

## **Religious and demographic factors underlying consumer choice of Islamic banking services in the United Arab Emirates**

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### **ABSTRACT**

Islamic banking has witnessed remarkable growth in the past decade. The purpose of this study is to explore some religious and demographic factors influencing the choice of Islamic banking and finance (IBF) products and services in the United Arab Emirates. Students enrolled at a university located in one of the Emirates in the UAE were asked to respond to a survey on factors underlying their decision to open an account at an Islamic bank. Responses were analyzed using descriptive statistics and regression analysis. Results indicate that the decision to open an account with an Islamic bank is influenced by consumer expectations regarding the conformity of the bank's operations with Islamic principles, consumers' Arab-language skills, as well as their major academic discipline. Variables such as work experience, age, gender and highest level of education do not have a significant influence on the decision to open an account at an Islamic bank. These findings have important implications for Islamic banks operating in a predominantly Islamic environment.

**Keywords:** Islamic banking and finance, conventional banking, consumer attitudes, consumer behavior, religious factors, secular factors.

## INTRODUCTION

One of the world's major religions (Abou-Youssef et al. 2015), Islam is growing rapidly, with about 1.57 billion adherents worldwide (El-Bassiouny, 2014). The Islamic banking industry is also growing at a similar pace (Al-Salem, 2008; Abou-Youssef et al., 2015). There are approximately 420 Islamic financial institutions in 75 Muslim and non-Muslim countries across the world (Souiden and Rani, 2015).

Islamic banking and finance (IBF) serves up financial services or products that are designed to comply with the main tenets of Sharia, or Islamic law. An Islamic bank has been defined by the Organization of the Islamic Conference (OIC) as “a financial institution whose statutes, rules and procedures expressly state its commitment to the principles of Islamic Sharia and to the banning of the receipt and payment of interest on any of its operations” (Hassan, 1999). The Sharia derives its authority from various sources, including the Holy Quran, Hadith (the deeds and sayings of Prophet Muhammad), Sunna (the habitual practices of Prophet Muhammad during his lifetime), Ijma (consensus among religious scholars on issues not touched upon in either the Holy Quran or the Sunna), Qiyas (providing an opinion on a case not covered in either the Quran or the Sunna by using an analogous case referred to in either of the two), and Ijtihad (a jurist's independent reasoning relating to the applicability of Sharia to cases not mentioned in either the Quran or the Sunna) (Gait & Worthington, 2008). Although there are various viewpoints on when and where IBF began, it is generally believed that the first Islamic Bank was established in 1963 in the form of the Mit Ghamr Savings Bank in rural Egypt, offering interest-free banking for the very first time (Karim, 2012). Islamic banks currently offer a wide variety of products, the most widely-used of which are summarized in the table below (based on Al-Ajmi et al., 2009):

**Table 1: Islamic Banking Products**

<b>Product/Service</b>	<b>Description</b>
Murabaha	An instrument used for financing the purchase of goods and services where the Islamic bank purchases these on behalf of the customer.
Mudarabah	A joint venture partnership where one party (the financier) provides 100 percent of the capital and the other party provides management skills and specialized knowledge. Gains are shared equally. If losses occur, the financier bears an economic loss while the partner contributing skills and knowledge bears losses related to time and effort.
Musharakah (equity participation)	Full-equity partnerships where the provider of funds and the entrepreneur directly and wholly share in the business.
Bai Salam	Advance or pre-paid sale contracts of agriculture products.
Istisna	Manufacturing contracts to cover work in progress and paid by the Islamic bank on behalf of the customer.
Ijarah	Lease financing in the form of operating leases only.

Ijarah Muntahia Bittamleek	Lease financing in the form of financing (capital lease) leases only.
Quard Hassan	Benevolent loans offered interest free.
Sukuk	Financial certificates that are analogous to conventional bonds except that interest-based elements are replaced by an asset-based income structure.
Takaful	Islamic insurance against loss, provided to the individual by combining the risks of many individuals. The individual insured benefits from the advantage offered by the law of large numbers.

