



Determinants of Islamic Banks Acceptance in Oman

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ABSTRACT

This paper discusses about the inception of Islamic banking in Oman. This paper would discuss the Islamic Banking Regulatory Framework (IBRF) under which the Islamic banking system is operating. The two full fledged banks which are working in Oman are Alizz Islamic Bank, Bank Nizwa and there are 6 Islamic windows which are working in Oman. The study would be related to the factors which influence the customers' attraction towards Islamic banking in Oman.

Keywords: Central Bank of Oman, Royal Decree 69/2012, Islamic Banking Regulatory Framework, Fully-fledged Islamic Banks, Window Model of Islamic Banks

JEL Classifications: E59, K20, G20, G21, G29

1. INTRODUCTION

In the present banking system the banks have a vital role to play in the economic development of the country. The monetary policy of a country plays an important role in the economic development of the country. With the help of the monetary policy the central bank of the country decides about the liquidity which is provided to the banks of the country.

There are two types of banking system which exists all over the world. Firstly there is a conventional system of banking which deals in interest (Riba) and the second system is the Islamic system which does not believe in interest. Now days the Islamic banking system is becoming a big challenge for the conventional banking system.

There a large number countries which have shifted to the Islamic system of banking namely Malaysia, Pakistan, Sudan Saudi Arabia, UAE, etc. Three countries, namely Iran, Sudan and Pakistan, have fully transformed their banking systems into Islamic banking systems (BNM, 1999; p. 243). In the GCC countries, Oman is the last country to start Islamic banking system

in the year 2012. It was started with a Royal Decree 69/2012 by His Majesty Sultan Qaboos bin Said, on 22nd Muharram 1434 A.H. (6 December 2012 A.D.), there were some amendments in the provisions of Banking Law promulgated by Royal Decree 114/2000 (the "Islamic banking decree"). There was a circular IB which was issued on 18th December 2012, whereby "Islamic banking framework" was adopted with only minor amendments to the previously circulated draft.

By virtue of Royal Decree 69/2012, published on December 6, 2012, amending the Banking Law of 2000, Central Bank of Oman (CBO) issued Islamic Banking Regulatory Framework (IBRF).

1.1. Types of Islamic Banks in Oman

The operations of Islamic banks in Oman can be of 2 types namely:

- Full-fledged Islamic banks
- Window model.

The first kind of operation is a full-fledged Islamic banks which are two in number i.e., Alizz Bank and Bank Nizwa whereas under the window model there are six number of banks which are given below:

	Islamic bank name	Window of commercial bank
1	Meethaq	Bank Muscat
2	Sohar	Sohar Bank
3	Muzn	National Bank of Oman
4	Al Yusr	Oman Arab Bank
5	Maisarah	Bank Dhofar
6	Al Hilal	AhliBank

Islamic banking in Oman is at a stage of embryo. It was started a few years back therefore it has a wide scope of study in various context. This present study will discuss about the inception of Islamic banking in Oman, the IBRF under which the Islamic banking system is operating, the operations of Islamic banks in Oman. This study is based on the factors which influence the customer's attraction towards Islamic banking in Oman.

At the end of December 2013 there were total of 29 branches of Islamic banks and Windows operated in Oman. The total financing activities by these banks were to the extent of RO 433.9 million and the Total deposits held by them amounted to RO 171.9 million while capital and reserves stood at RO 328.1 million at the end of the year.

By the end of December 2014 the Islamic banks branches increased to 46. They had total of 43 on-site ATMs and 19 onsite cash deposit machines as at the end of 2014. The total assets of Islamic banks and windows stood at RO 1,371 million at the end of December 2014, an increase of 68.2% over the previous year end. Islamic banking entities provided financing to the extent of RO 1,049.5 million as at the end of 2014 compared to RO 434.3 million a year ago. Total customer deposits held with Islamic entities also registered a significant rise over the year to RO 688.9 million while their capital and reserves amounted to RO 350.6 million as at the end of December 2014. Islamic banks and windows together reported a net loss of RO 4.4 million in 2014 compared to a net loss of RO 13.86 million during the previous year.

