

CONVENTIONAL VERSUS ISLAMIC FINANCE: STUDENT KNOWLEDGE AND PERCEPTION IN THE UNITED ARAB EMIRATES

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This research investigates the relationship between university student knowledge of relevant financial concepts and terms in conventional and Islamic banking, the impact of religion and language, and other individual variables on preferences for financial services. Data from a university graduate and undergraduate business students (n = 667) from the United Arab Emirates was used to investigate the role of financial knowledge, religion, and language on self-reported attitudes and preferences for financial services. Results suggest that knowledge of conventional banking terms and concepts was higher among these students than was Islamic banking terminology. Arabic language was the primary predictor of higher Islamic banking knowledge, as well as a significant, though weaker, predictor of lower conventional banking knowledge. The more education completed tended to improve financial knowledge of both conventional and Islamic finance. Finance students tended to have higher overall knowledge of both financial systems. Further, religious sincerity, not better knowledge, was the strongest predictor of preference for Islamic banking services. Implications of the research are discussed.

Introduction

The Islamic financial services sector is estimated to be growing at double digit rates, involving over 200 financial institutions with assets estimated to exceed US\$200 billion (Al-Dhahiri, Al-Khamiri, and Al-Hamli, 2003). While the growth has been most noticeable in Arab Muslim markets, the potential has impact beyond these fertile markets to non-Arab Muslim and non-Muslim consumers and businesses as well. Yet, our knowledge of consumer motivations for choosing Islamic versus conventional banking services is modest and the research to date is limited and ambiguous on these key issues. The UAE is a dynamic and growing market for business, particularly in financial services. Global as well as local banks have flourished in recent years in this relatively progressive and vibrant economy.

Islamic Banking within the UAE

The United Arab Emirates (UAE) enjoys the highest economic growth rates in the Arab world, with emirate of Dubai's 6.2 percent GDP growth in 2003 taking the first place among the seven emirates of the UAE. The average GDP growth was an impressive 4.6 percent over the last ten years. The country's investment rating index in 2002 has surpassed even Kuwait and Bahrain.¹ The index measures a country's investment climate based on political, economic, and financial risk criteria. Overall, the UAE was rated a "very low risk" country.

The banking community in the UAE comprises 46 banks, the largest in the GCC after Saudi Arabia. The year 2003, was a record year for UAE banks, with an average net profit growth rate of about 16 percent. According to the Central Bank, aggregate net profits of the 21 national and 25 foreign banks in the UAE amounted to DH5.67 billion (\$1.54 billion). Of the 21 national banks, 3 are Islamic finance institutions with combined assets totaling DH29.93 billion (\$8.14 billion), which is the equivalent of about 9.5 percent of the total assets held in the UAE by all 46 banks.² The first Islamic commercial bank was established in Dubai in 1974 and an intergovernmental Islamic bank started its functions in 1976 as the Islamic Development Bank.

Growth rates within the banking sector, however, are not homogenous. Islamic finance institutions have produced growth rates of 15-18 percent; twice the average growth rate of conventional banks.³ Not only do Islamic banks grow faster than their conventional counterparts, but their numbers seem to be increasing rapidly as well. In the past two years, two conventional financial institutions have converted to Islamic principles and another, Middle East Bank, is preparing to do so by June 2004. While the multinational Hong Kong Shanghai Banking Corporation (HSBC) is expanding its Islamic finance operations, others are contemplating joining the lucrative Islamic finance market through the offering of Islamic Finance products.

The relative success of Islamic banks is impressive and a better understanding as to the underlying factors for their popularity is important to gauging the long-term prospects of the industry. This study examines the impact of consumer knowledge and attitudes towards Islamic versus conventional banking products and services, as well as selected demographic factors, on preferences for Islamic products and services.

