A Comparative Study of Customer Satisfaction of Islamic Banks and Conventional Banks in Oman

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Abstract—The study is conducted to know the preference of customer with respect to Oman banking system. As everyone is aware that conventional banks playing a very dominating role in banking sector but due to some draw backs of conventional banking a new banking system emerges known as Islamic banking. In spite Islamic banking is new to Oman but the customer prefers to have all business transaction help from Islamic banks. The present study analysis to know the customer level of satisfaction in Oman which means that which banks satisfied the customer more by providing the facilities. The basic motive of this research to know the customer preference, customer level of satisfaction and Motivational factors towards banking whether Islamic banks or conventional banks. In this study, it is also found that which banking system is more satisfying with the services provided by the both banks.

Keywords—Conventional Banks; Customer Satisfaction; Interest Free Loan; Islamic Banks; Motivational Factor.

Abbreviations—Compound Annual Growth Rate (CAGR); Gulf Cooperation Council (GCC); Middle East and North Africa (MENA); National Bank of Oman (NBO); Vector Error Correction (VEC).

I. INTRODUCTION

In the present scenario of banking, the banks are playing a vital role in our country, and it is hard to imagine life without banks. In order to maintain economic stability of a country the government does this through banking system by using “Monetary Tools”. People need something that will provide benefits for the borrowers and depositors. The commercial banks found from a long time to serve citizen [Natrajian & Parameswaran, 2001]. However, the Islamic banks become the big competitor to the commercial banks. Islamic Banks have started playing a significant role in contribution to economy of Sultanate of Oman since 2012. Islamic bank aims to be the bank of choice for corporate, individuals and businesses alike offering a comprehensive suite of Shari’ah compliant banking solutions. Oman is the last country of GCC who started Islamic banking in 2010 through Royal decree. The central bank of Oman had awarded licenses to two banks, that is, Bank Nizwa and Bank Izz. Later in addition to this, the other conventional banks may have or expected to start Islamic banking windows. The bank Muscat has launched Meethaq its Islamic banking window while Ahlibank has launched Al Hilal Islamic banking services and NBO has started Muzun Islamic banking window.

Islamic Banking is a new concept introduced recently in Oman. This research studies the level of satisfaction among the customers and about the services provided by the Islamic Banks in comparison with conventional banks. Research has been conducted on topic” A Comparative study of Customer Satisfaction of Islamic banks and Conventional Banks in Oman. The present research aim is to know the customer satisfaction of both the banks. Information has been collected from the customers of both banks through questionnaires and interviews and secondary data from text books and internet. Therefore the scope of my study will be limiting to banking sector.

In the present world the banks are doing number of jobs to offer a various products and services and also providing the newest and best banking facilities to its customers. In Oman, Islamic banks and conventional banks are facilitating their customers [http://www.iub.edu.pk].

1.1. Future and Scope

As per Ernst and young report a brave new world of sustainable growth 2011-2012, Islamic banking assets with commercial banks globally will reach$1.1 trillion by 2012 which stood at $826bn in 2010. For the middle east and north Africa (MENA) region, Islamic banking assets increased to $416bn in 2010 representing a five year CAGR of 20%.
compared to less than 9% for leading conventional banks [Times of Oman, dated 18th Nov, 2012].

Growth within the Muslim population throughout the emerging markets of MENA and Asia are key drivers behind increasing demand for Islamic financial services [www.gibs.ac.za].

II. Literature Review

Ali & Zhou (2013) he studied about how service quality is perceived by customers of Pakistani Islamic and conventional banks and also seeks to find out elements of service quality that are more important for bank customers. The results indicate that customer perception is relatively highest on the assurance dimension of Islamic banks and on the tangibles dimensional of conventional banks; however customer perception is lowest in the technology and responsiveness area of Islamic banks. There study also indicates that overall perception about service quality is highest in Islamic banks. The study suggests that Islamic banks can improve their service quality by improving their internet facilities and online services. Conventional banks can improve their services by comprehensive training of employees.

