# Customer Demographics Affecting Bank Selection Criteria, Preference, and Market Segmentation: Study on Domestic Islamic Banks in Bangladesh

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**Abstract**

Bangladesh is a moderate Islamic country. There are six full pledged Islamic banks providing services to wide range of customers. This study is designed to examine the impact of demographic disparities on the bank selection criteria applied by diversified customers of domestic Islamic banks in Bangladesh. We have run regression analysis after controlling for four demographic groupings such as Gender, Marital Status, Age and Educational Qualification. The beta scores were taken for identifying the influential factors chosen by the customers of Islamic Banks. Mostly, non-Islamic factors such as Corporal efficiency, Core-Banking services, Confidence, etc. were given higher weights by majority of the respondents. The report recommends introducing complete E-Banking solution, to increase advanced marketing efforts and to hire experienced human resources for better Islamic Banking activities in Bangladesh.

**Keywords:** Customer demographics, Islamic banking, Customer satisfaction

## 1. Introduction

Following the tremendous growth in oil exporting Islamic countries in 70's, banking based on Islamic law and principles has started to flourish. Since then the growth has been baffling at 10-15% during 1995 to 2005. By the end of 2005, total asset value of Global Islamic Banking stood at US$700 Billion and at an annual growth of 15% until 2010, the industry could grow to US$1.4 Trillion and to US$2.8 Trillion by 2015 (IFSB Website, 2008). Magid (1986) summarized the reasons behind establishment of Islamic banks in three folds: firstly, to call for unified Islamic political and economic system; secondly, to create a pure Islamic system in Islamic countries and lastly, to adopt the Islamic Shariah law as the foundation for business transactions. Although the idea of Islamic banking comes from the desire of conducting financial activities in accordance with Islamic Shariah principles (Naser and Moutinho, 1997), the popularity of Islamic banks is spreading widely with increasingly large international conventional banks by establishing Islamic window services.

Unlike conventional banks, the purpose of Islamic banks is to work in harmony with the Islamic law and principles towards economic development. Due to its profit-risk sharing principles, Islamic banks, compared to non-Islamic banks, seek for a just and an equitable distribution of resources (Siddiqui, 1985). This is the reason why non-Muslims are also adopting Islamic banking in different parts of the world. The consequence of this is that Islamic banks face competition from both other Islamic banks and non-Islamic banks. When competition intensifies and when banks start to offer more or less similar products and services, it is the customer satisfaction that can influence the performance of an Islamic bank and determines whether its competitiveness and success are vulnerable (Naser et al, 1999). Hence, effective market positioning to identify influential factors affecting customer satisfaction is of paramount importance for Islamic banks.

At present there are six Islamic banks operating in Bangladesh (BB Annual Report, 2007). Islami Bank Bangladesh Limited (IBBL) is the first Islamic bank in Bangladesh, which was established in 1983. The bank currently holds majority of the Islamic banking assets and liabilities of the Islamic banks in the country. It has one of the highest numbers of branches and employees throughout the country. Bank Al-Falah and ICB Islamic Banks are the two foreign Islamic banks are added to the list at the very end. However, the marketing setup of these banks are still very narrow. Hardly anyone will find an advertisement in TV commercials or on roadside billboards. Table 1 provides some details of Islamic banking sector in Bangladesh, which demonstrates increasing importance of Islamic banks in the country.

This study is attempted towards finding how different categories of customers choose their Islamic banks, what factors they mostly rely on, what makes them satisfied. Through this study, an attempt was made to know whether customers from different gender, educational qualification, professional background act differently while selecting their Islamic banks, whether they put higher importance to any specific factor or not? Furthermore, the report concludes on how these categories of customer[s] can be targeted and what kind of marketing strategies Islamic banks should apply to cover more areas and satisfy more customers.

The reminder of the paper is designed in five sections. Section 2 demonstrates the existing literatures in market segmentation and bank selection criteria in Islamic banking. Section 3 explains the methodology and hypotheses. Findings are shown in section 4 and section 5 concludes the study.

**Place Table 1 here**

## 2. Literature Review

### 2.1 Strategic marketing - Segmentation and Positioning

Increasing competition and diversity of service development in banking and financial services[s-not needed] sector pressures the Islamic banks to become increasingly responsive to market considerations in terms of segmentation, management and market strategies, internal and external infrastructure, their use of information technology and their ability to innovate and differentiate (Zineldin, 1996). Since Islamic banking is based on profit-risk sharing principles, it reduces the burden from the borrowers. The fathom of such key benefit has already created a place for Islamic banks in the mind of the core customers.  Naser and Moutinho (1997) identified this profit-risk sharing relationship as a relationship-banking tool for Islamic banks since this relationship establishes a close link between the customers and the bankers. Despite of the pros and cons, Islamic banks have to fight stiff competition and as such building a competitive edge can only help them, which can be done by effective positioning strategies along with redesigning service provisions and approaches of customer management.

Both market segmentation and positioning are vital issues in marketing theory and practice. Positioning is an attempt to distinguish the bank from its competitors along real dimensions in order to be the most preferred bank for a certain market segment or prospect (Zineldin, 1996). As theory, market segmentation is the process of dividing a market into distinct groups of individuals or organizations, who share one or more similar responses to some elements of the marketing mix. Banking services are characteristically different from physical products and as such the focus of differentiating customers based on these services should also be multi-faceted. Various studies (Zeithaml and Bitner, 1996; Lovelock, 1996; Legg and Baker, 1996) found banking services being closely tied with intangibles like trust and commitments, transparency, inseparability and heterogeneity. Services are instantly provided and hence every customer feels the result instantly and behaves differently the next time they are offered with the same services. Therefore, a positive image making is necessary. Ries and Trout (1986) extended this necessity by hinting that: In the communication jungle out there, the only hope to score big is to be selective, to concentrate on narrow targets, and to practice segmentation. Market positioning also plays imperative role in market strategy by analyzing the market to segment the customers' requirements based on competitive advantages (Kotler, 1994; Zineldin, 1996). Therefore, effective positioning reflects how customer perceives the products, factors make the customers satisfied and whether customers behave differently with different factors while choosing a bank.