Literature Review

In a survey conducted in the UK, Omer (1992) found a high level of ignorance among the 300 interviewed Muslims with regard to what constitutes acceptable Islamic finance principles. He reported that the higher the religious commitment and the lower the level of general education, the stronger the preference for Islamic over conventional finance. However, Haron, Ahmad and Planisek (1994) found that the selection criteria of Muslim bank customers in Malaysia was largely based on non-religious aspects, such as service efficiency, transaction speed, and the friendliness of bank personnel. Even with these results, some 40% of the respondents indicated that religion was a prime reason for using Islamic banking services. They noted that although there was a high level of awareness of Islamic products, there was a poor understanding of the differences between Islamic and conventional banking, as well as weak knowledge regarding Islamic products and services.

Nasser, Jamal, and Al-Khatib (1999), surveying 206 bank customers on Jordan, added a bank's reputation and perceived level of confidentiality to this list of selection criteria noted in the Haron et al (1994) study. Again, as in the earlier case, the researchers noted a high level of ignorance regarding specific Islamic products, with 70% of the respondents stating that religion was a very important reason for them to select an Islamic bank.

Similarly, Gerrard and Cunningham (1997) found no difference between Muslims and non-Muslims on bank selection criteria. They do note, however, that nearly 25% of the respondents indicated that religion was to the sole basis for choosing an Islamic bank. These primary findings are in contrast to Metawa and Almoosawi (1998) who interviewed 100 Islamic bank customers in Bahrain and found that the single most

important factor for the selection of an Islamic bank is the Sharia-based principles that govern these financial institutions.

Hamid and Nordin (2001) surveyed Malaysian commercial bank customers, finding a high awareness of Islamic banking but poor self-reported knowledge of specific Islamic products, including poor understanding of the difference between Islamic and conventional banking. In another study of Malaysian commercial customers and their views of Islamic financial services, Ahmad and Haron (2002) noted that 65% of the respondents admitted to having limited knowledge of Islamic banking, while at the same time indicating that they believed the concept had good potential in the Malaysian market.

While the literature available in this area is still developing, it does reveal that the underlying drivers of preferences in financial services are far from clear, for both individual and commercial customers. The strong growth in the Islamic financial service sector suggest that a greater understanding of the factors that influence these choices can only benefit the development of appropriate strategies to address the growing appetite for these products and services. Two things seem clear from a survey of the literature: (1) the level of knowledge of Islamic products seems weak across studies that measured such knowledge and (2) the attitudes toward Islamic financial services is at least partly influenced by religious factors and perhaps other individual characteristics of the consumer.

This study seeks to add to this literature by examining more carefully the relationship between knowledge of financial concepts (conventional and Islamic), preferences for either conventional or Islamic financial services, and certain individual characteristics of the raters. One of the driving motivations for this study was the belief that the lack of knowledge of specific Islamic products was in part attributable to the Arabic vocabulary used to identify Islamic financial products. As most of the world is not even minimally fluent in Arabic, and this is true in the Muslim world as well, the use of Arabic hinders understanding of what these Islamic products really are. Add to this the relative newness of the products offered, the market is generally ignorant of these products.

Hypotheses

The poor knowledge of Islamic finance principles has been one area of concern in this literature for over ten years (Omer 1992). Add to this the increase in the number of Islamic banking terms has been considerable over this period. But in spite of the growing interest in the field of Islamic finance, a high level of awareness of the Islamic banks (Haron et al 1994) and the growing interest in the use of Islamic banks (AlAhmed 1996), no general educational initiative has been launched by either government or the financial institutions (Hamid and Nordin 2001) to address this lack of basic product knowledge. Conventional banking concepts, on the other hand, are covered in the curricula of most business oriented universities and even high schools. We wanted to compare knowledge among this relatively elite population. Consequently, we hypothesize that:

$H_1 =$ *Knowledge of conventional banking terms and concepts is generally higher than knowledge of Islamic banking terms and concepts.*

