Marketing of Financial Services by Islamic Banking Institutions in Iran

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Abstract- Islamic banking plays a significant role in the economic development of Iran. Being part of the financial fabric, it is instrumental in bringing about desired needs of the customers. Islamic banks in Iran have been expected to fit into the satisfaction of the customers. Thus, study on the customer satisfaction of financial services offered by Islamic banks is essential, for this reason that the research has been conducted to evaluate the quality of financial services of Islamic banks in Iran. Questionnaires has been used to collect data from 400 bank’s staff and customers of 30 branches of different Islamic banks through a random sampling, the collected data was then tested by related statistical tools. Results of testing the main hypothesis of this research indicated that the customers of Iran Islamic banks are satisfied with the financial services.

Keywords- Marketing, Financial Services, Islamic Banking Institutions

I. INTRODUCTION

THE modern banking system was introduced into Muslim countries at a time when they were politically and economically at a low ebb, the late 19th century. The main banks in the home countries of the Imperial powers established local branches in the capitols of the subject countries and they catered mainly to the import-export requirements of foreign business. The banks were generally confined to the capital cities and the local population remained largely untouched by the banking system. The local trading community avoided the “foreign” banks both for nationalistic as well as religious reasons. However, as time went on it became difficult to engage in trade and other activities without making use of commercial banks. Even then many confined their involvement to transaction activities such as current accounts and money transfers. Borrowing from the banks and depositing their savings in the banks were strictly avoided in order to keep away from dealing with interest which is prohibited by religion.

With the passage of time, however, and other socio-economic forces demanding more involvement in national economic and financial activities, avoiding the interaction with the banks became impossible. Local banks were established on the same lines as the interest-based foreign banks for want of another system and they began to expand within the country bringing the banking system to more local people. As countries became independent the need to engage in banking activities became unavoidable and urgent. Governments, businesses and individuals began to transact business with the banks, with or without liking it. This state of affairs drew the attention and concern of Muslim intellectuals. The story of interest-free or Islamic banking begins here and today marketing of financial services in Islamic banking is one of the most important aim of any bank.

II. LITERATURE REVIEW

The summary of some studies that survey Islamic banking, as follows:

Abbas Mirakhor (2007), in his study, shows that in general the process of implementation of Islamic banking in the Islamic Republic of Iran and Pakistan appears to be proceeding with relative success [1].

Luca Errico and Mitra Farahbaksh (2008) analyze the implications of Islamic precepts on bank structure and activities, focusing on banking supervision issues [2].

Abbas Mirakhor (2009) in his study shows that in an Islamic system, as interest is prohibited, banks are expected to operate solely on the basis of profit and risk sharing [3].

Sundararajan and Luca Errico (2002) show that the provision and use of financial services and products that conform to Islamic religious principles pose special challenges for the identification, measurement, monitoring, and control of underlying risks [4].

Sundararajan et al (2006) outline the recent progress in developing Islamic financial instruments for the management of monetary policy and public borrowing requirements and provides details on new instruments currently being developed in the Islamic Republic of Iran and Sudan [5].

Bassam Maali et al (2006) in their study reveal that the last thirty years have witnessed the appearance and rapid expansion of Islamic banking both inside and outside the Islamic world [6].

Nicoletta Ferro (2005) shows that internet resources, extended media coverage and international organizations’ reports recently witness the increasing interest of western banks in new models of finance, particularly Islamic finance and microfinance [7].

Dennis Olson et al, (2008) in their study, determine whether it is possible to distinguish between conventional and Islamic banks in the Gulf Cooperation Council (GCC) region on the basis of financial characteristics alone [8].

Shahid Ebrahim and Shafiqur Rahman (2005), in their study, show that the general equilibrium approach is used to demonstrate that: (i) future contracting (on Islamically permissible commodities) is pareto-optimal over the Islamic forward contract of Bai’ Salam; and (ii) both forms of

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contracting constitute a quasi-equity claim instead of debt (Dayn) as construed by the majority of Islamic jurists [9].

