

Full-Fledged VS Islamic Bank Windows: Which One Do Muslim Customers' Know Better and Prefer More?

IQTISHADIA
14,2

301

Nissa Ghulma Ratnasari

*Management Department Faculty of Economics Universitas Indonesia-Depok
n.ghulma@ui.ac.id*

Sri Rahayu Hijrah Hati

*Management Department Faculty of Economics Universitas Indonesia-Depok
sri.rahayu72@ui.ac.id*

Dony Abdul Chalid

*Management Department Faculty of Economics Universitas Indonesia-Depok
danny.abdul@ui.ac.id*

Abstract

The study aims to compare the knowledge of and preference for the Islamic banking window and the full-fledged Islamic bank among Muslim customers. Data were collected from 1171 banking clients. Data were analyzed using descriptive analysis. The results show most Muslim customers do not know the difference between the full-fledged Islamic bank and the Islamic banking window. Yet, most Muslim customers favor the full-fledged Islamic bank to the Islamic windows since it is perceived to be more sharia compliant. Thus, the study theoretically contributes to Muslim banking behavior literature by providing empirical evidence on customer knowledge and preference in choosing an Islamic bank. Besides, the study provides knowledge to both the Islamic bank windows and full-fledged Islamic bank on the Muslim customers' understanding of both channels' availability.

Keywords: Knowledge, Preference, Full-fledged Islamic Bank, Islamic Bank Window, Islamic bank.

INTRODUCTION

Currently, there is no standard definition of an Islamic bank in the world. In general, an Islamic bank refers to the institution that mobilizes financial resources and invests those resources based on the Sharia principles and their practical application through Islamic economic development (Al Baraka, 2017). The objectives of Islamic bank itself should be directed to



IQTISHADIA

Vol. 14 (2) 2021

PP. 301 - 311

P-ISSN: 1979 - 0724

E-ISSN: 2502 - 3993

DOI : 10.21043/iqtishadia.v14i2.9967

the objectives of Islamic economics, which is also guided by the objectives of Sharia which consists of five foundational goals to preserve a) religion/faith (din), b) life (nafs), c) lineage/progeny (nasl) d) intellect ('aql) and e) property/wealth (Mohammad and Shahwan, 2013). Islamic banks shift the focus from lending into investment, shift the emphasis on the ability to repay to the soundness of the project, shift the dependence on borrowing for the mobilization of resources into the partners' coordination in resource mobilization, and shift the application only of financial criteria into the moral standards in investment (Al Baraka, 2017).

Islamic banks now have a presence in more than 60 countries under 14 jurisdictions (International Monetary Fund, 2017). Moreover, Islamic Banking may present itself either in the form of a full-fledged Islamic bank or as Islamic Banking windows in the conventional banks (Lone and Rehman, 2017). Thus, the Islamic banks face competition from other Islamic banks and the conventional bank, which also offers Islamic financial products and services (Naser *et al.*, 1999).

Since its inception around the 1970s, Islamic banks have experienced a double-digit growth rate (Garbois *et al.*, 2012). However, the Islamic bank is currently facing some challenges in slowing growth and eroding profitability (Garbois *et al.*, 2012). The slowing growth in Islamic banks is evident in Indonesia. Since the inception of the first Islamic bank in 1992, the market share has never exceeded 5% until 2016. The Islamic bank Indonesia has experienced what so-called a 5-percent- trap phenomenon (Karim Consulting, 2016). Even though Indonesian Muslim customer awareness of Islamic banking is increasing, as of 2019, the market share of Islamic banking had only reached 6.3%, reflecting a very slow growth in market share (Hati *et al.*, 2021) The slowing market growth in Islamic bank development, which to some extent has reached stagnation, raises the question of whether Muslim customers know their options to open an account. To date, there is only a dearth of research comparing the Muslim customer behavior in full-fledged vs. Islamic bank windows. The existing studies are primarily conducted in the Malaysian context (Lone and Rehman, 2017; Osman *et al.*, 2009).

