



Customers' Perceptions toward Islamic Banking in the Gulf Region

Ambreen Khurshheed

Maham Fatima

Faisal Mustafa

Abstract: In the past decade, Islamic banking (IB) has seen incredible growth. The purpose of this study is to determine the factors affecting perceptions of customers to adopt Islamic banking and finance. The primary data is collected through a questionnaire survey, conducted amongst university students and bank employees from three Gulf Cooperation Council (GCC) countries (UAE, Kuwait, and Saudi Arabia). This study applies a regression model by analyzing understanding (U), awareness (A), religious inspiration (RI), customer innovativeness (CI), and perceived risk (PR) as independent variables and customer perception (CP) as a dependent variable. The results indicate inclusively that perceptions of customers are optimistic regarding Islamic banking and finance. The findings reveal that all independent constructs significantly influence the perceptions of customers about Islamic financing. Resultantly, the research outputs have significant implications for Islamic regulatory bodies. The foremost implication of this research is to promote academic linkages with the banking sector, i.e. to conduct research studies related to customers' perceptions about Islamic banking in other GCC countries. This research contributes to enhancing the theoretical perspective of customers' perception to consider Islamic banking services and gives practical suggestions to help marketers of Islamic banks to maximize outreach. Moreover, the results can serve as a directive factor for future studies.

Keywords: Islamic banking and finance (IBF); Customer innovativeness; Customer perceptions; Conventional banking; GCC region

JEL Classification Codes: F65, G21

@ PhD Candidate, University of Central Punjab, Pakistan. ambreen.khurshheed@ucp.edu.pk, 0000-0003-1497-5848
Postgraduate Student, University of Central Punjab, Pakistan. maham.fatima@ucp.edu.pk, 0000-0002-8407-6162
Dr., University of Central Punjab, Pakistan. faisal.mustafa@ucp.edu.pk, 0000-0003-4689-5711



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Introduction

Islam is one of the world's biggest religions. The main basis of the Islamic financial system are the Shariah principles, which includes equity and equality. The purpose of introducing Islamic financial system was to reshape the financial products and services in the context of basic Islamic principles to accomplish the demands of customers, specifically for those who strictly follow the religious restrictions e.g. interest (Abduh, 2014).

The successful structure of Islamic banks has provided the best model of financial intermediation (Iqbal, 2020; Khan et al., 2018). Historically, the interest and perceptions of customers are to invest following their religion and this enhances the Islamic banking practices. Islamic banking does not only avoid interest-based transactions, but it also circumvents unethical and un-social practices. Some shariah-compliant financing tools e.g. Murabahah, Musharakah and Mudarabah are included in the mobilization. In general, an Islamic bank can be defined as "an interest-free based financial institution, which operates following the Islamic principles and laws" (Akhtar, Mehmood, Pervez, Aslam, & Akhtar, 2016).

In the Gulf Region countries, Islamic banking systems are always considered as an alternative to conventional banking systems (Bhatti, 2020). The history of Islamic banking can be traced back to early 1970s, with the formation of the Nasser Social Bank in Egypt. Past research studies found that there were approximately 35 Islamic institutions in different countries spread over the GCC region in 1985 (Erol & El-Bdour, 1989) and it further extended over 50 countries in 2009 (Hanif et al., 2010). During the 1990s, it is estimated that the annual growth rate of Islamic banking institutions was 8.2 percent. This rate of growth increased from the GCC region to other countries such as in Asia, Europe and Africa. Although conventional and Islamic banks facilitate customers in the same market, their profitability, growth rate and assets are remarkably different which leads us to explore how customer perceptions are changing to make them move from conventional banks to Islamic banks globally.

In the beginning period of the Gulf Cooperation Council (GCC) banking, most of the conventional banks were developed as branches of well-recognized international banks initiated from the European countries. For example, the primary commercial banking formation in Saudi Arabia was launched in the Port of Jeddah in 1927 and this led to a division of the trading society of the Netherlands. Later, the local commercial banks such as National commercial banks and Riyadh bank were established in Saudi Arabia in 1950 (Yavas, 1988). Although, conventional

banks comprised of greater assets compared to Islamic institutions. But still, the growth rate of Islamic institutions is much more than that of the conventional institutions. Islamic banks have driven intensely by moral values and ethical requirements offer an opportunity to all those investors who prioritize to align their financing activities with their religious beliefs (Basheer, Khorram & Hassan, 2018) leading to change in customer's perception. The evolution in the Islamic banking system caused a huge transformation in the financial industry and it is evident from the current increasing number of participants in Islamic banks (Alzaharani et al. 2019; Pappas, Ongena, Izzeldin & Fuertes, 2016; Naqvi, Rizvi, Uqaili, & Chaudhry 2018). The major justification behind this growth is the unique financing structure, which provides a more flexible settlement procedure as compared to the strict conventional banking structure. In this circumstance, Hanif et al. (2010) estimated that the volume of Islamic banking had raised to US\$951 billion and Islamic banks started to operate in more than 50 states in 2009. Likewise, Siraj and Pillai (2012) stated that the operating profit of Islamic institutions had a faster growth rate as compared to conventional banks. Moreover, Islamic institutions have consistently shown a higher return on assets (ROA) than conventional banks. Further, the findings of Hisham et al. (2012) reported that Islamic banks are capable to compete with conventional banks. Another study conducted by Johnes, Izzaldin and Pappas (2014) compared the efficiency of Islamic banks with conventional banks. They analyzed overall gross efficiency and found that Islamic banks and conventional banks are the same inefficiency.