2. LITERATURE REVIEW

There were vast literature available related to measuring customer satisfaction and customer loyalty for different services sectors but not much study has been done in context of Islamic Finance and banking in Oman.

Han et al. (2008) studied Chinese customers of airlines, banks, beauty salons, hospitals, hotels, and mobile telephone industries, and discovered that customer satisfaction, commitment, service impartiality, service quality, and trust are the key loyalty factors.

Akbar et al.'s (2010) study showed that service quality positively affects loyalty, as perceived by hotel customers. By contrast, the correlation between hotel service quality and loyalty is facilitated by value and satisfaction perceptions.

Hoq and Amin's (2010) research indicated that satisfaction is the most significant motivator to improve the loyalty of bank customers.

Omar and Abu (2009) study on childcare center customers demonstrated that trust generates the highest influence on loyalty formation in childcare centers, but loyalty is not directly affected by satisfaction.

Razak et al. (2007) investigation proved that service quality and satisfaction as well as service quality and loyalty are correlated.

Ismail et al., (2006) research on external audit customers indicated that the correlation between service quality and loyalty is partially facilitated by satisfaction.

Achour et al., (2011) in their study of mobile phone users in University Utara Malaysia, they found service quality was one of the factors that has effect on customer loyalty.

Mohammed (2012a) in this study the aim was to identifying the factors affecting the customers demand for Internet banking in India. The result indicates that the educated respondents use the service of internet banking. Based on occupation it was concluded that the service class and the business class is the one who use internet banking service to nearly 2 times as other occupation. The high income respondents having more than 1 lack income prefer to use this service. The private sector bank account holders use this service as compared to public sector banks. The banking attributes, i.e., convenience and security do have very attentive influence on the use of Internet banking.

Mohammed (2012b) in his study aimed to identifying the factors affecting the customers demand for ATM services of banks in India. The results indicate that graduated and employed male customers who belong from higher income groups and having a bank account preferably in public sector bank are greatly emphasized to use of the banking services. Significant positive influence of the characterized socio-economic attributes on the use of ATM service was found. The service occupied customers significantly more emphasized to the use of ATM services. Noticeable, the banking attributes such as account type, convenience, number of services offered, and cost of banking services don't have very attentive influence on the use of advanced IT based banking services.

Riyas et al., 2015 in their paper investigated the potential effects of Islamic banking by SWOT analysis. In addition, the Islamic banks in Oman cover larger investors and depositors base and are intended for both Muslims and non-Muslims and also contribute positively towards the country's macroeconomic stability.

3. RESEARCH METHODOLOGY

3.1. Research Design

The research design is exploratory in nature. This is a pilot study. The research has been conducted in the Salalah, Sultanate of Oman. The primary research has been conducted by responses from a defined set a respondents, through a questionnaire. The secondary data pertaining to Islamic banks has been sourced through various magazines/books on the subject, journals, research

papers, government publications and web-sites of CBO and Islamic banks sites in Oman. Simple random sampling method has been adopted and an attempt has been made to include all the age groups, all the qualification and gender to study the factors which influence the customers' attraction towards Islamic banking in Oman.

3.2. Sample Area

This paper is to examine the factors which influence the customers' attraction towards Islamic banking in Oman. The sample has been taken from 50 accounts holders of Islamic banks as a pilot test of the questionnaire in Salalah, Oman.

3.3. Sample Unit

Customers of Islamic banks.

3.4. Sample Size

For this pilot testing 50 accounts holders of Islamic banks had been approached in Salalah.

3.5. Sampling Instrument

Structured questionnaire having close ended questions was used for seeking responses on various aspects of Islamic banking. After completion of questionnaire, data was carefully coded in the Microsoft excel sheets and then transferred to SPSS 16.0 (Statistical Package for Social Sciences). Analysis and testing of relationship between various variables has been done with the help of SPSS 16.0.

The factor analysis with rotated method was used to extract the important variables from a list 10 continuous variables and Eigen value of more than one was used to extract the variables. Most of questions were based on 5-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree) with an option of NK (not known). The schedule has 5 items of general information. 10 items were related to the reasons for opening bank accounts in Islamic banks.