Based on the above arguments, the current study aims to compare the knowledge of Muslim customers regarding the Islamic bank windows and a full-fledged Islamic bank. Furthermore, the study also examines the preferences of Muslim customers towards these two options. Therefore, the study may theoretically contribute to Muslim banking behavior literature by providing empirical evidence on customer knowledge and preference in

choosing an Islamic bank. Besides, the study provides knowledge to both the Islamic bank windows and full-fledged Islamic bank on the Muslim customers' understanding of both channels' availability.

LITERATURE REVIEW

Since the early development of the Islamic bank in 1975, no bank offered an Islamic window. Later on, the conventional banks became interested in developing Islamic banking using the Islamic window due to the potential growth of the Islamic bank and finance (Al-awsat, 2010). Although some countries like Malaysia categorize the Islamic bank into three types: a) windows, b) subsidiary c) full-fledged, some others categorize it into only two categories a) windows and b) full-fledged (Lone and Rehman, 2017). The current study will use the later classification.

Islamic Bank Window

The Islamic bank window is the department of a conventional bank offering Islamic or Sharia compatible financial products and services. The Islamic bank window is valid only if it complies with the requirements set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Yaquby, 2005) a) Complete segregation of funds b) Existence of a Sharia supervisory board (Sharia board) c) Management based fully on Islamic concepts d) Safeguarding of Muslim investors' funds against negligence, trespass and fraud e) Compliance with the Standards of the Accounting and Auditing Organization for Islamic Financial Institution.

The majority of the Islamic bank's jurisdictions do not allow the Islamic bank window or require the conventional bank to separate different Islamic Bank units into their corporate structures (International Monetary Fund, 2017). However, there are two main reasons why the Islamic bank should be separated from the conventional bank (International Monetary Fund, 2017): a) to avoid mixing of funds that are raised separately from the conventional bank and Islamic bank activities b) the risk of regulatory arbitrage due to the difference in regulatory issues between banks.

Despite the resistance towards the existence of Islamic bank windows, the Islamic bank can take advantage of the well-established operations of the conventional bank so that it can deliver high-quality services at a much lower cost. In addition, the Islamic bank windows drive healthy competition in the

Islamic banking market, which may reduce the cost of Islamic bank products. Islamic bank windows can also provide the option to develop Islamic banking in a country with low demand for Islamic bank services and enhance financial inclusion (International Monetary Fund, 2017). An empirical study found that Islamic windows were more efficient than their full-fledged counterparts (Salami and Adeyemi, 2015).

Full-Fledged Islamic Bank

The Islamic bank window's growing activities may drive the conventional bank to establish an Islamic subsidiary or even fully convert into a full-fledged Islamic bank (Solé, 2007). The advantage of the full-fledged Islamic bank over the Islamic bank window is that the full-fledged Islamic bank will offer a broader range of Shariah-compliant products (Solé, 2007). The full conversion of the Islamic bank window into full-fledged Islamic banks signals the conventional bank's firm commitment to Shariah principles, enhancing its credibility (Solé, 2007). Full-fledged Islamic Banks have more opportunity to introduce new-to-market products based on the approvals obtained from Shariah Committees. In addition, the full-fledged Islamic banks are more efficient than Islamic windows (Mokhtar *et al.*, 2008, 2006). Another study supported these results that found that Islamic banks perform better in terms of cost (or profit), technical, allocative, and scale of efficiency (Kamaruddin *et al.*, 2008). Another study that examined the conversion of the Islamic bank windows into the full-fledged Islamic bank also found that the conversion effectively optimizes some funding sources such as capital injection and an increase in temporary investment deposits (Siswanto, 2014).

Previous Study on Full-Fledged Vs. Islamic Bank Window

Several studies had examined and compared both the full-fledged Islamic bank to an Islamic bank window, but the majority of studies have compared those two entities based on the level of efficiency or productivity (Kamaruddin *et al.*, 2008; Mokhtar *et al.*, 2008, 2006; Salami and Adeyemi, 2015; Siswanto, 2014).

There is a dearth of research examining and comparing the Islamic banking window and full-fledged Islamic bank from the customer's perspective. Although some studies use the Islamic banking window and full-fledged Islamic bank customers, the study does not explicitly assess the knowledge and perception of the customer regarding those two types of Islamic banks (Amin

and Isa, 2008). In addition, some studies only examine one type of customer, either the Islamic bank window only (Shafii and Khafafa, 2013) or the full-fledged customer only (Rehman and Masood, 2012; Rustam *et al.*, 2011).