Furthermore, Beck, Demirgüç-Kunt, & Merrouche (2013) observed the efficiency, business model, quality of assets and stability of the conventional and Islamic banks. They found Islamic banks are more capitalized, higher in asset quality with a strong intermediation ratio as compared to conventional banks. Similarly, a study by Abedifar, Molyneux and Tarazi (2013) compared efficiency and operations of Islamic banks with conventional banks and revealed that Islamic banks are more efficient and stable as they apply less domestic interest rates on loan as compared to conventional banks (Mbawuni & Nimako, 2017). Rustam et al. (2011) examined the customers' thinking regarding Islamic banking in Pakistan and suggested that in the commercial sector, Islamic banking and services have a strong impact but many customers do not have sufficient understanding of Islamic banks and their advertising policies. The results claimed religion to be of utmost importance in the eyes of customers and then status, bank reputation, bank size, cost, the benefit to the customer and service delivery. Likewise, Khattak (2011) used a correlational model for investigating the opinions of Pakistani businessmen regarding banking

facilities and products in Pakistan. He found that banking facilities, understanding and cost are the key factors for the corporate people to select Islamic banking. In a similar study, Ahmed (2014) studied the insights of employees related to services and products of Islamic banks in Oman and revealed that people share a positive attitude towards Islamic banking, its products and services but have limited information about it. Hence, this study contributes in the existing literature by examining the impact of five key constructs; understanding, awareness, religious inspiration, customer innovativeness and perceived risk on the perception of customers about Islamic banking and finance by investigating two stakeholders groups (university students and bank employees) in three GCC countries; Saudi Arabia, Kuwait and United Arab Emirates (UAE), a city of Dubai.

This study is based on determining the factors leading to influence customers' perception of IBF. This is important as this study will give an insight into the development and growth of the Islamic banking industry in the GCC countries (UAE, Saudi Arabia and Kuwait) to explore customers' perceptions and latest trends. Though the existing literature presents a huge number of different research studies on perceptions of customers about Islamic banks, there has been scarce research on Islamic banking products and services growth key determinants such as customer understanding, customer awareness, religious inspiration, customer innovativeness and customer perceived risks specifically regarding two focus groups university students and bank employees in the Gulf region. Thus, this paper aims to fill this gap in the literature by exploring the perception of customers and to provide an insight into the fast growth of the Islamic banking industry for enhancing the interest of investors in Islamic financing via exploring impact of key customer perception growth determinants.

Keeping in view the above discussion, this paper attempts to achieve the following objectives:

- To explore the understanding level of customers and their impact on their perceptions regarding Islamic banks.
- To evaluate the influence of consumers' religious inspiration on their perceptions about Islamic banks.
- To determine the influence of customers' awareness on their perceptions about Islamic banks.
- To observe the influence of customers' innovativeness on their perceptions about Islamic banks.

- To examine the influence of customers' perceived risks on their perceptions about Islamic banks.

The remainder of this paper is as follows: Section 2 presents the literature review and hypothesis formulation. Section 3 covers the research methodology. Section 4 reports on the findings of data analysis. Section 5 covers the conclusion and presents the research contributions, and future research directions.

Literature Review

Literature review and formulation of Customers' perception of Islamic banking

Many research studies have examined determinants related to customer perceptions about IBF around the world. Because of existing literature, it is found that customer perceptions' differ not only from one geographic zone to another but also from one segment to the other (Jalilvand, Shahin, & Nasrolahi Vosta, 2014). Likewise, a researcher has analyzed Islamic banks' assets and total value of Sukuk distributed and gross domestic product (GDP) as measuring parameters and found that Islamic banking has very significant impact on the whole economy (Naz & Gulzar, 2020). Further, Surajo et al. (2020) provided a model based on customer perceived value, corporate image, and acceptance of Islam by examining the moderating effect of religiosity and found significant positive outcomes. In an earlier research study, Erol and El-Bdour (1989) studied several key motives responsible for choosing Islamic banks. They found that a high degree of awareness, social and economic development role of the IBF and peer group pressure plays a significant role in addition to religious factors on perceptions about Islamic banking. Likewise, many studies (Abedifar, Hasan, & Tarazi, 2016; Nurdin, 2016; Setyobudi, Wiryono, Nasution, & Purwanegara, 2016; Naqvi, Rizvi, Uqaili, & Chaudhry, 2018) attempted to explore the determinants leading to Islamic banking adoptions which included knowledge, Islamic promotion, innovativeness, shariah compliance and satisfaction as the crucial factors. Similarly, Gait and Worthington, (2008) considered opinions, information and awareness towards Islamic banking from the perspective of customers and financial organizations. They revealed that in addition to religion, the bank status, financial facilities and customers' understanding also play a crucial role in choosing IBF. In another study, Zainol et al. (2008), examined employees' understanding of IBF and reported that people who work in the Islamic banks have more understanding as compared to those who work in the Islamic banking departments of conventional banks. According to Nigerian research, Ringim (2014) stated that

customers' perceptions positively influenced customer's decisions in the selection of IBF products. Sarker et al. (2019) explored the effectiveness of IBF in maintaining sustainability in China and found significant and positive results.