Saad M Norma (2012) had studied that the Customer satisfaction has become a vital for banks to exist in the competition why because the customer has become the ultimate source of income for an organization [http://www.ccsenet.org/]. The conventional bank and Islamic banks act a as competitor in the working industry of banking. If Islamic banks want to be there in competition with Conventional banks then they have to give prior attention its main customers. Either an Islamic bank or conventional banks introduce any products or services, its success depend only on the customer satisfaction. His research observe the level of customer satisfaction of Islamic banks as well as conventional banks in Malaysia

Sheikh et al., (2010) had also identified the level of customer satisfaction of Islamic banks and conventional banks in Pakistan [http://www.ccsenet.org/]. They have concluded by saying that customers are more satisfied by the product and service offered by both banks. Their research reveals that the conventional banks are performing well in providing better facilities in comparison to Islamic banks. Therefore the Islamic banks customer is less satisfied than conventional banks.

The purpose of Ali et al., (2011) research study was to focus on the customer satisfaction towards Islamic banking in Pakistan based on the different factors including service quality, product quality offered by Islamic banks, customer care level of Islamic banks, financial benefits given to its customers, competition with conventional banks, religion and market reputation. This study will help to understand the level of satisfaction of customers regarding Islamic Banks. Their findings shows there is a constructive association between factors and customer satisfaction in Islamic banking in Pakistan, although there is less awareness towards Islamic products but overall reputation of this sector is vested on its interest free factor which is prohibited in Islam. Moreover the trend of Islamic mode of banking is grooming due to the Islamic republic in Pakistan. People are more reliable on conventional banks. In spite the conventional banks are giving Islamic banking services to customers under a separate windows, the customers are having less awareness about the Islamic banking. This research gives an idea to Islamic banks to augment their image by conducting multiple awareness campaign about products and services offered by Islamic banks.

Ergeça & Arslan (2011) had identified the impact of the interest rates upon Islamic banks. This has become the key factor to understand the contribution of such institutions to the financial stability, designing monetary policies and devising a proper risk management. This studied examine and evaluate the impact of interest rate shock upon the deposits and loans held by the conventional and Islamic banks with particular reference to the period between December 2005 and July 2009 based on Vector Error Correction (VEC) methodology. It is very clear that the Islamic banks will not be affected by the interest rates [http://mpra.ub.unimuenchhen].

III. Significance of the Study

The study is so significant because it find the relationship between Islamic and conventional banking in sultanate of Oman. The present research wants to know the Islamic banking are really functioning as per the sharia principles and also to know the customers are happy with the products and services given by the Islamic banks and Conventional banks. It’s equally important to know the inspiring reasons which lead to the development of Conventional banks and Islamic banks in sultanate of Oman.

IV. Objectives of the Study

The main objective of this study is to know:
- Customers’ preference between Islamic banking and conventional banking.
- Customer’s level of satisfaction of both banks.
- And also to know which banks satisfied more, by its services.

V. Hypothesis

Ho: There is no Significance difference in the customer satisfaction of Conventional banks and Islamic banks.

VI. Scope of the Study

This study covers the customer satisfaction of Conventional Banks and Islamic Banks. The scope of this research was limited to banking sector. This study gives an overall idea to the research about the customer satisfaction, motivational factors and development criteria so on.
VII. RESEARCH METHODOLOGY

7.1. Research Design
Descriptive research design was used for this research based on survey method [Kothari, 2004].

7.2. Sampling Design
A stratified random sampling technique is used to find out the level of satisfaction of bank’s customers regarding facilities provided by the Islamic banks and the conventional banks in Sultanate of Oman [http://ijaiem.org/volume2issue].