### 2.2 Bank selection criteria and market segmentation in Islamic Banking

Islam is the primary reason behind choosing Islamic banking. Customers in Islamic banks seriously consider whether the bank complies with Islamic Shariah rules in all stages of banking activities (Kader, 1993; Metawa and Almossawi, 1998; Naser et al, 1999; Haron et al, 1994; Ahmad and Haron, 2002; Erol et al, 1990). The variables deemed important under religious (Islamic) construct include compliance to Shariah rules, offering of Shariah compliant services, offering interest free loans etc.  However, studies have also showed that Islamic belief is neither the only reason, sometimes, nor the primary reason behind choosing Islamic banking.

Along with religious background, customers want a good use of their investment. They want the best cost-benefit tradeoff, branches and ATMs' in convenient location, faster transaction processing, caring employees, good financial advices from managers etc (Erol and El-Bdour, 1989; Erol et al., 1990; Omer, 1992; Haron et al., 1994; Gerrard and Cunningham, 1997; Mettawa and Almossawi, 1998; Naser et al., 1999; Ahmad and Haron, 2002; Abbas et al., 2003).

Dushuki and Abdullah (2007) concluded that Islamic banks must not only rely solely on religious factors as a strategy to secure customers' allegiances but they should also emphasize providing quality and efficient services. They have also identified the absence of social responsibility issues in terms of selecting a bank.

There has been serious lack in researches in Islamic banking, especially in the area of customer satisfaction, in Bangladesh. In their latest working paper, Rashid and Hassan (2008), has run a factorial regression analysis to find out influential bank selection factors. To the best of our knowledge, this is the only study on bank selection criteria on customers of Islamic banks in Bangladesh. This study has found Compliance to Shariah laws as one of the influential factors, whereas the other factors are convenience, cost-benefit, corporal efficiency, core banking services and facilities, and confidence. Corporal efficiency and Confidence are two most important factors found from this analysis.

Measuring the impact of customer demographics on bank selection criteria gives birth to newer marketing strategies for banks. It helps to understand group-behavior of the customer and therefore it makes positioning and branding activity easier. Studies in customer preference and market segmentation in Malaysia, Jordan, the UAE were mostly done by categorizing the customers based on religion; whether they are Muslims or non- Muslims. Sudin et al. (1994) found no significant difference in bank selection criteria between Muslim and Non-Muslims living in Malaysia. However, some researches sought completely a different mechanism for wider acceptability of the research. Erol and El-Bdour (1989) and Erol et al. (1990) compared the bank selection criteria between Islamic and Conventional Banks, which is not the focus of our study here.

Boyd et al. (1994) placed importance on the marital status, married or unmarried, of the customers found that customers are different in putting more emphasis on various bank selection factors such as reputation, cost-benefit, efficiency etc. However, their report revealed that customer those are 'single', have put less prominence on reputation rather the 'married' customers. Another demographic variable, size of the household in terms of number of family members as dependents, was tested and the study found that 'heavy' households emphasis on reputation, cost-benefit and efficiency, whereas the others put more importance on convenience and cost-benefit issues. Occupation of the respondents was another demographic segmentation take into account. The report disclosed that more white-collar households are emphasizing on reputation, modern facilities, and convenience. However, the counterparts, blue-color households, put greater emphasis on core banking (availability of basic services), cost-benefit issues. Lastly, Gender of the respondents reveled interesting results. Males are putting importance on faster service, convenience; however, female gave importance to longer-term aspects relating to organizing their finances and becoming more financially secure.

Kaynak et al. (1991) reported differences in bank selected criteria based on gender, age, education background of bank customer in Turkey. This study reported that male customer put more importance on reputation of the bank, business hours, parking facilities, availability of wide-range of services, and fast and efficient services than the female customers. The convenience (especially bank location) played important role for customer under age 40. According to educational segmentation, customers with more than primary education considered empathy, fast and efficient services, location of the banks more important than the uneducated group.

Market segmentation can lead to insights about the basic process of consumer behavior. Edris and Almahmeed (1997) extended the analysis on market segmentation in Islamic banking by analyzing the behavior of 500 business firms on their differences with bank selection criteria. They have further segmented the sample based on whether the companies are originally based in Kuwait or not.

Studies on satisfaction of the customers in financial service sectors have been well known among the academicians since the mid of 80s'. Parasuraman et al. (1988) opened a new window of research in service quality by establishing SERVQUAL model. Their model has been replicated in many countries with multi-dimensional sectors, and found close to a big success. Since, customer satisfaction has close relationship with customer retention especially in markets that are highly competitive and saturated like financial services (Lopez et al. 2007); it is necessary to continuously monitor changes in satisfaction among different segments of customers. In this regard, studies on customer segmentation and bank selection criteria along with customer satisfaction started warily came in the study done by Snow et al. (1996). This study concluded that there were clear differences in the service's expectations for retail banks in Canada among different ethnic groups. Research continues with Furrer et al. (2000), which reported relationship between segmented customers based on cultural background and their satisfaction. They also developed a Cultural Service Quality Index (CSQI) and established multicultural market segmentation.

Market segmentation and customer satisfaction have been largely affected by banks' massive involvement in technological banking activities (Keeton, 2001). DeYoung (1999) found that some consumers willing to pay high service charge since they are receiving e-banking services at the next foot step, however, some people still want to see banks are reducing fees/ charges where they believe in personalized attention instead of large technological investment, which may increase cost.