For understanding customer's perception regarding Islamic financing, several factors are pointed out by past research studies, one of them is religiosity. In a study, Argue et al. (1999) found that religious motivation significantly influences consumer approaches regarding Islamic banking products and services. Souiden and Rani (2015) revealed that the fear of divine punishment plays a crucial role in selecting banks for investment purposes in the context of Tunisian. They also reported that the association between religious interest and perception about IBF is insignificant even though customers' perceptions towards IBF are directly associated with Islamic beliefs. In another study, consumer behavior was analyzed and Gait and Worthington (2008) stated that the dimensions of consumer outlook share a major influence on consumers' decisions regarding IBF services.

In case of Muslim-majority countries, several studies on Islamic financing are related to Indonesia and Malaysia. Abduh and Omar (2012) in their Malaysian research determined that Shariah-compliance plays a prominent role in influencing the customers' perception of Islamic banking and finance. In another study, Echchabi and Olaniyi (2012) reported that the religious inspiration, investment convenience and service quality provided by Islamic banks form the basis for adopting IB products and services. Further, Amin (2013) using the theory of reasoned action (TRA) observed that perceived financial cost, subjective norms, and attitude influence the decision of Malaysian bank clients to select Islamic electronic cards. Another Malaysian study of Hisham et al. (2012) pointed out that customers' perceptions about a bank's compliance with Shariah rules and regulations are considered as the most crucial factor in prioritizing IBF.

A few research studies in non-Muslim jurisdictions have been conducted. Khat-tak (2011) stated product and price are the significant factors leading to positive or negative customer perceptions about IBF in the Singaporean context, however, Gerrard and Cunningham (1997) found that service quality, electronic services, bank's advertisement, and feeling of security were the critical factors in selecting a bank. Due to the significance of Islamic banking, many studies on UAE have been done on Islamic banking, predominantly in the area of customer perceptions toward IBF. Lee and Ullah (2011) investigated the factors of customer loyalty in IB in the UAE and found that clients of Islamic banks are gratified with the advisory board made with reference to Shariah rules and other facilities such as query responses,

number of operating branches and service quality. Beck, Demirgüç-Kunt, and Merrouche (2013) determined the association between financial concepts and terms about IB and conventional systems among university graduates and reported that the awareness regarding conventional banking systems is more than Islamic banks. Housby (2011) observed the impact of consumer experience and service quality factors on consumer satisfaction. Focusing mainly on consumers of a commercial bank, they reported that both rational and core factors of service quality were associated with consumer satisfaction in the context of the UAE. Further, Al-Tamimi et al. (2009) determined consumers' perspectives about Islamic and conventional banks operating in the UAE. They found that majority of consumers prefer Islamic banks over conventional banks even though they are not completely satisfied with their services. In another study, Haque et al. (2009) investigated the influence of customers' perception of banks' service quality, accessibility and bank reputation. They found a significant and positive relationship between the constructs.

The existing literature further revealed that, among other determinants, the degree of acceptance of innovation and perceived risk are the elements to examine how quickly an internet user becomes attracted to banking services (Vrechopoulos et al., 2001; Citrin et al., 2000). Despite the rising importance of online banking, there are still limited research studies that present a holistic view of all key factors leading to determine customers' perception regarding Islamic banking products and services. Lassar et al. (2005) pointed out that the combination of the channel and the innovative features of financial instruments and service quality leads to more investment in banks. Consumer innovativeness mainly represents the tendency of customers to embrace the change and try innovative products and services more often than others (Hirunyawipada & Paswan, 2006). The main objective of the majority of past studies was based to characterize the innovative customers by their risk-taking approach or by the fact that they perceive less risk compared to others for the same innovative products and services (Im et al., 2003). Several studies also provided evidence that consumer innovativeness leads to adoption of latest products (Mustafa, F., Khursheed, A. & Fatima, M. 2018; Balen et al., 1995; Foxall et al., 1995; Midgley & Dowling, 1993). However, this study aims to investigate the influence of customer innovativeness about the diffusion of innovation in the banking industry and by examining its impact on customers' perception in three GCC countries (UAE, Saudi Arabia and Kuwait).

