

# The potential impact of demographic items on Islamic banking services acceptance and usage: a literature review

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**Abstract:** Islamic banking as a new banking structure has increased its operations in order to expand its services usage in different part of the world. However, it seems that Islamic banks are not familiar with customer orientation requirements. In other words, knowing about customers and segmenting them based on different criteria including demographic items is important in marketing activities. Therefore, this review study try to provide a road map regarding the Islamic banking studies by focusing on demographic items. This will enhance decision makers of Islamic banking system to have better information about their customer which lead to better marketing of their financial services.

**Keywords:** Islamic banking, Islamic finance, marketing, demographic items, banking services

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## I. Introduction

Islamic banking is one of the most developed new banking method. Currently, Islamic banking is spreading all around the world and has received attention of both Muslims as well as non-Muslims [1]. In fact, potential benefits of Islamic banking system has increased its expansion and usage around the world [2]. Islamic banking scheme have attempted to introduce itself as one of the available substitute banking methods with ability of creating dissimilar and diverse financial services to satisfy its potential end users banking needs. along the lines of Islamic countries growing economy as well as global economy rapid development, Islamic banking scheme has evolve itself in order to have an important impact in the globe financial system [3].

Islamic banking is developed as conventional banking alternative which serve on the basis of avoiding riba (interest) receiving or paying [4]. Indeed, Islamic banking and conventional banking is differentiated by prohibition of Riba (interest) which is forbidden in Islam. profit and loss sharing paradigm which is unique feature of Islamic banking has been structured based on concept of Musyarakah (joint venture) and Mudarabah (profit sharing) Islamic contracting [5]. These banks must also consider the customers' risk minimization along with legitimacy of their operations with Shariah principles [6].

## II. Islamic banking expansion

While, most of Islamic and financial institutions have been located in Middle East and developing countries, nevertheless, numerous of conventional banks have weaved the Islamic financial services substantial demand in developed countries [7]. However, the expansion of Islamic banking system in South East Asian countries has been with criticism. Considering the banking divisions as the South Asian countries single most key financially intermediary, the weak intermediation capacity of banks is the main reasons of these criticism [8].

Meanwhile, Shaikh [9] mentioned that South Asia contain the largest number of Islamic banks followed by Africa, South East Asia, Middle East countries, GCC countries, Europe, North and South America. Indonesia is known as a country that have conducted Islamic banking scheme in its banking structure which in some cases ultimately has manipulated overall

economy of this country. Abduh and Omar [10] believed that the long run economic growth and capital accumulation in Indonesia has been significantly as well as positively correlated with Islamic financial development.

Malaysia is another country which have experienced the Islamic banking expansion in its banking industry. In fact, after Islamic banking growth in the first decades of its implementation, the government of this country allowed conventional banks to represent their Islamic banks to the customers. Consequently, Bank Islam Malaysia Berhad (BIMB) which is known as the first Islamic bank was established in Malaysia.

The Malaysian authorities decided to introduce an interest free banking system after a successful decade of performance and functioning of Bank Islam Malaysia Berhad (BIMB). It seems that Malaysia is a suitable place for improvement of Islamic banking system. Indeed, Islamic banking scheme of Malaysia is identified as competitive part of this country overall financial system [11]

However, Islamic banking in Malaysia has been faced with stiff competition not only with international players and long established conventional banking scheme but also within themselves. Triumphant implementation of Islamic banking construction in Malaysia has been declared by numerous academicians. However, The Malaysian Islamic banks continuance accomplishment will broadly depend on their efficiency, profitability as well as their competitiveness. Malaysia has continued the policy of conducting dual banking scheme wherein there is a high contest between Islamic and conventional banks [12].

Current study is a new attempt of presenting a reasonable oversight on Islamic banking scheme and consequently its important attributes over and above its faced challenges. This refers to the fact that currently a number of patrons are seeking for services offered by Islamic banking method which in turn has led to this free based interest banking improvement, expansion and popularity. Moreover, investors attempt to find company with long term potential growth [13]. Therefore, it would very important for Islamic banks to know their customers segments. In this regard, this study focus on providing a review on segmentation of bank customers based on their demographic items.

