





# Services Quality or Sharia Compliance? Factors which mostly Influence Customer Selection of Islamic Banks – The Case of Tanzania

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**Abstract:** In the realm of banking, Islamic banking concepts and practices may appear unfamiliar to certain customers, particularly those transitioning from conventional banking systems. The perception of customers is significantly influenced by the level of education and awareness imparted by the banks themselves. Moreover, it is widely believed that customer perception directly impacts their satisfaction levels. Within Tanzania, the Islamic banking sector has experienced modest growth in recent years. This study aims to delve into the perception held by customers regarding Islamic Banks' adherence to Shariah principles in their operations. Also, it aims to understand the factors that attract customers to Islamic banks instead of conventional ones. This research focuses on the Islamic banking industry in Tanzania, covering both the mainland and the Island of Zanzibar. A total of 305 Islamic bank customers participated in this study by completing a close-ended questionnaire. Using a descriptive research design, this study examined four key factors: the banks' compliance with Shariah principles, customers' awareness of Islamic banking products and services, criteria used by customers when selecting a bank, and customer satisfaction with the quality of services offered. The findings showed that the majority of Islamic bank customers in Tanzania perceived these banks to be operating in accordance with Shariah law. This study also highlighted that Shariah compliance was the primary influencing factor in choosing an Islamic bank over a conventional followed by service quality. Therefore, Islamic banks in Tanzania should focus on providing more education about Islamic banking and ensuring that their products align with Islamic law.


**Keywords:** Islamic Bank, Shariah Compliance, Customer Perception, Quality Services, Tanzania

**JEL Classification:** E59

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## Introduction

The Islamic finance industry has undergone significant growth since its introduction in the 1960s (Alharbi, 2015). Its global integration has added a valuable dimension to the financial system (Iqbal & Llewellyn, 2013). According to the Islamic Financial Service Board (IFSB) (IFSB-Report, 2022), assets of Islamic Financial Services Institutions (IFSI) have grown by 11.3% annually, reaching an estimated worth of USD 3.06 trillion in 2021. Despite this growth, Iqbal & Llewellyn (2013) have emphasized that Islamic banks are structured to adhere to Islamic Shariah principles, which include the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling) (Iqbal & Llewellyn, 2013). Along the same line, customers opt for Islamic banks over conventional banks to avoid interest, as Islamic banks are more resilient during banking crises (Abduh, 2014). To maintain compliance with Islamic principles, Islamic banks must ensure that all their products adhere to the prescribed rules and regulations. This responsibility lies with the Shariah Supervisory Board (SSB) of each Islamic bank (Mukhibad et al., 2023).

Moreover, the development of Islamic banking operations in Tanzania has been recently undergoing marginal growth compared to global efforts in the field (Alharbi, 2015). Kenya Commercial Bank pioneered Shariah-compliant products in Tanzania in 2008, followed by other commercial banks, such as People's Bank of Zanzibar and National Bank of Commerce, which established Islamic banking windows and departments, respectively. Amana Bank was the first full-fledged Islamic bank to be established in 2011 (Jassat, 2016). However, despite these advancements, the industry's growth has been below expectations, resulting in limited investment in full-fledged Islamic banks and a continued reliance on Islamic banking services offered by conventional banks. The absence of a formal regulatory framework for Islamic banking activities in Tanzania and other East African countries has highlighted the need for urgent regulation (Omar et al., 2017). In Tanzania, individual Islamic banks have formed Sharia Supervisory Boards (SSBs) to ensure compliance with Islamic Shariah. However, concerns have been raised about the loose regulatory environment and the adherence to Shariah principles in all aspects of banking. International guidelines have emphasized the importance of independent SSBs for banks offering Islamic banking services (AAOIFI, 2015). However, these guidelines are not legally binding. Consequently, the establishment of an effective regulatory framework is critical to ensure the proper functioning of Islamic banking in Tanzania, given the lack of an independent Islamic Central Bank or a dedicated department within the central bank specifically responsible for overseeing Islamic banking operations and the potential

compromise of Shariah compliance resulting from the application of the same regulatory model used for conventional banks.

The main objective of this study is to determine customers' perception of bank's Shariah compliance and explore factors influencing customer selection of Islamic banks in Tanzania. This study especially underlies significant knowledge to the planners in the Tanzanian Islamic banking industry, which is still in its early time of growth, having no central/formal regulatory authority from which stakeholders can source reliable information on banks' Shariah compliance. Results from empirical studies like this can provide valuable insight into the development and growth of the Islamic banking industry in Tanzania and serve to provide a clear picture of the perception of the customers served. At the same time, the literature on the subject in Tanzania has not grown, so that this study can bring new perspectives. This subject on customer awareness of Islamic banking practice, customer satisfaction with Shariah compliance, quality services of Islamic banking, and the factor influencing customers' bank selection in Tanzania has not been researched much. Thus, this study aims to cover that gap by exploring the perception of customers on Islamic banks' Shariah compliance in Tanzania to contribute to the literature.

