
INFLUENCE OF CONSUMER'S AWARENESS ON ISLAMIC BANKING IN NAIROBI COUNTY, KENYA

Bare Sarbo

Department of Business Administration, School of Business
Jomo Kenyatta University of Agriculture and Technology

ABSTRACT

The main aim of this study was to determine the influence of consumers' awareness on Islamic banking in Nairobi County in Kenya. The study used a target population of 65,000 and a sample size of 196 respondents. Using descriptive research design and a questionnaire to collect the primary information, the study found out that that 64.3 percent of the respondent were aware of Islamic banking services. The findings also disclosed that the level of advertisements and promotions done by the banks are still very low in terms of creating awareness and families and friends still play a major part which may not be very effective. The study therefore recommended that banks offering Islamic Banking services should design a strategy and advertise more in order to attract potential customers.

Key Words: *Islamic Banking, Consumers, and Awareness*

1. Introduction:

The emergence of Islamic banking system has created a new dimension to the current economic models (Fazlan *et al.*, 2007). Widely known as Islamic banks, these interest-free institutions are organized financial intermediaries, which operate in accordance with Islamic law (Shariah Law) (Iqbal & Mirakhor, 2007; Khabir & Lewis, 2007). The term “Islamic Banking” is defined as the conduct of banking operations in consonance with Islamic teachings (Mirakhor, 2000; Haque *et al.*, 2007). The main principles of Islamic banking activities comprise of prohibition of interest (riba) in all forms of transactions undertaking business and trade activities, based on, fair and legitimate profit (Mirakhor, 2000; Haque *et al.*, 2007). It is one of the most rapidly growing segments of the global finance industry, at an estimated growth of 15-20 percent per annum (Haque *et al.*, 2007). Starting with Dubai Islamic Bank in 1975, the number of Islamic financial institutions worldwide now exceeds 300 located in 75 countries (El-Qorchi, 2005). Islamic banking services provide indirect competition to the services offered by conventional banks. The Islamic banking system is gaining recognition worldwide. Many international conventional banks have started to open branches which operate in accordance with Shariah principles. The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well established conventional banks that offer Islamic services (Naser and Moutinho, 1997).

Although the Islamic banking system is different from the conventional banking system, there are some similarities between the two. For instance, an Islamic bank conducts its activities in accordance to Shariah principles that strictly prohibit any payment or receipt of interest. However, the Islamic banks can also offer services which are similar to those offered by conventional banks. When competition intensifies and banks start to offer similar services, customer’s satisfaction can influence the performance of an Islamic bank and determine its competitiveness and success (Naser, *et al.*, 1999). The most important difference of Islamic banking from conventional banking is the prohibition of interest or usury (riba) in all forms of transaction, and promoting profit and loss sharing (PLS) as an alternative to Riba. Riba originally Meant “increase and growth’ as defined in the Quran. Increase means the increase over capital or nominal amount, the increase being either large or small. According to Islamic law, Riba technically refers to the premium that must be paid by the borrower to the lender along with principal amount as a condition for an extension in its maturity (Zaheed, *et al.*, 1994). The main sources of Shariah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad. Adoption is the acceptance and continued use of a product, service or idea. According to Rogers (2003), consumers go through a process of knowledge, persuasion, decision and confirmation before they are ready to adopt a product or service. Knowledge occurs when an individual or other decision-making unit is exposed to an innovation’s existence and gains an understanding of how it functions (Rogers, 2003). Consumer awareness have been tested as one of the key variable in numerous studies specifically in the area of on-line banking, internet-banking and self- services technology adoption (Sathye, 1999; Suganthi, *et al.*, 1999; Yusof, 1999; Gerad, *et al.*, 2003). However, limited studies have investigated on the consumer awareness in the area of Islamic banking adoption.

2. Statement of the Problem:

According to the study of Rammal and Zurbruegg (2006) on the awareness of Muslim Australians of Islamic banking, especially the demand for profit-and-loss sharing agreements, there is a lack of awareness in regards to the basic rules and principles of Islamic financing. Lateh *et al.* (2009) also conducted a research in Thailand to examining the perception of the customers towards the objectives, characteristics and criteria of selecting Islamic bank and found that most of the Thai customers were aware of the special characteristics of Islamic banking system and they are different from the conventional banking system, like the forbidden interest but have little awareness about the Islamic banking system products and services. Further, Khattak and Rehaman (2010) and Okumus (2005) found out that the customer's awareness level towards Islamic banking products in Pakistan and Turkey is good in some of the general products like current accounts and time deposit account. However, for some of the Islamic financial products such as *Murabahah* and *Ijarah*, most of the customers are unaware of them. Some other reason for low awareness and usage for individual borrowing products might be due to the products named in Arabic terms, (Arumugam (2011). It is nearly a decade now, ever since Islamic banking was launched in Kenya, back in 2007, when Gulf African Bank (GAB) and First community Bank first commenced its operations (CBK, 2009). The two banks with a loan portfolio of almost 4.9 billion and deposits totaling to 7.5 billion indicate that there is great potential for these products in the Kenyan market which comprises of 15% of the Kenya's population of 40 million people. With reference to the above studies, it is clear that none of the studies really looked at the influence of consumer's awareness on Islamic banking especially in Nairobi County, Kenya which created the gap that the current study sought to fill.