Whether religious aspects are the deciding factor of bank patronage is still in dispute. Contrary to Omer (1992) and Metawa and Almosawi (1998), Erol and El-Bdour (1989) argue that other factors such as return expectations are more important than Islamic finance principles and that customers in Islamic countries

would not differentiate between the services offered by conventional and Islamic banks (Erol et al 1990). We believe, however, that religion is a strong driver of individual preferences of consumers. The whole Islamic financial system exists because of a religion-based interpretation of economics. This would be expected to appeal to a religious community on that basis. Consequently, we test the hypothesis that:

$H_2 =$ *The preference for Islamic banking is primarily driven by religious beliefs, not financial knowledge. That is, the stronger the religious commitment the more preference for Islamic banking services.*

AlAhmed (1996) suggested that the level of education had an impact on bank patronage. On the other hand, Hamid and Nordin (2001) found that Islamic banks label their products “ambiguously, causing misunderstandings not only among non-Muslims. As some bank customers find these terms too difficult to learn, they simply stay away. Consequently, we hypothesize that:

$H_3 =$ *The knowledge of banking terms and concepts drives students’ perception of bank products and services.*

Cultural differences seem to exist that determine banking perceptions and preferences. Tan and Chua (1986) argue that, in an oriental culture, a close relationship and interaction with the bank personnel is one of the most important bank selection criteria. These bank selection criteria vary from country to country and are subject to demographic determinants such as gender, age, and educational background (Kaynak, Kucukemiroglu, and Odabasi, 1991). Specifically, prior research revealed that age, income and education play important roles in distinguishing preferences. As indicated earlier, due to the naming of Islamic products being transliterations from Arabic, we expected that Arabic language fluency would be a distinguishing characteristic, as well as religious background:

$H_4 =$ *Demographic variables will affect Islamic banking knowledge and perceptions of and preferences for financial products and services. Specifically,*

(a) Those more fluent in Arabic will be more knowledgeable of Islamic financial concepts and products than those weak in fluency, but not be a factor in conventional banking knowledge.

(b) Finance students will be more knowledgeable of both systems than non-finance students.

(c) Muslim students will be more knowledgeable of Islamic financial concepts than non-Muslim, and show stronger preference for this system.

(d) Male and female students will be equally knowledgeable of Islamic financial concepts.

Sample and Methodology

Usable data (n = 667) was collected from of a survey of 700 graduate and undergraduate students of the School of Business and Management at the American University of Sharjah, UAE. The decision to survey university students was mainly based on three factors: First, we could gauge the knowledge of a portion of the country’s intellectual elite. As a well-recognized, regional, private university, it attracts academically a

stronger student body. We focused on business students as they should have a particular interest in and better understanding of finance related matters. Second, we could avoid some of the introduction of sample bias that tends to confound results of field studies, a particular problem in this literature. And, third, university students can easily be surveyed in a more controlled research environment, allowing for a stronger research design.

To get a representative cross-section of the business students, a set of ten courses, most with multiple class sections, were surveyed. The survey was taken in a controlled classroom environment; specifically, course instructors read a standard set of instructions to the class, informing them of the survey purpose and conditions. Students were given approximately 25 minutes to complete the survey. Each instructor of the section being surveyed was given a standard set of instructions to be read to the class. Instructors were not to answer any content related questions and prevented the students from communicating with each other while the survey was in progress. A total of 33 surveys were not completed properly and were excluded from the subsequent analysis, leaving the sample size at 667. The sample breakdown is presented in Table 1.

The sample survey consisted of three sections. The first section consisted of 24 statements pertaining to the perception of conventional and Islamic banking products and services and the underlying concepts as well as personal banking preferences. The statements had to be rated on a 1-7 scale (from 1 = “strongly disagree” to 7 = “strongly agree”). The statements were grouped into five aspects: (1) Perception of Islamic Banking Products and Services, (2) Perception of Islamic Banking Concepts, (3) Perception of Islamic Banking Terms, (4) Personal Banking Preferences, and (5) Religious aspects. The five aspects were derived using a principal components analysis with an Oblimin rotation, which explained approximately 47.9% of the total variance. For each aspect, mean scores were computed for every completed survey. The descriptive statistics for each aspect are shown in Table 2.