## ISLAMIC BANKING IN THE UAE

From modest beginnings, Islamic banking has witnessed remarkable growth over the last decade in the UAE. Approximately 95 per cent of international Islamic banking assets of commercial banks are based out of nine core markets, five of which are in the Gulf Cooperation Council (GCC) countries— Saudi Arabia, the UAE, Qatar, Kuwait and Bahrain. The market share of Islamic banking assets in Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain and Malaysia is now between 20 per cent and 49 per cent. The UAE was ranked as the third largest Islamic banking market by value after Saudi Arabia and Malaysia. According to a report by Ernst and Young, Sharia-compliant assets in the UAE in 2014 exceeded \$1 billion, while the industry itself was estimated to be worth \$127 billion. The UAE is predicted to record Sharia-compliant assets worth \$263 billion by 2019 (Sophia, 2015). The projected size of the Islamic banking sector in the UAE is expected to account for almost 15 per cent of the world's core Islamic markets, and is estimated to reach \$1.8 trillion by 2019.

Although the UAE is a major hub of Islamic banking, very limited research (e.g., Bley and Kuehn, 2004; Al-Tamimi et al. 2009) has been conducted to explore factors that motivate consumers in the UAE to choose Islamic banking products/services. This paper attempts to reduce the knowledge gap by examining some factors that potentially influence UAE consumers to open an account at an Islamic bank.

The remainder of this study is organized as follows: The next section presents the relevant literature and hypothesis development. This is followed by a description of the research methodology as well as a report on the results of the data analysis. The study concludes with a brief overview of the results, some limitations of the study, and suggestions for further research.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

**Consumers' choice of conventional banking:** There is a sizeable literature on consumer choice with respect to banking preferences. Hedayatnia & Eshghi (2011) examined the bank selection criteria being employed by bank customers in Iran. They found that the important factors determining customers' choice of bank were quality of services and new banking methods, innovation and responsiveness of the bank, friendliness of staff and confidence in the manager, price and cost, staff attitudes, and convenience of bank location and services. Mokhlis et al. (2011) examined the selection criteria used by university students for selecting a bank. Their results suggest that students appear to be very concerned about the security aspects, ATM (Automatic Teller Machine) service and financial benefits when selecting a bank. Locational

convenience and recommendations from others were not given much importance. In another study, Aregbeyen (2011) investigated what factors determined the selection of banks by banking and business customers in Nigeria. The study found that the safety of funds and the availability of technology-based services are the major determinants of customers' choice of a bank.

Katircioglu et al. (2011) examined the bank selection criteria of customers in Romania. The most important factor in bank selection was found to be the number of ATM booths. Other important factors were the availability of extensive ATM services, availability of telephone and internet banking, personal attention to customers, the bank's reputation and image, confidentiality of the bank's customer records, the presentable appearance of bank, and the number of branch offices around the country. Romanian customers were not interested in other factors such as advertisements in the mass media, gifts provided by banks, fast and efficient service, or recommendations by others.

**Consumers' choice of Islamic banking:** Rashid and Hassan (2009) studied customers of Islamic banks to ascertain their bank selection criteria. They found that non-Islamic factors such as corporate efficiency, the availability of core-banking services, and confidence were given higher weightage by a majority of the respondents. Abduh and Omar (2012) investigated Islamic-bank selection criteria in Malaysia, and found that the factor of Sharia-compliance is the most important criterion for deciding to become a customer of an Islamic bank. Other important factors in Islamic bank selection are profitability, the bank's reputation, the bank's status, facilities and services, and the presence of friendly personnel. Subhani et al. (2012) studied bank selection criteria among customers in Pakistan's financial hub, Karachi. They identified ten factors including convenience, service quality, religious motivation, availability of ATMs, privacy and confidentiality, the bank's reputation and image, the existence of a variety of financing options, high bank profitability and low service charges, recommendations from friends and family, and the friendly and responsive attitude of the banking staff as primarily influencing the customer's choice in selecting an Islamic bank. The most important of these factors were high bank profitability and low service charges, followed by religious considerations and the quality of service.