Table 1: List of Islamic banks and Conventional banks and the Sample Size

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Banks</th>
<th>No. of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conventional Banks</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Bank Muscat</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>National Bank of Oman</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Oman Arab Bank</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Bank Dhofar</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Bank Sohar</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Islamic Banks</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Bank Nizwa</td>
<td>17</td>
</tr>
<tr>
<td>7</td>
<td>Bank Izz</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
</tr>
</tbody>
</table>

7.3. Sample Size
The inhabitants of this research consist of the customers of the Islamic banks and the conventional banks that are working in Sultanate of Oman. A sample of 80 bank’s customer’s was selected for this research. A total of 80 questionnaires were distributed among respondents to collect information. 80% is the response rate that is rational for analysis of data.

7.4. Sample Unit
Sample unit comprise of customers of Islamic banks and conventional banks. Two bank customers were selected from Islamic banks and five from Conventional banks. Bank Muscat, National bank of Oman, Oman Arab Bank, Bank Dhofar and Bank Sohar were selected from Conventional banks and Bank Nizwa and Bank Izz were selected from Islamic Banks.

7.5. Data Collection Method(s)

Primary Data
A primary data is collected through surveys, questionnaires and interviews.

Secondary
Secondary data is a type of data which has already been collected in the past and it is known as second hand data. Secondary data include in this research from newspapers, journals, internet, and books.

VIII. DATA ANALYSIS METHOD

In the present study, data has been analyzed by t-Test. Data obtained from the respondent has been analyzed by SPSS package. T-test is used to find out the customer satisfaction of Islamic and Conventional banks in Oman. To evaluate the level of satisfaction of both the bank customers, 22 questions were asked in the questionnaire and they are ranked as: 1=strongly disagree to 5=strongly agree.

8.1. Limitations to the Study
- The respondent took long time to answer the questionnaire
- Different branches of Islamic banking could not be covered due to vast geographical location across the Sultanate of Oman.
- Time was limited
- Incomplete answer questionnaire was received.

IX. RESULTS AND DISCUSSION

Independent Samples Test

<table>
<thead>
<tr>
<th>Levene's Equality of Variance</th>
<th>F</th>
<th>Sig</th>
<th>t</th>
<th>df</th>
<th>Sig(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>2.767</td>
<td>.100</td>
<td>1.760</td>
<td>78</td>
<td>.082</td>
</tr>
<tr>
<td>Equal variance not assumed</td>
<td>1.699</td>
<td>59.852</td>
<td>.095</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>.000</td>
<td>.993</td>
<td>1.297</td>
<td>78</td>
<td>.198</td>
</tr>
<tr>
<td>Equal variance not assumed</td>
<td>1.325</td>
<td>73.729</td>
<td>.189</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>1.713</td>
<td>.194</td>
<td>.936</td>
<td>78</td>
<td>.352</td>
</tr>
<tr>
<td>Equal variance not assumed</td>
<td>.920</td>
<td>64.627</td>
<td>.361</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>4.268</td>
<td>.042</td>
<td>.750</td>
<td>78</td>
<td>.455</td>
</tr>
<tr>
<td>Equal variance not assumed</td>
<td>.713</td>
<td>55.977</td>
<td>.479</td>
<td></td>
<td></td>
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<tr>
<td>Empathy</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>4.268</td>
<td>.042</td>
<td>.750</td>
<td>78</td>
<td>.455</td>
</tr>
<tr>
<td>Equal variance not assumed</td>
<td>.713</td>
<td>55.977</td>
<td>.479</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9.1. Discussion on Findings of the Study
A descriptive statistic t-test is used to examine the customer satisfaction of Islamic and conventional banks. As per this study majority of the respondents were Omani Nationals of Islamic banks and conventional banks. The obtained results is highlighted in the above table showing the descriptive statistics of independent variables with its five dimensions: Tangibility, Reliability, Responsiveness, Assurance and Empathy.

From the above table we conclude that

9.2. For the Dimension Tangibility
The (Sig2-tailed) 0.82 is greater than 0.05. Hence there is no statistically significant difference between Conventional banks and Islamic banks [Shelina Bhamani, 2012].

