

Islamic or Conventional Banking: Understanding Kuwaiti Students' Perceptions and Preferences

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ABSTRACT

Purpose: The purpose of this research study is to examine the banking preferences of Kuwaiti university students, their preferences between Islamic and conventional, the reasons supporting their choice and, as a measure of satisfaction, the likelihood of them recommending their bank to their friends and family. **Design/methodology/approach:** We conduct a short survey among undergraduates using a 4-item paper questionnaire physically distributed and collected at a Kuwaiti business school. The large response ($n=503$) is analysed and descriptive statistics used to present the results. **Findings:** Results indicate a majority prefer Islamic banking and that the main reason for this is their religion. Those students who opted for conventional banks gave social reasons such as recommendation for their choice. A higher level of satisfaction was recorded for Islamic banking customers. We conclude that Islamic banks have managed to match their ethical and religious appeal with the delivery of efficient and convenient banking services that are valued by the student segment. **Practical Implications:** Our results are of interest to those offering retail banking services in binary markets where conventional banks compete with Islamic banks in addition to researchers in this domain. For Islamic banks, the significance of maintaining a strong reputation with the underpinning of robust Shariah principles is emphasized. **Originality:** The paper contributes fresh understanding to the acceptance of and satisfaction with Islamic banks and their products and services among a strategically important segment. It provides evidence suggesting a bright future for Islamic banking in Kuwait and the wider Gulf region.

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Introduction

Islamic banking, or Islamic finance as it is sometimes called, refers to financial activities that are in adherence with Shariah (Islamic law) (Hassan and Lewis, 2009). The first Islamic bank in the Arab world was established in Egypt in 1963 (Ashira, 2020). Although Islamic banking and finance in Kuwait can be traced back to the 1970s (GIFR, 2018) it has only become a serious competitor to conventional banking more recently. When initially proposed, it was seen by some as a naïve attempt to recreate the traditional Arabic bazaar philosophy in a modernized world or even as a threat to the globalized conventional banking system (Kabbara, 1988). Neither of these misunderstandings were subsequently shown to be justified. In Kuwait, by the first half of 2021, measured in terms of sector assets, Islamic banks held a 46% share and were experiencing faster growth than conventional counterparts (FitchRatings, 2021a). There are five Islamic retail banks serving the market in Kuwait alongside five conventional ones (Central Bank of Kuwait, 2021a). This confirms that Islamic banking is already established as a major component of the banking sector in Kuwait. The banking sector is the Kuwaiti economy's second largest sector behind only oil and gas extraction (Central Bank of Kuwait, 2021b). It is the largest sector in terms of employment.

The significance of university students as a customer segment is well understood by retail banks the world over. It is therefore a justifiable aim to seek to understand the perceptions of this important group of banking customers. For the 2018/19 academic year, Kuwait's university student population numbered 112,595 at academic year end 2018/2019. This accounts for 8.5% of all Kuwaiti citizens (Kuwait Central Statistical Bureau, 2019). Banks also realize that these university students are likely to be opening their first

bank account and may well stay customers for decades to come. University students in Kuwait receive a monthly allowance from the government which needs to be paid into a bank account meaning before attending university an account will most likely have been opened. Additionally, this group is likely to have a higher average future income (Average Salary Survey, 2022) and are less likely to become unemployed (Davidson and Mackenzie, 2012) thus make up a lucrative future group of customers. Banks are also aware that this group are familiar with the digital technologies that retail banks increasingly rely on to deliver their services (Al-Ali and Al-Ali (2020). Both Islamic and conventional banks in Kuwait target the student market with accounts specifically designed to meet the banking needs and preferences of this group. These accounts typically offer discounts at retailers, restaurants and gyms, a debit card, and a mobile banking app (e.g. Burgan Bank, 2022; NBK Bank, 2021). One key difference is that conventional banks can offer interest bearing accounts to this group. However, to replace this interest an Islamic bank may offer cashback on purchases made using their Visa or Mastercard debit cards or quarterly profit distributions (e.g. Kuwait International Bank, 2022).

Literature review

An Islamic banking system is fundamentally different from a conventional one. The central tenet of the system is that all transactions are conducted free of interest (*riba*). The charging of interest is expressly forbidden in the Quran (Siregar, 2014). In the absence of interest, a lender shares in the yield achieved by an investment, the practice of *Mudarabah* (profit and loss sharing (PLS)) (Kettell, 2008). Furthermore, Islamic banking should avoid excessive risk, speculation and uncertainty (Khan, 2010). Other important Islamic finance concepts are *Murabahah* (cost-plus), *Musharaka* (joint venture), *Wadiah* (safekeeping/deposits) and *Ijara* (leasing) (Iqbal and Mirakhor, 2011). The two main challenges that this fundamental difference leads to are, firstly a Shari'ah non-compliance risk that applies when reshaping conventional financial products and secondly a liquidity risk arising from the inability to borrow interest-bearing money (Alhammedi, 2022). Recent history has shown that these challenges have been met with growth in asset bases and market share in several Islamic markets (Fitch Ratings, 2021b). While the two banking systems have fundamental differences they commonly co-exist within the same country. Only Pakistan, Sudan and Iran operate a single system Islamic financial sector (San-Jose and Cuesta, 2019). It has been argued that this coexistence which sees Islamic banks competing with conventional ones leads to a shift away from social and ethical goals towards financial ones (Farooq and Selim 2018; Mergaliyev et al., 2021).