Among the aforementioned key factors, perceived risk also holds crucial significance about customers' perceptions about IBF. As all financial transactions have,

inherent risks and it can rise from different levels of organizational and institutional. The perceived risks resulting from failure in completely following the Shariah principles are considered significant aspects for determining risk in Islamic financial institutions. Therefore, one of the major concerns of this study is to explore the influence of perceived risks involved in financial transactions in IBF on consumer perceptions. In Islamic finance, several studies have discussed the risks by particularly focusing on the control risk and the risk management in decision-making processes (Al-Suwailem, 2013; Siddiqui, 2008; Elgari, 2003; Akkizidis & Khandelwal, 2008; Eid & Kamal, 2012). In Islamic finance literature, the first discussion on risks was introduced by Elgari (2003), who explained the concept of mukhabarat (risk) as “the situation having the probability of deviation from the expected outcome” and “the chances of loss”. Several other researchers have discussed risk based on Jurisprudence (qawa'id fiqhiyyah) principles (Dusuki & Smolo, 2009; Abdullah, Shahimi & Ismail, 2011; Bougatef, 2015). This principle explains a direct relationship between risk and return, which is ultimately a link between revenue and loss. According to Islamic finance, instead of dealing with a generic risk, institutions providing Islamic products and services deal with additional and unexpected risks, namely a unique risk. The unique risks represent the mix of risks exposed by Islamic financial institutions and their arrangements resulting from the predetermined design of financial instruments. Therefore, risks faced by Islamic banks may vary from conventional banks with reference to risks' severity or structure (Abdullah, Shahimi & Ismail, 2011). Hence, this study theoretically contributes to the existing literature by examining the influence of perceived risks on the perceptions of customers regarding IBF.

The abovementioned literature review about Islamic banking reports mixed findings regarding the factors, which influences customers' perception to adopt IBF. Most of the research studies done in prominent Muslim countries highlighted that the Islamic bank's compliance to Shariah law is the critical determinant influencing customers' perception about Islamic banking products and services (Ullah & Lee, 2012) reported the significance of Shariah compliance as a prominent determinant for customers' perception about IBF.

However, it seems reasonably evident that the spiritual and practical beliefs modify the customer global approach toward Islamic banking finance (Abou-Youssef et al., 2015). A study also revealed that consumer perception, convenience, data confidentiality, bank reputation, relative price, cost/benefit and service quality significantly add in customer investment in the Islamic banking industry (Gait & Worthington, 2008). Though, particularly in Muslim countries such as UAE, there

are evident clues that a bank's compliance with Islamic regulations act as a strong factor leading to raise consumers' interest in IBF products and services. Therefore, we deduce hypotheses as follows

H1. Customers' understanding of Islamic finance positively influences their perceptions toward Islamic banking products and services.

Islamic banking mainly depends on Islamic Shariah principles, the believers of Islam are assumed to have sufficient knowledge about the rules and regulations of Islam. Resultantly, it may be justifiable to assume that customers inspired by Islamic principles may lead them to prioritize Islamic banks over conventional banks. In Muslim-majority countries such as Saudi Arabia, Pakistan, UAE, religious factors are considered as the crucial determinants leading to influence consumers' perception about IBF (Sayani, 2015). In a study conducted on the banks operating in Bahrain, Almossawi (2001) observed a few key motives leading behind IBF. He found that Islamic beliefs and social work are the critical factors that influence customer decision of bank selection. Further, several studies investigated the role of religious beliefs in shaping the individual decisions for choosing between conventional and Islamic banks (Alam & Sayuti, 2011; Mukhlis et al., 2008; Ahmad, Rahman & Seman, 2008). However, none of them have investigated the impact of religious inspiration on consumers' perceptions regarding IBF in the UAE countries. Therefore, the following hypotheses are formed.

H2. Consumers' religious inspiration positively influences their perceptions of Islamic banking products and services.

Although at present, Islamic banks are operating in several Muslim-majority and Muslim-minority states, but still they need more appropriate marketing strategies to raise awareness about IBF and to reach their potential audience. A past research study analyzed crucial variables such as exposure, knowledge and awareness and found their significant influence on takaful involvement (Husin & Rahman, 2016). Further, several past researchers also pointed that consumer attitude, knowledge, religious beliefs and customer awareness regarding Islamic banking products and services play a significant role in leading them towards Islamic banks (Chhapra & Bhutto, 2013; Khattak 2010; Wahyuni, 2012). We, therefore, hypothesize that customers' awareness about IBF will positively influence their perceptions about Islamic banking products and services.

H3. Customers' awareness will positively influence customers' perceptions regarding Islamic banking products and services.

Customer innovativeness is defined as the degree of willingness and speed of an individual to accept innovation (Jamshidi & Hussin, 2012). Customers consider the innovative Islamic banking services as a new way of doing financial transactions and an optimal alternative to the existing conventional methods of financing (Ghannadian & Goswami, 2004). Several studies have highlighted the significance of innovative services in gaining customer attention toward financial institutions (Koufaris & Hampton-Sosa, 2004; Ankar & D’Incau, 2002). However, the influence of customer innovativeness on consumers’ perception has not been investigated in a single study on the GCC countries. Therefore, we postulate that:

H4. Customer innovativeness positively influence customers’ perception of Islamic banking products and services

In view of Islamic banking, perceived risk is defined as the probability that a product will not perform according to the expectations (Amin, Rahim, Laison & Magdalene, 2011). Commercial banks are known for giving a fixed amount of interest on bank’s assets, while Islamic banks are based on risk-sharing principles. This principle applies to the sources of funds and on the uses of funds (Satiya & Puri, 2015; Bessis, 1998). Focusing on risk factors, Daud, Yussof and Abideen (2011) reported that Islamic banking does not offer a fixed rate of interest, which leads to risk perception about Islamic financing among its customers. Prior studies were conducted on several risks determining factors toward IBF. However, in the context of GCC countries, researchers have not investigated perceived risk regarding customers’ perceptions about IBF in UAE, Saudi Arab and Kuwait. Therefore, we propose the following hypotheses:

H5. Customers’ perceived risk significantly influences their perceptions regarding Islamic banking products and services.