Globalization has raised the competition among Islamic banks worldwide and they must provide technological services along with compliance to Islamic Shariah law. Therefore, identification of niche is vital, which calls for clear

understating of the customer segments. At the next stage, banks would be able to make necessary adjustments to their policies according to the specific demand of the customer groups. Islamic banking is still in embryonic stage and customer management is largely absent with majority Islamic banks in Bangladesh. Since, competition is increasing, it became a more than necessity to analyze customer segments and make strategies according to demand of the customers.

*2.3 Factors considered important by customers in non-Islamic Banks*

Though it is not one of our objectives, for a better outlook, we can contrast the bank selection factors important to Islamic and non-Islamic customers. As proved by numerous theories, beside religion, there are non-religious factors such as cost-benefit trade off, convenience, empathy towards customers, and efficiency of the bankers etc, considered to be important to the customer before choosing an Islamic bank. In conventional banks, different types of customers put emphasis on different factors before choosing their banks. The following table shows the factors considered important by customers of non-Islamic customers:

**Place BOX 01 here.**

Though the name itself, Islamic Bank, is the differentiator; however there are vast similarities among customers regarding the factors considered important while choosing their bank either Islamic or non-Islamic. This statement may raise the question on the viability of testing bank selection criteria in Islamic banks. But it is very important testing the bank selection criteria in Islamic banks since the industry is becoming strongly dominant in global financial development. This study is especially important because here we investigate the importance of market demographics on the bank selection criteria applied by different customers. This would further help us to formulate new policies for better customer management in Islamic banks.

## 3. Purpose, Methodology, and Hypotheses

### 3.1 Conceptual framework

Bangladesh is a moderate Muslim country. Historically due to religious attitude, male used to perform financial activities including banking, shopping etc. Hence, dominance of female has been irregular. However, scenario has changed with the increase of educated class in the cities. Beauty of reality is majority of consumption decision is now demographic. As a result, banks, mostly providing similar services for demographically diverse customers, are highly complex challenges of living up to differing customer perceptions of service quality (Lopez, 2007). Since, service sector is especially individual; therefore, banks must identify its distinctive target. This is particularly a high priority for Islamic banks to identify the groupings based on demographic differences to provide priority services. We have not found any published research in Bangladesh on bank selection differentiator of Islamic banks' customers.

This research is an extension of our early research (Rashid and Hassan, 2008), which is still in working series format. The earlier research was on bank selection criteria applied by Islamic banks customers in Dhaka, the capital city of Bangladesh. Main objective of this research was to find out influential factors affecting bank selection among customers of different Islamic banks. According to Mean Ranking of the respective variables, ***Confidence*** ranked at the top (Mean 5.19, SD 1.15). Respondents ranked Compliance to Islamic rules, one of the highly expected and influential factors, at number three (Mean 4.825 and SD 1.22). Cronbach Alphas are shown for individual factors, while all these had Alpha more than 0.7 as suggested by Nunnally (1978). See Table [2] for descriptive statistics.

**Place Table 2 here**

Table [3] shows the regression results for six constructs. According to Standardized Coefficients Beta, Corporal Efficiency was the most important factor influencing the bank selection decision of the customers (Beta = 0.322). Beta shows the relative importance (weight) of any specific factor in explaining the dependent variable. Second important factor was Compliance to Islamic rules (Beta 0.196) and close to this was Core Banking (availability of basic banking services) with a Beta value of 0.186. R Square of the model was 0.442 with P <.01. As there was no other related research done in Bangladesh, we hope this R Square to be highly promising.

**Place Table 3 here**

Frankly speaking, higher value of R Square motivated us to extend the study to check the influence of demographics on these bank selection criteria. As the groups of customers are heterogeneous, the major objective of this study to determine whether these heterogeneous customers have differing perceptions towards bank selection criteria tested by Rashid and Hassan (2008).

### 3.2 Data and Sample

We have extended the study of Rashid and Hassan (2008), which has considered 371 respondents associated with 5 Islamic banks in Dhaka City. Dhaka as a capital city represents the whole country and most of the Islamic banks have only branches in different areas in Dhaka City. The customers were randomly selected based on a collected list of customers. The authors acknowledge the assistance of branch managers in this regard.

See Table [4] through [7] for the respondent's profile considered for this study. Under Gender category, Female is

30.46% of 371 respondents. Majority of the respondents (53.64%) have completed undergraduate degree(s), however, 37.73% were from postgraduate level and the rest 8.63% were from high school level. The sample considered in the analysis comprised of 50.40% from 21-30 Years age category, close to 22% were from both 31-40 Years and 40+ Years age category respectively, and only 4% was from below 21 Years age category. Out of 371 respondents, about 52% respondents were married.

*3.3 Research Instruments*

The earlier study (Rashid and Hassan, 2008) has used structured questionnaire based upon three types of questions (See Annexure at the end for the Questionnaire translated in English). First type of questions included some demographic variables such as gender, home district, educational level, age, occupation etc. Secondly, some general questions included questions on brand switching, knowledge on Islamic banking, method of banking (physical visit, internet etc.), most likely factors with Islamic banks, cost-benefit issues of Islamic banks compared to conventional banks etc. Some questions regarding perception of the respondents towards bank selection criteria and one question regarding Overall Satisfaction came at the end.

**Place Table 4 to 7 here**

*3.4 Selection of the Factors/ Constructs*

The factors were constructed based on Factor Analysis *(which is available from authors upon request)*. Variables under each factor (a total six factors were there) were tested with Cronbach Alpha for reliability. The six factors taken for analysis were as follows.

1) **Corporal Efficiency** (faster transaction and document processing, efficient managers, knowledge of customer's business etc.)