RESEARCH METHOD

The descriptive research design was applied in this study. An online survey of 1171 Muslim conventional banking customers was conducted. The questionnaire was distributed via the survey website alchemer.com. The customers' knowledge regarding the Islamic bank windows and full-fledge was measured using closed-ended questioning with dichotomous answers (yes or no). The preference of the customers was measured using open-ended questions. Three researchers coded the open-ended question to ensure the validity of the interpretation. The descriptive analysis was conducted using SPSS software.

RESULTS

The profile of the respondents can be seen in table 1. Based on the descriptive statistics, most of the respondents were young adults aged between 21 to 30 years and 31 to 40 years (n=1100; 93.93%). The majority of respondents were female (n=623; 53.30%), single (n=608; 51.78%), university bachelor graduates (n=658; 56.19%), work as a private employee (n=397; 33.90%) and have an income of around US\$ 0-1499 per month (n=1129; 96.4%).

Table 1. Muslim Customer Respondent Profile & Knowledge

Description		Frequency	Percentage	
a.	Age	21-30	801	68.40
		31-40	299	25.53
		41-50	57	4.87
		50-59	11	0.93
		≥60	2	0.17
		Total	1171	100,00
b.	Gender	Male	548	46.79
		Female	623	53.20
		Total	1171	100
c.	Marital Status	Single	608	51.78
		Married	563	48.07
		Total	1171	100

d.	Education	≤ Senior high school	163	13.91
		Diploma	87	7.4
		Bachelor degree	658	56.19
		Master degree	247	21.09
		Doctoral degree	16	
		Total	1171	100
e.	Occupation	Private Employee	397	33.90
		Professional	238	20.32
		Government Employee	148	12.63
		Other	113	9.6
		Homemaker	135	11.52
		Entrepreneur	78	6.6
		Students	62	5.2
		Total	1171	100
		f.	Income	US\$ 0-1499
≥US\$ 1500	42			3.57
Total	1171			100
g.	Awareness about the difference between Islamic bank windows and Full-Fledge Islamic Bank	Yes	287	24.50
		No	884	75.49
		Total	1171	100

To assess the knowledge of Muslim customers, the researcher asked the customer whether they know the difference between Islamic bank windows and a full-fledged Islamic bank. The result shows that only 24.50 percent of the respondents knew the difference. The study indicates that only a few Muslim conventional bank customers know about what exactly the Islamic bank windows and full-fledged Islamic bank is.

To assess the perception of the Muslim customers of the Islamic bank windows and full-fledged Islamic banks, the researcher questioned 287 respondents who had knowledge about both types of banks. The researchers asked their preference and the rationale for choosing a particular type of Islamic bank using an open-ended question. The respondents' perceptions can be seen in Table 2.

Table 2. Muslim Customers Respondent Profile & Knowledge

Full-Fledge Islamic	Frequency	Percentage
More Sharia-compliant, independent, pure, clear capital sources, more credible, reliable, and secure	126	43,85
More variety of Sharia products	21	7,31
Larger scope	19	6,61
Better services and satisfaction	16	5,57
More facilities	10	3,48
Direct supervision from the regulator	8	2,78
More complicated interbank process	4	1,39
Clearer regulations	4	1,39
Better technology	4	1,39
Total respondents who prefer Full Fledge Islamic Bank	212	73,79
Islamic bank window	Frequency	Percentage
More entrepreneurial friendly	35	12,32
More network (branches, ATM, etc.)	24	8,35
Backed up by a well-established bank	12	4,18
More transparent system	4	1,37
Total respondents who prefer Islamic Bank Window	75	26.10 26,21
Total	287	100

Based on table 2, most respondents who know the difference between the full-fledged Islamic bank and Islamic bank windows prefer a full-fledged Islamic bank over the Islamic bank window (n=212; 73.97%). The three main reasons for this are the bank is more sharia-compliant due to its independence from the influence of the non-Islamic bank (n=126; 43.85), offers more variety of products (n=21; 7.31%), and is larger in scope (n=19; 6.61%).