Methodology

Despite being prominently Islamic, the selected three GCC countries (UAE, Saudi Arab and Kuwait) welcome people from across the whole world to work and socialize. The majority of the expatriates are non-Muslim. Most of their dependents enroll in the universities and join professional institutes to acquire the same qualification and experience that Arab natives do. This forms a heterogeneous student and jobholder population. The sample of our study comprises of 1000 respondents selected by convenience sampling, 500 respondents were university students and 500 respondents were bank employees. For the data collection, five universities

from selected three countries of "Gulf Cooperation Council" further to be mentioned as GCC region were considered; Effat University Jeddah-KSA, Cass Business School – Dubai, American University of Middle East -Kuwait, Gulf University of Science and Technology-Kuwait, Institute of Management Technology-Dubai. The primary data were obtained from students, who were currently enrolled in the selected universities and have studied Islamic finance subjects in their Masters, EMBA or MBA program.

In the case of banks, survey includes nine banks operating in UAE, Saudi Arab and Kuwait. These banks are selected based on their highest total assets ratio in comparison to other banks operating in the GCC region. From Saudi Arabia; National Commercial Bank, Al Rajhi Banking & Investment Corporation and Islamic Development Bank were considered. From Kuwait, Kuwait Finance House, Boubayan Bank, International Bank of Kuwait were selected. From UAE we selected Dubai Islamic Bank, Abu Dhabi Islamic Bank, Badr Al-Islami (Islamic Banking Division of Mashreq Bank).

Many reasons make our sample of the study based on the student and Islamic bank employee (jobholder) population a good representative for a conventional customer. Firstly, professionals and students have obtained a certain level of qualification to understand Shariah principles adopted by Islamic banks. Secondly, university students and bank employees from UAE, Kuwait and Saudi Arab are acquainted with the societal, cultural and religious norms of a particular region. Thirdly, the majority of students and bank employees are from the economic level that is quite well-off and are resultantly familiar to the financial and banking services available in the selected GCC countries. Respondents were requested to fill the questionnaire survey regarding customers' perceptions of Islamic banking products and services. A total of 1000 questionnaires were disseminated. We have used both descriptive and inferential statistics for assessing the results.

Questionnaire design

We have used a self-administered questionnaire survey for collecting primary data, it was designed into five key themes: awareness, religious inspiration, understanding, customer innovativeness and perceived risk in the customer perception about Islamic finance. The survey was disseminated by hand to two stakeholder groups, which include bank employees and university students. The questions were gleaned from past studies conducted by (Rehman & Shoaib 2014; Ling et al., 2012; Al- Ajmi et al., 2009). Through, a crucial aspect of this procedure is the

proper explanation of the research protocol and explanation of any query that the respondents might face while filling the questionnaire. For removing response bias, respondents were asked to avoid discussion during filling the questionnaire. Questionnaires that were not filled or with double-option selections were removed from the analysis of this study. The first section of the survey presents the demographic characteristics of the participants comprising the gender, age, religion, qualification along with the selected universities and banks. The second section explains the problems regarding customer perceptions, influence of religious inspiration, awareness, understanding, customer innovativeness and perceived risk on customers' perception.

Participants

This section provides empirical evidence for the relationships presented by the research hypothesis analyzed in this study. For testing the reliability of data, we have applied Cronbach's alpha and for analyzing the data, we have used ANOVA, regression and correlation. Table 1 represents the details about the demographic portfolio of 1000 respondents, which includes 500 university students and 500 bank employees. According to Cronbach's alpha consistency test, a rating of 0.87 depicts a suitable level of inner reliability of the survey.

Table 1

Demographic Characteristics of Participants

Variables	Categories	Students	Islamic banks	Total
Gender	Male	368	394	762
	Female	138	106	238
Age group	19-30	500	51	551
	31-40	0	296	296
	41-60	0	153	153
	60+	0	0	0
Academic qualification	Intermediate	0	59	59
	Bachelor	41	92	133
	Master in Islamic Finance	106	47	153
	MBA/EMBA	353	302	655