Echchabi and Olaniyi (2012) studied the preferences of Malaysian banks' customers for Islamic banking attributes, and found that the preference for Islamic banking attributes is a combination of the quality of services offered by the Islamic banks, associated convenience, and the religious motivation of the customers. In another study, Al-Tamimi et al. (2009) investigated how bank customers in the UAE view Islamic banks versus conventional banks and whether this image affects customer loyalties or selection of a bank. They found that most UAE bank customers prefer banking with Islamic banks even though they are not satisfied with the quality of products and services. The most important factor in choosing a bank was the banking products it offered. In Bahrain, Buchari, Rafiki and Al Qassab (2015) found statistically significant differences in the awareness and attitudes of employees towards Islamic banks' products and services when they were grouped according to gender and education level, while age and income both had insignificant differences. Abou-Youssef et al. (2015) reported that religiosity has an impact on consumer attitudes toward Islamic banking in Egypt. Also, the more a person believes in Islamic laws, the more favorable his/her attitude is towards Islamic banks (Souiden and Rani, 2015). Ramdhony (2013) found that most Mauritians have awareness about Islamic banking products, and there is a significant relationship between public awareness and religion. Gilani

(2015) highlighted the role of ethics in different procedures, operations and approaches of Islamic banking and how it is perceived by its many stakeholders.

The literature on attitudes, perceptions and knowledge of Islamic financial products and services in comparison with those of conventional banks has been extensively analyzed by Gait and Worthington empirically (2008). They found that religious conviction was a key factor in the use of Islamic products and services. The consumers also identified bank reputation, service quality and pricing as being relevant to this matter. In another study on Islamic banking selection criteria from Bangladesh, Rashid et al. (2009) found that while religion was a critical factor in choosing Islamic banking, other factors also played a significant role in selecting a service provider. The study found that in addition to religion, factors like depositors' desire to achieve the highest return, a convenient financial transaction system, a consistent and uniform level of service, and higher cost-benefit implications were substantially important to clients in choosing their intended services. Awan (2011) found that customers are less focused on religious factors in the bank selection process in Pakistan.

Saini et al. (2011) reported that although Muslims in South Africa are aware of Islamic banks, their usage of Islamic banking services is low. South African Muslim customers regard efficiency, lower bank charges, the availability of ATMs and an extensive branch network as important factors when it comes to choosing a bank, rather than religious considerations such as compliance with Islamic conventions. Hamid & Masood (2011) examined the selection criteria of customers for Islamic home financing in Pakistan, focusing on gender, age, income, and occupation. Data was gathered from Islamic banking customers using Islamic home financing products. Their results indicate that adherence to Sharia principles, fast and efficient service, product pricing, bank reputation, and flexible product-related terms and conditions are the five most important factors considered by customers in choosing Islamic mortgages.

In an earlier study, Erol & EIBdour (1989) examined some factors that customers use in choosing between conventional and Islamic banks, and concluded that in considering motives responsible for selecting Islamic banks as depository institutions, religious motives did not stand out as being the only significant ones. Bank customers were found to be profit-motivated. They also found that peer group influence plays an important role in selecting Islamic banks as depository institutions. They also noted a high degree of awareness on the part of bank customers of the advantages of the profit/loss sharing modes of investment and of the economic and social development role of the Islamic banking system. Ernst and Young reported, through a study that monitored 55,884 Islamic banking customer sentiments in the UAE on social media, that banking clients were most satisfied with customer service (John, 2015). Beck *et al.* (2012) examined the differences in business orientation, efficiency, asset quality and stability of Islamic and conventional financial institutions. They found that Islamic banks are less cost-effective but have a higher institution ratio, higher asset quality and are better capitalized. Also, they noted the cross-country variations are large in the differences between conventional and Islamic banks of different sizes, and that Islamic banks are less likely to be damaged during crises. Al-Tamimi et al. (2009) summarized the differences between Islamic and conventional banks, which can be attributed to factors such as bank functions and operations, management, and the nature of relations with clients. Iqbal and Mirakhor (2007) reported that Islamic banks do not differ from conventional banks in terms of deposits, withdrawals, assistance and consulting services.