The survey result also shows that only around 26.03 percent of respondents prefer to go to Islamic bank windows. The main three reasons for their choice are: more entrepreneur-friendly (n=35; 12.32%) and has a broader network (branch and ATM) (n=24; 8.35%). The first reason why the respondents prefer the Islamic bank window over the full-fledged Islamic bank is that they perceive that it is much more complicated to get a loan from the full-fledged Islamic bank than the Islamic bank window. Many respondents felt that getting a loan from the Islamic bank window is much easier for entrepreneurs.

DISCUSSION AND IMPLICATIONS

This study supports a previous study conducted in Malaysia which showed that Islamic banks had not done enough to educate their customers (Ahmad and Haron, 2002). The low number of customers who know the difference between the Islamic bank windows and the full-fledge Islamic banks indicates that the Islamic banks must educate the Muslim customers about the available format of Islamic banks that can serve their needs.

Previous studies had shown that full-fledged Islamic banks have several advantages in terms of efficiency or product and service offerings (Mokhtar *et al.*, 2008, 2006). The current study gives more empirical evidence that the full-fledged Islamic bank offers a competitive advantage when assessed based on the bank performance indicator. The positive perception of the Muslim customers about the full-pledge Islamic bank compliant to the Islamic laws highlights the importance of sharia compliance and transparency for the Islamic bank windows. The positive perception of the Muslim customers on the full-fledged Islamic bank also implies that there may be an opportunity for the Islamic bank windows to be transformed into the full-fledged Islamic bank as the banks are perceived to be much more Sharia-compliant, independent, gives better service and gives more satisfaction to the customers. In addition to that, full-fledged banks may also learn from windows regarding friendliness and accessibility of loans.

The positive perception of Muslim customers about the Islamic bank windows network and ATM availability indicates the need for the full-fledge Islamic bank to increase its network and improve its marketing communication to increase credibility as the well-established bank does not back up the banks as the Islamic bank windows.

The results also suggest the policymaker, e.g., the Indonesia Financial Services Authority, to educate the society to become more financially literate so they would be able to differentiate between full-fledged and Islamic bank windows.

CONCLUSION

The results indicate that Muslim customers do not have perfect knowledge about types of Islamic banks. The study also shows that the underlying reasons for the Muslim customers to choose the full-pledged or Islamic bank windows are totally different. For those who choose the full-fledged Islamic banks, shariah compliance becomes the most fundamental

reason. In contrast, the Muslim customers who prefer the Islamic bank windows consider services as its primary rationale for choosing the banks.

LIMITATION

The current study applied a descriptive analysis which helps to facilitate data visualization. In addition, the analysis also allows for data to be presented in a meaningful and logical way, which in turn generates a simplified interpretation of the data set in question. However, descriptive analysis has its limitations. For example, the method is unable to test hypotheses. Therefore, future researchers are suggested to test the impact of Muslim customers' knowledge on their preferences for choosing the full-pledged or Islamic bank windows by using a hypothetical study.

REFERENCES

- Ahmad, N., Haron, S., 2002. Perceptions of Malaysian corporate customers towards Islamic banking products and services. *Int. J. Islam. Financ. Serv.* 3, 13–29.
- Al Baraka, 2017. Principles of Islamic Banking [WWW Document]. URL <http://www.albaraka.com/default.asp?action=article&id=46> (accessed 10.15.17).
- Al-awsat, A., 2010. Islamic Windows or Islamic Banks [WWW Document]. Middle-East Arab News Opin. URL <https://english.aawsat.com/theaawsat/business/islamic-windows-or-islamic-banks> (accessed 10.15.17).
- Amin, M., Isa, Z., 2008. An examination of the relationship between service quality perception and customer satisfaction: A SEM approach towards Malaysian Islamic banking. *Int. J. Islam. Middle East. Finance Manag.* 1, 191–209. <https://doi.org/10.1108/17538390810901131>
- Garbois, C., Gourp, C., von Pock, A., Bhatnagar, M., 2012. The Future of Islamic Banking, Security Dialogue. <https://doi.org/10.1177/0967010693024004005>
- Hati, S.R.H., Putri, N.I.S., Daryanti, S., Wibowo, S.S., Safira, A., Setyowardhani, H., 2021. Brand familiarity vs profit-sharing rate: which has a stronger impact on Muslim customers' intention to invest in an Islamic bank? *J. Islam. Mark.* ahead-of-print. <https://doi.org/10.1108/JIMA-08-2020-0247>