Specifically, the study aims to determine (1) the level of customer awareness of Islamic banking practices and products, (2) the level of customer satisfaction with Islamic bank Shariah compliance, (3) the level of customer satisfaction with Islamic banks' quality of service and (4) factors that influence customers selection of Islamic bank.

### **The Philosophy of Islamic Finance**

As stated in the Muslim's Holy book of the Qur'an chapter two, verse 275, "Any return from debts or loan is prohibited." The structure of Islamic finance is, therefore, based on some prohibitions and encouragement. In that context, interest is defined as an excess that comes from the exchange or transaction of money for money, or from the advance paid in extra due to the delay of the payment of a certain amount of money. According to the Shariah law, this generates imbalance and creates classes within society. Hence, it is strictly prohibited by Shariah law. The loan is considered monetary or financial only. This contains the exchange placed in hands that have the guarantee of repayment and should not include any excess to the lender.

Islamic finance philosophy is hinged on three pillars. In the first pillar, Islamic banks should deal with goods and not with money, and this pillar is a counter-

statement to a famous statement, which only applies to the conventional banking system “Banks deal with documents and not with goods.” The statement entails that conventional banks should not engage in the subject matter of the contract at all. The bank should deal with the counter payment or the price only. This is quite different from the Islamic banking system. The Islamic banking system deals with both the document and the subject matter (the goods) because money in Islamic banking is used only as a medium of exchange in the process of lending (selling) onwards to the customer (Ayub, 2007).

The second pillar of Islamic philosophy is the prohibition of interest (Riba), which is a fundamental philosophy of Islamic finance that has a significant impact on customer perception of Islamic banks. In Islamic finance, charging or receiving interest is strictly prohibited as it is considered exploitative and unfair, as declared in the Quran<sup>1</sup>. Customers who choose Islamic banks perceive them as institutions that offer an alternative to conventional banks, aligning with their religious beliefs and values (Junaidi et al., 2023). Moreover, the prohibition of interest enhances customer trust and confidence in Islamic banks. Customers view Islamic banks as institutions prioritizing the real economy and asset-backed financing (Suci et al., 2020). Overall, the prohibition of interest in Islamic finance shapes customer perception of Islamic banks as ethical, fair, and socially responsible institutions. This perception is reinforced by the religious teachings and principles that guide Islamic finance (Wan Ahmad et al., 2019).

Lastly, the third concept in Islamic Finance Philosophy is the requirement of transparency and documentation. Islamic banks are required to distinguish themselves from conventional banks by ensuring transparency in their documentation. In any contracts in which an Islamic bank is involved, its information should be clear to the customer on all aspects, including price, profit margin, cost price, and agreed share ratios because hiding this information from customers will render the transaction non-Shariah complaints (Ayub, 2007). When evaluated in general, due to the prohibitions of Islam, especially interest, the Islamic finance industry and Islamic, banks in particular, have recently started to develop in Islamic countries outside the conventional finance sector. In Tanzania, this sector has been developing steadily since it started. This research aims to analyze the nature of the development of this sector.

1 Al-Baqarah, 275.

## Literature Review

Many studies have been conducted to examine the influence of Shariah compliance perception on factors for customer satisfaction in the field of Islamic banking. This study approached various studies in both theoretical and empirical nature, as the kind of literature reviews explained (Cooper, 1988).

*Review of Theoretical Literature:* A review of studies concerning the concept of Shariah compliance, the concept of perception, customer satisfaction, and quality service has been conducted with the understanding, as put by (Sheth, 1979), that the psychology of customer thinking, feeling, argument and selection on existing alternatives (like brands, products, and retailers) can be better understood through knowledge of buying behavior. This is because customer buying behavior generates moments (factors) that influence the customer's decision-making process (Stankevich, 2017). Moreover, nowadays, unlike in the early days when theories on customer behavior were generated as general theories and extended frameworks, nowadays, researchers only focus mostly on a particular determinant of a specific relationship. One of those relationships is Customer Satisfaction. This is explained in the Disconfirmation Paradigm and the Expectancy-Value Concept. In the disconfirmation theory, it is explained that customers tend to develop a standard against which they compare the experience they get from the service received. On the other hand, with the Expectancy-Value Theory, customers give some judgement on a product's expected likely outcome and the benefit of using the product. That is to say, people are willing to perform behavior expected to lead to positive outcomes.

## Empirical Review

### Perception of Islamic Bank Customer toward Islamic Bank

In a study titled "A study of customers' perception of Islamic banking in Oman," authors (Belwal & Al Maqbali, 2019) discussed the perception of Islamic banks in Oman through 60 customers and non-customers of Islamic banks from two prominent cities. The result indicates that most of the people in Oman do not have much interested in Islamic banks, while some of them do not believe that Islamic banks in Oman comply with Shariah law. In general, the people of Oman have mixed feelings about Islamic banks. Some have faith, while others do not find any difference from conventional banks. In (Bashir et al., 2021), the authors explained 'Understanding of the Customers' Perception on Islamic Banking and Financial Services in Malaysia.' In this empirical study, a sample of 135 bank clients from Bank Islam

Malaysia Berhad (BIMB) and some from the different banks in Malaysia was studied. The result shows that there is no significant difference in terms of knowledge between clients and non-BIBM clients. Also, the results show that the relationship between customer knowledge of Islamic banking and finance and the preference for Islamic banking and finance services is not very significant. Using primary data collected by 1000 questionnaire surveys, (Khursheed, 2020) analyzed understanding, awareness, religious inspiration, customer innovativeness, and perceived risk in a study titled 'Customers' Perceptions toward Islamic Banking in the Gulf Region. The findings expose that all independent variables significantly influence the perceptions of customers, but still, customers lack the proper awareness about Islamic banks and finance as compared to conventional banks. The study revealed that customers' perceptions were optimistic regarding Islamic banking and finance.

