are few official statistics on the Islamic banking size and estimates vary, it is believed that the total volume of Islamic asserts is over US \$500 billion (Vayanos et al. 2008, p. 3). It was found that the growth in the system of Islamic banking has been caused by the customer need in retail banking. They wanted to invest and borrow in accordance with their personal beliefs. However, pricing and service offerings did not let the products of Islamic banking compete with the conventional equivalents.

Over time, the sector of Islamic banking has expanded. Demographic and economic growth, especially in Muslim countries, has caused the need in Shariah solutions. At the same

time, the increase in Islamic banking products has raised the awareness level among customers. It has also raised the intensity of competitiveness in the market. It resulted in the growth of Islamic assets (15-29% annually) for the several past years making Islamic banking one of the most perspective and fast-growing sectors in the global industry of financial services (Vayanos et al. 2008, p. 3).

Literature analysis has shown that the number and size of Islamic banking have grown remarkably since 1990s. Since that time, Islamic banking has been supported by the IMF and the World Bank. It resulted in a more strategic and competitive position in the global financial system. Nowadays, the industry of Islamic banking is represented by more than 250 financial institutions which operate in over 75 countries. Islamic banking is considered to be a very young concept. It is known as interest-free banking that is based on profit and loss sharing. In spite of the fact that Islamic banking is based on the law of Islamic religion, it is not a religious bank and eagerly accepts both Muslim and non-Muslim customers. Islamic banking services are accessible to all individuals irrespective their races and faith as well as people who feel harmony with the Shariah's law principles. Their key element is the no-interest rule. It means that customers can neither earn nor pay loans or interest because the Islamic banking principle is based on the prohibition of any pre-determined interest in business dealings. In addition, all investments should be made on legally and morally approved causes.

The questionnaire results show that 40.7% of respondents take a neutral position concerning full compliance of Islamic banks with Shariah principles. 25% agree with the provided statement, whereas 10.6% strongly disagree. It is believed that Islamic banking is a low cost compared to conventional banking which is less ethical and transparent. However, only 20% of participants agree with these ideas. 26.3% of surveyed people claimed that Islamic bank

products and services are very different from conventional banking products and services.

However, literature analysis has shown contrary results.

It is believed that Islamic banking has a huge potential in Oman. Its operations could capture up to 8% share of system assets in approximately 5 years. This share is supposed to stem mostly from migration from conventional banking services to Islamic ones. Islamic banking in Oman has the opportunity to diversify revenue generation and to strengthen franchises. Oman is famous for its solid operating environment which is able to increase the demand of general credit as well as an appeal to a largely Muslim population. The banking sector of Oman is constantly seeing an upsurge of Shariah-compliant services at conventional financial institutions as well as implementation of financial services which offer Islamic products.

The research results show prove the fact that Islamic banks have a great potential in Oman (28.5% of respondent agree with this idea, 28.9% have a neutral attitude and only 2.8% strongly disagree). More than one third of the respondents is going to migrate to Islamic banking in Oman, only 13.2% reject this idea. It is believed that Islamic banking can be alternative to the conventional banking system (34.1% of the questionnaire participants agree with it, and 26.7% take a neutral position). Almost 50% of respondents support the idea that they will deal with Islamic banks even if the service costs are higher than in conventional banks.

The research has shown that people choose the main bank as it offers a competitive rate on personal loans (42.5%), housing loans (40.4%), life insurance premium (24.9%), deposits (33.1%), a wide range of products and services (56.7%), is prompt in getting credit approvals (53.1%) and fast transaction swiftness (56.9%). The main bank is also appreciated for keeping the customers updated with new products and policy amendments (58.7%). However, it is believed that competing banks offer competitive interest rates (52.3%), have very influential

advertising and promotion policies (49.7%), have very attractive signboards (41.2%), boast most technologically advanced online services (51.2%) and offer enough parking spaces for their customers (33.5%).