The second section gauges the students’ knowledge of conventional and Islamic financial. Seven financial definitions had to be matched with the corresponding conventional and Islamic terms. An additional four multiple-choice questions regarding conventional and Islamic concepts had to be answered. One point for each of the seven matching definitions and two correct conceptual answers would result in a maximum score of nine in each individual segment, the conventional (CB score) and the Islamic segment (IB score). Thus, the maximum overall score (OV score), as the sum of the individual segment results, would be eighteen. The frequency distribution of all three scores is in Table 3. The third section was comprised of several demographic variables.

Results

It was hypothesized that students’ knowledge of conventional finance terms and concepts was more developed than the knowledge of Islamic finance terms and concepts. H_1 was supported. The mean CBscore (conventional finance) was 2.32 compared to a mean IBscore (Islamic finance) of 1.67. The paired samples t-test statistic determined significance at the 1%-level (see Table 3).

To shed more light on the question of what affects the level of students’ financial knowledge, the CBscore and the IBscore were separately regressed on a set of ten demographic variables (see Table 4). To identify the regression model with the highest explanatory power, a stepwise regression procedure using forward selection was applied. Forward variable selection enters the variables of the set one at a time based on

entry criteria. Stepwise variable entry and removal examines the variables of the set at each step for entry or removal. All variables must pass the tolerance criterion (0.0001) to be entered in the equation. Also, a variable is not entered if it would cause the tolerance of another variable already in the model to drop below the tolerance criterion. All independent variables selected are added to a single regression model. The minimum significance level chosen is 5 percent.

Conventional Banking Knowledge

The stepwise regression procedure yielded the following four-factor model (each of the explanatory variables was statistically significant at the 1 percent level):

$$(1) \quad CBscore = a + b_1 Credits + b_2 Language + b_3 Study + b_4 GPA + e$$

where,

CBscore = A student's total score in the conventional finance segment, consisting of seven matching definitions and two correct conceptual answers with a maximum score of nine.

a = the intercept term

Credits = a dummy variable set equal to one if the student has completed 60 or more credit hours, zero otherwise.

Language = a dummy variable set equal to one if the primary language is Arabic, zero otherwise.

Study = a dummy variable set equal to one if the student's area of study is finance, zero otherwise.

GPA = a dummy variable set equal to one if the cumulative grade point average is greater or equal to 3.0, zero otherwise.

$\beta_1 - \beta_4$ = the correlation coefficients associated with the four explanatory variables.

ε = the random error term

Number of university credits completed

Significance tests indicate that the single most important explanatory variable for the CBscore is the number of university credits completed. In other words, as the student proceeds to higher educational levels, their understanding of conventional finance terms and concepts increases. An independent samples test reveals that the mean CBscore of graduate students is 1.02 points higher than that of undergraduate students. The mean difference is significant at the 1 percent level.

The other three variables identified to have a significant impact on the CBscore are: primary language, area of study, and the cumulative grade point average.

Primary language

The negative correlation coefficient suggests that students, whose primary language is Arabic, tend to have poorer knowledge of conventional banking concepts and terms than non-Arabic language students. According to the results of an independent samples test, the mean difference in CBscores is 0.98 points (significant at the 1 percent level).

Area of study

As expected, finance majors generally display a higher level of knowledge regarding conventional finance concepts than finance majors, as indicated by the positive correlation coefficient. The mean difference in CBscores is 0.63, which is significant at the 1 percent level.

Cumulative grade point average

The more successful a student is academically, the higher his/her overall level of knowledge and, thus, the expected CBscore. The positive correlation coefficient supports this hypothesis. A cross-sectional analysis reveals that students with a GPA e" 3.0 have a mean CBscore that is 0.47 points higher than that of students with a lower GPA (significant at the 1 percent level).

