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Clients of conventional and Islamic banks in Bahrain

How they choose which bank to patronize

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Abstract

Purpose – The purpose of this paper is to report a study into: the motives that dispose customers in Bahrain to choose a specific bank; the level of familiarity of customers with the most widely used services/products offered by Islamic banks; and the extent of use of those products.

Design/methodology/approach – This is the first study conducted in Bahrain to include three types of bank clients: those who bank with conventional banks, those who bank with Islamic banks, and who use both kinds of banks. The results are based on a response rate of 65.5 percent from 1,000 questionnaires distributed. Descriptive statistics and non-parametric statistics (Mann-Whitney and Kruskal-Wallis tests) are reported, and factor analysis used to analyze the responses.

Findings – It is found that: Islamic religious belief and social responsibility are the two most important factors that determine bank selection. Cost benefit is the third most important factor considered in bank selection; clients of conventional and Islamic banks share a number of motives, but they differ significantly on a few motives in relation to bank selection; and clients of Islamic banks are more familiar with the products/services that conform to the *sharia'a*. Overall, for clients who bank exclusively with Islamic banks, and for those who bank in different kinds of banks, the most widely used product/service of Islamic banks is *murabaha*.

Practical implications – The most important practical implication is for banks, conventional and Islamic, when setting and implementing their marketing strategies, which should include an awareness campaign. The results also benefit banks operating in the countries of the Gulf Cooperation Council (GCC). This is because of the similarities of the countries in the GCC.

Originality/value – This paper is the first attempt to identify the motives and criteria for bank selection in Bahrain among clients of conventional banks, Islamic banks, and clients who bank with both types of banks. The study goes on to determine the extent of familiarity of clients of banks in Bahrain with the products/services that comply with Islamic *sharia'a*.

Keywords Banks, Banking, Consumer behaviour, Islam, Bahrain

Paper type Research paper



I. Introduction

Since the establishment of the Dubai Islamic Bank (DIB) in 1975 in the UAE, Islamic banking has witnessed a remarkable growth. There are now more than 500 institutions worldwide, with estimated assets of US\$1 trillion[1] which was five times their level at the end of 2003. A wide range of products and services are offered by those institutions. The increase acceptance of Islamic finance has led many countries to grant licenses to financial institutions to operate on the basis of Islamic *sharia'a* principles. Licensed institutions can be found in more than 75 countries, including Muslim (e.g. Bahrain, Kuwait, Malaysia, and UAE) and non-Muslim (e.g. Singapore and UK) states.

Islamic banking and finance in Bahrain (as in any other country) cater to the needs of those who wish to avoid conducting their financial dealings operating on *riba*[2], or interest, but its use is not limited to those people. Islamic *sharia'a* (Islamic law) prohibits paying and receiving *riba*, *gharar* (excessive uncertainty), and financing products such as alcohol. Therefore, Islamic banks do not lend or borrow money. To this end, Islamic financial institutions structure their products in a way that does not involve *riba*, or contracts that are considered to *haram* (prohibited). As an alternative to *riba*, Islamic banks are expected to operate on the basis of profit and loss sharing[3] (PLS) engaging the bank in both the assets and the liabilities of the project. Under the PLS model, the *ex-ante* fixed rate of return in financial contracting, which is prohibited, is replaced by a rate of return that is uncertain and determined *ex-post* facto on a profit-sharing basis. Only the profit-sharing ratio between the capital provider and the entrepreneur is determined *ex-ante*. However, "Islamic Banking" is in many ways very similar to (and at times identical with) conventional banking, except that contracts with clients must comply with Islamic *sharia'a* (Iqbal and Mirakhor, 2007). There is no theological debate about the prohibition of *riba*. However, some practices of Islamic banks are seen by many people as contradicting Islamic *sharia'a* and Islamic economics. All Islamic banks have either an advisory *sharia'a* board or *sharia'a* advisor(s), and as a result all the products they trade are *sharia'a* compliant because they have been approved by the *sharia'a* board or advisor. However, there has been criticism of some practices of Islamic banks. Dusuki and Abozaid (2007) called for revitalization of Islamic banking and finance practices based on a proper understanding and implementation of the *maqasid* of *sharia'a* (Objectives of Islamic law). Furthermore, Asutay (2007) argues that the current practices of Islamic finance, dominated by debt financing, provide economic incentives at the expense of robust social justice. He argues that this does not support, nor is it supported by, the normative assumptions of Islamic economics. He demonstrates that Islamic banking and financial institutions have opted to provide the more profitable Islamic financial services, such as *mudrabaha*, at the expense of *musharakah*. Asutay (2007) concludes that Islamic banking and finance has deviated from the aspirational stance of Islamic economics and suggests that Islamic finance should be more closely aligned to the social and economic ends of financial transactions, rather than just focusing on the mechanics of the contract. Aggarwal and Yousef (2000, p. 94) state that:

Most of the financing provided by Islamic banks does not conform to the principle of profit-and-loss sharing. Instead, much of the financing provided by Islamic banks takes the form of debt-like instruments.

Islamic banks are also criticized for not given access to poor people through microfinance facilities and for moving away from PLS to sales-based system that operate largely on the basis of contracts that are based on a "mark-up" (Saeed, 2004). Echoing this view, Hsan (2007, p. 19) states that, "Islamic financial institutions have mostly been designed on the pattern of commercial banks in terms of their outlook, objectives, procedures, training and *modus operandi*". The imbalance between management and control rights (the agency problem) is blamed for this major failure to rely on PLS in the practice of Islamic finance (Dar and Presley, 2000). Dar and Presley (2000) enumerate several such explanations for Islamic banks entrenched tendency to avoid PLS modes and overwhelmingly to use *murabaha* and other non-PLS modes.

Furthermore, the practice of charging the same rate on all *murabaha* transactions, regardless of the type of commodity or assets, is seen as evidence of applying the concept of time value of money, which involves charging *riba* to clients[4]. Among the reasons for these tendencies are:

- high level of agency problem for *mudaraba* and *musharaka*;
- property rights are a vital requirement for PLS-contracts to function efficiently, but in most Muslim countries property rights are not properly defined or protected;
- PLS contracts make shareholders sleeping partners;
- equity financing is not feasible for the funding of short-term projects or working capital finance;
- there is a lack of secondary markets for trading Islamic products; and
- competition with conventional banks forces Islamic banks to offer less risky products compared with *mudaraba* and *musharaka*.

Competitive pressure from conventional banks is also given as a reason for pegging the rate of return on Islamic deposit accounts to the interest rates on conventional bank deposits, and the fact that a negligible portion of financing is based on the PLS principle (Chong and Liu, 2007).

Disagreements among Islamic *sharia'a* advisors about the compliance of certain products offered by Islamic banks contribute to the ongoing debate about the gap between theory and practice. A widely cited example of these differences is the ruling in February 2008 of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that 85 percent of *sukuk* issues were not totally compliant with Islamic law, or *sharia'a*. This ruling has led to a decline of 48 percent[5] in the sale of *sukuk* between January and August 2008. Furthermore, some products, such as Bai Al-Inah[6] and Bai Al-Dayn[7], offered by Islamic banks in Malaysia are not considered to comply with Islamic *sharia'a* by Islamic banks in the Gulf Cooperation Council (GCC) countries. This is due to differences in Islamic interpretations. Jusoh (2007), among others, states that only *Syafii* jurists (whose view Malaysian scholars follow) believe that such contracts comply with Islamic *sharia'a*, while other Islamic interpretations (i.e. *Hambali*, *Hanafi*, and *Maliki*) consider such contracts invalid. Furthermore, some argue that *sharia'a* advisors do not have the time to study in detail the products that the management of Islamic banks offer, because many of them serve on a large number of advisory boards, and there is a lack of thorough investigation which may lead to approval of products that might not comply fully with the *sharia'a* requirements[8]. Overcoming these criticisms is important if Islamic banks are to attract more customers.