### **Islamic Bank Shariah compliance**

Saqib and others (Saqib et al., 2016) conducted a study in Pakistan to investigate the impact of perceived compliance with Islamic law on customer satisfaction in the Islamic banking sector. Analyzing data from 242 participants who held accounts in Islamic banks and utilized Islamic banking branches of conventional banks, the study found that adherence to Islamic law significantly influenced customer satisfaction. Customers exhibited a preference shift from traditional banks to Islamic banks, indicating increased awareness of Islamic banking during the decision-making process. Regardless of their choice to switch banks or remain with conventional ones, customers expressed support for the Islamic banking system. The research highlighted the positive influence of Islamic banks' compliance with Islamic law on customer satisfaction, particularly in terms of recommendation levels. In a related study, (Avsar & Ozdemir, 2022) focused on the compliance of Islamic financial institutions with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards in Turkey. The study highlighted a compliance level of 54.6% in Turkey, attributed to the non-mandatory nature of the standards. Despite the divergent features, the research revealed a relationship between AAOIFI standards and International Accounting Standards.

Furthermore, (Abdulkareem et al., 2022)) conducted a study in Nigeria, exploring the concept of Islamic law compliance among Islamic banks in the Nagir region. Through a survey administered to 100 stakeholders, including bank employees, researchers, and Islamic banking experts, the study aimed to identify gaps in Islamic law non-compliance and propose solutions for Nigeria's banking system.

The research emphasized the successful implementation of Islamic law compliance in Nigerian Islamic banks, facilitated by an excellent administrative committee knowledgeable about Islamic rules and the regulation of Islamic banking in the country. To further enhance Islamic banking in Nigeria, the study recommended establishing a reliable and effective process for reviewing banking procedures in accordance with Islamic law, accompanied by a comprehensive and rigorous mechanism for ensuring compliance.

### **Islamic Bank Selection Criteria**

Several studies have examined bank selection criteria in the context of Islamic banking across different regions. (Shamsudheen et al., 2021) conducted a study in the UAE, focusing on the perceptions of Islamic bankers, corporate customers, and retail customers. Their study collected responses from 237 bankers, 416 retail customers, and 70 corporate customers, revealing that compliance with Islamic law was considered a crucial factor for retail customer patronage, while “rates and returns” and “costs and affordability” were identified as primary factors for corporate clients. In the UAE, (Kaakeh et al., 2019) investigated the factors influencing customers’ attitudes towards Islamic banking. Their study included 178 participants, primarily Muslims. The findings showed that attitude and awareness directly impacted customers’ intention to engage with Islamic banking. Additionally, attitude was influenced by image, awareness, Shariah compliance, and individualism, with intention acting as a mediating factor.

Moving to the Nigerian context, (Ezeh & Nkamnebe, 2020) examined Islamic bank selection criteria, identifying Islamic ethics, convenience, Islamic bank service awareness, and physical evidence as significant factors. Their study revealed that Islamic ethics and Islamic banking awareness were the primary drivers for Nigerian Islamic bank customers, indicating a higher level of customer awareness. Similarly, (Abdul Hadi & Muwazir, 2020) explored Islamic banking selection criteria in Malaysia among three ethnic groups. Their study found that religious and ethical factors were the most important factors overall, with variations observed among ethnic groups. The Malay group emphasized religious, ethical, and external criteria. The Chinese group prioritized services, convenience, operational factors, and charges, while the Indian group considered services, convenience, and service quality as key factors.

In contrast, (Iqbal et al., 2018) investigated bank selection criteria and customer satisfaction of Islamic banks in Bangladesh. Their study revealed that religion or Islamic



Shariah compliance was no longer the primary factor influencing the choice of Islamic banks. Instead, factors, such as the commitment of the bank, employees' competence, and compassion emerged as the main drivers for customers selecting Islamic banks.

### **Customer Satisfaction with Islamic Banking**

In the discussion on "Service quality and customer satisfaction," Khamis presented a case study of the People's Bank of Zanzibar (PBZ) in Tanzania's Islamic banks, revealing high customer satisfaction levels and a significant relationship between service quality and customer satisfaction. The findings indicated that customers are satisfied with the services provided by Tanzanian Islamic banks, and attributes, such as Shariah compliance, tangibility, and reliability, were attractive to customers (Khamis & AbRashid, 2018). Similarly, (Kökalan et al., 2021) conducted a study examining the service quality of religious and Islamic banks in Turkey. Their findings revealed that customer satisfaction levels were not fully met by both Islamic and traditional banks, despite high expectations. The satisfaction rate for service expectations in conventional banks was observed to be 81.2%, while Islamic banks achieved a satisfaction rate of 77.8%.