## **CURRENT ISLAMIC BANKING PRACTICES**

The usage of IBF products such as Mudaraba and Musharaka financing has declined in recent years (Kuran, 2004; Yousef, 2004; Iqbal and Molyneux, 2005). Instead of these instruments, asset portfolios, short term financing and other debt-based contracts constitute the bulk of investments in Islamic bank accounts (Akbar, Shah and Kalmadi, 2012). The greater usage of these products tends to render the services of Islamic banks somewhat close to those of conventional banks, prompting some researchers (e.g. Siddiqui, 2002; Rosly and Bakar, 2003a) to point out that Islamic banks can hardly claim superiority over an interest based system. Khan (2004) argued that the majority of Islamic banking products have a strong likeness to their conventional counterparts; however, what distinguishes Islamic instruments from conventional ones is the set of processes they adopt.

## **HYPOTHESES**

The UAE is ranked as the third largest Islamic banking market by value after Saudi Arabia and Malaysia. The projected size of the Islamic banking sector in the UAE is expected to account for almost 15 per cent of the world's core Islamic markets by 2019. The UAE is an Islamic state but is that sufficient to explain the projected rapid growth in IBF in the country? Despite being predominantly Islamic, the UAE welcomes people from all over the world to live and work in the country. Many of these expatriates are non-Muslim. Although not granted citizenship (except under highly exceptional circumstances), they are entitled to all of the goods and services available to the citizens of the UAE (or Emiratis, as they are commonly called). Their presence in the UAE adds to the cosmopolitan nature of the country. Their dependents enroll in Emirati schools and universities and acquire the same education that Emiratis do. This makes for a heterogeneous student population, particularly in institutions of higher learning. Universities in the UAE, therefore, are in the vanguard of current societal trends, which makes them uniquely suitable for research on consumer attitudes and preferences.

The foregoing review of the literature on Islamic banking and finance indicates mixed results when it comes to what factors drive customers to adopt Islamic banking. While a number of the studies cited point to religion as being a major determinant of customer preference for IBF, other factors that are predominantly secular in nature also seem to play a significant role. The UAE is a major hub for IBF. This paper reports on a survey carried out to explore some religious and demographic factors that possibly play a role in the decision to adopt IBF in the UAE. We surveyed students at a major private Emirati institution of higher learning. There are several characteristics that make the student population at this institution good proxies for the typical Emirati consumer. First, students have attained a certain level of education to be eligible for admission to university. Second, many students are from the UAE, and many others are from neighbouring Arab states, so they are familiar with the religious, cultural and societal norms of the country. Third, most students belong to an economic strata that is relatively well-off and are consequently conversant with the banking and financial services available in the UAE. Fourth, the student population at the university may be treated as a microcosm of the population of the UAE in exhibiting a similar degree of heterogeneity.

**Religious variables influencing the decision to open an account with an Islamic bank:** From the preceding survey of the extant literature on what drives the consumer tendency to opt for Islamic banking, there are clear indications that religion-related factors (such as being Muslim,

or the bank's adherence to Islamic principles) are strong motivators favouring the purchase of IBF products. We hypothesize therefore as follows:

H1: Consumers' expectations regarding banks' conformance to Islamic principles positively influence their decision to open an account with an Islamic bank.

H2: Consumers' (Islamic) religious beliefs positively influence their decision to open an account with an Islamic bank.

The UAE is in the forefront of the rapid expansion of IBF taking place at a global level. Much of it has to do with the patronage extended by the government to Islamic institutions. There is also a very strong movement in the UAE towards "Emiratization": reserving more and more jobs for UAE nationals only. This is leading to a sense of pride in Emirati citizenship and the perception that Emiratis are capable and empowered to manage their own affairs without being dependent on skilled human resources acquired from other countries. In addition, the Arabic language is a strong factor unifying the citizens of the UAE and serving to give them a sense of unity. The UAE government advocates the teaching of Islamic and Arabic studies to preserve the cultural and religious heritage of the UAE (Godwin, 2006). The strong support of Islamic institutions coupled with a newly-found sense of pride in Emirati citizenship leads us to propose the following:

H3: Emirati nationality will positively influence consumers' decision to open an account with an Islamic bank.