3.6. Objectives

- The objective of this paper is to discuss about the inception of Islamic banking in Oman
- This paper discusses the IBRF under which the Islamic banking system is operation in Oman
- To study the factors which influence the customers attraction towards Islamic banking in Oman
- It would study the various e-banking services offered by these banks.

3.7. Description of Values Assigned to the Responses

The numerical values have been assigned as below, to each response for the purpose of Statistical analysis and applying non-parametric tests.

Response	Values assigned
Strongly agree	5
Agree	4
Don't know	3
Disagree	2
Strongly disagree	1

4. ANALYSIS AND RESULTS

4.1. Data Verification

Factor analysis requires strong correlation in the original variables, otherwise cannot synthesize a few public variables to reflect common characteristics. It is based on the variable correlation coefficient matrix, and the statistic test carried out the determinant of the correlation coefficient matrix. If the value is bigger, and its corresponding concomitant probability value is less than the significance level, then reject the null hypothesis. The data is suitable for factor analysis. In this paper, we are using principal component analysis method.

4.2. Profile Analysis of Respondents

Table 1 presents socio-demographic of the respondents. The socio demographic profile of overall sample is shown in Table 1. The sample comprises of 62% male and 38% female respondents. Educational profile of the sample shows that about 52% respondents are graduate, 48% are having education of diploma level. The age is between 18 to 27 years represents 16% of the respondents, 12% are between 28 to 37 years 42% are between 38 to 47 years, 26% are between 48 to 57 years and above 58 years are 4%.

There are nearly 44% of the respondents who are employed in the government sector and 56% who are in private sector. The income is between 300 to 500 OR represents 34% of the respondents, between 501 to 750 OR represents 24%, between 751 to 900 OR represents 24%, and between 901 to 1200 OR represents 12%, and above 1201 OR represents 6%.

4.3. The Empirical Analysis of Factor

4.3.1. The feasibility test results

Using SPSS statistical software and the results are as follows:

Table 1: Sample demographic characteristics

Demographic characteristics	N (%)
Gender	
Male	31 (62)
Female	19 (38)
Age	
18-27	8 (16)
28-37	6 (12)
38-47	21 (42)
48-57	13 (26)
58-67	2 (4)
Education	
Diploma	24 (48)
Degree	18 (36)
Post graduate	7 (14)
Ph.D.	1 (2)
Occupation	
Government	22 (44.0)
Private	28 (56.0)
Income	
300-500 OR	17 (34.0)
500-750 OR	12 (24.0)
750-900 OR	12 (24.0)
900-1200 OR	6 (12.0)
More than 1200 OR	3 (6.0)

The Table 2 shows that the KMO value is 0.638, reaching the standard feasibility. And Bartlett sphericity test value is 187.110, significance value of 0.00 is far less than the significance level of 0.05, therefore reject the null hypothesis, so the original data is fit for factor analysis.

The data so collected was analyzed with the help of 16.0 versions of SPSS. Factors analysis was used for the data reduction and purification, resulting into the deletion of some insignificant items with factor loading <0.5 and the Eigen values <1. It is said that the first four factors include mainly information of all indicators. The factor analysis using principal component extraction method with Varimax rotation has extracted 4 factors which explained 79.14% of the variance (Table 3). The table of total variance explained shows that Eigen values of the first four components are >1 and the cumulative contribution rate has reached 79.14%. The total variance explained by factor 1 is 34.606% it contains the variable of better returns, clear and transparent profit sharing ratios. The second variance explained the 19.41% which is Shariah complied business, technological considerations. The third explained 13.61% the forth explained 11.509% of variance.

The above Table 4 shows that there are 2 variables on the first factor of the load which is high. These 2 variables were namely better returns, clear and transparent profit sharing ratios. There are

3 variables on the second factor of the load which is high namely Shariah complied business, technological considerations, and investment not in Haram products, the third component consisted of profit and loss sharing ratio and not interest based. 2 variables were namely Better returns, clear and transparent profit sharing ratios.

5. CONCLUSION

The sample comprises of 62% male and 38% female respondents.