Furthermore, (Kawata & Salman, 2022) investigated the extended customer satisfaction of Islamic insurance in Malaysia among Muslims and non-Muslims. The study highlighted distinct satisfaction levels, with Muslims exhibiting higher trust in Islamic insurance, while non-Muslims expressed satisfaction with both conventional and Islamic insurance options.

### **Empirical Study of Islamic Banks in Tanzania**

All the shortcomings in the Tanzanian Islamic banking industry discussed earlier pushed for the necessity of undertaking a study to assess customer perception towards Islamic Finance, and in particular, Islamic Banking. This study used a qualitative method to find out customer perception of Islamic banks' Shariah compliance, customer satisfaction with Islamic bank service quality, and the factors that pulled them to Islamic banks. Concerning method and tools, the model for this study assumed dependency of customer satisfaction on Islamic banking Shariah compliance, hence taking Shariah compliance as a dependent variable for customer selection rather than service quality criteria. That is to say, this study, in its design ranked Shariah compliance well above service quality as criteria for customers' bank selection and satisfaction. In the process, four questions were used to guide the study as follows:



- What is the level of customers' awareness of Islamic/Shariah banking practices?
- What is the level of customer satisfaction with banks' Shariah compliance?
- What is the level of customer satisfaction with Islamic banks' service quality?
- What are the factors employed by customers in banking selection?

In the context of this study, the aim was to assess the perspectives of customers of Islamic banks regarding both Shariah compliance and service quality, focusing on determining the relative importance of these factors among Tanzanian bank customers. This objective was pursued through a cross-sectional quantitative research approach, chosen due to time constraints (Johnson, & Christensen, 2017). The data analysis relied on descriptive statistics, and data were collected using a 27-question questionnaire covering demographics, Islamic practices, awareness of Islamic banking, service quality assessment, and factors influencing bank selection. Participants utilized a five-point Likert scale for rating statements, and the service quality questions were structured based on the SERVQUAL model by (Parasuraman et al., 1985). IBM SPSS software was employed for data processing, with the analysis centering on customers' perceptions of Shariah compliance, awareness of Islamic banking practices, bank selection criteria, and satisfaction with service quality.

With regard to size and purpose, this study covered only the eastern part/region of the mainland of Tanzania (Dar es Salaam) and one of the two islands of Zanzibar (Unguja). This is because Islamic banks in Tanzania have their presence concentrated in these two regions. Using the random sampling technique, this study picked a total number of four hundred (400) customers from Islamic banks only. Given the size of the population, a sample of more than 300 respondents, as suggested by (Uhlig et al., 2014) and a separate location included in the study area, a mixture of online and hard copy (mail) questionnaires were used to serve both time and cost of administration. Questionnaire administration for data collection included 200 online questionnaires and 200 hard copies. The respondents were picked at random sampling on an equal basis: 200 from the mainland and 200 from Zanzibar Island, as main centers where Islamic banks were concentrated. The 305 respondents in total were able to successfully answer the questions and submit them.

## Findings

*Demographic profile of the respondents:* To ensure that the answers obtained from the respondents were precise and in line with the objective of the question asked, the questionnaire included a part to express the demographic attributes of the respondents. The part of the questionnaire intended to capture mainly five de-

mographic attributes, which included: - gender, age-group, education level, source of income and religion of the respondents (Table 1).

**Table 1**

*Demographic Profile of the Respondents*

Demographics profile		Frequency	Per cent
Gender	Male	178	58.4%
	Female	127	41.6%
Age Group	18-30	148	48.5%
	31-40	108	35.4%
	41-50	37	12.1%
	51 Above	12	3.9%
Education	No School	3	1%
	Primary	15	4.9%
	Secondary	30	9.8%
	University/Collage	257	84.3%
Source of Income	Agriculture	18	5.9%
	Industrial	23	7.5%
	Services	225	73.8%
	Other	39	12.8%
Religion	Muslim	235	77%
	Christian	70	23%

Source: Own data processed by (SPSS)

Each of the five attributes had a function in this study, but the respondents' religion was intended to cast light on the views of the general public (both Muslims and Christians) on the use of Islamic banking services. Further, in the respondent's profile, Muslim respondents were asked about their knowledge of religion and their religious practice. The intention here was to explore whether knowledge of the Islamic religion and performance of Muslim prayers had an impact on awareness of Islamic banking practice, and as such, a Shariah requirement on the subject. Results on the category of the religion of the respondents show that 235 (77%) of the respondents were Muslims and 70 (33%) were Christians. For Muslim respondents, the profile extended to include their knowledge of Islam/Shariah (fiqh) and religious practice. The result of this study shows that Muslims who were knowl-

edgeable in Islamic studies amounted to 54% of 235 Muslims. The percentage was distributed in various levels as 6% had limited knowledge, 21.7% had reasonable knowledge and 11.1% had a very good knowledge of Islam (Table 2).