Although English is widely spoken and used in the UAE, the official language of the nation is Arabic. There is an increased emphasis on the use of Arabic in all official correspondence and communications. The use of Arabic is meant to reinforce a sense of national identity. Arabic is also the language of the Quran. A basic comprehension and knowledge of Arabic are essential to reading and understanding the verses of the Quran. There is a strong connection between possessing knowledge of Arabic and having a Muslim identity. We hypothesize therefore that possessing Arab-language skills will positively influence the consumer decision to open an account with an Islamic bank:

H4: Arabic language skills will positively influence consumers' decision to open an account with an Islamic bank.

Islamic banking is based on Islamic principles as codified in the Sharia or Islamic law. Since Sharia is such an integral part of Islam, adherents of Islam may be assumed to be knowledgeable about its principles. Consequently, it may be reasonable to assume that familiarity with the principles of Sharia may result in an adequate shared comprehension of, and familiarity with, the principles governing IBF, which itself is based on Sharia. This may result in Muslim consumers being positively inclined to open an account with an Islamic bank. This leads us to the following hypothesis:

H5: Personal familiarity with Islamic banking principles will positively influence consumers' decision to open an account with an Islamic bank.

**Demographic factors influencing the decision to open an account with an Islamic bank:**

Previous research has examined the effect of demographic factors such as age, gender and work experience on consumer preference for Islamic banking products (e.g., Buchari, Rafiki and Al Qassab, 2015). There is some evidence to indicate that demographic factors may have some influence on the consumer decision to acquire IBF products and services. Although this stream of prior research has not specifically examined consumer preferences for IBF in the UAE, we hypothesize that results obtained in the UAE will mirror those found in other jurisdictions. As such, we propose the following hypotheses:

H6: Consumers' age will have a significant influence on their decision to open an account with an Islamic bank.

H7: Consumers' gender will have a significant influence on their decision to open an account with an Islamic bank.

H8: Consumers' education level will have a significant influence on their decision to open an account with an Islamic bank.

H9: Consumers' major discipline of study will have a significant influence on their decision to open an account with an Islamic bank.

H10: Consumers' years of work experience will have a significant influence on their decision to open an account with an Islamic bank.

**RESEARCH METHODOLOGY**

The study sample comprised of undergraduate students at a private university located in Abu Dhabi, United Arab Emirates. Respondents were asked to complete a survey on consumer attitudes towards Islamic banking. Specifically, they were asked to respond to several factors, either religious or demographic, that would influence their decision to open an account at an Islamic bank. A total of 500 questionnaires was distributed, out of which 388 usable questionnaires were returned. Both descriptive statistics and inferential analysis were used to assess the results.

**RESULTS**

**Demographic Profile**

Table 1 presents the demographic profile of the respondents to the questionnaire. Out of 388 respondents, there were 148 males and 219 females (the gender of 21 respondents was not determinable from the responses). Of the respondents with identifiable genders, 13.7% were less than 20 years of age, 71.9% were 20-25 years old, 9% were 26-30 years, and 3.1 % were between 31 to 35 years of age. 26.8% respondents were Emiratis, 70.1% were non-Emiratis, and the rest were of indeterminate nationality. The majority of the respondents (94.1%) were Muslim. 155 respondents (39.9%) had 1 to 5 years of work experience. Most of the respondents (81.2%) were registered in a business major program at the university. 40.2% of the respondents



possessed a college degree, while 11.8% possessed a graduate degree. A large proportion of the respondents (approximately 87%) possessed fluent or somewhat fluent Arabic language skills.