A t-test failed to reveal a statistical reliable difference between the mean number of Conventional banks (M=3.6383, s=.72944) and Islamic banks (M=3.3182, s=.89328), t(78)=1.760, p=.082, α = .05 [Shelina Bhamani, 2012].

9.3. For the Dimension Reliability
The (Sig2-tailed) 0.198 is greater than 0.05. Hence there is no statistically significance difference between Conventional banks and Islamic banks.

A t-test failed to reveal a statistical reliable difference between the mean number of Conventional banks (M=3.5872, s=.77280) and Islamic banks (M=3.5333, s=.68579), t (78)=1.297, p=.198, α = .05 [Shelina Bhamani, 2012].

9.4. For the Dimension Responsiveness
The (Sig2-tailed) .352 is greater than 0.05. Hence there is no statistically significance difference between Conventional banks and Islamic banks.

A t-test failed to reveal a statistical reliable difference between the mean number of Conventional banks (M=3.6649, s=.74322) and Islamic banks (M=3.5000, s=.81968), t (78)=.936, p=.352, α =.05 [Shelina Bhamani, 2012].

9.5. For the Dimension Assurance
The (Sig2-tailed) .479 is less than 0.05. Hence there is statistically significance difference between Conventional banks and Islamic banks.

A t-test had reveal that a statistical reliable difference between the mean number of Conventional banks (M=3.6681, s=.68687) and Islamic banks (M=3.5333, s=.92014), t(78)=.750, p=.479, α = .05 [Shelina Bhamani, 2012].

9.6. For the Dimension Empathy
The (Sig2-tailed) .479 is less than 0.05. Hence there is statistically significance difference between Conventional banks and Islamic banks.

A t-test had reveal that a statistical reliable difference between the mean number of Conventional banks (M=3.6681, s=.68687) and Islamic banks (M=3.5333, s=.92014), t(78)=.750, p=.479, α = .05 [Shelina Bhamani, 2012].

X. Conclusions
The results of this study confirm that the customers of Islamic banks and Conventional banks have a positive relationship and also the customers of both banks are satisfied by their provided services. But the customers of Conventional banks are a bit more satisfied than the customers of Islamic banks which mean both are similar. The analysis of data proved that the financial benefit, interest on deposits and tough worldwide image were the reasons, that inspiring customers towards commercial banks. From the aspects of Islamic banks it’s proved that the customers are encouraged because of interest free loan, Islamic teaching and sharia, awareness of Islam and religious up bring in the country.

XI. Suggestions
Islamic Banks can enhance more customers by introducing efficient marketing campaigns to increase the awareness about the product and services provided by them. It also helps to augment the understanding of bank customers about the quality of product and services offered by both banks. Especially manager should take quality initiative to improve their product and services by demographic characteristics of the customers.

XII. Direction for Future Research
- Due to time constraints, our sample size was restricted to 80 respondents only. A research study with greater sample size can be carried out on the relevant topic.
- Survey questionnaire was the data collection instrument used in our study. Various other methods like focus groups, visual interviews, telephonic interviews etc. can also be used in order to get deeper insight in future in order to conduct a research study.
- Our research study is in context with customer satisfaction of Islamic banks and commercial banks in Oman only. There is a scope to carry out the same research study in various other countries.
- Research study can also be carried out in other areas relating to banking industry like customer satisfaction towards particular product offerings, criteria for selecting Islamic or commercial banks etc.

References


Sameena Begum has completed her M.com from Osmaniya University, Hyderabad and M.Phil from Vinakya Mission University from department of Commerce, Tamilnadu. She is pursuing PhD from Kakatiya University in Finance from Department of Commerce, Warangal. She is having more than 9 years of teaching experience in PG & UG level in the field of business and management in various institutions. Her area of Research interest is in Accounting and Finance. Presently she is working as an Assistant Professor in the Department of Management, Waljat College of Applied Sciences, Muscat, and Sultanate of Oman in academic partnership with BIT, Mesra, Ranchi (India).