Matthias Schramm and Markus Taube (2003), in their article, examine the evolution and the institutional foundation of the century-old Islamic Hawala financing system [10].

Rifaat Ahmed Abdel Karim (2001), in his research, reveals that Islamic banks perform both commercial and investment banking services but do not establish firewalls to separate these two services legally, financially, and managerially [11].

Shahid Ebrahim and Abdel-Hameed M. Bashir (1999) in their study reveal that a Participating Growth Bill (PGB) is an innovative hybrid financial vehicle employed by Western institutions and governments in lieu of short-term debt instruments [12]. Bashir (1983) in his paper indicates that the Islamic banking and finance system is recent in origin. Its special features preclude the application of modern finance theories [13].

III. NEED FOR THE STUDY

Although research on the relationship between the marketing and financial services is present in the literature, a curious gap is the relationship between marketing and financial services. Further examination of this gap would help answer the question of why some organizations are better than others at effectively using marketing strategies to support the financial services.

Banks had to search for a new basis for differential advantage. Some banks began to realize that they were in the business of meeting the evolving financial needs of their customers. These banks began to think in terms of continuous innovation of new and valued customer services, such as credit cards, Christmas savings plans and automatic bank loans. Citibank, for example, currently offers over 350 financial products to customers.

What happens when all banks advertise, smile and innovate? Clearly, they begin to look alike. They are forced to find a new basis for distinction. They begin to realize that no bank can be the best bank for all customers. No bank can offer all products. A bank must choose. It must examine its opportunities and “take a position” in the market.

Positioning goes beyond image-marketing. The image-marketing bank seeks to cultivate an image in the customer’s mind as a large, friendly or efficient bank. It often develops a symbol, such as a lion (Harris Bank in Chicago) or kangaroo (Continental Bank in Chicago) to dramatize its personality in a distinctive way. Yet the customer may see the competing banks as basically alike except for the chosen symbols. Positioning is an attempt to distinguish the bank from its competitors along real dimensions in order to be the preferred bank to certain segments of the market. Positioning aims to help customers know the real differences between competing banks so that they can match themselves to the bank that can provide them with the most satisfaction of their needs.

From what we know about bank marketing we can say that marketing strategies are also important in Islamic banking, because Islamic banking operations are not limited to Islamic countries, but are spreading throughout the world. One reason is the growing trend towards transcending national boundaries and unifying Muslims into a political and economic entity that could have a significant impact on the pattern of world trade. Since Muslims are inclined to follow Islamic traditions, there is a tendency to establish an Islamic economic system in every Islamic nation and to restore Shariat Law as the basic source for legislation.

IV. STUDY OBJECTIVES

This study surveys methods and policies of Islamic banking financial services in Iran. Therefore the main objectives of this study are:

1. To study the broad policy framework governing financial services provided by Islamic banks in Iran.
2. To review the spectrum of financial services provided by Islamic banks in Iran.
3. To study the trends in financial services provided by Islamic banks in Iran.
4. To review the marketing strategies of Islamic banks in Iran.
5. To evaluate the efforts of Islamic banks in Iran in marketing of their financial services.
6. To evaluate the cost effectiveness of financial services provided by Islamic banks in Iran.
7. To evaluate the level of customer satisfaction with regard to the quality of financial services of Islamic banks in Iran.
8. To make suggestions for improving the quality of financial services marketed by Islamic banks in Iran.

V. HYPOTHESES

The present study aims at testing a set of hypotheses on the basis of its findings. The following hypotheses are formulated keeping in view the objective of the study:

1. “The customers are satisfied with Islamic Banking based on Shariat Standards.”
2. “The customers are satisfied with the adequacy and quality of financial services provided by Islamic Banks in Iran.”
3. “Financial services marketed by Islamic Banks in Iran are cost effective.”
4. “The banks’ efforts in marketing of their services are adequate.”