**Table 2**

*Islamic Knowledge of the Muslim Respondents*

Not at All	Limited	Understand Partially	Knowledgeable	Very Good	Total
17	14	127	51	26	235
7%	6%	54%	22%	11%	100%

Source: Own data processed by (SPSS)

In analyzing the data collected from a question that sought to understand the respondents' "knowledge of Islam," the overwhelming majority of 86.8% appeared in the three categories, which included those with very good knowledge, those who understood partially and those who were knowledgeable. With these results, the indication was that Muslims in the majority were aware of all the Shariah prohibitions, including the prohibition of interest. Some questions were added to further ascertain the competence of Muslim customers on the matter of Shariah in various areas of financing activities (Fiq'hi). In Islam, Fiq'hi is the branch of knowledge that deals with ascertaining the exact meaning of the terms used in Shariah law. In response to a statement put to the respondents that sought to determine their position from strongly disagree-disagree-neutral-agree to agree strongly, the result showed that 31% of the respondents stayed Neutral to a statement that "Fiqh Muamalat does not explain Islamic finance." These were the respondents whose answers indicated that they did not know whether Islamic finance was explained in Fiqh. However, nearly half of the 235 Muslim respondents, 49.4%, did not agree with the statement, in which case they presented the message that Islamic finance was explained in Fiqh Muamalat of Shariah law and only 19% did not agree with the statement.

The conducted Pearson correlation analysis examined the relationship between individuals' Islamic practice and adherence to Shariah, specifically focusing on the forbidding of interest and other prohibited aspects of Islamic Shariah. The results of the analysis revealed a significant and positive relationship ( $p = .0019$ ,  $N = 305$ ,  $r = .182$ ). This indicated that there was a weak but statistically significant positive correlation between individuals' Islamic practice and their adherence to Shariah, suggesting that as individuals engaged more in Islamic practices, their compliance

with the principles of Shariah, including the forbidding of interest and other forbidden aspects, tended to increase.

### ***Awareness of Islamic Banking Practices***

As defined in (Schipper, 2014), awareness entails the situation in which people know much, especially about a particular subject or matter. In Islamic banking, customers, as well as potential customers, need to be well positioned, as the result shows, to appreciate the benefit of Islamic banking over conventional practices. Otherwise, customers may end up having a bank account with an Islamic bank, without knowing much about it as differentiated from other conventional banks. On the other hand, potential customers may hesitate to select Islamic banks among other conventional banks for not knowing the benefits to the Muslim faith. To find out the level of customer awareness, this study presented question categories in six areas of knowledge concerning Islamic banks: the time they came to know about the presence of Islamic banks in Tanzania, their knowledge of the difference between Islamic banking and conventional banking on profit maximization practice, knowledge of the eligibility of Islamic banks for customers of different religious beliefs, and also, awareness of respondent on some operational activities of Islamic banks.

*Islamic banking in Tanzania ten years ago!* The result from the analysis of data gathered shows that awareness of Islamic banking in Tanzania has only recently started to rise. More than half the population in the study (60%) were unaware of Islamic banking in Tanzania ten years ago. This percentage includes those who completely said NO; they did not know about it (50%) and those who said MAYBE (10%), which lies between YES and NO. This leaves 40% of those who responded that they were aware of Islamic banking in Tanzania ten years back. However, when these statistics were analyzed through the question “How long have you known Islamic bank,” the result showed a growing trend. Only 18% of the respondents were aware exactly ten years ago. The percentage rose to 20% in respect of seven years (three years later). Then, four years later, that is, seven years ago, the percentage of the respondents who were aware of Islamic banking jumped to 37%, and the recent three years, the percentage of those who are now aware of Islamic banking increased by 25% more.

*Level of customer knowledge of Islamic banking:* Owing to the definition of awareness (Schipper, 2014), which is expressed as a situation where one possesses much

deeper knowledge of a subject matter, this study included in its design a question intended to determine the level of knowledge of Islamic banking that the respondents had. In addition to this, other questions were included to probe the length of time that respondents knew of Islamic banking and another on the applicability of inclusivity of customers from all faiths. From the study, it emerged clearly that possession of Islamic bank knowledge was a pull factor for customer selection of Islamic banks compared to respondents with little or no knowledge. The result concluded that out of the total 305 respondents, 75% had knowledge ranging from limited level to very good knowledge of Islamic banking. Of the 305 Islamic bank customers in the sample, only 24% had no knowledge of Islamic banking at all.

*Since Islamic bank follows Islamic Shariah, this means that it was established for Muslims only:* As from the definition above, this statement was intended to explore whether Islamic bank customers knew well about the principles of Islamic banking acceptable in (Islam) faith. The respondents were asked about their understanding of the thought that Islamic banks are meant for Muslim only. Out of the 305 customers who responded to the statement, 163 recorded strongly disagreed, while the other 88 disagreed (Table 3). These results suggested that 82% of all respondents went against the statement, showing that customers were aware that Islamic banks were meant for customers from all sorts of faith. Overall, the results showed that customers generally knew that Islamic banks are for all faith, irrespective of the application of Islamic Shariah and their bearing of the Islamic word in their names. Only 9% of respondents stayed in the middle (neutral) and another 9% were affirmative to the statement, meaning that they think that Islamic banks are meant for Muslim only. The results presented here are in-line with the trend in the finding by ( Hamza et al., 2014) in a study that sought to measure/determine the perception of individual customers toward Islamic banking products and services in Pakistan.