Educational profile of the sample shows that about 36% respondents are graduate 14% is post graduate and 48% are diploma level.

The age is between 18 to 27 years represents 16% of the respondents, 12% are between 28 to 37 years 42% are between 38 to 47 years, 26% are between 48 to 57 years and above 58 years are 4%.

The table of total variance explained shows that Eigen values of the first five components are >1 and the cumulative contribution rate has reached 79.14 %. The total variance explained by factor 1 is 34.606% it contains the variable of better returns, clear and transparent profit sharing ratios. The second variance explained the 19.41% which is Shariah complied business, technological considerations. The third explained 13.61% the forth explained 11.509 % of variance.

6. RESEARCH CONSTRAINTS

The attempt has been made with an aim to study the overall Islamic banking sector but, there occurred certain limitation in

Table 2: KMO and Bartlett’s test

Kaiser-Meyer-Olkin measure of sampling adequacy		0.638
Bartlett’s test of sphericity	Approx. Chi-square	187.110
	Df	36
	Sig.	0.000

Table 3: Total variance explained

Component	Initial Eigenvalues			Extraction sums of squared loadings		
	Total	% OF VARIANCE	Cumulative %	Total	% of variance	Cumulative %
1	3.115	34.606	34.606	3.115	34.606	34.606
2	1.747	19.414	54.020	1.747	19.414	54.020
3	1.225	13.614	67.633	1.225	13.614	67.633
4	1.036	11.509	79.143	1.036	11.509	79.143
5	0.761	8.461	87.603			
6	0.490	5.448	93.051			
7	0.310	3.444	96.495			
8	0.228	2.535	99.030			
9	0.087	0.970	100.000			

Extraction method: Principal component analysis

Table 4: Component matrix^a

Component	Component			
	1	2	3	4
Better returns	0.950	0.115	-0.091	-0.077
clear and transparent profit sharing ratios	0.892	-0.091	-0.063	0.209
Bank do not transacts in Riba (interest)	-0.861	-0.174	-0.293	0.076
Services are better	0.619	0.287	-0.501	0.341
Shariah complied business	-0.060	0.841	0.005	-0.135
Technological considerations	-0.034	0.673	0.450	0.057
Investment not in Haram products	-0.291	0.639	-0.194	-0.195
profit and loss sharing ratio and not interest based	0.028	-0.027	0.735	0.499
Quality of product and services	0.450	-0.210	0.309	-0.745

Extraction method: Principal component analysis

^a4 components extracted

attaining this goal to the extent of exploring the various aspects of banking reforms.

The few important limitations are as follows:

- The literature related to Islamic banking is very limited and only after 2012 Oman has started Islamic banking. Therefore this study mainly depended on questionnaire surveys.
- The statistical data of Islamic banking sector was not available; therefore this study may not reflect the overall picture of Islamic banking sector.
- The response rate has been the biggest challenge before the researcher; in general the response rate is very poor in the research survey specially when one aims to collect data for the customers of the bank. They also hide certain information. This limitation is beyond the control of the researcher.
- Ideally the responses should be taken from the customers of banks from a number of more cities but due to paucity of time and funds the responses were taken from only Salalah, Oman. This study can further be done with more cities of Oman included for the future study.
- Since the sample size is limited, the findings can be taken only as indicative results. Therefore it is worth mentioning that the findings have to be compared and confirmed with a study with bigger samples size to get better accuracy.
- The inferences have been drawn in the present study through mean values after proper data purification. Here we have used factor loading <0.5 and the Eigen Values more than 1. The number of factors extracted is determined so that the cumulative percentage of variance extracted by the factors reaches a satisfactory level. The other techniques to measure variability in responses need to be applied in future research.

The research methodology is a backbone of the research and a strong study definitely requires a strong methodology to take inference out of it. The methodology should also be simple and specific which should focus on research objectives and hypothesis. Some other issue, which were considered insignificant in the present context of research have been ignored and therefore not mentioned. Besides, in the contemporary fast changing social and economic global environment, the characteristics of respondents might also alter over a period of time. Hence regular close and periodic monitoring of the changing perceptions of the general population is desired.

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