VI. RESEARCH METHODOLOGY

The data for the study were collected from two sources: primary and secondary. The secondary sources are comprised of the publications of the Central Bank of Iran, research publications relevant to the study, and some necessary data that have been collected directly from the banks.

The primary source is comprised of responses of both the banks’ staff and customers. Interviews and questionnaires are used for collection of data from each. In the first step of data collection the interview was used. Analysis of the data collected in the first step and experience gathered from the interaction with the respondents were used to develop questionnaires. Separate questionnaires were used to collect information from banks staff and customers. The customers’ questionnaire was used to test the first three hypotheses and the staffs’ questionnaire was used to test the fourth hypothesis.

With considering the budgetary and time constraints the opinion survey is concentrated on 30 branches of different
Islamic banks through random sampling. To select customers from each of the branches, stratified random sampling has been used. Four hundred customers are selected. Care was taken to include all types of customers in the sample. To study the banks’ staff, one hundred of all 30 branches were selected. It was presumed that the responsibility and awareness that the staff posses would serve the purpose well.

The most important statistical tools which are used in this research are as follow:

- Frequencies Procedure is one of the statistical tools which has been used that provides statistics and graphical displays that are useful for describing many types of variables that include the frequencies of respondents with consideration to gender, age groups, education levels, work experience status and occupational status. The Frequencies Procedure is a good place to start looking at data.

- The Descriptive Procedure displays univariate summary statistics for several variables in a single table and calculates standardized values. In this research, descriptive procedure has been used for describing the responses position in the sample based on mentioned variables.

Here the Crosstabs Procedure has been used which forms two-way tables and provides a variety of tests and measures of association for two-way tables that in this research was used to analyse the association between all variables’ positions and their responses based on Likert-type scales. The structure of the table and whether categories are ordered determine what test or measure to use that the contingency coefficient was used to find the association between rows and columns.

Chi-Square is used to judge the significance of variance to compare variance of the overall difference between groups of frequencies [14]. SPSS Software for Windows Version-16 (2007) was employed for statistical analysis.

VII. STUDY LIMITATIONS

The researcher tried to distribute all the questionnaires himself in order to explain how to answer the questionnaire. Because of time limitations, however, this was not possible, so around 30 per cent of the questionnaires were distributed through branch managers, which might raise questions about the accuracy of the collected data. The second issue related to the sample selection: the procedure followed was to distribute the questionnaires randomly to customers of the Iran Islamic banks in one state. For that reason it is difficult to generalise the results of this research because the study did not cover other Iranian states, then sampling technique has its own limitations. The third issue is that because there is not much research about Islamic banking in Iran, there was not enough background about this title, particularly this is the first research about marketing of financial services of Islamic banking in Iran.

VIII. MAJOR FINDINGS

The analysis of primary data resulted in satisfactory results, a summary of which is presented in the following paragraphs:

H1: The customers are satisfied with Islamic Banking based on Shariat Standards.

The total possible obtained scores were 65.00, however, the selected sample scores 53.4125, which amounts to 82.17%.

Since more than 4/5 of the sample are agreeing on to the statement as revealed by the statement, one can say that customers are satisfied with Islamic Banking based on Shariat Standards. Hence H1 is accepted.

H2: The customers are satisfied with the adequacy and quality of financial services provided by Islamic Banks in Iran.

The total possible obtained scores were 80.00, however, the selected sample scores 67.8200, which amounts to 84.77%. Since more than 4/5 of the sample are agreeing on to the statement as revealed by the statement, one can say that customers are satisfied with the adequacy and quality of financial services provided by Islamic Banks in Iran. Hence H2 is accepted.

H3: Financial services marketed by Islamic Banks in Iran are cost effective,

The total possible obtained scores were 55.00, however, the selected sample scores 46.4750, which amounts to 84.50%. Since more than 4/5 of the sample are agreeing on to the statement as revealed by the statement, one can say that customers believe that financial services marketed by Islamic Banks in Iran are cost effective. Hence H3 is accepted.