**Table 1: Demographic Profile**

<b>Respondents by gender</b>	<b>N</b>	<b>% of full sample</b>
Male	148	38.1
Female	219	56.4
Missing values	21	5.4
<b>Respondents by age category</b>	<b>N</b>	<b>% of full sample</b>
Less than 20 years	53	13.7
20 to 25 years	279	71.9
26 to 30 years	35	9.0
31 to 35 years	12	3.1
36 to 40 years	3	0.8
Missing values	6	1.5
<b>Respondents by nationality</b>	<b>N</b>	<b>% of full sample</b>
Emirati	104	26.8
Non-Emirati	272	70.1
Missing values	12	3.1
<b>Respondents by religion</b>	<b>N</b>	<b>% of full sample</b>
Islam	365	94.1
Other religion	13	3.4
Missing values	10	2.5
<b>Respondents by work experience in years</b>	<b>N</b>	<b>% of full sample</b>
None	233	60.1
1 to 2 years	70	18.0
2 to 5 years	45	11.6
Over 5 years	32	8.2
Missing values	8	2.1
<b>Respondents by major program of study</b>	<b>N</b>	<b>% of full sample</b>
Business	315	81.2
Other program	57	14.7
Missing values	16	4.1
<b>Respondents by highest level of education</b>	<b>N</b>	<b>% of full sample</b>
High school	100	25.8
Some college	74	19.1
College degree	156	40.2
Graduate degree	46	11.8
Missing values	12	3.1
<b>Respondents by Arabic language skills</b>	<b>N</b>	<b>% of full sample</b>
Fluent	308	79.4
Somewhat fluent	29	7.5

Minimal	34	8.8
None	9	2.3
Missing values	8	2.0

Familiarity with Islamic banking was ascertained on a 3-point scale (3 = very familiar, 1= not at all familiar). Table 2A presents the results. More than half of the respondents (52.6%) stated that they were somewhat familiar with Islamic banking products. 31.2% of the sample indicated no familiarity with Islamic banking, while 16.2% of the respondents stated that they were very familiar with IB.

**Table 2A: Familiarity with Islamic Banking**

	<b>N</b>	<b>% of full sample</b>
Not at all familiar	121	31.2
Somewhat familiar	204	52.6
Very familiar	63	16.2
Total	388	100

Respondents were also asked to indicate whether they or someone they knew had an account with an Islamic bank. The objective of this question was to get some idea of the extent of the pervasiveness of Islamic banking and finance products. Table 2B presents the results. 31.2% of the respondents indicated that they had an account with an Islamic bank. More than half the respondents (55.2%) had a relative who had an account with an IB. 39.4% of the respondents indicated that they had a friend who had an account with an IB. Taken together, these numbers indicate the widespread utilization of IB products among the respondents and their family members, friends and acquaintances.

**Table 2B: Extent of the use of IB by respondents and others**

	<b>N</b>	<b>% of full sample</b>
I have an account at an IB	121	31.2
A family member has an account with an IB	214	55.2
A friend has an account with an IB	153	39.4
The company I work for has an account with an IB	31	8.0
The company a family member works for has an account with an IB	72	18.6
The company a friend works for has an account with an IB	71	18.3

Respondents were also asked to indicate whether they had taken courses on Islamic banking or familiarized themselves with it through other means such as talking to knowledgeable people or acquiring information on IB from sources such as newspapers, social media etc. The objective was to gauge whether there is widespread interest in learning more about Islamic banking and finance products and services. Table 2C presents the results of this question. Only 8.2% of respondents had taken a course on IB. However, a sizeable number of respondents (67.3%) had acquired some familiarity with IB by either talking about it with knowledgeable people or by reading up on it in newspapers, magazines and social media. This finding points to the widespread interest in Islamic banking and finance.