3. Research Methodology: The study used a descriptive research design. The study was carried out in Nairobi county specifically Pumwani division. The target population was all the account holders of the two Islamic banks which comprised of a total of 65,000 customers. A sample size of 196 was used to carry out the study. The study used questionnaire to collect primary data and descriptive statistics was used in data analysis which was processed using Microsoft Excel.

4. Results and Discussion:

Table 1. Respondents Awareness of Islamic Banking

Aware of Islamic Banking	Frequency	Percentage
Yes	135	79.9%
No	34	20.1%
Total	169	100

135 indicated that they were aware of Islamic Banking, while 34 indicated not being aware. This indicates that even though adoption rate was low, most of the respondents were still aware of the existence of Islamic Banking.

Table 2. Respondents awareness on the availability of Islamic banking services

Islamic Banking Services	Frequency	Percentage
Al-WADIAH (Savings a/c)	54	64.3%
Al-WADIAH (Current a/c)	74	88%
MUDHARABAH (Capital financing)	10	11.9%
MUSHARAKAH (Partnership)	0.0	0.0
MURABAHA (Cost Plus Profit)	12	14.3%
IJARA (Leasing)	8	9.5%
QUARD HASAN (Interest free Loan)	34.0	40.5%
AITAB (Hire Purchase)	0.0	0.0
Others	0.0	0.0

On the aspect of awareness of Islamic banking services, 64.3 percent of the respondents are aware of Al-Wadiah savings account, 88 percent of the respondents are aware of Al-Wadiah current account while 40.5 percent of the respondents are aware of Quard Hasan (Interest free loan). However, the awareness for the other five Islamic banking products is below 20 %. Respondents are least aware of Ijara (Leasing) because only 9.5 percent are aware of this banking product.

This indicate majority of the Islamic banking products are not commonly known to the respondents even though a higher percentage of the respondents were aware of the existence of Islamic banking. This also implies that a majority of the respondents are aware of the fundamental concepts of the Islamic banking systems but are not aware of the specific Islamic financial services like Musharakah, Murabaha, Ijara, Aitab and Quard Hasan.

Table 3. Sources of information about Islamic Banking

Source of information about Islamic Banking	Frequency	Percentage
Friends and Family	70.0	51.9%
Media	35.0	25.9%
Islamic Banking Promotions	30.0	22.2%
Total	135.0	100%

Out of the three sources of information listed, friends and families stood out to be the major source of information at 51.9%, the media had 25.9% while Islamic Banking promotion was least with 22.2%. This indicates that the level of advertisement by the banks is still very low and friends and families being the highest source could be misinterpreting information on the various services or not giving out all the information on the various services.

Table 4. Respondents operating Islamic Banking services

Islamic Banking Services	Frequency	Percentage
Yes	84.0	62.2%
No	51.0	37.8%
Total	135	100

Out the 135 respondents who were aware of the Islamic Banking services, only 84 have adopted Islamic banking services while 51 have not adopted yet. This indicates that even though most of the respondents are aware, quite a number (37.8%) have not adopted yet.

Table 5. Number of respondents using various Banking services

Islamic Banking Services	Frequency	Percentage
Al-WADIAH (Savings a/c)	44	52.4%
Al-WADIAH (Current a/c)	64	76.2%
MUDHARABAH (Capital financing)	3	3.6%
MUSHARAKAH (Partnership)	0.0	0.0
MURABAHA (Cost Plus Profit)	8	9.5%
IJARA (Leasing)	0.0	0.0
QUARD HASAN (Interest free Loan)	24.0	28.6%
AITAB (Hire Purchase)	0.0	0.0
Others	0.0	0.0

From the findings, the result shows that Al-Wadiah current account (76.2 percent) is the most popular and widely accepted compared to the other products. The second popular account is Al-Wadiah savings account with 52.4 percent. Quard Hasan (Interest free loan) and Murabaha (cost plus profit) is also being adopted and used by the consumers. Only 3.6 percent of respondents have Mudharabah (capital financing). None of the respondents subscribed to the other services; MUSHARAKAH; IJARA (Leasing) and; AITAB (Hire Purchase). This indicates that Al-Wadiah current and savings account are the most popular services and this could also imply that the services had easy and simple process compared to the other services.