Religion	Very strict	49	56	105
	Moderate	342	301	643
	Strict on the low scale	109	143	252
University	Gulf University of Science and Technology, Kuwait	100	N/A	100
	Effat University Jeddah	100	N/A	100
	Cass Business School – UAE	100	N/A	100
	American University of Middle East Kuwait	100	N/A	100
	Institute of Management Technology Dubai	100	N/A	100
Banks (KSA)	National Commercial Bank	N/A	55	55
	Al Rajhi Banking & Investment Corporation.	N/A	55	55
	Islamic Development Bank.	N/A	56	56
Kuwait	Kuwait Finance House.	N/A	55	55
	Boubyan Bank.	N/A	56	56
	International Bank of Kuwait	N/A	56	56
UAE	Dubai Islamic Bank	N/A	56	56
	Abu Dhabi Islamic Bank.	N/A	55	55
	Badr Al-Islamic.	N/A	56	56

Source: Authors' Compilation

In the case of university students, 73.6 percent were male students and 26.4 were females. In the case of banks' survey, 78.8 percent were males and 21.2 percent were female employees. From each university a sample of 100 students was selected, therefore, the total target of 500 students is reached. All the respondents

from students' survey fall in the age group of 19 to 30 years. While in the case of banks survey, the age of 51 respondents was ranging from 19 to 30 years, 296 were from 31 to 40 years and 153 were from 41 to 60 years. For the students' survey, 41 students have bachelor's qualification, 106 have master's qualification and 353 were enrolled in the MBA/EMBA program. From banks' survey, 59 have done intermediate and, 92 have completed their bachelor's degree, 47 respondents have completed their master's degree and 302 have done MBA/EMBA.

In view of university students' response, 9.8 percent were found to have strict beliefs about their religion, 68 percent had moderate and 21.8 percent had low strictness in religious views. In the case of banks survey, 11.2 percent had very strict religious views, 60.2 percent had moderate and 28.6 percent had low strictness in religious views. In this study, we have collected primary data from students enrolled in five universities of GCC region by collecting 100 questionnaires from each university. While in case of banks total of nine banks were considered and we collected data from a total of 500 employees, out of which 220 employees were from four banks (55 from each bank) and 280 employees from five banks (56 from each bank) as presented in table 1.

In this study, we have used customers' perception as a regressed variable and understanding, religious inspiration, awareness, perceived risk and customer innovativeness as independent constructs for determining the perception about Islamic financing in UAE, Saudi Arab and Kuwait. We have collected data from 1000 respondents and analyzed it by regression analysis. For examining the association between dependent variable and independent variables, we have applied Pearson correlation coefficient and regression in equation 1 as follows:

$$CP = \alpha + \beta_1 (A) + \beta_2 (U) + \beta_3 (RI) + \beta_4 (CI) + \beta_5 (PR) + \varepsilon \text{ (Eq. 1)}$$

*where CP = Customer perception, U = Understanding, RI = Religious inspiration, CI = Customer innovativeness, PR = Perceived risk, A = Awareness, and ε = Error term.

Findings and Discussion

Reliability analysis

Table 2 shows Cronbach's alpha (value of reliability) of each variable. The standard value for reliability is considered as 0.70. The result reveals that all the variables analyzed in the study have the value of reliability more than 0.70, which shows that all constructs used in the questionnaire are consistent.

Table 2*Reliability Test*

Constructs	Cronbach's alpha value	Items	Results
Understanding	0.861	4	Reliable
Religious inspiration	0.764	4	Reliable
Perceived Risk	0.791	5	Reliable
Awareness	0.778	4	Reliable
Customer Innovativeness	0.852	5	Reliable
Customer Perception	0.703	6	Reliable

Source: Authors' Compilation

Regression Analysis

Table 3 shows that the R-value is 0.743 which indicates the positive moderate relationship between customer perception and nominated independent constructs. It further reveals that awareness, religious inspiration, customer innovativeness, understanding and perceived risk significantly influences the customer's perception regarding Islamic financing. The R² value is 0.554, which shows that the level of perception of customers is 55.4 percent explained through awareness, religious inspiration, customer innovativeness, understanding and perceived risk about Islamic financing.

Table 3*Regression Analysis*

Model	R	R ²	Adjusted	Standard Error of estimate
1	0.743	0.554	0.558	0.31771

Source: Authors' Compilation

Analysis of Variance ANOVA

In table 4, the F value is 62.865, the value of P is 0.000, which shows that the variable is significant at 5 percent. This depicts that the statistical calculation done in this study is accurate. Further, it confirms a significant relationship is present between customers' perception and five independent constructs (customer innovativeness, understanding, religious inspiration, awareness and perceived risk).

Table 4

ANOVA Results

Model	Sum of squares	DEF	MS	F statistic	Significance
Regression	18.729	4	5.406	62.865	0.000
Residual	13.786	134	0.091		
Total	33.972	139			