2) **Compliance** (Provision of interest free loans, run on Islamic law and principles, provision of profit-loss sharing principles etc.)

3) **Convenience** (strong global, and local network, sufficient transaction time, convenient branch location etc.)

4) **Core Banking** (basic services, marketing program on availability of services, competitiveness in product offerings, uniform services in all braches etc.)

5) **Confidence** (confidentiality of bank information, confidence in bank's management and bank size of capital and, asset etc.)

6) **Cost-Benefit** (lower service charge and average decent return).

*3.5 Objective, Hypotheses and Analysis*

The objective of this study is to determine whether customers categorized into different Gender, Education, Age and Marital Status categories are differing importance towards these above listed and tested six Bank Selection Factors. The only hypothesis in this regard is as follows:

***H₁: Different demographic groups will report different level of importance towards six bank selection criteria applied to their Islamic Banks.***

*H$_{1.1}$* Betas of Six Bank Selection Criteria for Male and Female are different.

*H$_{1.2}$* Betas of Six Bank Selection Criteria for Married and Unmarried are different.

*H$_{1.3}$* Betas of Six Bank Selection Criteria for Graduates and Postgraduates are different.

*H$_{1.4}$* Betas of Six Bank Selection Criteria for Age Categories of 21-30 Years, 31-40 Years and 40+ Years are different.

We will run regression analysis for the six factors having control for Gender, Education, Age and Marital Status respectively. The results will be shown as follows:

1) Model Fit (with R Square for each category and factor),

2) Ranking based on Beta score for each category and factor for relative importance given to that factor. Standardized Beta presents the relative importance of any specific factor in decimal format for explaining the dependent variable. For example: a Beta of 0.400 may be represented as if this variable is putting 40% importance in explaining the dependent variable.

3) Significance level for each category and factor (with P value)

**4. Findings**

In this study for 371 complete questionnaires, SPSS was used to analyze the data. We have run multiple regression analysis having Overall Satisfaction as the dependent variable and Six Factors resulted from factor analysis as the independent variables. We have controlled the regression analysis for four demographic variables such as Gender, Education, Age and Marital Status to prove the significance of demographic differences in Bank Selection Criteria for

Islamic banks' customers in Bangladesh. In general, Multi-co linearity was under control, however slightly out of the line for few cases, where the sample size is lower than other individual demographic dimension.

*Results*

*(1) Gender*

$H_{1.1}$ Betas of Six Bank Selection Criteria for Male and Female are different.

**Place Table 8 here**

Supporting for this hypothesis is given in Table [8]. Female respondents showing highest importance to Core-Banking, (Beta 0.504), (availability of basic banking facilities along with marketing programs and uniformity of services, etc), whereas male put the highest importance on Corporal Efficiency, (Beta 0.374), (faster transaction and document processing, efficient managers, knowledge of customer's business, etc). Both of these are statistically significant at P<0.001. The model for Female has an R Square of 0.557 and R Square for Male is 0.447. Moreover, female ranked Corporal Efficiency (Beta .494) as the second important factor where as Male ranked Compliance (to Islamic rules) as the second important factor (Beta 0.315) for choosing Islamic banks.

*(2) Marital Status*

$H_{1.2}$ Betas of Six Bank Selection Criteria for Married and Unmarried are different.

**Place Table 9 here**

Table [9] provides the details of this hypothesis. The R Square for Model of Married respondents is 0.451 (Significant at P<0.001) and same for Unmarried respondents is 0.477 (Significant at P<.001). Married customers put close importance to Core Banking (Beta 0.341), Corporal Efficiency (Beta 0.338) and Compliance (0.332) respectively. All of these are statistically significant at P<.001. Unmarried respondents are emphasizing mostly on Corporal Efficiency (Beta 0.459, P<.001) and secondly on Core Banking (Beta 0.325, P<.001). Unmarried respondents are putting significance to Compliance, which is at number three (Beta 0.226, P<.001).

*(3) Education Level*

$H_{1.3}$ Betas of Six Bank Selection Criteria for High School, Graduates and Postgraduates are different.

**Place Table 10 here**

In Table 10, it shows R Square of Model for High School is 0.281, which is pretty low may be because of fewer sample size, R Square for Undergraduate model is 0.450 and same for Postgraduate is 0.488. We are discarding the High School model since the model is not significant (P = 0.399, which is more than an acceptable level i.e. 0.05). Among the respondents from undergraduate level, Corporal Efficiency was the most influential factor (Beta 0.418). Core Banking (Beta 0.353) and Compliance (Beta 0.333) were at the second stage of preference. However, respondents those have completed postgraduate, put close importance to Corporal efficiency (Beta 0.323) and Confidence (0.321). They have also chosen Core Banking services (0.301) at the second stage important factor.

(1)  *Age Category*

$H_{1.4}$ Betas of Six Bank Selection Criteria for Age Categories of 21-30 Years, 31-40 Years and 40+ Years are different.

**Place Table 11 here**

Table 2 shows the regression results for different age category. We have discarded 17-21 Years age category because of lower sample size and confidence interval (Sig. 0.070) of the model in this category. Most vibrant investors are from 21-30 years of age category and they have put highest importance, primarily, to Corporal (Beta 0.453) efficiency and secondly, to Core Banking (Beta 0.355) services. This model has an R Square of 0.482 (Sig. 0.000). In next age category, 31-40 Years, with an R Square of 0.483 (Sig. 0.000), the respondents supported the greater Compliance to Islam (Beta 0.420) and at the second stage, they have put emphasis on Cost-Benefit (Beta 0.277), Core Banking (0.276) and Corporal Issues (Beta 0.264). However, the most experience group, age category of 40+ Years (R Square 0.460, Sig. 0.000), put highest importance to level of Confidence (Beta 0.433) and they kept Core Banking (Beta 0.382), Corporal (Beta 0.337) and Compliance (Beta 0.333) in their second level choices while selecting an Islamic Bank.