Overall, the CBscore tends to be the highest for non-native Arabic speakers with a concentration in the area of finance who are fairly advanced in their program and have a high level of academic success.

Islamic Banking Knowledge

For the IBscore, the stepwise regression procedure yielded a model consisting of seven explanatory variables, with the first four variables (Arabic spoken fluency, number of university credits completed, Religion, and the cumulative grade point average) statistically significant at the 1%-level and three variables (gender, primary language, and the area of study) statistically significant at the 5%-level. The final model is shown in Table 5.

$$(2) \quad \begin{aligned} IBscore = & a + b_1 SFluency + b_2 Credits + b_3 Religion + b_4 GPA \\ & + b_5 Gender + b_6 Language + b_7 Study + e \end{aligned}$$

where,

IBscore = A student's total score in the Islamic finance segment, consisting of seven matching definitions and two correct conceptual answers with a maximum score of nine.

a = the intercept term

SFluency = a dummy variable set equal to one if the level of Arabic spoken fluency is very fluent or fluent, zero otherwise.

Credits = a dummy variable set equal to one if the student has completed 60 or more credit hours, zero otherwise.

<i>Religion</i>	=	a dummy variable set equal to one if the student is of non-Muslim faith, zero otherwise.
<i>GPA</i>	=	a dummy variable set equal to one if the cumulative grade point average is greater or equal to 3.0, zero otherwise.
<i>Gender</i>	=	a dummy variable set equal to one if the student is female, zero otherwise.
<i>Language</i>	=	a dummy variable set equal to one if the primary language is Arabic, zero otherwise.
<i>Study</i>	=	a dummy variable set equal to one if the student's area of study is finance, zero otherwise.
$\beta_1 - \beta_7$	=	the correlation coefficients associated with the seven explanatory variables.
ε	=	the random error term

Arabic spoken fluency

Significance tests indicate that the single most important explanatory variable for the IBscore is the Arabic spoken fluency level. The results suggest that the understanding of Islamic finance concepts largely depends on traditional Arabic terminology which, in turn, requires a certain level of familiarity and fluency. These results are supported by the findings of the subsequent independent samples test. Compared to students with limited fluency in Arabic, the IBscore means of students with fluency or reasonably fluency in spoken Arabic and in written Arabic were 1.46 points and 1.17 points higher, respectively, than their non-fluent counterparts. Both mean differences are significant at the 1 percent level. This provides specific support for hypothesis H_{4a} .

Number of university credits completed

The positive coefficient suggests that as students proceed through their four-year university program, they become more knowledgeable in business in general, and finance in particular, including understanding of Islamic finance terms and concepts. Supporting these findings, an independent samples test reveals that the mean IBscore of graduate students is even 0.68 points higher than that of undergraduate students. The mean difference is significant at the 1 percent level.

Religion

As Muslims would generally be expected to be more familiar with the teaching codified in the Sharia, which in turn is the basis for Islamic finance concepts, they would be expected to be more knowledgeable in the area of Islamic finance than their fellow non-Muslim students. In fact, the negative coefficient indicates that being a non-Muslim has a negative impact on a student's IBscore. Supporting the findings of Haron et al (1994), the subsequent t-test for equality of means determined the mean difference in IBscores between Muslim and non-Muslim students to be 1.28 points. This result is statistically significant at the 1 percent level, supporting hypothesis H_{4c} .

Cross-sectional analysis further revealed that the interest in the field of Islamic finance is generally less in the non-Muslim community. Only 44.1% of the non-Muslim students are interested in taking a course in Islamic finance, compared to 85.2% of their fellow Muslim students. Thus, knowledge of and interest in Islamic finance differs significantly between the religious groups.