- International Monetary Fund, 2017. Ensuring Financial Stability in Countries with Islamic Banking.
- Kamaruddin, B.H., Safa, M.S., Mohd, R., 2008. Assessing production efficiency of Islamic banks and conventional bank Islamic windows in Malaysia. *Int. J. Bus. Manag. Sci.* 1, 31–48. <https://doi.org/10.5897/JAERD12.088>
- Karim Consulting, 2016. Embracing the Future of Islamic Banking. *Maj. Outlook Perbank. Syariah* 2017.
- Lone, F.A., Rehman, A.U., 2017. Journal of internet banking and commerce : JIBC. *J. Internet Bank. Commer.* 22, 1–20.
- Lone, F.A., Rehman, A.U., 2017. Customer Satisfaction in Full-Fledged Islamic Banks and Islamic Banking Windows: A Comparative Study. *J. Internet Bank. Commer.* 22.
- Mohammad, M.O., Shahwan, S., 2013. The Objective of Islamic Economic and Islamic Banking in Light of Maqasid Al-Shariah: A Critical Review. *Middle-East J. Sci. Res.* 13 (Resear, 75–84. <https://doi.org/10.5829/idosi.mejsr.2013.13.1885>
- Mokhtar, H.S.A., Abdullah, N., Alhabshi, S.M., 2008. Efficiency and competition of Islamic banking in Malaysia. *Humanomics* 24, 28–48. <https://doi.org/10.1108/08288660810851450>
- Mokhtar, H.S.A., Abdullah, N., Al-Habshi, S.M., 2006. Efficiency of Islamic Banking in Malaysia: A Stochastic Frontier Approach. *J. Econ. Coop.* 27, 37–70. <https://doi.org/10.1108/08288660810851450>
- Naser, J.K., Jamal, A., Al-Khatib, K., Naser, K., 1999. Islamic banking: a study of customer satisfaction and preferences in Islamic banking. *Int. J. Bank Mark.* 17, 135–151. <https://doi.org/10.1504/IJMEF.2009.029063>
- Osman, 'Ismah, Ali, H., Zainuddin, A., Rashid, W.E.W., Jusoff, K., 2009. Customers Satisfaction in Malaysian Islamic Banking. *Int. J. Econ. Finance* 1, p197. <https://doi.org/10.5539/ijef.v1n1p197>
- Rehman, A.A., Masood, O., 2012. Why do customers patronize Islamic banks? A case study of Pakistan. *Qual. Res. Financ. Mark.* 4, 130–141. <https://doi.org/10.1108/17554171211252475>
- Rustam, S., Bibi, S., Zaman, K., Rustam, A., Haq, Z.U., 2011. Perceptions of Corporate Customers Towards Islamic Banking Products and Services in Pakistan. *Romanian Econ. J.* 107–123.
- Salami, O.L., Adeyemi, A.A., 2015. Malaysian islamic banks' efficiency: An intra-bank comparative analysis of islamic windows and full-fledged subsidiaries. *Int. J. Bus. Soc.* 16, 19–38.

Shafii, Z., Khafafa, A.J., 2013. Customer Satisfaction and Islamic Banking Awareness in the Islamic Banking Window System in Libya. *Middle-East J. Sci. Res.* 13, 12–17. <https://doi.org/10.5829/idosi.mejsr.2013.13.1875>

Siswantoro, D., 2014. Analysis of Islamic Bank's Performance and Strategy After Spin-off as Islamic Full-fledged Scheme in Indonesia. *Procedia - Soc. Behav. Sci.* 164, 41–48. <https://doi.org/10.1016/j.sbspro.2014.11.048>

Solé, J., 2007. Introducing Islamic Banks into Conventional Banking Systems.

Yaquby, N., 2005. Shariah Requirements for Conventional Banks. *J. Islam. Bank. Finance* 22.