## 5. Conclusion

*5.1 Summary*

Primary objective of this research was to determine the bank selection factors that are given higher priorities by groups of customers while selecting any Islamic banks in Bangladesh. The patterns discerned from the study are not only different from earlier researches but also provide the leader with importance clues to effective strategy buildup.

**Place Table 12 here**

Let us start with the odd one. Convenience was one of the factors, which was not selected as an important factor by any of the groups as first and second important factor while selecting Islamic banks. As we have seen from Table [12], Corporal efficiency is the number one factor, which was selected by almost every group either as the first important

factor (5 out of 9 groups) or as second important factor (another 2 out of the rest 4 groups). Availability of Core Banking services was selected by two groups (Female and Married) as the first important factor, while another five out of rest 7 groups have selected it in the second category. Compliance (with Islam) is the first priority for the age group of 31-40 years and Confidence level of the customer with Islamic banks was the most important factor for respondents from 40+ age category. If we see explicitly, almost every group has logic behind choosing different factors as the first or second important factor. However, it is clear that leaders running Islamic banks in Bangladesh must put higher importance to Non-Islamic issues such as Corporal Efficiency and Core-Banking Services rather than only religion as their backdrop banner.

### 5.2 Area of Importance

The variables under Corporal efficiency and Core-Banking would give us more clear focus for our customer positioning. Corporal efficiency includes variables like (1) fast and efficiency counter services, (2) speed and efficiency of transaction processing, (3) interior setup of the branch for better banking (4) experienced management team, (5) management capable of giving financial advice, (6) faster document processing, (7) management's knowledge on customer's business. Respondents/ Customers put more importance to these variables more than any other variables. Its means like conventional banks, Islamic bankers must also have to offer faster, experienced and helpful services to the customers. This also concludes that most of these customers either have switched from conventional banks to Islamic banks or banking system in Bangladesh offers substantial competitiveness that motivates the customers for better services against their valuable money. So, the first priority of the Islamic banks in Bangladesh would be to design corporal issues according to the market demand.

The variables under Core-Banking services include (1) uniformity of services in all the branches, (2) awareness programs of services availability, (3) competitiveness in basic product offerings. The first variable can be ensured by proper use of E-Banking facilities to ensure that all services are available in all branches. The second point is very much lacking with all Islamic Banks and we suggest the central authority and the Universities to offer courses of Islamic Banks. Except few Public University, no other institutes have course offered on Islamic banking. Therefore, even if the industry is growing, the growth will stuck after a certain period, or the growth will not be of expected quality. The condition of the third point is even shoddier. Most of the Islamic banks, except Islami Bank Bangladesh Limited – the first Islamic bank of the country, and few multi-national conventional banking offering Islamic banking window services, offer very basic services those are common to all the Islamic banks. This point makes the investors confused. Moreover, lack of advertisements, lack of community development programs; hinder the development of the majority domestic Islamic banks in Bangladesh. We firmly urge all the Islamic banks to introduce modern services based on E-Banking facilities to keep pace with new generation of banking.

### 5.3 Limitations

1) Same analysis can be done by taking clustered sampling from different regions in Bangladesh. However, the sample would be very less in number for most of the regions. Most of the Islamic Banks in Bangladesh do not have branches throughout the country.

2) Mean differences can also be run to check the validity of the results.

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Table 1. Islamic Bank Statistics in Bangladesh

| Description | June 2006 | June 2007 |
|---|---|---|
| No of Banks | 6 | 6 |
| Conventional Banks providing Islamic Banking | 10 | 10 |
| No of Branches with Islamic Banks | 308 | 330 |
| Islamic Branches with Conventional Banks | 20 | 21 |
| % of Employees in Islamic Banking with Private Commercial Banks | 27.73 | 27.73 |
| % of Employees in Islamic Banking in Banking Industry | 10.73 | 10.73 |
| % of Islamic Deposit in Industry Deposits | 9.67 | 14.3 |
| % of Islamic Deposits in Private Banks' Deposit | 28.46 | 23.6 |
| % of Islamic Credit in Industry Credits | 14.88 | 17.2 |
| % of Islamic Credits in Private Banks' Credit | 29.35 | 26.9 |
| Investment-Deposit Ratio<br>*Islamic Banks of all Banks in the Industry (inside bracket)* | 0.92[0.59] | 0.95[0.77] |
| Liquidity: Excess (+), Shortfall (-) % of the Private Banks<br>*Islamic Banks of all Banks in the Industry (inside bracket)* | 19.08[8.19] | 20.8[13.5] |

**Source: Annual Report, Bangladesh Bank, Various Editions**

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**BOX 01: Bank selection criteria applied by non-Islamic customers**

| Factors | Explained by |
|---|---|
| Cost benefit trade off | Gerrard and Cunningham (1997), Boyd et al (1994) |
| Convenience | Gerrard and Cunningham (1997), Boyd et al (1994), Keeton (2001), DeYoung (1999) |
| Faster transaction | Gerrard and Cunningham (1997), Boyd et al (1994) |
| Reputation | Boyd et al (1994), Kaynak et al. (1991) |
| Physical facilities | Kaynak et al. (1991) |
| Wide range of services | Kaynak et al. (1991), Rashid and Hassan (2008) |
| Trust and Commitments | Zeithaml and Bitner (1996), Lovelock (1996), Legg and Baker (1996) |