Cumulative grade point average

The more successful a student is academically, the higher his/her overall level of knowledge and, thus, the expected IBscore. The positive correlation coefficient supports this expectation. Again, top students seem to generate a premium IBscore. Students with a GPA e' 3.5 have a 0.59 point higher IBscore than students with a GPA between 3.0 – 3.49. This mean difference is significant at the 1 percent level.

The remaining three variables (gender, primary language, and the area of study) were statistically significant at the 5%-level.

Gender

The regression result suggests that male students tend to score higher on Islamic finance issues. At a 5 percent level of statistical significance, the subsequent t-test for equality of means determined the mean difference in IBscores between male and female students to be 0.24 points.

Primary language

Contrary to the CBscore, which is lower for students whose primary language is Arabic, the IBscore tends to be higher for Arabic speaking students. According to the results of an independent samples test, the mean difference in CBscores is 0.98 points (significant at the 1 percent level). This provides additional support for hypothesis H_{4a} , where Arabic language fluency was expected to be related to knowledge of Islamic financial terms and concepts.

Area of study

Similar to the CBscore, the IBscore is positively related to the student's area of study. Specifically, finance majors generally display a higher level of knowledge regarding Islamic finance terms and concepts than non-finance majors. However, the results are not quite as strong as they were when looking at the results for CBscore. The mean difference in IBscores is a mere 0.21 points versus the CBscore mean difference of 0.63 points. This provides support for hypothesis H_{4b} , where finance students would tend to score higher on tests of knowledge of both systems.

Overall, the IBscore tends to be the highest for male Muslim students with a high level of Arabic fluency, who are fairly advanced in their program and have a high level of academic success, regardless of their business concentration.

Banking Preferences

Hypothesis H_2 stated that students' preference for Islamic banking was primarily the result of religious beliefs. Table 6 shows the results of the independent samples test. The mean difference in the score Aspect4, which measures personal banking preferences, between groups of students with high (Aspect5

score e'' 5.0) versus low level of religious sincerity (Aspect5 score d'' 3.0), was computed to be 1.23 (significant at the 1 percent level). These results suggest that the preference for Islamic banking is largely based on religious aspects. The significance level of 1 percent suggests accepting hypothesis H_2 .

How students perceive conventional versus Islamic banking products and services is arguably a matter of perceived product and service characteristics. To understand whether perception of Islamic products and services (Aspect1) is influenced by religious beliefs rather than knowledge of the products themselves, we regressed Aspect1 on Aspect5, the CBscore, and the IBscore. The regression results indicate that while the degree of religious sincerity has a significant impact on the desirability of Islamic products and services (at the 1 percent level), knowledge of these products or services does not appear to influence perceptions or preferences for these products. Neither the coefficient associated with CBscore nor with IBscore was significant (Table 7). We, therefore, fail to accept H_3 .

Finally, hypothesis H_{4D} suggested that Gender might not be a useful predictor in this study. Table 8 presents the results of corresponding independent samples tests. While male students displayed more favorable perception of Islamic banking products and services than female students, they also have a slightly higher IBscore. The mean difference in IBscore is 0.27 points, which is significant at the 5 percent level. This is surprising in light of a higher female mean GPA (mean difference is 0.44 in favor of female students, significant at the 1 percent level). Consequently, we fail to accept H_{4D} .

Discussion

This research investigated the relationship between university student knowledge of relevant financial concepts and terms in conventional and Islamic banking, the impact of religion and language, and other individual variables on perceptions of and preferences for financial services. Seven hundred graduate and undergraduate students of the School of Business and Management at the American University of Sharjah were surveyed on their perceptions and preferences related to conventional and Islamic banking products and services, and their knowledge of the terms and concepts of each system. Our results suggest that personal banking preferences are largely based on students' level of religious sincerity. In other words, Muslim students in general, and those students who reported to take their religion very seriously, perceived Islamic finance more favorably than conventional finance.