**Table 2C: Sources of information on IB**

	<b>N</b>	<b>% of full sample</b>
I took one/more courses on IB	32	8.2
I learned about IB by talking to knowledgeable people	147	37.9
I learned about IB from newspapers, magazines, and social media	114	29.4
I learned about IB through other means	40	10.3

## RESULTS OF HYPOTHESIS TESTING

Based on the prior literature on Islamic banking choice, this study hypothesized that both religious and demographic factors would influence the dependent variable OPENACCT (the decision to open an account at an Islamic bank). The set of religion-related independent variables hypothesized to affect this dependent variable includes the consumer's expectation regarding the bank's adherence to Islamic principles (ISLAMIC); the consumer's religion (RELIGION), the consumer's nationality (NATIONATY), the consumer's Arab-language skills (ARABSKILS), and the consumer's personal familiarity with Islamic banking principles (PERSFAM). The demographic variables hypothesized to influence Islamic banking choice are the consumer's age (AGECATGRY), gender (GENDER), level of education (EDUCATN), major discipline (MAJOR), as well as work experience (WORKEXP). The hypotheses were tested using the following linear regression model:

$$\text{OPENACCT} = \beta_0 + \beta_1 \text{ISLAMIC} + \beta_2 \text{RELIGION} + \beta_3 \text{NATIONATY} + \beta_4 \text{ARABSKILS} + \beta_5 \text{PERSFAM} + \beta_6 \text{AGECATGRY} + \beta_7 \text{GENDER} + \beta_8 \text{EDUCATN} + \beta_9 \text{MAJOR} + \beta_{10} \text{WORKEXP} + \varepsilon$$

where  $\beta_0$  represents the intercept,  $\beta_1.. \beta_{10}$  represent the coefficients associated with each of the independent variables in the model, and  $\varepsilon$  is a measure of the error term. Table 3A presents the summary results of the regression model.

**Table 3A: Summary results of the regression model**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.510	.260	.226	2.364

**Table 3B: Results of the related ANOVA<sup>a</sup>**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	429.797	10	42.980	7.689	.000 <sup>b</sup>
Residual	1224.099	219	5.589		
Total	1653.896	229			

<sup>a</sup> Dependent Variable: OPENACCT

<sup>b</sup> Predictors: (Constant), ISLAMIC, RELIGION, NATIONATY, ARABSKILS, PERSFAM, AGECATGRY, GENDER, EDUCATN, MAJOR, WORKEXP

Table 3B indicates that the F-value associated with the regression model is 7.689, and the model is significant (P-value = .000). From Table 3A, the R-square is .260, while the adjusted R-square is .226. Taken together, these results suggest that the decision to open an account at an Islamic bank is a function of the hypothesized religious and demographic factors. However, it is necessary to determine whether it is the religion-related factors or the demographic factors (or both) that contribute to the explanatory power of the model. Table 3C presents the coefficients, t-values and significance associated with the predictor variables.

**Table 3C: Coefficients associated with the predictor variables**

	Unstandardized coefficients		Standardized coefficients	t-value	Significance
	B	Std. error			
(Constant)	9.459	1.882		5.025	.000
<b>ISLAMIC</b>	.785	.199	.286	3.937	<b>.000</b>
RELIGION	-.532	1.037	-.032	-.513	.608
NATIONATY	-.291	.373	-.050	-.780	.436
<b>ARABSKILS</b>	-1.151	.234	-.304	-4.926	<b>.000</b>
AGECATGRY	-.350	.315	-.075	-1.111	.268
GENDER	-.388	.349	-.069	-1.110	.268
EDUCATN	-.034	.162	-.012	-.210	.834
<b>MAJOR</b>	-1.498	.515	-.177	-2.911	<b>.004</b>
WORKEXP	.061	.179	.023	.341	.733
PERSFAM	.144	.187	.055	.768	.443

Table 3C indicates that the variables that are contributing to the significance of the results of the regression are ISLAMIC, ARABSKILS and MAJOR. The contribution of these three variables is quite strong. Out of these, ISLAMIC and ARABSKILS belong to the set of religion-related factors, while MAJOR belongs to the set of demographic variables. It may be recalled that ISLAMIC captures respondents' expectations that the Islamic bank will operate in accordance with the principles of Sharia (the actual question on a 5-point Likert scale was "How important is it to you that an Islamic bank act in conformance with Islamic principles?", with 5 being "Extremely important" and 1 being "Not at all important"). The t-value associated with this variable is 3.937, and the sign of the coefficient is positive, indicating that respondents to whom it was very important that a bank act in accordance with Islamic principles were more likely to open an account at an Islamic bank.