A bank's performance is a function of a number of determinants. One of those determinants is the client base. Therefore, those banks need to increase this base and retain all the clients that they have won. Hence, banks operating in a competitive environment should be aware of the criteria used by consumers to choose their bank. Islamic banks are not different in this respect. Wilson (1995) argued that Islamic banks, as business entities that strive to meet religious obligations, need to compete with other banks to win customers. Therefore, Islamic banks need to meet two objectives: run profitable operations for investors and satisfy religious obligations (Wilson, 1997). It is imperative for these banks to understand customer behaviour in their communities in

order to develop suitable strategies to increase their client base. This is particularly important for Islamic banks as they lack standardization of their products, and this leads to higher transaction costs compared with conventional banks (Al-Maraj, 2008).

A previous study of client's selection criteria for Islamic banks in Bahrain by Metawa and Almosawi (1998) suffered from a number of limitations:

- (1) their sample consisted of only two Islamic banks, which were the only ones available at the time;
- (2) the period during which they conducted their study was characterized by the limited number of Islamic financial institutions and the very limited number of products and services that complied with Islamic *sharia'a* requirements;
- (3) although their study was supposed to investigate clients' awareness and satisfaction with the services of Islamic banks, they classified responses, not in terms of named products of Islamic banks, but in terms of products and services offered by conventional banks; and
- (4) they included in their questionnaire only four possible criteria for choosing to bank with an Islamic bank.

These shortcomings are a limitation when seeking to generalize their conclusions to an industry that now is composed of many more banks offering a wide range of products and services. The present study is more extensive and draws upon a population of all the clients all retail Islamic banks. In another study (Almosawi, 2001) used a sample of students at the University of Bahrain to test the criteria for bank selection. Although Metawa and Almosawi (1998) reported that fulfilment of religious requirements was found to be the prime motive for the bank selection, Almosawi (2001) did not include this motive in the list of the test criteria the students were invited to choose from, although Almosawi offered no explanation for this omission. The present study attempts to overcome all of these limitations.

Cultural differences are also likely to lead consumers to use different criteria for selecting services or products (Balnkson *et al.*, 2007). Therefore, the results reported by studies conducted in different national settings cannot easily be generalized, especially when the results of these studies are inconsistent even when conducted in the same environment. A further reason for conducting the present study is that the results of previously published research are inconclusive (Gerrard and Cunningham, 2001; Dusuki and Abdullah, 2007; Gait and Worthington, 2008).

The chief objectives of the present study are to:

- contribute in the literature on the selection criteria clients use to choose when they choose to bank with Islamic banks;
- determine the relative familiarity of bank clients with the products and services offered by Islamic banks; and
- find the extent of use of those products/services by bank clients.

The results of the study have implications for the way banks seek to enlarge their customer base. The way these banks conduct their business may motivate clients to choose a bank that uses Islamic *sharia'a* principles as a base for all products and services. The objectives of the study are to understand clients' motives for banking with Islamic banks in Bahrain. Bahrain is a suitable place to conduct such a study,

because the government's policy to develop Bahrain as an Islamic financial centre has led the Central Bank of Bahrain (CBB) to:

- develop a friendly business environment;
- put in a place the regulation suitable for these types of banks;
- host the AAOIFI which develops accounting, auditing, ethical and governance standards that Islamic financial institutions are required to comply with; and
- invest in developing human resources qualified in Islamic finance.

In addition, the house of representatives requires the government to finance public projects using Islamic financial facilities. The government has developed the country as a centre for conventional finance over the last three decades, allowing the country to accumulate rich experience in dealing with the sophistication that characterizes the banking industry. Although Bahrain is a Muslim country, it is also known to be an open country and is inhabited by many nationalities and people with different religious beliefs and cultures. The resulting duality of the banking system (conventional and Islamic banks) offers clients excellent opportunities to choose between different banking types as well as choosing an individual bank within each group.

The paper is structured as follows: Section II provides a brief account of the banking environment in Bahrain, and this is followed by the salient features of the literature on bank selection criteria in Section III. Section IV explains the instrument used to collect information from the sample and the properties of the sample. The results and analysis are presented in Section V, and this is followed by concluding remarks in Section VI.

II. The banking environment in Bahrain

Bahrain is a member of the GCC, alongside Kuwait, Oman, Qatar, Saudi Arabia, and UAE. As of 2007, the size of the population is 1.05 million. Bahrain's vision for 2030 identifies the financial sector as one of the five economic sectors that the country attempts promote. However, the government strategic emphasis on this sector dates back to 1975 when it took a decision to establish an offshore banking industry. This strategy is part of a holistic strategy to diversify the economy away from the oil sector. This policy has led to an increase in the share of the financial sector, which has increased its share of gross domestic product (GDP) by 27 percent between 1980 and 2007, while the oil sector shrank from 27 percent in 1980 to 15 percent. The growth of the financial sector has been brought about by a strong regulatory setting, friendly business environment and the establishment of support services needed by the banking industry to develop and expand. Over the last few years the oil sector has been the largest contributor to the country's GDP.

The banking industry in Bahrain started in 1923, when the Eastern Bank (now Standard Chartered Bank) opened its first branch, followed by a branch of the British Bank of the Middle East (now, HSBC) in 1945. The first locally incorporated bank, National Bank of Bahrain was incorporated in 1957. As for the Islamic banks, the first bank to operate in accordance with the rules and principles of Islam, the Bahrain Islamic Bank (BisB) was incorporated in 1978. The BisB was the third Islamic bank to be established in GCC countries, after DIB and the Kuwait Finance House (KFH). As of November 30, 2007, the industry is composed of 417 banks and financial institutions, of which 26 Islamic retail and wholesale bank are licensed. The retail banking segment of

the market is composed of 30 banks, of which six are Islamic banks, serving a population of a little more than one million. The branches of the retail banks amounted to 126 branches; of those 26 are branches of the Islamic banks. Conventional banks in Bahrain are allowed to offer Islamic banking services and products through an Islamic window. A number of conventional banks, both retail and wholesale, such as Al-Ahli United Bank and Arab Banking Corporation, offer Islamic products through their Islamic windows.

Islamic banks in Bahrain offer a wide range of products. Table I shows the most widely used products and services offered by retail Islamic Banks, together with a description of their main characteristics. As of November 2008, *murabaha* accounts for US\$7.9 billion, representing 31.3 percent of restricted and unrestricted accounts (RUR) for Islamic banks, this type of financing is known to be highly profitable and less risky, followed by *Ijara* (lease) which accounts for US\$1.2 billion which represents 4.8 percent of the RUR. The unconsolidated subsidiaries and associates represent the largest share in the RUR, as it amounts of US\$5 billion, which accounts for 19.8 percent of the total RUR. *Mudaraba* and *Musharaka* contracts represents 3.7 and 1.3 percent, respectively. A unique feature of Islamic banking is its PLS paradigm, which is predominantly based on the *mudarabah* (profit sharing) and *musyarakah* (joint venture) concepts of Islamic contracting. However, these ratios indicate that the activities of Islamic banks focus on non-PLS modes of financing permitted under the *sharia'a*, but which ignore the spirit of the *riba* prohibition. This observation lends further support to the analyses presented by Dar and Presley (2000) and Chong and Liu (2007), among others. It is worth noting that the consolidated balance sheet of Islamic banks does not have any investment in Salam contracts. This is not surprising given that the size of the agriculture sector in Bahrain and other GCC countries is very small.

The total banking assets of all banks in Bahrain reached US\$ 243.9 billion by the end of November 2008. The share of Islamic banks in the banking assets was US\$24.0 billion, which represents 9.1 percent of the total banking assets. The total assets of Islamic banks (retail and wholesale) has recorded a remarkable growth rate of 37.7 percent over the period 1998-2008. This exceeds the annual growth rate (10 percent) of the total assets of all conventional banks. Although these figures indicate the ability of Islamic banks to grow at a higher rate than their counterparts. They also highlight the challenges facing Islamic banks in Bahrain in their endeavour to increase their market share in a

Product/service	Explanation
<i>Murabaha</i>	An instrument used for financing the purchase of goods and services where the Islamic bank purchases these on behalf of the customer
<i>Mudarabah</i> (joint venture)	The provision of capital to a partial-equity partnership in return for a share of profits, but where the losses on funds lent are borne by the financier (bank's client)
<i>Musharakah</i> (equity participation)	Full-equity partnerships where the provider of funds and the entrepreneur directly and wholly share in the business
<i>Bai Salam</i>	Advance or pre-paid sale contracts of agriculture products
<i>Istisna</i>	Manufacturing contracts to cover work in progress and paid by the Islamic bank on behalf of the customer
<i>Ijarah</i>	Lease financing in the form of operating leases only
<i>Ijarah Muntahia Bittamleek</i>	Lease financing in the form of financing (capital lease) leases only
<i>Quard Hassan</i>	Benevolent loans offered interest free

Table I.
The most widely used products and services offered by retail Islamic banks in Bahrain

dual-banking environment. Islamic banks in Bahrain have a relatively small share of the total assets of the banking sector compared with the same ratio in UAE, where it was estimated to be around 15 percent at end of 2007 (Oxford Business Group – OBG, 2008), and Kuwait, where it was estimated to be around 21 (OBG, 2008). UEA is the host of the oldest Islamic bank, DIB, while Kuwait has only three Islamic banks out of the nine banks operating there, and lacked regulatory framework for Islamic banks until 2004 (OBG, 2008). Before 2004, the KFH, which was established in 1977, was the only Islamic bank operating in Kuwait. Islamic banking assets account for 17.4 percent of the total banking assets of the Malaysian financial system[9]. These figures indicate that the Islamic banks' share in the total assets of the banking industry is relatively low. The criticisms of some practices of Islamic banks, cited in Section I above, partly explain the relatively low share of Islamic banks in the total assets of the banking industry.

The consolidated balance sheets of Islamic banks indicate that they rely on their own funds. These funds represent 73.6 percent of the total sources of funds (US\$25.2 billion). The unrestricted investment account amounts to US\$5 billion, or around 19.8 percent of the total sources of finance; the third source of finance is restricted investment accounts which amount to US\$1.7 billion. However, the CBB does not provide details of the type of contracts (products).

The regulator of the banking industry and money and capital markets is the CBB. Each Islamic financial institution is expected to certify any product and services to be Islamic *sharia'a* compliant. This requirement applies to all products structured internally and products offered by other Islamic financial institutions. Therefore, in theory, an Islamic bank might reject a product approved by a *sharia'a* board of another Islamic bank. The effectiveness of the *sharia'a* board is an important requirement for reducing the risk to the reputation of Islamic banks.

III. Brief literature review

The selection criteria used by clients of conventional banks have been thoroughly researched (Gait and Worthington, 2008). Among those who have studied the things that motivate consumers to select Islamic banks are Metawa and Almosawi (1998) in Bahrain, Dusuki and Abdullah (2007) in Malaysia, Erol *et al.* (1990) and Naser *et al.* (1999) in Jordan. Dusuki and Abdullah (2007) and Gait and Worthington (2008) provided excellent reviews of the current state of the literature on selection criteria. Consequently, there is no need for another general review, and this section focuses exclusively on identifying the factors that are likely to influence consumers' decisions to favour a particular bank.

Religious belief as a motive to choose to bank with Islamic banks was described by Omer (1992) in a survey of Muslims in the UK at a time when Islamic products were offered by conventional banks through their Islamic windows. The findings of that study were echoed by the results reported by Hejazy (1995) who found that 98.8 percent of the clients of Islamic banks in Egypt were Muslims, while 54.3 percent of the clients of conventional banks were Christians. In Bahrain, Metawa and Almosawi (1998) found that the religious factor was among the most important factors in determining selection of the banks by Bahrainis. In a study by Al-Sultan (1999) it was found that Kuwaitis consider religious belief to be one of the important criteria for selecting their banks. These results are supported by those reported by Naser *et al.* (1999) who studied the selection criteria used by banks' consumers in Jordan. Similar results were reported

by Zainuddin *et al.* (2004) and Dusuki and Abdullah (2007), who surveyed Malaysian bank customers, and Okumus (2005) in Turkey. However, Erol and El-Bdour (1989) and Erol *et al.* (1990) report that religious belief plays little role in determining the selection of bank by Jordanian consumers. Metwally (1996) stated that Hamid and Nordin (2001) reported similar results in their study of the attitudes of Malaysian customers towards Islamic banking. These results indicate that religious motivation cannot be conclusively identified as a primary reason for bank selection by Muslims.

Whether the satisfaction of religious responsibilities may or may not be an important element in bank selection, other motives are reported to have significant a effect of the consumers' decisions. A review of the literature in the area reveals a number of motives that shape consumers' choice of bank, (Al-Sultan, 1999; Hamid and Nordin, 2001; Ahmed and Haron, 2002; Metwaly, 2002; Bley and Kuehn, 2004; Zainuddin *et al.*, 2004; Okumus, 2005; Balnkson *et al.*, 2007; Dusuki and Abdullah, 2007). These motives include:

- economic;
- convenience;
- influence of others;
- satisfaction with the bank's products and services;
- reputation; and
- social responsibilities.

These motives have been examined using factor analysis to classify them into factors (criteria). The economic motive is represented by a number of factors, such as cost of services, rate of return earned by clients. Convenience is composed of a number factors including availability of parking space, location of branches, long working hours, 24 hour availability of automated teller machines (ATMs). Influence of others includes the influence of friends, parents, and relatives. Satisfaction with the bank's product and services is tested through criteria such as speed of providing services and finalizing contracts. Reputation is tested through a number factors such strength of financial position, reputation, and risk. The motive of social responsibilities was tested using a number of variables such as:

- supporting scientific, social, and cultural activities;
- environmental practice and impact; and
- respecting the right of bank staff.

The results of a large number of empirical studies reveal similar results as to effect of these on the selection of the bank that a consumer banks with. However, there is no unanimous agreement as to the relative importance of each motive in the consumer's decision (Dusuki and Abdullah, 2007; Gait and Worthington, 2008).

IV. The instrument and the sample

A questionnaire was used to collect the required data from the target population. The instrument consisted of three parts. The first aimed to obtain socio-demographic information about the respondents. The second part solicited information about the importance of 19 possible motives used by clients of Islamic banks. These motives are drawn mainly from earlier studies cited above. Each motive was measured using

a five-point Likert scale of importance, ranging from five “very important” to one “not important at all”. The selected factors were drawn from the literature in the area. The third part solicited information about the clients’ awareness of products and services offered by Islamic banks. Respondents were asked to express the extent of their familiarity with those products on five-point Likert scale ranging from five “very familiar” to one “not familiar at all”. The questionnaire was tested with a sample of ten people working in Islamic banks who were asked to inspect the questionnaire and to comment on the appropriateness of the wording of the questionnaire. Out of the ten questionnaires distributed seven were returned. The final version was amended to take into account the comments received from the participants in the pilot sample. The participants in the pilot test were not included in the final sample. Two versions (Arabic and English) of the questionnaire were used to collect the data. Items were randomized in the questionnaire to reduce bias towards the specified micro-attributes. The questionnaire was originally drafted in English and then translated to Arabic by the authors to ensure consistency in both versions. Before distributing the final version, 15 clients were asked to fill the questionnaire to test the internal consistency. The Cronbach’s alpha of 83.61 indicates high-internal constancy. The questionnaire was distributed by students to clients of Islamic banks through the branches of three Islamic banks, two branches of conventional banks with an Islamic window, three ministries and trainees attending training programmes at the Bahrain Institute of Banking and Finance.

The survey was administered during December 2008 and January 2009. Out of the 1,000 copies of the questionnaire distributed, 664 copies were returned. Out of those returned, nine questionnaires were excluded because the missing information in the first part (socio-demographic) of the instrument. This left 655 useful responses (65.5 percent response rate), which were used to achieve the objective of the study. This is considered relatively high if it is compared with other studies in the area. The Cronbach’s alphas of responses was 80.03, respectively. This indicates considerable internal consistency of the responses.

Table II presents descriptive statistics of the respondents to the questionnaire. Around 43.2 percent of the respondents are female. The respondents are predominantly Bahrainis, constituting 85.3 percent of the respondents. Almost 69.4 percent of them are below 40 years in age and 11.2 percent are 50 years old or older. Around two-thirds of the respondents are married, and 52.4 percent hold a first university degree and 20.6 percent hold a graduate degree and/or professional qualification. As for their place of work, 43.1 percent of the respondents are government employees, while 32.9 percent are working with conventional and Islamic financial institutions. A substantial majority (79.1 percent) of the respondents earn BD400[10] or more per month. The majority (66.1 percent) of the respondents deals or dealt with more than one bank. Those who maintain a relationship with more than one bank tend to be older, earn higher than average monthly income, and are employed in the private sector. Around one-third (33.4 percent) changed the type of bank they used (from conventional to Islamic and vice versa). Those who changed the type of bank they used tended to earn above average monthly income. The respondents banked with both conventional and Islamic banks, 63.8 percent bank with conventional, 19.2 percent with Islamic banks and the remainder with both conventional and Islamic banks. Although the main objective is to determine the selection criteria of Islamic banks, the sample is not limited to clients of Islamic banks. Clients of conventional banks are included in the sample to provide more

Demographic	Categories	Frequency	%	Islamic banks in Bahrain
Gender	Female	283	43.2	1095
	Male	372	56.8	
Age	20-29	255	38.9	
	30-39	200	30.5	
	40-49	127	19.4	
	50-59	58	8.9	
	60 years and older	15	2.3	
Nationality	Bahraini	559	85.3	
	Non-Bahraini	96	14.7	
Marital status	Married	429	65.5	
	Not married before	200	30.5	
	Divorced	20	3.1	
	Widow/widower	6	0.9	
Education	Secondary school certificate or below	177	27.0	
	BSc	343	52.4	
	Postgraduate degree/professional qualification	135	20.6	
Employer	Government	282	43.1	
	Conventional bank/investment company/insurance	147	22.4	
	Islamic bank/investment company/Takaful	69	10.5	
	Other	157	24.0	
Monthly income ^a	Less than BD400	137	20.9	
	BD400 to less than BD600	187	28.5	
	BD600 to less than BD1,000	166	25.3	
	BD1,000 to less than BD2,000	96	14.7	
	More than BD2,000	69	10.5	
Type of bank	Conventional	418	63.8	
	Islamic	126	19.2	
	Conventional and Islamic	111	16.9	
Banking with more than one bank	Yes	433	66.1	
	No	222	33.9	
Change type of bank	Yes	219	33.4	
	No	436	66.6	

Table II.
Main characteristics
of the sample

Note: ^aBD1 = US\$2.65

insight when the selection criteria of clients of conventional and Islamic banks are compared. The three sub-samples are those who bank with conventional banks, those who bank with Islamic banks and those who bank with both. Furthermore, the whole sample is divided into sub-samples based on the demographic information presented in Table II in order to test the similarities and differences between the responses of these samples.

V. Results and analysis

V.1 Motives for bank selection

A total of nineteen possible criteria that might be used by bank clients were included in the questionnaire and respondents were asked to express their opinion about the relative importance of each criterion on their decision in choosing a bank. Table III

Table III.
Mean, SD, relative rank
of the motives for bank
selection and
Kruskal-Wallis test

Motives for banking with my bank	Whole sample		Conventional		Islamic		Conventional and Islamic		Kruskal-Wallis test χ^2
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
Knowledgeable and competent personnel	4.45	0.81	4.45	0.82	4.48	0.72	4.39	0.87	1.485
Friendly personnel	4.49	0.69	4.48	0.73	4.51	0.65	4.51	0.57	2.817
Customer service quality (e.g. fast and efficient services)	4.67	0.72	4.64	0.77	4.67	0.69	4.79	0.51	2.938
Islamic reputation and image	4.03	1.14	3.87	1.21	4.43	0.93	4.14	0.99	28.341*
Fulfillment of religious obligations	3.82	1.20	3.72	1.24	4.28	0.88	3.67	1.23	9.972*
Financial strength and soundness	4.32	0.89	4.38	0.87	4.21	0.97	4.21	0.84	7.627*
Respect for the rights of employees	4.04	1.02	4.14	0.98	3.94	0.99	3.79	1.13	5.304
Islamic working environment	3.72	1.16	3.68	1.18	4.01	1.00	3.56	1.21	10.148*
Convenience (e.g. available parking space, interior comfort)	4.28	0.84	4.29	0.86	4.32	0.79	4.20	0.82	2.804
Involved in the community (e.g. giving donations, scholarships)	3.66	1.10	3.74	1.10	3.67	1.07	3.33	1.12	8.837*
Environmental practice and impact	3.47	1.21	3.53	1.19	3.43	1.19	3.27	1.31	0.053
Cost of services/products	4.17	0.93	4.15	0.94	4.08	0.94	4.33	1.12	4.494
Location near home or work	4.22	0.95	4.29	0.91	4.05	0.98	4.13	1.02	10.386*
Availability of online banking	4.14	0.98	4.18	0.95	4.03	1.04	4.09	1.01	3.377
Recommendation by friends and/or parents	3.70	1.05	3.75	1.03	3.68	1.10	3.54	1.06	2.440
Rate of return	4.10	1.03	4.04	1.03	4.10	1.09	4.31	0.96	8.847*
Meets my need for products and services	4.35	0.84	4.37	0.86	4.28	0.82	4.37	0.80	2.310
My employer's bank	3.75	1.18	3.83	1.14	3.70	1.21	3.48	1.28	3.114*
Hours of operation	4.22	1.00	4.27	0.99	4.13	1.12	4.14	0.89	11.928*

Notes: *Significant at: 0.05 level or less; ^aR: relative rank

shows the ranking of relative importance of each criterion for the whole sample and subsamples. The relative rank is based on the mean of the responses, and higher scores indicate more importance.

Based on the relative ranking of the mean responses of all respondents, the most important five factors are, in order of importance:

- (1) quality of customer service (e.g. fast and efficient services);
- (2) friendly personnel;
- (3) knowledgeable and competent personnel;
- (4) meeting the needs of customers for products and services; and
- (5) financial strength and soundness.

The five least important factors are:

- (1) my employer's bank;
- (2) Islamic working environment;
- (3) recommendation by friends and/or parents;
- (4) involved in the community (e.g. giving donations, scholarships); and
- (5) environmental practice and impact.

As for the clients of conventional banks, the most important motives for bank selection are, in order of importance:

- (1) quality of customer service (e.g. fast and efficient services);
- (2) friendly personnel;
- (3) knowledgeable and competent personnel;
- (4) financial strength and soundness; and
- (5) meeting the need of customers for products and services.

From the perspective of this group, the least important five factors that impact their bank selection are:

- (1) recommendation by friends and/or parents;
- (2) bank involvement in the community;
- (3) fulfilment of religious obligations;
- (4) Islamic working environment; and
- (5) environmental practice and impact.

The responses of the sample of clients of Islamic banks identified the five most important motives as:

- (1) quality of customer services;
- (2) friendly personnel;
- (3) knowledgeable and competent personnel;
- (4) Islamic reputation and image; and
- (5) convenience (e.g. available parking space, interior comfort).

This group listed the following five motives as the least important in bank selection:

- (1) respect for the rights of employees;
- (2) being the bank of my employer;
- (3) bank involvement in the community;
- (4) recommendation by friends and/or parents; and
- (5) environmental practice and impact.

The five most important motives from the perspective of those who used both types of banks are:

- (1) quality of customer service;
- (2) friendly personnel;
- (3) knowledgeable and competent personnel;
- (4) meeting the needs of customers of products and services; and
- (5) the cost of services/products.

The five least important motives listed by the third sample are:

- (1) Islamic working environment;
- (2) recommendation by friends and/or parents;
- (3) being the bank of my employer;
- (4) bank involvement in the community; and
- (5) environmental practice and impact.

As shown above, the three groups share the ranking of the three most important motives for bank selection. These, in terms of importance, are:

- (1) quality of customer service;
- (2) friendly personnel; and
- (3) knowledgeable and competent personnel.

They also share the ranking of the “environmental practice and impact” as among the least important motives they use in bank selection decisions. The Kruskal-Wallis test is used to test whether the means of the three motives of the three samples differ significantly from each other. The results of the tests indicate that there are no significant differences between the mean ranks of the responses of the three samples. These results contradict those reported by Almosawi (2001) who found that the most important motives are:

- (1) convenient ATM locations;
- (2) availability of ATMs in several locations; and
- (3) the bank’s reputation.

The results of Almosawi (2001) are surprising, in view of the fact that all banks in Bahrain are members of the network “BENEFIT,” which allows bank clients to use ATMs of other banks at very low cost (BD0.250, US\$ = 0.66 per transaction).

The three religious motives are ranked differently by the three groups. The three motives related to religion that are included in the questionnaire are:

- (1) Islamic reputation and image;
- (2) fulfilment of religious obligations; and
- (3) Islamic working environment.

The whole group ranked them as the 13th, 14th, and 16th most important motives for bank selection. The mean responses of the respondents that bank with Islamic banks suggest that they attached relatively more importance to those factors compared with the other groups. The three motives are ranked among the top half of the most important motives, with ranks fourth, fifth, and sixth. The relative ranks of these factors by clients of conventional only and conventional and Islamic banks place them in the bottom half of the most important factors, with the exception of "Islamic reputation and image" which is ranked as the ninth important motive. These results indicate that those clients do not see a contradiction between their commitment to Islam and banking with conventional banks. The importance that the three samples attach to religious motives contradict the results reported by Almossawi (2001) who chose to ignore any such factor in the instrument he used to solicit the opinions of university students on banks selection motives. The Kruskal-Wallis test is used to test whether the means of the three factors of the three samples differ significantly from each other. The results of the χ^2 of the three tests indicate the means ranks of the responses of the three samples differ significantly from each other.

Three economic motives are included in the possible motives that are likely considered by clients in their selection of a bank. These are "financial strengths and soundness," "cost of services/products," and "rate of return". It is apparent from the relative ranking of the motives by the three samples that economic motives are considered the most important. The clients who bank with both conventional and Islamic banks attach even more importance to these motives compared with the relative ranking of the other two samples. On the other hand, clients of only considered economic factors less important compared with the other two samples. The results of the Kruskal-Wallis test indicate that the means ranks of the responses of the three samples do not significantly differ from each other. Two possible reasons for such outcomes are:

- (1) the relatively high-importance clients attach to religious motives compared with other motives; and
- (2) the samples are dominated by those who seek funding.

This means that the cost of products and services is considered important by all samples, while the rate of return is considered important by those who have savings to investment.

The three social responsibility motives (SRMs) are ranked by the three samples in the bottom half of the 19 possible motives. Among the three motives, "respect for the rights of employees" is ranked highest of the three. The results of the Kruskal-Wallis test indicate that the three samples differ significantly in the means of the responses in relation to the "respect for the rights of employees." However, the three samples do not differ significantly in the means of the other two motives among the SRMs.

As for the remaining motives, the means of the three samples do not differ significantly for the following motives:

- knowledge and competent personnel;
- friendly personnel;
- customer service quality (e.g. fast and efficient services);
- convenience (e.g. available parking space, interior comfort);
- availability of online banking;
- recommendation by friends and/or parents;
- meets my needs for products and services; and
- my employer's bank.

However, for the motive "location near home or work" and "hours of operation," the means ranks of the responses of the three samples differ significantly from each other.

Do females differ from males in the way they choose the bank they patronize? The Mann-Whitney test is used to examine whether there is a significant difference between the motives behind bank selection. The results show that the means ranks of the responses of the three samples for all motives do not significantly differ from each other. The only exception to this was motive "location of the bank near home and work". For this motive, the mean rank of responses of females is found to be significantly higher than the mean rank of the males.

Do motives for bank selection differ for people of different age groups? (Refer to Table II for information about the age groups.) The Kruskal-Wallis test is used to examine whether there are significant differences between age groups with regard to the motives for selecting the bank they patronize. The results of the χ^2 tests indicate that the means of the responses of the five age groups do not differ significantly from each other, except in the case of three motives. These are "customer service quality," "environmental practice and impact," and "availability of online banking". The results show that elderly people attach higher importance to these three criteria.

Do Bahrainis and non-Bahrainis differ on the relative importance of motives for bank selection? According to the results of the Kruskal-Wallis test shown in Table IV, Bahrainis and non-Bahrainis do not differ significantly from each other in nine of the 19 motives.

To examine the effect of educational level on the relative importance of the motives for bank selection, the Kruskal-Wallis test was used. The results of the χ^2 tests show that educational level has no significant effect on the motives, with the exception of five. These are:

- (1) customer service quality;
- (2) financial strength and soundness;
- (3) cost of services/products;
- (4) location near home or work; and
- (5) availability of online banking.

Motives	Gender Z^c	Age χ^2_{2d}	Nationality Z^c	MS ^a χ^2_{2d}	Education χ^2_{2d}	Employer χ^2_{2d}	Income χ^2_{2d}	Chg BK ^b Z^c	More than one BK Z^c
Knowledgeable and competent personnel	-0.401	1.431	-0.093	4.135	0.051	5.082	6.660	-0.128	-1.421
Friendly personnel	-0.554	5.344	-6.375*	7.275	5.906	12.172*	12.761*	-0.073	-0.956
Customer service quality (e.g. fast and efficient services)	-0.203	13.362*	-6.336*	10.844*	10.501*	11.345*	10.193*	-0.280	-1.150
Islamic reputation and image	-1.245	9.029	-3.002*	1.505	1.036	23.653*	7.473	-4.991*	-0.084
Fulfillment of religious obligations	-0.867	6.504	-0.811	2.513	1.439	39.316*	25.476*	-4.472*	-0.580
Financial strength and soundness	-1.072	6.172	-1.782	3.770	6.494*	7.742	4.693	-1.842	-1.976*
Respect for the rights of employees	-1.046	1.321	-2.188	5.712	0.339	16.253*	15.397*	-2.264*	-0.095
Islamic working environment	-0.052	8.187	-0.100	1.768	2.159	22.643*	23.295*	-2.646*	-0.298
Convenience (e.g. available parking space, interior comfort)	-0.204	0.407	-1.507	1.867	2.792	3.330	2.509	-0.017	-1.013
Involved in the community (e.g. giving donations, scholarships)	-1.199	2.395	-0.484	0.426	1.652	16.118*	5.725	-0.847	-0.249
Environmental practice and impact	-0.247	11.026*	-1.678	0.702	1.995	21.746*	4.878	-0.853	-1.329
Cost of services/products	-1.647	1.486	-2.57*	6.845	15.364*	2.908	23.619*	-0.883	-0.343
Location near home or work	-2.560*	7.816	-2.334*	9.733*	11.783*	7.016	14.441*	-2.862*	-1.547
Availability of online banking	-1.037	15.956*	-2.200*	10.492*	12.835*	2.192	13.375*	-1.301	-0.270
Recommendation by friends and/or parents	-0.951	1.446	-0.067	2.647	2.871	20.561*	15.373*	-0.420	-0.164
Rate of return	-0.485	2.653	-2.839*	5.259	0.737	5.192	4.328	-0.963	-0.706
Meets my need for products and services	-1.476	1.451	-2.136*	12.776*	10.973*	2.753	3.574	-1.540	-0.547
My employer's bank	-1.175	1.566	-0.925	1.419	2.774	11.388*	16.089*	-1.027	-0.125
Hours of operation	-1.180	7.558	-3.910*	6.612	4.819	7.018	7.274	-1.155	-1.870

Notes: *Significant at: 0.05 level or less; ^aR: relative rank; ^bMarital status; ^crespondents who changed banks type vs those who did not; ^dMann-Whitney test; ^eKruskal-Wallis test; ^frespondents bank with more than one bank vs those who transact with only one bank

Table IV. Kruskal-Wallis and Mann-Whitney tests of whether there is significant difference between different sub-samples

To investigate the dependence of the motives for bank selection on the client's monthly income, the Kruskal-Wallis test was used. The results of the tests show that the effect of monthly income is significant on ten motives out of the 19. The latter are:

- (1) friendly personnel;
- (2) customer service quality;
- (3) fulfilment of religious obligations;
- (4) respect for the rights of employees;
- (5) Islamic working environment;
- (6) cost of services/products;
- (7) location near home or work;
- (8) availability of online banking;
- (9) recommendation by friends and/or parents; and
- (10) client's employer bank.

The results of the Kruskal-Wallis test indicate that the relative importance of the 19 motives for bank selection for the clients who changed from conventional and Islamic banks and vice versa and those who did not change the type of banks were the same for all motives with exception of five. These motives are:

- (1) Islamic reputation and image;
- (2) fulfilment of religious obligations;
- (3) respect for the rights of employees;
- (4) Islamic working environment; and
- (5) location near home or work.

The Mann-Whitney test is used to examine the possible differences between clients who bank with more than one bank and those who bank with only one bank with reference to the relative importance of the 19 motives. The results show that the means ranks of the responses of the two groups do not significantly differ from each other for all motives except for one. This motive is "financial strength and soundness". The results show that those who bank with more than one bank attach higher importance to this motive than those who bank with only one bank.

V.2 Exploratory factor analysis

The Bartlett test of sphericity (of approximate $\chi^2 = 2086.65$; $df = 171$; significant at 0.000) and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy index value of 0.824 confirmed the appropriateness of the data for exploratory factor analysis (EFA). It is expected that some of the 19 motives are highly correlated, especially if one considers that some of the attributes are proxy for more than one variable. Principal component analysis with orthogonal (Varimax) rotation was selected to reduce the number of factors where the eigenvalue having a value of more than one was the criterion used in determining the number of factors. The factors included explained more than 48 percent of the cumulative percentage of variance. Five factors were extracted. A satisfactory 56.00 percent of the variance was explained. Table V presents

Motives for banking with my bank	Religion	Social responsibilities	Economic and services	Value and efficiency	Easy excess
Fulfilment of religious obligations	0.879				
Islamic reputation and image	0.863				
Islamic working environment	0.765				
Environmental practice and impact		0.796			
Respect for the rights of employees		0.741			
Involved in the community (e.g. giving donations, scholarships)		0.694			
Cost of services/products			0.713		
Rate of return			0.566		
Availability of online banking			0.560		
Convenience (e.g. available parking space, interior comfort)			0.520		
Meets my need for products and services			0.481		
Friendly personnel				0.738	
Customer service quality (e.g. fast and efficient services)				0.646	
Financial strength and soundness				0.522	
Knowledgeable and competent personnel				0.519	
My employer's bank					0.749
Location near home or work					0.595
Recommendation by friends and/or parents					0.586
Hours of operation					0.560
Eigen value	2.484	2.295	2.024	1.998	1.840
Variance (%)	13.075	12.079	10.650	10.515	9.682

Notes: Rotation method: varimax with Kaiser normalization; rotated component matrix

Table V. Factor loadings for the five factors extracted using principal component extraction and orthogonal rotation

the five factors along with scores for each variable and the factor they belong to. These factors are:

- (1) religion;
- (2) social responsibility;
- (3) economics and services;
- (4) value and efficiency; and
- (5) staff and easy access.

Of the variance explained, these factors explain 13.075 percent, 12.079, 10.65, 10.515, and 9.682 percent, respectively. When factor analysis is performed for each sample the outcomes do not differ qualitatively. The results[11] are shown in Table V. The five factors extracted explain 55.948 percent for sample of clients of conventional banks, 63.64 percent for the sample of clients of Islamic banks, and 64.456 percent for the sample that includes people who bank with both conventional and Islamic banks.

These results provide further evidence of the role of religion in bank selection but do not lead all clients to choose an Islamic bank. They either do not see any contradiction between their beliefs or they make sure that they when they select a conventional bank they do enter into contracts that lead to paying or receiving interest. Social responsibility is the second most important factor in terms of explaining the total variance. This might be interpreted in relation to the culture of the Bahraini society being a Muslim country. Although the cost and benefit (economic) factor was the third most important factor, this should not be interpreted as evidence that banking clients' decisions in bank selection are less sensitive to cost and benefits. This result probably comes about because the cost of services and rate of return offered by banks are similar to each other. This is due to the high level of competition between banks. Similarities between banks and uniform quality of staff might also have led to the small contribution of the fourth factor, "value and efficiency". The banking industry in Bahrain is known to be the most attractive industry for qualified people, in addition to having a large training budget which leads to minimizing differences between banks in terms of quality of personnel in the front line who deal with customers. Furthermore, Bahrain's small geographical area and links between the ATMs of all banks lead to the factor five, "staff and easy access," playing a smaller role in explaining variance. The results reported here are inconsistent with those reported by Almossawi (2001) who found that availability of ATMs and reputation were of the most important factor in banking selection criteria as compared to other factors. However, as it is indicated above that the results of Almossawi (2001) given that all retail conventional and Islamic are members of a network that allows customers all ATMs in Bahrain.

V.3 Familiarity with sharia'a compliant products/services

Islamic banks, Islamic banking windows of conventional banks and other Islamic financial institutions in Bahrain offer wide range of services. The most widely available are *murabaha*, *mudarabah*, *musharakah*, *bai Salam*, *istisna*, *ijarah*, *ijarah muntahia bittamleek*, and *quard hassan*. Respondents were asked to state their level of familiarity with those products/services. The results are shown in Table VI. Several observations can be made about those results, the most important of which are:

Islamic products/ services	Whole sample		Conventional		Islamic		Conventional and Islamic		Kruskal-Wallis test χ^2
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
<i>Murabaha</i>	3.69	1.25	3.44	1.28	4.01	1.19	4.14	1.00	28.841 *
<i>Mudarabah</i>	3.32	1.29	3.04	1.27	3.75	1.27	3.75	1.16	32.698 *
<i>Musharakah</i>	3.12	1.35	2.85	1.30	3.59	1.31	3.54	1.32	29.876 *
<i>Bai Salam</i>	2.52	1.30	2.33	1.25	2.94	1.25	2.74	1.38	17.789 *
<i>Istisna</i>	2.52	1.36	2.24	1.25	3.06	1.30	2.89	1.51	30.628 *
<i>Ijarah</i>	3.05	1.40	2.72	1.33	3.49	1.36	3.67	1.31	41.457 *
<i>Ijarah muntahia bittamleek</i>									
<i>Bittamleek</i>	3.03	1.44	2.70	1.37	3.51	1.47	3.58	1.35	36.601 *
<i>Quard Hassan</i>	3.53	1.39	3.30	1.39	4.04	1.34	3.80	1.27	23.355 *

Table VI. Familiarity of the respondent with products and services of Islamic banks

Note: *Significant at: 0.05 level or less

- Not surprisingly, respondents who bank with conventional banks are relatively less familiar with products and services offered by Islamic banks.
- Respondents are more familiar with *murabaha* than the other products and services, whatever type of bank they use. This is not surprising as the product is the oldest and it is the largest asset in the consolidated balance sheets of retail and wholesale Islamic banks in Bahrain.
- *Quard hassan* is ranked second in terms of relative familiarity by the three samples. This is a prominent concept because Islam encourages supporting others by different means, including loans without interest. This model is cited in the *Quaran* and also referred to in a number of *Hadiath*[12] of Prophet Mohammed (PBUH).
- The least familiar products/services are *bai Salam* and *istisna*. This is easily explicable because *bai Salam* is not offered by Islamic banks and only wholesale banks offer it to clients outside Bahrain. Similarly, *istisna* is relatively new in Bahrain and is offered mainly to construction companies.
- The standard deviations of the responses relating to products and services are relatively high especially when they are compared with the mean responses to each item.
- Although the clients of Islamic banks are relatively more familiar with the products and services, the mean responses, with the exception of those relating to *murabaha*, indicate that they are not very familiar with Islamic products and services.

The level of familiarity with the products is directly related to the importance of each product on the balance sheet of Islamic banks. Low levels of familiarity with Islamic banking products are also reported by Rammal and Zurbrugg (2007) who surveyed Australian Muslims. The relatively low level of familiarity with Islamic products might be due to one or more of the following:

- The difference between them and those of conventional banks is mainly with respect in the legal contracts, although outwardly they appear to be similar (Hamid and Nordin, 2001).
- Low level of transparency on the part of Islamic banks coupled with clients aiming to obtain assets they would like to own regardless of how the facility is structured[13].
- Some clients concerned only to obtain products/services that comply with Islamic *sharia'a*, and which can only be obtained at Islamic banks, to fulfill their religious beliefs, without making any attempt to understand the legal documentation of the products/services.
- Some of the products (such as *bai Salam* and *istisna*) are not used by clients in Bahrain, as can be seen from the consolidated balance sheets of Islamic banks, while some other products are, such as *mudarabah* and *musharakah*.
- Some of the employees of Islamic banks have a background in conventional banking and have not had enough training to enable them to understand fully the *sharia'a* basics of some products of Islamic banks, and consequently they are unable to explain them to clients[14].

Such results indicate that Islamic banks should allocate more resources to educate not only clients of conventional banks about their products and services but also their own clients. The Kruskal-Wallis test was used to test whether there were significant differences between the means of the responses. The high values of χ^2 indicate that there are significant differences between the familiarity of the respondents in relation to the different products and services of Islamic banks.

Table VII presents the results of Mann-Whitney and Kurskal-Wallis tests on the responses after dividing the whole sample into sub-samples on the basis of the demographic information shown in Table II. The results show that those who are more familiar with the products/services that comply with Islamic *sharia'a* tend to patronize Islamic banks, be more educated, earn higher income, work with Islamic financial institutions, bank with more than one bank, and have changed the type of banks they patronize from conventional to Islamic and vice versa. Furthermore, men and women have similar level of familiarity with those products/services, with the exception of *murabah* and *quard hasan*. For those products/services, men tend to be more familiar than women.

V.4 Islamic sharia'a compliant products/services used

Table VIII presents information about the products and services used by the respondents. Within the sample, the most extensively used product/service was *murabaha*, followed by *mudhraba*, while *ijarah muntahia bittamleek* came in third place. None of the respondents received funds as a result of *bai salam* contracts. The use of products and services of Islamic banks is not limited to those who bank with Islamic banks. This is apparent from the responses of the clients of conventional banks. Those clients can obtain funds from financial institutions that offer products and services that comply with Islamic *sharia'a* principles or real estate companies that help their clients arrange contracts that are based on Islamic *sharia'a* principles. The majority (51.1 percent) of the clients of Islamic banks used *murabaha* contracts to acquire the assets they needed, followed by *mudarabah*, with a third of the sample investing their savings with Islamic banks using *mudarabah* contracts. *Ijarah muntahia bittamleek* came in fourth place after *quard hassan*. As for the sample that bank with both conventional and Islamic banks, 38.7 percent of the sample use Islamic products/services. *Murabaha* is used by 32.3 percent and *ijarah muntahia bittamleek* was in third place. These results are very similar to the distribution of assets in the consolidated balance sheets of Islamic banks in Bahrain.

VI. Concluding remarks

The objectives of our study were to:

- (1) identify the bank selection criteria used by clients of banks in Bahrain;
- (2) examine the familiarity of bank clients with the products/services offered by Islamic banks; and
- (3) determine the extent to which clients use the products/services that comply with Islamic *sharia'a*.

A sample of 1,000 clients was invited to fill in a pre-tested questionnaire. Of the questionnaires distributed, 655 useful responses were returned, representing

Products/services	Gender Z_d	Age χ_{2e}	Nationality Z_{1d}	MS ^a χ_{2e}	Education χ_{2e}	Employer χ_{2e}	Income χ_{2e}	Chg BK ^b Z_d	More than 1 BK ^c Z_d
<i>Marabaha</i>	-2.325*	5.343	1.427	2.759	15.342*	50.280	24.068*	-3.048*	-2.788*
<i>Mudarabah</i>	-1.001	2.496	0.029	4.504	16.988*	70.644	29.520*	-3.037*	-2.896*
<i>Musharakah</i>	-0.332	7.250	0.039	6.067	14.985*	95.331	29.890*	-3.099*	-4.258*
<i>Bai Salam</i>	-0.429	0.378	5.713	4.379	7.331*	53.611	19.006*	-3.483*	-4.439*
<i>Istisna</i>	-0.361	1.907	8.642*	2.948	9.586*	67.958	25.274*	-3.348*	-5.003*
<i>Ijarah</i>	-1.079	6.306	0.005	0.421	16.928*	92.986	52.261*	-3.068*	-2.825*
<i>Ijarah Muntahia Bittamleek</i>	-1.590	7.762	0.049	1.412	10.816*	86.934	29.940*	-2.475*	-2.426*
<i>Quard Hassan</i>	-2.099*	14.111*	7.330*	1.974	5.400	25.570	3.530	-.234	-1.000

Notes: *Significant at: 0.05 level or less; ^aMarital status; ^brespondents who changed banks type vs those who did not; ^crespondents bank with more than one bank vs those who transact with only one bank; ^dMann-Whitney test; ^eKruskal-Wallis test

Table VII.
Kruskal-Wallis and Mann-Whitney tests for significant difference of familiarity between different groups

Table VIII.

The percentage of respondents who have used or currently use products/services of Islamic banks

Islamic products/services	Whole sample Yes (%)	Conventional Yes (%)	Islamic Yes (%)	Conventional and Islamic Yes (%)	Kruskal-Wallis test χ^2
<i>Murabaha</i>	32.3	24.6	51.1	38.7	13.973 *
<i>Mudarabah</i>	21.6	14.5	33.8	32.3	13.357 *
<i>Musharakah</i>	11.1	10.1	12.5	12.9	1.017
<i>Bai Salam</i>	00.0	00.0	00.0	00.0	6.456 *
<i>Istisna</i>	3.3	3.6	2.5	3.2	5.731
<i>Ijarah</i>	10.5	8.3	6.2	20.4	7.032 *
<i>Ijarah Muntahia Bittamleek</i>	13.4	9.1	17.5	22.6	6.231 *
<i>Quard Hassan</i>	21.2	18.8	27.5	22.6	4.556

Note: *Significant at: 0.05 level or less

a 65.5 percent response rate. For the purpose of the analysis, the responses were divided into three sub-samples on the basis of the bank respondents used, namely:

- (1) conventional;
- (2) Islamic; and
- (3) a combination of the two.

In addition, the responses were divided using the demographic information shown in Table II. The typical respondent is a male, with a university degree, working for the private sector, with a monthly income higher than BD600, and older than 29 years, banking with a conventional bank, banking with more than one bank, and not having changed the type of bank they used (from conventional to Islamic or from Islamic to conventional).

Clients of all types of banks share somewhat similar motives in bank selection. Among the criteria they use to select the bank they use are quality of customer services (e.g. fast and efficient services), friendly personnel, and knowledgeable and competent personnel. These are ranked as the most important motives by the three samples, while “Environmental practice and impact” is ranked as the least important motive in their decision. Many of the other motives were similarly rated by the three sub-samples, although they come out in the rankings differently. The means of the responses of the three samples differ significantly on seven of the motives out of 19. Among the seven motives are:

- (1) Islamic reputation and image;
- (2) fulfilment of religious obligations; and
- (3) Islamic working environment.

The motive “financial strength and soundness” is rated by clients of conventional banks higher than the rank given by clients of Islamic banks and those who bank with both conventional and Islamic banks.

To gain more insight into the motives for bank selection, EFA was performed. The factors that determine the decision to select a bank are then presented as a single, multi factor motive. Five factors that had an eigenvalue greater than unity were selected,

each with a minimum factor loading of not less than 0.45 for the whole sample. These factors are:

- (1) religion;
- (2) social responsibility;
- (3) economic and services;
- (4) value and efficiency; and
- (5) staff and easy access.

Together, these factors explain 56 percent of variance.

It was also found that clients of Islamic banks are more familiar with the products/services that comply with Islamic *sharia'a* and are widely offered by Islamic financial institutions to retail clients, compared with customers of other banks. However, the fact that clients of Islamic banks are familiar with those products should not come as a surprise. The surprise is that the level of familiarity is far from being "very familiar". Furthermore, it is also reported that respondents are most familiar with *murabaha*. Also, men and women have a similar level of familiarity with those products/services, with the exception of *murabah* and *quard hasan*. For those products/services, men tend to be more familiar than women. These are also the products that are most widely used by customers and also the oldest product offered by Islamic financial institutions. In addition, those who are more educated, or earn a higher income, or bank with more than one bank, and changed the type of banks they patronized from conventional to Islamic and vice versa are those who are most familiar with Islamic products and services.

Notes

1. Available at: www.ameinfo.com/177501.html. According to research conducted by International Financial Services London (IFSL) (www.ifsl.org.uk/output) published in February 2009, the global market for Islamic financial services, as measured by *sharia'a* compliant assets, is estimated to have reached US\$729 billion by December 2007, 37 percent up from US\$531 billion in 2006.
2. *Riba* literally means increase, growth or expansion. It refers to the increase or addition that is charged on loans as a precondition for extending the repayment period in pre-Islamic Arabia. Technically, however, it is the "premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity" (Chapra, 1985).
3. PLS is a contractual arrangement between two or more transacting parties, which allows them to pool their resources to invest in a project to share in profit and loss.
4. An interview with Shiak Ebrahim Busanadal, an Islamic Scholar and an ex-banker (conventional and Islamic) on May 4, 2009.
5. *The Wall Street Journal Blog*, November 20, 2008, available at: <http://blogs.wsj.com/deals/2008/11/20/financing-with-lower-leverage-prepare-for-a-boom/>
6. A sale and buy back contract. It is defined as two transactions entered between two parties whereby one party (the government) undertake to sell an asset on a cash basis, normally at a discount, and subsequently will buy back the asset at a higher price, normally at par on a credit basis. Through this sale and purchase transaction, a debt has been created.
7. Debt financing, i.e. the provision of financial resources required for production, commerce, and services by way of sale/purchase of trade documents and papers. Only documents evidencing real debts arising from bona fide merchant transactions can be traded.

8. An interview with Shiak Ebrahim Busanadal.
9. In a speech of the Governor of Bank Negara at the Launch of Public Islamic Bank Berhad on March 3, 2009.
10. BD1 = US\$2.65.
11. The results are not reported to save space, but are available from the authors.
12. The sayings and deeds of PBUH as narrated by his companions (may Allah be pleased with them).
13. An interview with Shiak Ebrahim Busanadal.
14. An interview with Shiak Ebrahim Busanadal and Dr Farid Hadi, a scholar and *sharia'a* advisor (accessed May 5, 2009).

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Further reading

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