### **III. Importance of demographic factors**

Spencer et al., [14] indicated to the importance of personal factors in the adoption process. Besides, Verhoef and Langerak [15] believed that customer characteristics should receive more attention in different innovation adoption studies. Further, customer characteristics and specific demographic items have been selected due to the importance of these variables and predictors in targeting decisions as well as segmentation by providers [16].

Actually, the importance of demographic factors has led to the invariance analysis of these items concerning the model of study and its results [17]. Furthermore, over the years, extensive studies have provided evidence regarding the association of banking channels and demographic items [18, 19]. Moreover, the related important role of banking structure improvement on economic growth of different countries have been approved as well [20].

### **IV. Previous studies review**

The parts of attributes of demographic profile are age, gender, income, education level. The managers may decide to use different marketing strategy for various types of users and different approaches could be adopted for different customers based on their age, income, education level, etc. [21].

Consistently, these factors have been implemented in content of multiple adoption context and disciplines including e-payment adoption [22], Adoption of e-banking [23-25], ATM bank usage [26], adoption of mobile banking [27, 28], adoption of retail self-service check outs [29], adoption of internet and online banking [30-32], adoption of wireless application protocol (WAP) services [33], usage and adoption of internet [34, 35], adoption intention of 3G [36], usage of Islamic financing products [37, 38], Islamic credit card usage and selection [21, 39, 40], usage of Islamic automobile financing [41], usage of Islamic banking products and services [42], Islamic banking services preference [43, 44].

A study which was carried out in content of China the behavior, attitude and usage of internet banking and mobile banking was investigated [27]. The outcome of the study was evidence for the important role of demographic factors. Accordingly, education level did not influence the adoption and usage of mobile and online banking; most of users were male and not necessarily young.

However, in a separate study in context of china by Zhou [28] mobile users in two different service halls were investigated. Concerning demographic factors and its possible linkage with adoption of mobile banking among these types of respondents, the study illustrated that socio demographic characteristic such as age, gender and education level did not have any considerable relation to adoption and usage of mobile banking between these Chinese participants.

Internet banking usage and adoption studies also has been a context in which demographic factors have been implemented [30] considered bank customers of Hong Kong in order to discover their demographic attribute linkage and adoption of internet banking. The study concluded that women had a lower rate of adoption internet banking compared men, bank customers who are above 55 years old had more rate of internet banking adoption, respondents with bachelor degree and above and high level income people had higher internet banking usage and adoption rate in Hong Kong.

Nayak, Priest [34] Carried out their study considered internet usage and the impact of demographic factors (age, gender, and education) among older adults (60-88) years old in the context of England. It was uncovered that age and education of these older adults did not have any important impact on total time hours spent in using the internet as well as the activity level of internet users. More surprisingly, gender of respondents did not influence hours spending of using internet for these older adults while gender (male) was a significant predictor of the internet activity level of these internet users in England.

Hung et al., [33] conducted their study in Taiwan in order to identify critical factors that influence adoption of WAP services. Their demographic consequence illustrated that males with a younger age group which their level of education is a senior high school diploma or bachelor's degree with the middle level of income are more likely to use the wireless application protocol (WAP) services compared to other Taiwanese respondents.

## **V. Demographic factors and Islamic banking studies**

Moreover, Metawa and Almosawi[42] have indicated that success of different Islamic banks to formulate appropriate marketing strategies strongly depend on maintain and access to update profile information like age, income, education and other socio demographic data of their customers. Consistently, prior studies suggested that the demographic variables' functions are strongly related to motive for owning and also using credit card in different developed countries [39].

In fact, some people are more probable to use credit cards in order to finance their ventures than other individuals, depending on demographic characteristics [45]. In other words, the demographic items of end users are related to usage rate of specific Islamic banking service. More specifically, it is important to identify possible item that have an impact on usage of Islamic banking services considering different groups of customers [46].