Source: Authors' Compilation

Results of Coefficient Analysis

In table 5, the level of significance of each variable is analyzed in this study is depicted by T statistics and P-value. The first constant is the intercept term used in regression model. The constant shows its β (beta) value 1.867, which reveals that if awareness, religious inspiration, customer innovativeness, understanding and perceived risk are at zero value than customers' perception will remain at 1.867. The constant also reveals its significance value $P = 0.000$, which describes that α (constant) is a significant level. Awareness β value is 0.145 which shows a change in the value of awareness by 1 unit would lead to 0.145 change in customers' perception. The P-value of awareness is 0.001 ($t = 2.421$). This reveals a significant influence of awareness on customers' perception at a significance level of 5 percent. This supports our first hypothesis that having awareness about Islamic financing positively influences perception of the customers in Saudi Arab, UAE and Kuwait. This result is supported by the findings of past studies (Khan, 2010; Akbar et al., 2012; Riaz et al., 2016). The value of beta for religious inspiration is 0.154 which shows that a change in the value of religious inspiration by 1 will lead to a change of 0.154 in the customers' perception with a significant P-value of 0.001. This result supports our second hypothesis that there is a strong influence of religious inspiration on Islamic financing in Saudi Arab, UAE and Kuwait. His result is also witnessed by past studies (Ali & Syed 2010). The value of the beta of understanding variable is 0.198 which shows that a change in the value of beta by 1 will cause 0.198 changes in the perception of customers in GCC countries. The value of P is 0.000 which supports our third hypothesis that having a good understanding of the products and services of Islamic finance will positively influence the perception of customers'. The beta value of customer innovativeness is 0.176 which shows that if the value of customer innovativeness is changed by 1, will lead to change the perception levels of customers by 0.176. The P-value is 0.000 which supports our fourth hypothesis that the inclination of customers' toward innovated products and services of

Islamic finance will boost their perception levels about Islamic financing and it is also supported by the findings of past studies (Im et al., 2003; Lassar et al., 2005; Citrin et al., 2000).

The beta value of perceived risk is negative with a value of 0.165 which shows that a change in the value of beta by 1 will cause a change in the value of customers' perceptions by 0.165. The P-value of perceived risk variable is 0.001 which supports our fifth hypothesis that if customers perceive high risk regarding investment in the Islamic banks than they will be reluctant to invest in Islamic products and services. This result is supported by past studies (Ullah & Lee, 2012; Bougatef, 2015; Eid & Kamal, 2012). The above results conclude that all independent variables (awareness, religious inspiration, understanding, customer innovativeness and perceived risk) shares a significant relationship with customers' perception regarding Islamic financing in Saudi Arab, UAE and Kuwait. The overall model of our study is as follows.

$$MP = 1.867 + 0.145(K) + 0.154 (RI) + 0.198(U) + 0.176(CI) - 0.165(PR) \quad (\text{Eq. 2})$$

Table 5

Coefficient Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		Significance
	B	Standard error	B	T	
Constant/ Intercept	1.867	0.171		10.920	0.000
Awareness	0.145	0.046	0.265	3.122	0.001
Religious inspiration	0.154	0.148	0.234	3.856	0.001
Understanding	0.198	0.156	0.294	3.247	0.000
Customer innovativeness	0.176	0.164	0.235	4.095	0.000
Perceived Risk	-0.165	0.135	0.278	3.971	0.001

Note: Dependent Variable is customer perception

Correlation Analysis

Table 6 reveals the Pearson correlation tests between selected constructs and all are significant at 0.01 level. Awareness and perception show a positive correlation at a moderate level of 0.620; perception and religious inspiration share a positive correlation at a moderate level of 0.629; perception and understanding share a correlation of 0.689 (positive); perception and customer innovativeness share a positive and moderate correlation of 0.645 while perception and perceived risk share a negative correlation of 0.612. The findings reveal that all our variables (religious inspiration, perception, awareness, understanding, customer innovativeness and perceived risk) have a value of correlation is greater than 0.60, which indicates a positive correlation at a moderate level with dependent construct except perceived risk which shares a moderate negative correlation. All values of coefficients of correlation (independent variables) are less than 90 which shows the absence of the multi-collinearity issue in the study.

Table 6

Pearson Correlation Analysis

Variables	Perception	Awareness	Religious Inspiration	Understanding	Customer Innovativeness	Perceived risk
Customer Perception	1	0.620**	0.629	0.689	0.645	0.612
Awareness	0.620	1	0.677	0.602	0.683	0.624
Religious inspiration	0.629	0.677	1	0.692	0.641	0.601
Understanding	0.689	0.602	0.692	1	0.651	0.649
Customer Innovativeness	0.645	0.683	0.641	0.651	1	0.679
Perceived risk	0.612	0.624	0.601	0.649	0.679	1

Source: Authors' Compilation

One of the main objectives of this study was to identify some crucial factors by building on the relationship between Islamic banking products and services and customers' perceptions. Therefore, the proposed model in this study combined six variables: understanding, awareness, religious inspiration customer innovative-

ness and perceived risk as independent variables and customer perception as a dependent variable. Hence, we provided insight into measuring and conceptualizing customers' perceptions and identified the underline factors that influence customers' perception. The main factors of customers' perception as indicated from this study can also be used to gain further insights into the relationships with other key determinants of interest. The results reveal that our dependent variable is significantly influenced by all independent variables analyzed in this study.