Two most important barriers of switching the main bank are apathy and negative reasons for customers including switching costs such as time, money, and psychological costs (Colgate & Lang 2001). It has been found that the most important factors which influence the customers' decision to with their main banks are the existing loan commitments and relationship with bank staff. 49.9% of respondents claimed that switching to another bank is time consuming, costly (28.6%), does not guarantee a better service (48.9%). The bank switch is also treated as the loss of existing relationships with bank staff (37.7%) as 58.1% of questionnaire participant said that they have a good relationship with their main bank staff. It is evident that most of the customers are satisfied with their main banks proving the fact that a key element of customer satisfaction is the relationship between the service provider and customer. Satisfaction also influences the customer's decision to recommend a bank or repurchase. As soon as a customer recommends a bank he/she fosters both intention to repurchase and loyalty towards that institution. It was found that people remain loyal to the main bank because the bank staff are helpful and polite (70.9%), the bank is fast in providing services (61.7%), the bank staff is knowledgeable (63.9%), the bank is fair will all its customers (42.9%), the bank is transparent in the terms and conditions (49.5%) as well as maintaining customers' confidentiality (70%) and provides accurate transactions (64.3%).

The research hypothesis questioned the fact whether there is a relationship between customer perception towards Islamic banking and the factors as age, gender, qualification, income and occupational status. Customers have shown to have a positive attitude towards

Islamic banking. The carried out independent sample test provided data that supported the idea of absence of relationship between customer perception towards Islamic banking, gender, age, qualification, occupation status and income. The second hypothesis was used to find the relationship between customer perception towards pricing and such factors as age, gender, qualification income and occupation status. It was proven that customers have a positive perception towards pricing. It was found that there is no a relationship between customer perception towards pricing, gender, age, qualification, occupation status and income. The third hypothesis questioned a relationship between customer perception towards service quality and the factors such as age, gender, qualification, occupation status and income. The T-test showed that customers have a positive perception towards service quality. It was stated that there is no a relationship between customer perception towards service quality gender, age, qualification, occupation status and income. The relationship between customer perception towards competition as well as gender, age, qualification, occupation status and income is not proven. The fifth hypothesis aimed to find a relationship between customer perception towards convenience, quality, gender, age, qualification, occupation status and income. The T-test results have shown an absence of relations between the above mentioned factors and customer perception. The mean value shows that customers have a positive perception towards switching barriers. Moreover, there is a relationship between customer perception towards switching barriers, gender, age, qualification, occupation status and income.

The questionnaire results show that customers have a positive perception towards staff conduct. It was found that there is no a relationship between customer perception towards staff conduct, gender, age, qualification, income and occupational status. The result of the T-test reject the final hypothesis concerning a relationship between customer perception towards trust,

transparency, age, gender, income, qualification and the occupation status.

Customer perception is an overall customer behavior or attitude towards a service provider. Customers' preference of the services of a particular financial institution despite marketing and situational constraints influences the decision to switch. Bank switching is considered to be dangerous for a financial institution as they have a negative influence on the monetary state of the bank, profit, revenues and the volume of market share. Satisfaction (Kaur, Sharma & Mahajan 2012), quality and trust are considered being essential factors which influence customer switching barriers prediction.

The research findings are consistent with the research result of Stewart (1998), Colgate and Hedge (2001), Rogers (2007), Matthews and Murray (2009), Shevlin (2012), and Mohsanet al. (2011). The authors found significant relationships between service quality, customer loyalty, customer satisfaction and switching behavior. The demographic research findings are consistent with some results of researches carried out by Colgate and Hedge (2001) conducted in New Zealand and Australian banks. The authors revealed that switching intention was common with younger customers. The finding of the research relevant to the factors that influence the customers' decision to switch are consistent with the researches carried out by Steeman (2005), Rose and Marquis (2006) who found that service quality, price, advertising, reputation, involuntary action, cost, and influence the customer switching behavior.

The findings of the research suggest that young customers are more likely to switch their main banks. This situation is logical as young customers tend to leave their banks adjusting to substantial changes in their lives, such as entering a university, starting a new job, renting or buying a house, starting a family and others. Bank switching has a negative effect on the financial institution. That is why banks are making out new ways to retain customers. The

current economic environment has made it more imperative to retain customers and provide proper handling of customers. Having and growing an existing customer base is always costing effective and more profitable than getting new customers. The analysis of relevant literature has shown that a reduction in customer switching is seen as a more profitable way than reducing costs or gaining a new market.

Due to the statistics which shows that more than 10 million bank customers are switching financial institutions each year around the globe, it is of the utmost importance to banks to adopt strategies for effective retention of customers. Bank switching may be avoided if bank management provides attractive offers to younger-aged customers to remain with the bank. The attractive opportunities might include encouraging loyalty programs, providing information about other branches in various geographic areas, and assisting with any transactions related to the changing circumstances.

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