H4: The banks’ efforts in marketing of their services are adequate.

The total possible obtained scores were 70.00, however, the selected sample scores 57.3900, which amounts to 81.9857%. Since more than 4/5 of the sample are agreeing on to the statement as revealed by the statement, one can say that banks’ staffs believe that the banks’ efforts in marketing of their services are adequate. Hence H4 is accepted.

IX. SUGGESTIONS

In the light of the observations made in the present study a few suggestions may be offered for improving in the marketing efforts of Islamic banking in Iran.

1. The competitors of the Islamic banks are going to provide sophisticated technology-based products like Internet banking, electronic bill payment, web enabled ATM smart card, etc. To remain competitive, the Islamic banks should improve their facilities on these lines.

2. In the present context it is not possible to serve all the needs of every customer. It is essential to specialize and open specialized branches to cater to the specific needs of a particular target group. Islamic banking should keep up the strategy adopted in this regard.

3. The bank should embark on aggressive marketing of services, particularly at the launching of a new service, which will inform the prospective customers regarding the service and, at the same time, relieve staff members at branch levels from repeatedly explaining the services to all customers.

4. A position such as marketing and development research officer at the branch level should be created in all branches. It will be beneficial to the bank in order to improve banking activities.

5. Some argue that Islamic banks should not be compared with conventional banks because of their many differences. Nevertheless, the comparison is worthwhile and important because it will significantly improve the business model of Islamic banking.
6. Educating the public about the concept, services, and benefits of this unique Islamic financial system will allow to raise the efficiency and effectiveness of Islamic banking.

7. Islamic banks cannot depend solely on financial performance to survive in this ever-changing scenario of global competition, but they have a social responsibility to the various stakeholders by which they exist. Based on the positive results on the customer’s perceptions towards the practice of good social responsibility, managers need to be convinced that social responsibility and profit maximization need are not conflicting goals. Instead, ethics and social responsibility could be used as strategic tools to enhance the reputation and public image of Islamic banking, while simultaneously prove to be profitable for banks in the long run.

8. Islamic banking in Iran, being information intensive and having effective marketing management, needs a well designed management information system (MIS). Islamic banking should learn to use the available information with an open mind set along with modern attitudes and approaches to work.

X. CONCLUSION

Islamic banking has been defined as banking in congruence with the ethics and value systems of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariat. Interest-free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, in general, is expected not only to avoid interest-based transactions which are prohibited in the Islamic Shariat, but also to avoid unethical practices and to participate actively in achieving the goals of an economy based on Islamic laws.

The marketing of Islamic bank financial services is a core component of Islamic finance for the world’s 1.2 billion Muslims. With holdings in excess of $100 billion and an annual growth rate of 25 percent, the Islamic finance sector is quickly becoming an unstoppable force in international markets. Yet this market is woefully underserved because of widespread misconceptions of Shariat law. Education and a willingness to explore this topic will allow financial institutions not only to grow market share and demonstrate leadership but also to help Islamic communities realise their dreams of economic enfranchisement.

This study shows that the existing marketing strategy in Iran Islamic banking industry is adequate and appropriate and that customers are satisfied with Islamic banking based on Shariat standards. The Islamic banking system in Iran is linked with Shariat principals and financial instruments properly and adequate marketing strategies includes factors like banking based on Shariat standards, adequacy and quality of financial services, cost effectiveness, staff ability to convey trust and confidence, efficiency and effectiveness in handling any transaction treating customers with courtesy and respect has been adopted to make customers satisfy as Islamic banks in Iran have the potential of being marketed to various segments of customers extending beyond those who are concerned with the legitimacy of the facility from Islamic point of view and those who seek for services quality, convenience and efficient transactions.

REFERENCES