**Table 3***Awareness of Islamic Banking Practices*

	Not at All	Limited	Understand Partially	Knowledgeable	Very Good	Total
Level of customer knowledge of Islamic banking	74	86	67	59	19	305
Islamic Knowledge of Muslim respondents	17	14	127	51	26	235
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Fiqh Muamalat does not explain Islamic finance (Muslim Respondents)	60	56	75	28	16	235
Does Both Islamic bank and conventional bank must adopt profit maximization?	33	54	53	117	48	305
Since Islamic bank follows Islamic Shariah this means that it established for Muslims only	163	88	26	13	15	305

***Customer Satisfaction with Islamic Bank's Shariah Compliance***

In determining the level of customer satisfaction with Islamic bank's Shariah compliance as a specific objective of this study, the respondents passed some five statements intended to collect data on customer satisfaction with the bank's Shariah compliance. The position ranged from strongly disagreed- disagreed and strongly agreed. The questions were prepared to bear in mind that Shariah compliance is defined as a mechanism set up by the bank for all its daily operations to adhere to Islamic Law and that those mechanisms needed to be in respect of all aspects of the bank's operations, and not only on financial matters.

*The first statement in the row stated, “Islamic banks in Tanzania declare that their activities are conducted under Islamic law (Shariah).” Responses to this statement indicated that 62.6% of the respondents were on the affirmative side. Of the other respondents, 21% were neutral to the statement, learning only 16.1% on the negative side out of the total 305 respondents in this study.*

*The second statements with their results are as follows, in the statement that “The main difference between Islamic banking and conventional banking is the application of Islamic law;” 73.5% of the 305 respondents were affirmative (that is, 132 agreed and 92 strongly agreed). Forty-one respondents on the negative side of 13.4% included 33 respondents who disagreed and eight who strongly disagreed. The remaining 13.1% were neutral.*

*The third statements was, “Islamic banks are designed to adopt Muslims from engaging in financial activities which are prohibited by Islamic law, such as Riba and Gambling.” This recorded a score of 79.7% on the affirmative side and 13.1% on the negative side, leaving only 7.2% neutral.*

*The fourth statement sought the respondents’ view on the transparency of banks as a Shariah requirement- “Banks that offer Islamic banking services in Tanzania seem not to be well transparent, specifically on Shariah compliance.” The results were such that 42% of the respondents supported the statement, a position that indicates a proportional share of customers is not satisfied with the bank’s level of transparency. 31.8% of respondents stayed neutral and 25.6% disagreed with the statement, meaning that they were satisfied with the bank’s openness as a component of Shariah compliance.*

*Lastly, the last statement in the row was the statement, “I think that Islamic banks are no different from interest-based banks since Islamic banks determine the profit share by considering the market interest mechanism in their activities.” This statement was intended to capture respondents’ views on the difference between interest (Riba) and the profit made by Islamic banks. The result showed that 33.8% of the respondents were affirmative of the statement, while 33.4 were on the negative side. The rest of 32.8% stayed neutral.*

On Shariah compliance. The findings suggest that many Muslims in Tanzania were satisfied with their bank’s Shariah compliance (Table 4).



**Table 4***Customer Satisfaction with Islamic Bank's Shariah Compliance*

The satisfaction of customers with the quality service of Islamic Banks	Strong Disagree	Disagree	Neutral	Agree	Strong Agree	Total
Islamic banks in Tanzania declare that their activities are conducted under Islamic law (Shariah).	28	21	65	120	71	305
The main difference between Islamic banking and conventional banking is the application of Islamic law.	8	33	40	132	92	305
Islamic banks are designed to adopt Muslims from engaging in financial activities that are prohibited by Islamic law, such as Riba and Gambling.	15	25	22	122	121	305
Banks that offer Islamic banking services in Tanzania seem not to be well transparent, specifically on Shariah compliance.	27	51	97	88	42	305
I think that Islamic banks are no different from interest since Islamic banks determine the profit share by considering the market interest mechanism in their activities.	40	62	100	76	27	305

Source: Own data processed by (SPSS)

As a new model of banking in the banking industry of Tanzania, this specific objective sought to find out the level of customer satisfaction with the quality of services offered by Islamic banks. This was set as a specific objective in the study to find out whether customers of Islamic banks were satisfied with the service they received from the banks in different categories, such as the number of ATMs and bank branches. The results indicated the satisfaction of customers with the quality of services received from Islamic banks in Tanzania.