Overall, students' knowledge of conventional and Islamic finance terms and concepts was surprisingly low. In general, conventional finance knowledge was the highest for those students with poor to no Arabic language fluency, who majored in finance and who were fairly advanced in their programs and had a high level of academic success. In contrast, the level of Islamic finance knowledge was generally the highest for male Muslim students with a high level of Arabic fluency, who are fairly advanced in their program with a high level of academic success, regardless of their business concentration.

Implications of This Research

The results of this study are based on self-reported ratings of university students and thus limit the generalizability of our findings. However, seventy-five percent of the respondents in this study did have bank accounts, over half with conventional banks. Thus, most are consumers of the financial system and have considerable credibility when it comes to communicating their perceptions of banking services and

preferences. As these students come from over 40 different nationalities, they provide a snapshot of the knowledge and attitudes of this relatively diverse, young, educated consumer.

With this recognition, our findings provide a unique perspective of a population of new and potential consumers of financial services in the region and the challenges that face financial service providers in this market. From this research, we make a number of observations.

First, the use of Arabic language terminology in labeling Islamic finance products and services seems to hinder understanding for the vast number of non-Arabic language populations, which includes the majority of Muslims. The Islamic finance industry, and that includes the regulatory bodies that determine suitability of Islamic offerings, must decide what the real definition of an Islamic financial system is and then permit the packaging of the Islamic products and services to be made by the suppliers themselves and that in terms of the markets in which they compete. This approach would allow suppliers of Islamic financial services to better communicate the value of their products in the financial services market relative to conventional financial systems.

This issue leads to a second observation for Islamic finance as a market concept. This research supports other studies that found that a primary reason for choosing Islamic financial service organizations and products is religious in nature and not based on any specific understanding of the products themselves. Add to this the perception among non-Muslim students is that the concept of Islamic finance is inherently appealing only to Muslims, as Islamic financial service providers are not perceived to offer superior products or services. Finally, Kahf (2002) noted that bank personnel did not fully understand Shariah's rulings and, in turn, had difficulty advising customers on the characteristics of different types of Islamic finance products.

From all of this, we can conclude that the ignorance is widespread. This suggests that consumers are making their decisions not on knowledge of the quality and value of the products and services offered, but simply on religious principle. This basis for consumer choice undermines the principle of an informed consumer, the very foundation of a free-market economy.

The implications of this widespread ignorance along with a propensity to religious-based preferences needs more careful analysis in future research, in order to determine the risks to consumers and the potential abuse by suppliers in these markets. As already suggested by Naser and Moutinho (1997), Islamic banks need to improve their marketing effectiveness by addressing market ignorance of, even indifference to learning about, Islamic products and services. Finally, to raise the level of awareness, understanding, and, most likely acceptance of Islamic finance among non-Arabic non-Muslim consumers, a generally accepted translation of the Islamic finance and banking terms seems necessary.

One final observation, our results revealed that students who had completed more education tended to possess more knowledge of both conventional and Islamic financial concepts. This suggests that education can assist in making people more knowledgeable consumers of the products being offered, thus the potential to make more educated decisions about the value and risks of their choices. Better consumer education was advocated previously in the literature (Hamid & Nordin, 2001).

Conclusion

To ensure long-term growth and prosperity of the Islamic finance sector, overcoming widespread ignorance of Islamic financial concepts seems crucial. Educating the market along with the selection of more market friendly packaging of Islamic products would aid in the competitiveness of Islamic financial products relative to conventional products. Facilitating the understanding of Islamic products being offered and making the comparability with similar conventional products easier, will help consumers make better choices. This has the added benefit of insuring that suppliers of financial products and services, whether Islamic or conventional, provide comparative value to consumers. This seems essential in an increasingly competitive financial services sector.

Notes

1. Inter-Arab Investment Climate Report 2002, published by the Arab-Investment Guarantee Corporation (IAIGC).
2. Source: Emirates Banks Association
3. According to Wasim Saifi, senior vice-president and head of corporate banking for Dubai Islamic Bank. The interview was published in Gulf News, February 25, 2004.

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