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Table 2. Descriptive Statistics

| Mean Rank | Constructs | Mean | Std. Deviation | N | Cronbach Alpha |
|---|---|---|---|---|---|
|  | Overall Satisfaction | 4.78 | 1.154 | 371 |  |
| 5 | Corporal Efficiency | 4.6692 | 1.08553 | 371 | 0.876 |
| 3 | Compliance | 4.8253 | 1.22050 | 371 | 0.864 |
| 4 | Convenience | 4.7001 | 1.19212 | 371 | 0.807 |
| 6 | Core Banking | 4.5517 | 1.08210 | 371 | 0.776 |
| 1 | Confidence | 5.1923 | 1.15607 | 371 | 0.810 |
| 2 | Cost Benefit | 4.8504 | 1.20129 | 371 | 0.730 |

Source: Rashid and Hassan (2008)

Table 3. Regression Results

| | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | .685 | .252 | | 2.713 | .007 | | |
| Corporal Efficiency | .343 | .061 | .322 | 5.577 | .000 | .459 | 2.178 |
| Compliance | .185 | .048 | .196 | 3.880 | .000 | .602 | 1.660 |
| Convenience | -.038 | .054 | -.039 | -.696 | .487 | .490 | 2.042 |
| Core Banking | .198 | .056 | .186 | 3.564 | .000 | .565 | 1.769 |
| Confidence | .093 | .056 | .093 | 1.650 | .100 | .486 | 2.060 |
| Cost Benefit | .083 | .046 | .086 | 1.802 | .072 | .667 | 1.500 |

$R^2 = 0.442$; $F_{6, 364} = 48.053$; $p < .01$

Dependent Variable: Overall Satisfaction

Source: Rashid and Hassan (2008)

Table 4-7. Respondents' Profile Source: Rashid and Hassan (2008)

| **Respondent's Gender** | | | |
|---|---|---|---|
| | Frequency | Percent | Cumulative Percent |
| Female | 113 | 30.46 | 30.46 |
| Male | 258 | 69.54 | 100.00 |
| Total | 371 | 100.00 | |

| **Respondent's Education Level** | | | |
|---|---|---|---|
| | Frequency | Percent | Cumulative Percent |
| High school | 32 | 8.63 | 8.63 |
| Undergraduate | 199 | 53.64 | 62.27 |
| Postgraduate | 140 | 37.73 | 100.00 |
| Total | 371 | 100.00 | |

| **Respondent's Age** | | | |
|---|---|---|---|
| | Frequency | Percent | Cumulative Percent |
| 17-21 | 15 | 4.04 | 4.04 |
| 21-30 | 187 | 50.40 | 54.45 |
| 31-40 | 85 | 22.91 | 77.36 |
| 40+ | 84 | 22.64 | 100.00 |
| Total | 371 | 100.00 | |

| **Respondent's Marital Status** | | | |
|---|---|---|---|
| | Frequency | Percent | Cumulative Percent |
| Married | 194 | 52.29 | 52.29 |
| Unmarried | 177 | 47.71 | 100.00 |
| Total | 371 | 100.00 | |

Table 8. Regression Results – Gender

| Respondent Gender | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| **Female** N = 113 R²=.557 F = 22.038 Sig = .000 | (Constant) | 5.005 | .077 | | 65.094 | .000 | | |
| | Corporal | .604 | .083 | **.494** | 7.247 | **.000** | .905 | 1.104 |
| | Compliance | .326 | .078 | .278 | 4.165 | .000 | .946 | 1.057 |
| | Convenience | .228 | .088 | .174 | 2.604 | .011 | .939 | 1.065 |
| | Core Banking | .600 | .082 | **.504** | 7.337 | **.000** | .894 | 1.119 |
| | Confidence | .303 | .075 | .275 | 4.065 | .000 | .922 | 1.085 |
| | Cost Benefit | .035 | .081 | .029 | .436 | .664 | .962 | 1.040 |
| **Male** N = 258 R²=.447 F = 33.763 Sig = .000 | (Constant) | 4.690 | .054 | | 86.216 | .000 | | |
| | Corporal | .419 | .053 | **.374** | 7.909 | **.000** | .988 | 1.012 |
| | Compliance | .360 | .054 | **.315** | 6.678 | **.000** | .993 | 1.007 |
| | Convenience | .164 | .052 | .147 | 3.126 | .002 | .991 | 1.009 |
| | Core Banking | .330 | .054 | .291 | 6.138 | .000 | .984 | 1.017 |
| | Confidence | .215 | .055 | .184 | 3.885 | .000 | .986 | 1.014 |
| | Cost Benefit | .233 | .053 | .206 | 4.380 | .000 | .992 | 1.008 |

a. Dependent Variable: Overall Satisfaction

*Source: Created from SPSS Output*

Table 9. Regression Results – Respondents' Marital Status: Married, Unmarried and Others

| Respondents' marital status | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| Married N = 194 R²=.451 F = 22.082 Sig = .000 | (Constant) | 4.878 | .065 | | 75.502 | .000 | | |
| | Corporal | .367 | .061 | **.338** | 5.996 | **.000** | .982 | 1.018 |
| | Compliance | .376 | .064 | **.332** | 5.847 | **.000** | .974 | 1.027 |
| | Convenience | .184 | .062 | .166 | 2.956 | .004 | .992 | 1.008 |
| | Core Banking | .393 | .065 | **.341** | 6.055 | **.000** | .985 | 1.015 |
| | Confidence | .302 | .061 | .277 | 4.933 | .000 | .990 | 1.011 |
| | Cost Benefit | .180 | .067 | .151 | 2.686 | .008 | .984 | 1.017 |
| Unmarried N = 177 R²=.477 F = 25.423 Sig = .000 | (Constant) | 4.667 | .064 | | 73.043 | .000 | | |
| | Corporal | .551 | .068 | **.459** | 8.055 | **.000** | .962 | 1.040 |
| | Compliance | .259 | .066 | .226 | 3.950 | .000 | .957 | 1.045 |
| | Convenience | .160 | .066 | .137 | 2.419 | .017 | .976 | 1.025 |
| | Core Banking | .369 | .064 | **.325** | 5.761 | **.000** | .982 | 1.019 |
| | Confidence | .171 | .069 | .141 | 2.469 | .015 | .959 | 1.043 |
| | Cost Benefit | .202 | .064 | .183 | 3.176 | .002 | .946 | 1.057 |