Discussion and Implications

The contribution of the study is in two aspects: practical and theoretical contributions. Hypothetically, the research contributes through the determination of key factors influencing customers' perception regarding IBF in three GCC countries; Saudi Arab, UAE and Kuwait. As existing literature has proved that Islamic banking services are gaining attention among not only Muslim customers but also among non-Muslim customers. The growth in Islamic banking sector will significantly enhance its scope of services. However, before the marketers need to develop an in-depth analysis of the Islamic banking dynamics, a customer needs to have a positive perception to adopt Islamic banking products. For this purpose, this study embarks on five key individual predictors (awareness, understanding, religious inspiration, perceived risk and customer innovativeness) to estimate the consumers' perception regarding IBF. We have used a regression model for determining customers' perceptions of IBF in the GCC context. Hence, our results are generalizable with reference to the Islamic banking domain in the GCC region. In terms of economic and political implications, the majority of students and bank employees are from the economic level that is quite well-off and are resultantly familiar to the financial and banking services available in the selected GCC countries as represented in Table 1. This indicates a clear view of how an understanding of financial services by well off families is contributing to the enhancement of economic activities of the gulf region via investing in Islamic products and securities.

This study has profound implications for Islamic banking authorities and academicians. The findings of our research offer valuable insights for estimating customers' perceptions about IBF. First, based on the findings of this study, the uncertainty in the consumers' perceptions could be focused to develop a positive viewpoint among them about IBF. The marketing managers could also predict consumers' perception by considering the crucial factors analyzed in this study, and devise their marketing and promotional strategies accordingly. Second, they could

also take suitable measures for enhancing positivity in their target customers' perceptions towards IBF. One way for doing this could be to spread awareness among customers regarding the advantages of the IBF. The second way could be to develop enriched marketing strategies that not only create awareness but also help in forming positive perceptions in the potential customers towards Islamic banking. Third, Islamic banking authorities can also use the findings of this study to form their competitive edge along with those important selection attributes for responding to their relative strengths and weaknesses in a competitive environment.

Further, our results also revealed that the selected five constructs are significant predictors of the customers' perceptions toward IBF. The IBF products and services will gain more customer attractions if these are prepared with innovative features as per customers' needs and wants. For this purpose, Islamic banks should first identify their target market and should focus on niche marketing strategies. This will ultimately increase the customer base by enabling customer loyalty in the long period.

Conclusion and Future Research Directions

This study sought to determine the perceptions of customers about Islamic banking (products and services) in three GCC countries (Saudi Arabia, UAE and Kuwait). In general, 1000 questionnaires had been gathered from two stakeholder agencies: university graduates and bank employees. Our findings expose that all our independent variables significantly influence perceptions of customers, but still, customers lack the proper awareness about IBF as compared to conventional banks. Globally customer awareness is increasing day by day for Islamic finance but still conventional banks hold most of the market share globally (Saad, N. M., 2012). The findings reveal that all our variables (religious inspiration, perception, awareness, understanding, customer innovativeness and perceived risk) have a value of correlation is greater than 0.60, which indicates a positive correlation at a moderate level with dependent construct except perceived risk which shares a moderate negative correlation. Our results are in line with the previous studies, as we found a positive and significant impact of knowledge on consumers' perception, this finding is supported by (Bley & Kuehn, 2004; Sayani, 2015). Further, we found a significant impact of religious inspiration on customers' perception and this finding is also in line with the past studies (Alam & Sayuti, 2011; Mukhlis et al., 2008). The impact of received risk is found to negatively influence a customer's perception (Kaabachi & Obeid, 2016). We also found a positive and significant impact of customer awareness and customer innovativeness on customer perception, this finding also finds

support in the past studies (Harun et al., 2015; Satija & Puri, 2015). For improving this situation, Islamic banks should plan more innovated easy to use products, which should be more accessible for a wider audience. Further, Islamic banks could design easier merchandise that is simpler to recognize, are enormously competitive and extra reachable for a much broader public. Islamic banks could also broadly develop better advertising techniques to attain potential clients.

For academicians, this study provides a base for introducing more IB related courses in the universities to inculcate the knowledge of Islamic banking and finance. As at present, even though several Islamic finance courses are offered, there are very few programs focusing on new entrants interested to join the field of Islamic finance. This study will facilitate Islamic financial institutions to design Islamic finance awareness strategies focused on assisting young customers. A more focused integration between Islamic banks and educational institutes may lead to better Shariah-compliance and it may help in resolving several key issues related to Islamic finance. For enhancing awareness of Islamic banking services, we recommend collaboration between academia and the corporate sector. This collaboration could lead to forming more stable Shariah-compliance, carrying out higher thoughts for modern commodities and imparting practical solutions to existing problems related to IBF. Furthermore, this collaboration could help customers to triumph over misunderstandings regarding IBF.

Our findings might be capable of giving transparency regarding the dissemination of profits. This will help the Islamic scholars to launch improved services for fulfilling the actual social and economic purposes of IBF. We further recommend that Islamic institutions should revise their Shariah framework. Moreover, the experts and intellectuals in modern-day economics should collectively resolve issues with Islamic scholars in advisory forums. Moreover, the study gives an insight into a unique set of variables playing a key role in influencing customers' perceptions about IBF. Future research could also be done to determine other elements, which could influence IB in other regions, as well as expand this research to other geographic regions.

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