A total of 57.4% of 305 respondents in the study agreed they were pleased with the bank's employee reception. 50.8% agreed that they gain Islamic banking knowledge from employees concerning various sorts of banking activities. Employees or good customer attention was acknowledged by 65.6% of the respondents in this study. Islamic banks in Tanzania, as has been revealed in this study, had not

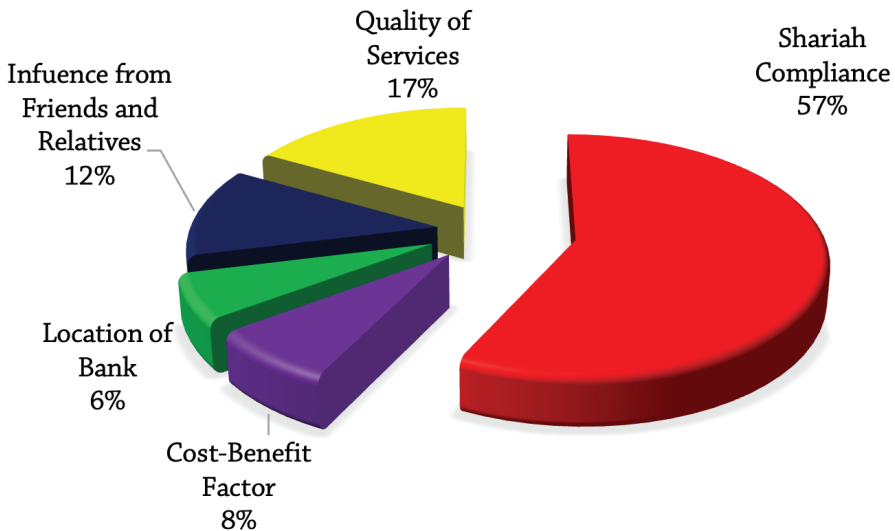
yet grown much. Out of the 305 respondents in this study, 39.3% believed that Islamic banks had no Automatic Teller Machines (ATM). Again, the banks (Islamic Banks) had not yet satisfied their customers in the areas of mobile banking and Internet banking. Results on these two services indicated that the services were not well established.

**Customer Bank Selection**

This was put as the study’s fourth specific objective; the purpose of this objective is to explore the actual factor that mostly attracts customers to select Islamic banks over conventional ones. From the methodology applied in this study, the factor that most influenced customers’ selection of Islamic banks was determined as an output of the analysis of the perception of respondents on the four areas that made up the four specific objectives. Overall, the results indicated that in Tanzania, customers mainly selected Islamic banks in need of engaging in banking transactions that were Shariah compliant. Therefore, Shariah compliance by the bank is taken as the criteria mostly employed by the customers in their selection of Islamic banks. In this study, 57% of the 305 respondents chose Shariah compliance as the main influencing factor for them to select an Islamic bank over a conventional one.

**Figure 1**

*Customer’s Bank Selection*



Source: Own data processed by (SPSS)

These findings are consistent with the findings of a study by (Muhammad & Syed Ali, 2015), which was on the relationship that exists between the quality of services offered and customer satisfaction in Islamic banks, results in that study pointed to the fact that many customers in Pakistan agreed that Islamic banks in Pakistan observed and complied to Islamic Shariah in all their operations and mechanisms (Muhammad & Syed Ali, 2015).

### *Discussion*

After processing and analysis of the data gathered in this study, the final output is discussed here, pointing to the following facts concerning questions related to awareness, knowledge, compliance with Islamic law, and various other factors influencing customer preferences and satisfaction in the context of Islamic banking.

This research focused on customer awareness of Islamic banking in Tanzania, revealing a substantial lack of awareness a decade ago, where 60% of participants remained unaware of Islamic banks. However, a significant connection emerged between knowledge of Islamic banking practices and the preference for these banks. Impressively, around 75.7% of participants (77% of whom were Muslims) demonstrated understanding in this domain. This increase in knowledge was attributed to the expansion of Islamic banking services from one bank in 2008 to five banks with 22 branches across Tanzania today<sup>2</sup>. Wyss (Wyss, 1966) advocates strengthening communication channels to amplify awareness and ensure accurate comprehension. In parallel, research in Pakistan exhibited a similar trend of improving customer knowledge of Islamic banks, with 42.6% admitting a lack of knowledge several years earlier (Saqib et al., 2016). Intriguingly, despite their limited understanding, customers expressed contentment with Islamic banking products, showcasing their willingness to engage despite incomplete operational knowledge. Ultimately, these findings underscore the pivotal role of knowledge and awareness in molding customer preferences within Tanzania's Islamic banking landscape.

Also, this study investigates the customer satisfaction with banks' Shariah compliance. This study exposed that customers of Islamic banks in the country expressed satisfaction with the banks' adherence to Islamic law. Approximately 62.6% of Islamic bank customers perceived these banks to operate in accordance with Islamic law, indicating their compliance. The primary motivation behind cus-

2 <https://www.tanzaniainvest.com/islamic-banking>

tomers' preference for Islamic banks was their desire to avoid prohibited activities, particularly interest, in financial transactions. This finding aligns with other empirical studies, such as those conducted by (Saqib et al., 2016), (Hamza et al., 2014), and (Amin & Isa, 2008). Amin and Isa (2008) emphasize that while compliance with Islamic law is significant, service quality and reliability offered by Islamic banks play a more influential role in customers' bank preferences, particularly in the Malaysian context.