***Marital status "others" were found "0".***

a. Dependent Variable: Overall Satisfaction

*Source: Created from SPSS Output*

Table 10. Regression Results – Education level of the respondents

| Education level | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| **High school** N = 32 R²=.281 F = 1.107 Sig = .399 | (Constant) | 4.991 | .238 | | 20.973 | .000 | | |
| | Corporal | .358 | .201 | .487 | 1.782 | .093 | .567 | 1.765 |
| | Compliance | .334 | .259 | .338 | 1.287 | .215 | .614 | 1.629 |
| | Core Banking | .297 | .211 | .325 | 1.407 | .177 | .791 | 1.265 |
| | Confidence | .172 | .161 | .237 | 1.069 | .300 | .860 | 1.163 |
| | Cost Benefit | -.229 | .196 | -.252 | -1.169 | .259 | .912 | 1.097 |
| | Convenience | -.007 | .189 | -.009 | -.039 | .969 | .869 | 1.151 |
| **Undergraduate** N = 198 R²=.450 F = 26.055 Sig = .000 | (Constant) | 4.694 | .063 | | 73.936 | .000 | | |
| | Corporal | .491 | .064 | **.418** | 7.684 | **.000** | .975 | 1.026 |
| | Compliance | .399 | .065 | **.333** | 6.140 | **.000** | .981 | 1.019 |
| | Core Banking | .401 | .062 | **.353** | 6.525 | **.000** | .986 | 1.015 |
| | Confidence | .191 | .069 | .150 | 2.785 | .006 | .991 | 1.009 |
| | Cost Benefit | .187 | .067 | .151 | 2.779 | .006 | .973 | 1.028 |
| | Convenience | .157 | .066 | .129 | 2.380 | .018 | .985 | 1.015 |
| **Postgraduate** N = 140 R²=.488 F = 21.159 Sig = .000 | (Constant) | 4.871 | .070 | | 69.874 | .000 | | |
| | Corporal | .395 | .079 | **.323** | 4.982 | **.000** | .914 | 1.094 |
| | Compliance | .248 | .068 | .230 | 3.622 | .000 | .954 | 1.048 |
| | Core Banking | .363 | .077 | **.301** | 4.722 | **.000** | .948 | 1.055 |
| | Confidence | .350 | .068 | **.321** | 5.116 | **.000** | .978 | 1.022 |
| | Cost Benefit | .224 | .068 | .207 | 3.288 | .001 | .968 | 1.033 |
| | Convenience | .188 | .067 | .174 | 2.799 | .006 | .991 | 1.009 |

a. Dependent Variable: Overall Satisfaction

*Source: Created from SPSS Output*

Table 11. Regression Results – Age (in Years)

| Respondent age | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| **17-21 Years** N = 15 R²=.700 F = 3.114 Sig = .070 | (Constant) | 5.136 | .258 | | 19.923 | .000 | | |
| | Corporal | .970 | .407 | .657 | 2.387 | .044 | .495 | 2.020 |
| | Compliance | .331 | .432 | .214 | .765 | .466 | .480 | 2.085 |
| | Convenience | .156 | .235 | .161 | .663 | .526 | .634 | 1.576 |
| | Core Banking | .144 | .279 | .117 | .514 | .621 | .722 | 1.385 |
| | Confidence | .348 | .220 | .350 | 1.581 | .153 | .766 | 1.306 |
| | Cost Benefit | -.376 | .210 | -.392 | -1.791 | .111 | .781 | 1.281 |
| **21-30 Years** N = 187 R²=.482 F = 27.736 Sig = .000 | (Constant) | 4.717 | .064 | | 74.261 | .000 | | |
| | Corporal | .527 | .064 | **.453** | 8.268 | **.000** | .966 | 1.035 |
| | Compliance | .254 | .068 | .208 | 3.756 | .000 | .945 | 1.058 |
| | Convenience | .168 | .068 | .134 | 2.448 | .015 | .964 | 1.038 |
| | Core Banking | .428 | .066 | **.355** | 6.521 | **.000** | .979 | 1.021 |
| | Confidence | .162 | .070 | .127 | 2.301 | .023 | .946 | 1.057 |
| | Cost Benefit | .178 | .067 | .148 | 2.664 | .008 | .937 | 1.067 |
| **31-40 Years** N = 85 R²=.483 F = 12.137 Sig = .000 | (Constant) | 4.856 | .093 | | 52.067 | .000 | | |
| | Corporal | .278 | .088 | **.264** | 3.155 | **.002** | .948 | 1.055 |
| | Compliance | .516 | .103 | **.420** | 4.985 | **.000** | .936 | 1.068 |
| | Convenience | .227 | .091 | .208 | 2.489 | .015 | .953 | 1.049 |
| | Core Banking | .275 | .085 | **.276** | 3.230 | **.002** | .911 | 1.098 |
| | Confidence | .238 | .096 | .224 | 2.493 | .015 | .819 | 1.221 |
| | Cost Benefit | .288 | .089 | **.277** | 3.239 | **.002** | .904 | 1.106 |
| **40+ Years** N = 84 R²=.460 F = 10.935 Sig = .000 | (Constant) | 4.750 | .107 | | 44.570 | .000 | | |
| | Corporal | .401 | .102 | **.337** | 3.950 | **.000** | .961 | 1.040 |
| | Compliance | .324 | .086 | **.333** | 3.744 | **.000** | .884 | 1.131 |
| | Convenience | .152 | .093 | .137 | 1.627 | .108 | .984 | 1.016 |
| | Core Banking | .449 | .101 | **.382** | 4.439 | **.000** | .947 | 1.056 |
| | Confidence | .462 | .091 | **.433** | 5.089 | **.000** | .969 | 1.032 |
| | Cost Benefit | .180 | .104 | .153 | 1.727 | .088 | .893 | 1.120 |