ARABSKILS captures skills in Arabic, the language of Islam and much of the Middle East. The sign of the coefficient associated with this variable is negative (the variable was reverse-coded, with "Fluent" coded as 1 and "None" as 4). The t-value associated with this variable is -4.926, indicating that respondents with a high degree of Arabic-language skills were more inclined to open an account at an Islamic bank.

MAJOR captures the respondent's major program of study. This was coded as a dichotomous variable, with 1 = Business and 2 = Non-business. The sign of the coefficient associated with this variable is negative. The t-value associated with this variable is -2.911. This indicates that Business majors were more likely to open an account at an Islamic bank.

Viewed collectively, the results of the regression as presented in Tables 3A to 3C provide a fascinating profile of a consumer likely to open an account at an Islamic bank. The picture that emerges is of a consumer with a high degree of fluency in Arabic pursuing a future career in a Business-related field, and placing great importance on the bank acting in accordance with Islamic principles. This consumer profile has implications for the marketing of IBF products and services. Interestingly enough, the RELIGION variable (capturing whether the respondent was Muslim or non-Muslim) by itself does not seem to play a significant role in the decision to open an account at an Islamic bank. More than the respondent's religion, it is the *expectation* that a bank will act in conformity with Islamic principles that drives the desire to open an account at an Islamic banking institution. This seems to point to consumers possessing knowledge related to both business as well as the way Islamic banks function seeking to take advantage of the benefits resulting from the banks' adherence to Islamic principles (such as the prohibition on charging interest from customers, etc.). Thus the choice to open an account at an Islamic bank could well be a well-thought out strategy to maximize banking-related benefits, and not just a simple choice based on one's own religion.

These findings are at variance with those of Souiden and Rani (2015) who reported that the more a person fears divine punishment, the more he/she will develop a favorable attitude towards Islamic banks. However, they provide new insights into the potential customer profile of Islamic banks, at least in the UAE. This is important in view of the wisdom that if Islamic banks want to attract and retain customers and remain relevant in the market, they would have to develop relevant strategies designed to meet customers' needs (Saini et al. 2011).

## **CONCLUSION, IMPLICATIONS, LIMITATIONS, AND SCOPE FOR FUTURE RESEARCHES**

This study sought to investigate whether religious or demographic factors drive the decision to open an account with an Islamic bank. Results indicate that some religion-related factors do play an important role in this decision. Specifically, the expectation that Islamic banks will adhere to the tenets of Sharia law (over 68% of respondents indicated their belief that Islamic banking products and services are unique and are based on Sharia law) plays a very significant role in this decision. Another important religion-related variable strongly influencing this decision is the possession of a high level of fluency in Arabic. In addition, a demographic factor (the respondent's major academic discipline) was also found to significantly influence the decision to start using Islamic banking products and services. Thus, both religious and demographic variables were found to have an influence on the decision to become a customer at an Islamic bank.

This finding has important implications for Islamic banks operating in a predominantly Islamic environment. Approximately 7,800 jobs will be created in the UAE at Islamic banks (Tahseen Consulting, 2013), signalling the need for a wider Islamic banking-related education and training options to ensure the availability of a skilled work force. Although a number of

executive Islamic finance programs are offered, there are very limited programs targeting new entrants who are willing to join the field of Islamic banking as their career option. By identifying the specific areas where financial product awareness may be lacking, and by developing a profile of potential customers, this study will assist Islamic financial institutions to design product awareness strategies aimed at helping young consumers achieve greater awareness of Islamic banking.

A limitation of the study is its focus on university students from a certain Emirate only. While there were good reasons for this, the results of this study may not be generalizable to the broader population of the UAE. Nevertheless, the study does provide some insight into a possible customer profile for Islamic banking services. Future research could perhaps investigate other factors driving the choice of Islamic banking, as well as extend the study to other population segments and other Emirates within the UAE.

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