One of the main aims of this research was to determine whether the service quality of these banks was the most effective "pull factor" for customers to prefer Islamic banking. It has been determined that the most important factor in the preference of these banks is their compliance with Islamic law, immediately following the service quality of these banks. Where by study discovered that 57% of the respondents were influenced by Shariah compliance, followed by quality services by 17% of the respondents. The results of our research indicated that Islamic bank customers in Tanzania perceived Islamic banks to be in compliance with Islamic law, which significantly influenced their choice of banks. However, the literature provides diverse perspectives on this matter. (Anderson et al., 1976) conducted a study in the USA and found that the most influential factor in bank selection was the recommendation of friends, while factors, such as the bank's location, reputation, service fees, and staff-customer relationship also played a significant role. Similarly, (Tan & Chua, 1986) conducted a study in Singapore and highlighted the importance of recommendations from friends, neighbours, and family members in determining bank preference. These varying findings suggest that customers' bank selection is influenced by a combination of factors, including compliance with Islamic law, recommendations, location, reputation, service fees, and relationships with bank staff. Understanding these multifaceted factors is crucial in comprehending customers' preferences in different banking contexts.

The following are some of the studies worldwide where Shariah compliance and service quality have more influence on customer satisfaction.

Author and Year	Title and country	Findings	Shariah compliance or services or other factor
(Ahmed et al., 2022)	The impact of Islamic Shariah compliance on customer satisfaction in Islamic banking services: the mediating role of service quality - Bangladesh	The study's results show that adhering to Islamic Shariah principles has a strong positive impact on both service quality and customer satisfaction in Islamic banking services.	Shariah principles
(Haniyah & Manu-al, 2023)	Impact of Service Quality on Customer Satisfaction in Islamic Banks of Qatar	The findings of this study will lead to a better understanding of the areas of emphasis for the provision of high-quality service by Islamic banks in Qatar.	Services quality
(Akhtar et al., 2011)	Relationship between Customer Satisfaction and Service Quality of Islamic Banks – Pakistani	The study concludes that compliance and representativeness influence more on customer satisfaction in Pakistani Islamic banks.	Shariah compliance
(Ramdhani et al., 2011)	The Influence of Service Quality toward Customer Satisfaction of Islamic Sharia Bank- Indonesia	The study revealed that service quality greatly influences customer satisfaction in Islamic banking services	Services quality

Source: Author

## Conclusion and Recommendations

Through analysis of data on the two components aimed to achieve the main objective, this study has concluded that Tanzanian Islamic Bank customers have the perception that Islamic Banks comply with Shariah Law in general, although with some variations in the degree of compliance on different pillars of Shariah principals in banking. Overall, data on the perception of customers on Shariah compli-

ance have shown that 62.6% of customers accept that Islamic banks in Tanzania do comply with Shariah. However, the degree to which banks apply sharia guidance on every Shariah principle is not equally agreed upon. The result is in line with the findings in a study by (Khursheed, 2020) in which they applied a regression model to analyze constructs including Understanding, awareness, religious inspiration customer innovativeness and perceived risk as independent variables and customer perception as the dependent variable while investigating customers' perception towards Islamic banking in Gulf region. The findings inclusively gave the indication that customers held an optimistic perception concerning Islamic banking and Finance.

Evidence can be seen from this study results that although 62.6% of the respondents agree that Islamic banks in Tanzania operate under Islamic law and that 73.5% agree that the Shariah is the main pillar that differentiates Islamic banks from conventional banks, the perception of important pillars of the Shariah itself seems to rank rather low. Nearly half of the respondents, 42% of the respondents supported the statements that Tanzanian Islamic Banks are not well transparent in their operations. Only 25% believe that Islamic banks are transparent. This implies that Islamic banks need to improve openness in their conduct, especially independent reporting of Islamic segments for those windows of Islamic banks in conventional banks.

Another significant pillar of Shariah in Islamic banking is the avoidance of interest in financial as well as business transactions. Customers of Islamic banks in Tanzania seem to perceive that Islamic banks have not done much to avoid the essence of interest in their business. The findings showed that 33.8% of the respondents agree with the statements that Islamic banks are no different from interest-bearing banks because they determine their profit share by considering the market interest mechanism. Although equally, some 33.4% perceive the opposite, and also a large part stayed neutral, the agreed percentage is relatively low. This indicates a customer's negative perception of the bank's performance on this pillar, regardless of their general positive perception of Shariah compliance.

## Recommendations

Owing to the history and development of the Islamic banking industry in Tanzania, as discussed above in this paper, much effort is still needed from various stakeholders for the sector to grow and for the nation to achieve the benefits that Islamic banking ought to bring to the economy. Much effort still needs to be made

on the part of the banks regulating authorities, particularly the government (central banks), to make sure that Islamic banks operate in a conducive environment required to exercise fully and freely the Shariah principles in their undertakings. Providers of Islamic bank services need to fulfil each requirement of the Sharia law and comply with all Shariah banking principles on top of other general rules of formal banking for the sector to leverage the benefit it owes society.

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