a. Dependent Variable: Overall Satisfaction

*Source: Created from SPSS Output*

Table 12. Summary of the Factors

| Category | First Important Factor | Second Important Factor |
|---|---|---|
| Female | Core-Banking | Corporal |
| Male | Corporal | Compliance |
| Married | Core-Banking | Corporal |
| Unmarried | Corporal | Core-Banking |
| Undergraduate | Corporal | Core-Banking |
| Postgraduate | Corporal | Confidence |
| 21-30 Years | Corporal | Core-Banking |
| 31-40 Years | Compliance | Core-Banking |
| 40+ Years | Confidence | Core-Banking |

Source: Extracted from the above Regression Results

**Questionnaire**

**Quality Perception of the Customers towards Services of Domestic Islamic Banks in Bangladesh**

**By: Rashid and Hassan (2008) – Working Paper**

Part One: Demographic Information (Please √)

Your gender:
☐  Male
☐  Female

Your Home Division:
☐  Dhaka
☐  Chittagong
☐  Rajshahi
☐  Barishal
☐  Sylhet
☐  Khulna

Your education level:
☐  Below high school
☐  High school
☐  Undergraduate
☐  Post graduate

Your age:
☐  17-21
☐  21-30
☐  31-40
☐  40+

Your occupation:
☐  Public sector
☐  Private sector
☐  Self employed
☐  Semi-government agency
☐  Wage earners
☐  Student
☐  Others; Please specify ……………

Your Monthly Income:
☐  Less than 10000 TK
☐  TK 10000 to TK 40000
☐  TK 41000 to TK 100000
☐  More than TK 100000

Your Monthly Savings:
☐  Less than 5000 TK
☐  TK 5000 to TK 20000
☐  TK 21000 to TK 50000
☐  More than TK 50000

Your Marital Status:
☐  Married
☐  Unmarried
☐  Others

Part Two: Service, Communication and others (Please √)

Do you have any existing relationship with Islamic Banking Institutions in Bangladesh?
☐        Yes              ☐  No

Do you know that it is HARAM (not permissible) to receive and charge interest in Islam?
☐        Yes         ☐  No              ☐        Not sure

How much do you know about Islamic banking and finance?
☐        Never thought about it.
☐        Not much
☐        Sufficient knowledge                    ☐ Very well

Do you know that banks in Bangladesh provide interest-free services?

□ Never thought about it.

□ Not much

□ Sufficient knowledge

□ Very well

How [do]you come to know that bank offers interest-free banking in Bangladesh?

□ Bank employee

□ Media (Newspaper, TV)

□ Internet

□ Friends/ Family

Do you feel, Islamic or interest free services are costlier than non-Islamic services?

□ No □ Not sure

Do you know how your deposits and savings are invested by the banks? i.e. Ethical investment or war, arms, trade, gambling, alcohol, tobacco etc.

□ Ye □ No □ Not sure

How do you differentiate banking services?

□ Interest rate/ profit

□ Convenience

□ Cost of banking

□ Other; please specify: …………………

Why have you chosen Islamic Banking?

□ Religion

□ Cheap products

□ Convenient bank location

□ Friends

□ Ethical

□ Other than above, please specify: ………

For how long are you dealing with or have you become a consumer of Islamic Banking?

□ Less than 1 year

□ 1-5 Years

□ 6-10 Years

□ More than 10 Years

Did you switch from one Islamic Banks to Another?

□ Yes □ No

If Islamic product becomes costly, would you still consider them?

□ Yes □ No

While dealing in Islamic Financial products, you feel more satisfied at:

□ Internet Banking

□ Telephone Banking

□ Personal Visit

**Part Three: Bank Selection Criteria (Please √)**

Please rank the bank facilities for following items. Rank them from 1 to 7. **'1' represents strongly disagree and '7' represents for strongly agree.**

| *Please Tick* | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| Fast and efficient counter services | | | | | | | |
| Speed and efficiency of transactions | | | | | | | |
| Interior comfort of Branches | | | | | | | |
| Experienced management team | | | | | | | |
| Availability of financial advice | | | | | | | |
| Faster document processing | | | | | | | |
| Knowledge on customer's business | | | | | | | |
| Provision of free interest loans | | | | | | | |
| Provision of Islamic products and services | | | | | | | |
| Run on Islamic law and principles | | | | | | | |
| Provision of profit-sharing investment products | | | | | | | |
| No interest paid nor taken on savings and loans | | | | | | | |
| Wide Electronic Communication System | | | | | | | |
| Strong global network | | | | | | | |
| Sufficient time for transaction | | | | | | | |
| Convenient branch location | | | | | | | |
| Awareness program on services | | | | | | | |
| Competitive Product Offerings | | | | | | | |
| Uniform services in all branches | | | | | | | |
| Overdraft privileges on current account | | | | | | | |
| Confidentiality of Bank | | | | | | | |
| Confidence in Bank's management | | | | | | | |
| Bank size in assets and capital | | | | | | | |
| Lower service charge | | | | | | | |
| Average decent return | | | | | | | |

**What is your level of Overall Satisfaction?**

| Highly Dissatisfied | | | | | | Highly Satisfied |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |