

## Understanding of Account Holder in Conventional Bank Toward Islamic Banking Products

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**Abstract:** The objectives of this study are to determine the level of understandings of a Muslim account holder's in a conventional bank toward Islamic banking products and 2) To determine the relationship between the understanding levels of Muslim account holder's and their decision to patronize an Islamic banking. Understanding factor is operationalised as the extent of the deeper level of knowledge, grasp or comprehension of Islamic bank products to patronized Islamic bank products and services. The study was exploratory survey research conducted in Kano-Nigeria. The samples were drawn from employees of public and private sector using proportionate stratified random sampling techniques. 500 questionnaires distributed by hand delivery and 304 were returned in which 286 turned out to be usable for our data analysis using SPSS and PLS Modelling Software. The findings are: first, the means for understanding variable was 5.01 with standard deviation of 0.9136. This indicates the level of understanding of Islamic products by Muslim account holders in a conventional bank. Second, the result of the composite reliability and Cronbach alpha of the Understanding was 0.855 and 0.77. Patronize an Islamic banking product was 0.8494 and 0.7348 respectively thus, exceeded the threshold of 0.7. The average variance extracted of the Understanding stood at 0.597 and Patronize an Islamic banking product was 0.6538 respectively greater than 0.5. The correlations of the Understanding and Muslim account holder decision to Patronize an Islamic banking product was less than the square root of the average variance extracted that verifies the adequacy of the construct discriminant validity. The R-square value was 0.439787, which suggest that the model explain 43.97% of the variance of the Muslim account holder's decision to Patronize Islamic bank products and Understanding are positively related ( $\beta = 0.663165$ ;  $p < 0.001$ ). The implication for this study is for the Islamic banking to focus on the people's understandings of Shariah position on business transaction, a concept of profit and loss sharing practice, a benefit of Islamic banking products and investment based on Islamic financing structure as well as good understanding of Islamic banking theory and practice that would have an impact on customer decision. Organization that listens and understands customer needs are in better position on the market. The necessary suggestions regarding future research were recommended.

**Key words:** Understanding • Patronize Islamic banking Products • Muslim Account holders • Nigeria

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### INTRODUCTION

Customers' understanding of service quality is strongly dependent on customers' values and beliefs that vary from one culture to another [1]. It is found that gender affects the service quality understanding of bank customers and they show a varied response towards different dimensions of service quality [2]. In another study, service quality is considered a very important indicator towards customer understanding and satisfaction by delivering quality services according to

customers' expectations [3]. Understanding complexity is the degree to which an innovation is perceived as difficult to understand and use [4]. In the context of this study understanding is defined as the extent of the deeper level of knowledge, grasp or comprehension of Islamic bank products. Omer [5] conducted a survey of 300 Muslims in UK on their patronage factors and knowledge of an available Islamic finance window at conventional banks. The main finding was that high level of ignorance prevailed among Muslims in the UK concerning Islamic finance principles.

However, there are few studies that documented the understanding of the Muslims toward doing business with Islamic banks [6]. There is a dearth of literature on this area of study in Nigeria [7]. The Nigerian prospective customers of Islamic banking product are bound to be sceptical about the operational services and products of Islamic bank. Some are likely to delay opening account with Islamic bank for them to observe and convince about its operational opportunities, challenges and benefit [8]. Therefore, this study seeks to fill two gaps: 1) to make literature available for the seeming scanty of research on understandings of a Muslim account holder's on Islamic banking product and the effects of their decision to patronize Islamic banking product and service in Nigeria; 2) to explore the level of understanding of Muslim account holders to purchase Islamic banking products. Therefore, the objective of the study is to explore the level of understandings and possible relationships between Understandings of a Nigerian Muslim account holder's in conventional and decision to purchase Islamic banking products.

**Literature Review:** Customer understanding of banking product and services from five Balkan countries found a significant difference in the customers' understanding of service quality in different countries [9]. It is evident that political, technological, environmental and socioeconomic factors influence the service quality perceptions of customers. It is reported that Greece customers have higher levels of service quality perceptions as compared to Bulgarian customers [2]. Similarly, it is found that dimensions of service quality have a strong positive impact on bank performance [10]. Customers' understanding of service quality is strongly dependent on customers' values and beliefs that vary from one culture to another [1]. A study conducted by [11] indicates that Muslim respondents in Singapore were unaware of the specific meaning of Islamic banking terminology like

Mudharabah, Musharakah and Ijarah. Meanwhile, Naser *et al.* [12] reported that Jordan's customers were more aware of specific Islamic terms of Murabahah, Mudharabah and Musharakah, but they were not using these specific types of Islamic banking. Surprisingly, their results reported that 47 percent of Islamic banking customers were totally unaware of Ijarah. For Malaysian bank account holders, the majority of the customers indicated that they held a saving account and current account and 44 percent of the respondents held an account in financing and investment. These results supported by [13] indicated that most frequently Muslim and non-Muslim customers held saving accounts.

Having reviewed the past studies on customer understandings of Islamic banking products, the conceptual framework in the study is shown in Figure 1.0. The independent variables (customer understanding) is related to purchasing of Islamic bank's products. The research model was adapted from previous studies on marketing strategy of Islamic bank [14]. This study made some modification on the previous research framework of [14] by concentrating on identifying the level of understanding and the possible relationships between the understanding of Muslim account holders in conventional and purchase of Islamic banking products.

**Methodology:** The research setting is cross-sectional study design and non-experimental design or survey using the quantitative method of administering the questionnaire. The study unit of analysis was individual. The population during the study was 10 million Muslim account holders in Kano Nigeria [15]. The required sample size of 385 employed for the study is within the Roscoe's rules of Thumb for Determining sample size larger than 30 and smaller than 500 appropriate for most research. In multivariate research, the sample size should be ten (10) times as large for the number of variables for the study.

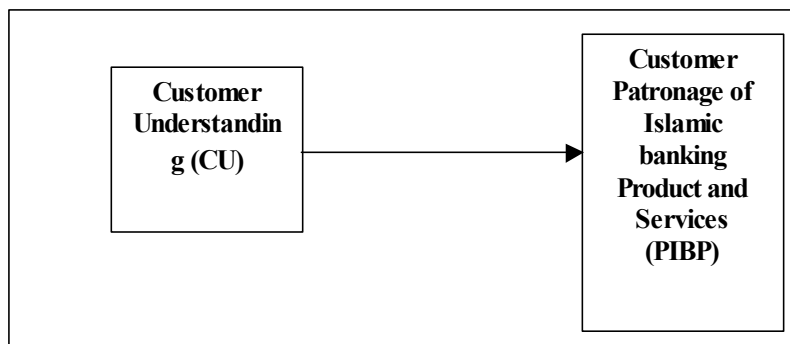


Fig. 1.0: Research framework

Probability sampling technique was used to draw a population samples from the study and data was collected through survey method using self-administered questionnaire approach. The questionnaire in this study was adapted from a study conducted by [16] and [17] with slight contextual modification that fit with the environment of study to measures the influence on the research independent variable Understanding and dependent variable-Muslims account for the holder's decision to patronize Islamic banking product and services using six-point type rating scale. Many literatures found that scales between 5 to 7 points were more reliable and valid than shorter or longer scales [18]. The collected data were analyses using SPSS and PLS software statistical packages.

**Research Findings:** From a total of 500 questionnaires distributed, 304 were returned, out of which 286 were usable (valid and completed), thereby yielding a response rate of about 61 percent; a response rate considered sufficiently large for statistical reliability and generalizability [19, 20]. The data collection period took over three months. The follow-up messages were made through text messages, phone calls and e-mails during the period. The data was keyed-in into SPSS for further analysis. Errors were checked by analysing the mean, standard deviation, minimum and maximum scores for all cases on all variables.

**Personal Background of the Respondents:** The statistical frequency distribution of the respondent profiles in the questionnaires based on gender, age, marital status, educational level and monthly income of the respondents are summarized as 70.0% of the respondents are male, 30.0% are female, 5.2% are businessmen while 45.5% are the public servants. 41% of the respondents have an educational qualification of HND/BSC/BA/B.ED or equivalent while 1.7% of the respondents have other professional qualifications. 73.1% of the respondents maintained account in commercial banks; 18.9% had an account at micro finance bank and 8.0% maintained account in primary mortgage bank, 96.5% of the respondents said that they had an intention to open an account in Islamic bank. On the other hand, 3.5% of the remaining respondents did not indicate their intention to open an account with Islamic bank; 26.0% of the respondents have some investment for a non-interest bank incorporated. However, 74% of the respondents do not have any form of investment in Islamic bank. 25.2% of the respondents' income is within a range of 10,000 to 50,000

naira a month while, only 14.3% earn an income less than 10,000 a month. Therefore, the percentage appears to be in line with the findings from previous banking studies, for example, Erol and El-Bdour, [21,22] investigated the perception and behaviour of customers and depositors.

**Descriptive Analysis:** Table 4.1 shows the descriptive statistics for personal understanding of Islamic banking products and services. The overall mean on the variable is 5.01 with a minimum score of 1.40 and maximum score of 6.00 and a standard deviation of .9136. The result indicated the level of understanding of the respondent about the Islamic banking products and services.

**Measurement Model:** In modelling approach, [23] suggested that construct validity should be assessed to confirm the convergent validity and reliability of the instrument. Also, the discriminant validity need be conducted in order to ascertain the average variance extracted for the construct. The average variance extracted for the construct should be greater than a minimum cut off 0.5 [24]. The independent variable-(Understanding) was measured by ten (10) items, five (5) items had been deleted due to low communality value, loading less than 0.60 and cross loading. The results reported in Table 4.2 shows the independent variable-understanding having five (5) indicators whose loadings ranges from lowest loading of 0.70 item C3 (Benefit of Islamic banking products to customer) and highest loading of 0.758 items C10 (Good understanding of theory and practice of Islamic banking have an impact on customer to patronize Islamic banking products), next loading was 0.731 item C8 (trading approach by Islamic finance), followed by item C4 (Lack of knowledge of Islamic finance makes a customer not to invest or patronize Islamic products) with loading of 0.7147 then item 2 (Free interest element makes some customers to do business with Islamic bank) with loading 0.7102 respectively. Hence, the convergent validity of the understanding constructs has exceeded the minimum loadings of 0.7. Furthermore, Table 4.3 revealed the result of the composite reliability and Cronbach alpha of the independent variable (Understanding) as 0.855 and 0.77 respectively thus, exceeded the threshold of 0.7 [25, 26]. The average variance extracted (AVE) of the independent variable (Understanding) stood at 0.597 greater than 0.5 [24]. In addition, Table 4.4 indicated the correlations among the variables as less than the square root of the average variance extracted that signify the adequacy of the construct discriminant validity [25].

Table 4.1: Descriptive Statistics for Personal Understanding of Islamic banking Products

Variables	Minimum	Maximum	Mean	Standard Deviation
Perceived Understanding of profit and loss sharing offered by an Islamic banking system.	1.75	6.00	4.99	.9300
Perceived Benefit of Islamic banking products	1.00	6.00	5.06	.8575
Overall Personal Understanding	1.40	6.00	5.01	.9136

Table 4.2: Cross loadings

Variables: Items	IV Understanding	D.V-Patronize IB Products
C10	0.758957	
C2	0.710275	
C3	0.700000	
C4	0.714718	
C9	0.731968	
D1:		0.793409
D2:		0.841026
D3:		0.788972

Table 4.3: Reliability and validity constructs

Variables	Indicators	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha	Communality
Understanding	5	0.520299	0.844174	0.773389	0.520299
Patronize IB Products	3	0.6531	0.849471	0.734871	0.65310

Table 4.4: Latent Variable Correlations

Variables	Understanding	Patronize Islamic bank Products
Understanding	0.7213175	
Patronize Islamic bank Products	0.663165	0.8081460

Note: Diagonal (bold face) represents the square root of the average variance extracted while other entries represent the correlations.

Table 4.5: Path Coefficient and hypothesis testing

Hypothesis	Relations	Beta	Standard error	T-Statistics	Findings
H1	UA-> PIBP	0.663165	0.0402	16.496681***	Supported

Patronize IB Products (R<sup>2</sup>) = 43.97% Note: \*\*p < 0.01

Similarly, the dependent variable (Patronize Islamic banking products) was measured by 10 items; seven items were removed as a result of low loadings, communalities and cross loading. The results in Table 4.2 indicated that dependent variable-Patronize Islamic banking products have three (3) indicators. The lowest item was D 3 (To patronize Islamic banking products when it is available) with loadings of 0.788, followed by item D1 (To switch to Islamic banking product given same quality as the conventional investment products) loading of 0.793 and the highest loadings of 0.8410 on item's D 2 (prefer profit and loss sharing arrangement as against receiving of interest from a conventional bank). The results of the convergent validity of the dependent variable (Patronize Islamic banking products) revealed that the indicators had exceeded the minimum loadings of 0.7. Table 4.3 displays results on the reliability and validity of the constructs. The composite reliability, Cronbach alpha and the average variance extracted were 0.8494, 0.7348 and 0.6538

respectively. Thus, the outcome exceeded the threshold of 0.7 for the Cronbach alpha [25, 26] and greater than 0.5 minimum values for average variance extracted [24]. In addition, Table 4.4 indicated that the correlations of the dependent variable (Patronize Islamic banking products) and independent variable (Understandings) is less than the square root of the average variance extracted that verifies the adequacy of the construct discriminant validity [25].

**Structural Model:** The structural model was explained by Table 4.5 and Figure 2. The R-square value was 0.439787, which suggest that the model variable can explain 43.97% of the variance of the dependent variable (Patronize Islamic bank products). Hypothesis 1 stated that understanding was positively related to a dependent variable-Patronize Islamic banking products. The results in Table 4.5 and Figure 2 shows that hypothesis 1 is supported (beta = 0.663165; p < 0.001).

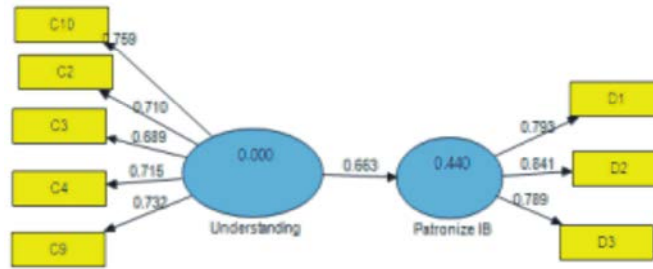


Fig. 2: Structural Model

**Discussion, Summary and Recommendation:** The statistically significant results from the association of personal level of understanding dimension and decision to patronize Islamic bank products is consistent with studies, which includes [4]. The study reported that consumers went through a process of knowledge, persuasion, decision and confirmation before they are ready to adopt a product or service. Previous studies have acknowledged the influence of understanding of customers for Islamic banking products [5,22,27,28]. Customer understanding of Islamic bank product is strongly dependent upon the value and belief that vary from one culture to another [1,2,28]. It is evidenced that customer understanding of service varies from country to country [9].

**Managerial Implications:** The study provides much-needed information to the potential promoters and regulators of Islamic banking services in Nigeria regarding the understanding of Nigerian Muslim's account holders on Islamic banking product and services and their decision to patronize the Islamic banking product. Thus, the present study will benefit those who want to establish Islamic bank or to open Islamic widow. Furthermore, the policy maker, religious organization and academics can make use of the result from the study to educate the general public on the prospect/opportunities of Islamic banking services in Nigeria. The overall results of the present study confirm that understanding contribute towards the customer's decision to patronize Islamic bank products. Thus, Promoters of Islamic bank should strive to be aware of the prospective customer's level of understanding of the product. Special attention needed to be given to specific activity that will improve understanding among the public that will associate with their decision to patronize Islamic bank. To improve Islamic bank product patronage, there is a need to focus on the people's understandings of Shariah position on business transaction, a concept of profit and loss sharing

practice, a benefit of Islamic banking products and investment based on Islamic financing structure as well as good understanding of Islamic banking theory and practice that would have an impact on customer decision. Organization that listens and understands customer needs are in better position on the market [29, 30].

**Theoretical Implications:** This research would add value to an Islamic banking field on testing the possibility that Muslims account for holder's understanding are related to patronage of the Islamic banking services.

Secondly, this study examined the specific linkages between levels of understanding on the Islamic banking product. Therefore, this study would contribute further to the current body of knowledge by investigating the effects of understanding of Muslim account holders to patronize Islamic banking product and services.

Thirdly, this study contributed to the existing body of knowledge by investigating the personal level of understanding of Islamic banking product and services in a secular country like Nigeria that is outside the Middle East or Southeast Asia. Studies on an Islamic banking field are limited in African sub-Saharan countries as most research was conducted in Arab, Middle East and Southeast Asia such as Malaysia, Indonesia, Bahrain, Kuwait, Pakistan and Bangladesh [14,28,31,34]. Thus, this study would extend further the current knowledge of Islamic banking product and services in financial and banking organizations in developing countries generally and Nigeria, specifically.

The present study also combined various past measurement studies in measuring the Understanding and decision to patronize Islamic banking products. Thus, this measurement also, adds to the body of current knowledge within the context of future research on Understanding and decision to patronize Islamic bank products in Kano, Nigeria.

**Limitation of the Study:** The study is subject to several shortcomings that limit interpretation of findings. One of the limitations to this study is use of cross-sectional design for survey research, which captures the perceptions of respondents at a point in time. Thus, the study cannot prove causal relationship on a longitudinal basis.

Another limitation to the study is the use of subjective self-reported perceptual measures in assessing the studies. The accuracy of self-perceptions might be strongly influenced by the respondent's experience. For instance, perceived biasness may occur if the person is sentimental religiously.

Finally, the findings cannot be generalized in a larger context across the cultures of other countries since the data collected during this study was limited to Kano state, Nigeria.

## CONCLUSION

An attempt was made in the present study to investigate the link between understanding and Muslim's decision to patronize Islamic bank products. The results of the present study establish the major problem that requires urgent attention needed to strengthen public education and knowledge towards the distinctive characteristics of Islamic banks and how it may profitably suit the interest of customers in their financial dealings. Islamic banks have the potential to exploit and marketed to various segments of customers extending beyond those who are concerned about the legitimacy of the facility from Islamic point of view and those who seek for service quality, convenience and efficient transactions. Consumer education programmes and publicity are therefore, crucial. The overall findings from the study have proven that individual links between personal understanding and Muslim decision to patronize Islamic banking products have been established for the study. These linkages provide new empirical contribution to academia, more research needs to be conducted to establish the link to the benefits to the industry and society as a whole. To the practitioner's in the search of patronage of Islamic banking products and services, patronage studies on Islamic banking have so far largely focused on the combination of various religious, reputation, commercial, service satisfaction, staff, confidentiality and convenience factors.

**Suggestion for Future Study:** To overcome the limitations to the study, this research has to suggest the need for further investigation. As the survey research to the study was based on cross-sectional design, further work needs to be done to establish the factors that can influence non-Muslim to patronize Islamic banking products and services.

In addition, more factors can be added and or introduce in a form of a mediator, moderator new variable that can influence Muslims and non-Muslim acceptance of Islamic banking products and services.

Moreover, future research should enlarge the scope to the study to create more awareness about Islamic banking products and services. Furthermore, future research should consider replicating this study in other cultures, states, regions and country. A cross cultural comparative analysis would further enhance the awareness, perception and understanding of Islamic banking products and services.

The present study employed quantitative techniques. Qualitative or case study technique for the design and analysis of information should be incorporated in future research because this approach provides insights and understanding of the problem setting. The result from the study will be more meaningful if both quantitative and qualitative techniques are employed as both can complement each other.

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