Related to Islamic banking products and service usage, a study by Run and See [38] attempted to determine the connection of demographic factors and usage of Islamic finance products among customers of a bank branch in Sarawak, Malaysia. The analysis of self-administrated questionnaire proved that none of gender and age neither education nor income of respondents in Sarawak did not have any relation to usage of Islamic financing products and services.

In another study which carried out by Khan, Hassan [47], various bank customers in Bangladesh were analyzed to identify their behavior in regards to Islamic banking services. Based on analyzing of a structured distributed questionnaire, they found that majority of usage of Islamic bank products is influenced frequently by age (25-35), education (high level) and income level (high level) in context of Bangladesh.

Amin [41] Conducted his study to explore perceptions of Malaysian customers about Islamic automobile financing by considering their demographic components. A personally administrated questionnaire was done between different bank customers in Labuan and Kota Kinabalu. The outcome of the study revealed that although significant differences exist on gender, income, education and respondents' usage of Islamic automobile financing, but there was no significant difference in age with awareness and usage of this Islamic banking product among Malaysian bank customers in two selected cities.

A study by Ahmad, Rehman [48] attempted to identify perception and preference of Islamic banking products and services between bank customers in Pakistan by focusing on their demographic differences. The questionnaires were randomly distributed among bank customers of 12 banks (6 Islamic and 6 conventional banks) in different cities of Pakistan. After analyzing 864 collected questionnaires from selected sample, the demographic features of respondents showed that male customers prefer Islamic banking services compared to conventional services while female customers' preference is more toward conventional banks. In addition, customers with age group of 18-24 years which are considered a young customer use conventional banking products while majority of 25 to 34 years old are customers of Islamic banking services.

In a study related to usage of Islamic and conventional credit card which was conducted by Mansor and Che Mat [39] the professors, lecturers and tutors in seven higher education institution in Kelantan and Terengganu, Malaysia were investigated in order to recognized the linkage of their demographic factors and usage of both Islamic and conventional credit card. A structured survey questionnaire distributed between the respondents and the outcome specified that income was the only significant variable of study linked to usage of conventional and Islamic credit card as well.

In another research related to the usage of the Islamic credit card, a study by Amin [21] was conducted and one of the considered items in exploring Islamic credit card use was demographic items. Different people in Labuan and Kota Kinabalu that had at least one account at any branches of Islamic banks were investigated. All in all, it was found that income level and gender did not have any association with Islamic credit card usage intention.

On the other hand, it was clear that age (young, 20-30) was an influential factor that influences usage intention of the Islamic credit card. The study has emphasized that bank managers should design an appropriate Islamic credit card package which be able to cover younger generation financial needs. Likewise, education level had a significant effect on the usage intention of the Islamic credit card among Malaysian bank customers.

Concept	Previous Studies	Islamic banking researches
Demographic factors (Age, Education, Gender, Income)	E-payment adoption [22]  ATM bank usage [26]  Adoption of mobile banking [27, 28]  Adoption of internet and online banking (Yiu et al., 2007)  Wireless application protocol (WAP) services adoption [33]  Adoption of internet [34, 35]  Usage of Islamic financing products [37, 38]  Usage of Islamic automobile financing [41]	Islamic credit card usage and selection [21, 39, 40]

## VI. Conclusion

Islamic banking system has expanded its operations and services around and needs to attract new customers to maintain competitive in the market. Therefore, using specific and appropriate strategy is necessary for this banking system. In this view, recognizing customers based on their segmentation and preferences will be important for Islamic banks to provide suitable services to them.

Therefore, this study was an attempt to review the studies related to demographic segmentation of bank customers and their required services on the basis of these segmentation. The policy makers and decision unit in the Islamic banks can use these information to segment their customers which in turn enhance them to offer more related services. This will promote the expansion of Islamic banking services usage around the world which is the ultimate goal of Islamic banks.

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