5. Conclusion:

The results disclosed that majority of the respondent are aware of Islamic banking but only the fundamental concepts of Islamic banking systems and are not aware of the specific Islamic financial services like Musharakah, Murabaha, Ijara, Aitab and Quard Hasan. The findings also disclosed that majority of the respondents are aware of Al-wadiah savings and current account and currently operating these account and also intend to operate them in the near future. However, the awareness of respondents on the other Islamic products such as Mudharabah, Musharakah, Murabaha, Ijara, Quard Hasan and Aitab are still low. The findings also disclosed that the level of advertisements and promotions done by the banks are still very low in terms of creating awareness and families and friends still play a major part in that and may not be very effective.

6. Recommendation:

Based on the findings and conclusions of the study, the following recommendations were derived. Banks offering Islamic Banking services should design a strategy and advertise more in order to attract potential customers. Islamic banking would continue to lose these potential customers and market share to conventional banks if they are not aggressive in order to enhance the awareness and understanding about the various Islamic banking products and services. The banks should also give more consideration on their networks because most of the customers were conscious about the branch locations.

References

1. Central Bank of Kenya, (2009). Central Bank of Kenya Perspective: Islamic Banking in Kenya. *Islamic Banking Conference*, Kenya, April 28-29.
2. *Consumer Services*, 10, 201-214.
3. El-Qorchi, M. (2005). Islamic Finance Gears Up. *Journal of Finance and Development*, 42 (4), 46-50.
4. Fazlan, S., & Mohammad, A. (2007). The efficiency of Islamic Banks: Empirical Evidence from the MENA and Asian Countries Islamic Banking Sectors, *Paper presented at the Fifth International Islamic Finance Conference*, Kuala Lumpur, September 3-4.
5. Gerrard, P., & Cunningham, J.B. (2003). The diffusion of Internet Banking among Singapore Consumers. *International Journal of Bank Marketing*, 21(1), 16-28.
6. Haque, A., Jamil, O., and Ahmad, Z. (2007). Islamic Banking: Customer perception and its prospect on bank product selection towards Malaysian customer perspectives, *Paper presented at the Fifth International Islamic Finance Conference*, Kuala Lumpur, September 3-4.
7. Iqbal, Z., & Mirakhor, A. (2007). *An Introduction to Islamic Finance: Theory and Practice*, John Wiley and Sons Ltd, Chichester.
8. Khattak, N. A., Rehman, K. U. (2010). Customer satisfaction and awareness of Islamic banking system in Pakistan. *African Journal of Business Management* 4(5), 662-671.
9. Lateh, N., Ismail, S. & Ariffin, N. M. (2009). Customers' perceptions on the objectives, characteristics and selection criteria of Islamic bank in Thailand. *GadjahMada International Journal of Business*, 11(2), 167-189
10. *Limitations of the Attitude-Behavioral Link*, Tutorial.
11. M. Kabir H. and Mervyn K. Lewis (2007), *Handbook of Islamic Banking*, Edward Elgar Publishing Limited, UK.
12. Mirakhor, A. (2000). *General Characteristics of an Islamic Economic System*, *Anthology of Islamic Banking*, Institute of Islamic Banking and Insurance, London, p.11-31. Muslims: The case of Australia. *Journal of Financial Services Marketing*.
13. Naser, K., & Moutinho, L. (1997). Strategic Marketing Management: The case of Islamic banks. *International Journal of Bank Marketing*, 16(3), 187-203.
14. Naser, K., Jamal, A., & Al-Khatib, L. (1999). Islamic banking: A study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing*, 17(3), 135-150.
15. Okumus, H. S. (2005). Interest-free banking in Turkey: a study of customer satisfaction and bank selection criteria. *Journal of Economic Cooperation* 26(4), 51-86.
16. Rammal, H. & Zurbruegg, R. (2006). Awareness of Islamic banking products among Muslims: The case of Australia. *Journal of Financial Services Marketing*, 12(1), 65-74.
17. Rogers, E.M. (2003). *Diffusion of Innovation* (5th Ed). The Free Press, New York.
18. Sathye, M. (1999). Adoption of Internet banking by Australian Consumers: an empirical investigation. *International Journal of Bank Marketing*, 17(7), 324-34.
19. Thambiah, S., Eze, U. C., Santhapparaj, A. J., & Arumugam, K. (2011). Customers' perception on Islamic retail banking: A comparative analysis between the urban and rural regions of Malaysia. *International Journal of Business and Management*, 6(1), 187-198.
20. *Theory and Research*. Addison-Wesley Reading: MA.
21. Yusof, M.Y. (1999). *Islamic Banking: Adoption of Service Innovation*, unpublished MSc. Thesis, Singapore.