Shariah-compliant banking emerged as a component of Islamic revivalism, the process of Muslim communities returning to the fundamental principles of Islam and applying them to their daily lives (Saeed, 1996). For centuries this revivalism has ebbed and flowed developing fresh momentum in the last two decades of the 20th century (Saeed, 1996) and continues today. Kuwait's first Islamic bank, Kuwait Finance House (KFH), began operating in 1978 and soon after began a program of international expansion that would see subsidiaries in Bahrain, Malaysia, Turkey, Jordan and Saudi Arabia with investment activity and affiliates in many other countries (KFH, 2018). While Islamic banks began to proliferate they were still viewed as somewhat niche, satisfying a demand for Shariah compliant financial products while not significantly challenging conventional banking. However, as growth continued and Shariah banks spread to more and more countries, major conventional banks responded by offering Islamic financial products to their target customers (Al-Jazzazi and Sultan, 2014). Islamic banking also took its place on the global sustainability agenda with proponents arguing its interest-free financing system was a stronger basis for economic development (Hussain and Sharifa, 2003). Islamic economists also posited that interest-free finance was a purer and more efficient way of using market forces. They argue that setting the value of capital using a pre-determined interest rate undermined the free market mechanism and encouraged both hoarding of capital and unwise speculation (Khan and Bhatti, 2008).

The move from niche to mainstream accelerated following the global financial crisis and by 2009 a Shariah-compliant bank had entered the top ten banks by asset size in the Gulf Cooperation Council (GCC) area, in the form of Saudi bank Noor Islamic Bank (NIB) (Hancock, 2009). This rise gained momentum from the growing perception that Islamic banks had withstood the worst effects of the crisis well when compared to conventional banks (Archer and Abdel Karim, 2013). Islamic financial institutions' financial resilience is attributed to their greater connection to the real economy (Islamic banks saw their asset base growth outstrip conventional rivals with Kuwaiti Islamic banks adding 14% in 2014 against a 4% growth for country's conventional banks (Dudley, 2015). Further evidence shows a closer relationship between Islamic banking and GDP (Okumus and Artar, 2015; Abduh and Saeed Issa, 2018; Zouari and Abdelhedi, 2021). The case for Islamic banking is largely a moral one based on *Maqasid Al-Shari'ah*, the higher goals of Shariah legal doctrine. It emphasizes wealth distribution rather than wealth accumulation and is welfarist and sustainable in nature (Alhammedi, 2022). Kuwaiti society's adherence to *Maqasid Al-Shari'ah* is behind the rise of Islamic banking in the country. Among Kuwaiti students, high levels of religiosity have been recorded (Abdel-Khalek, and Lester, 2012).

The Islamic banks operating in Kuwait include their religiosity in their marketing communications, such as on their websites. Gaither and Al-Kandari (2014) identify the Islamic themes and value orientations of fatalism, respect for religious authority, affinity with the past, communal kinship, and attachment to the eternal life within the marketing communications of these banks. They also note that prayer times are prominently displayed, mobile apps featuring the Quran are offered and links to the work of the bank's Shari'ah Supervisory Board (SSB) are clearly featured (Gaither and Al-Kandari, 2014).

As an increasingly important phenomenon it is unsurprising that Islamic banking and customer and investor attitudes to it has attracted research interest (Di et al., 2021). A 2009 survey of Kuwaiti banking customers reported that eight out of ten were either satisfied or very satisfied with their bank's service, highlighting fast service, employee helpfulness, ATM locations and self-banking services as influencing attributes (Al-Eisa and Alhemoud, 2009). The study did not, however, record whether respondents were Islamic or conventional banking customers. As the number of Islamic banks in Kuwait grew to its present six the challenge of customer switching became increasingly significant. A commitment to Islamic banking is not necessarily commitment to a particular bank. Ghamry and Shamma (2020) found that service reliability, service convenience and level of bank technology adoption were the main factors influencing switching behaviour. This finding suggests that beyond the decision to opt for an Islamic bank, Islamic banking

customers share much in common with the customers of conventional banks. Almutairi (2010) investigated the choice between conventional and Islamic mortgage products in Kuwait finding that despite their relative novelty at the time the Islamic finance choice was well-received and on a rising trend.

Much of the literature on Islamic banking has addressed the significance of religious motivations for bank choice. Findings vary widely. Haron et al. (1994) found non-religious factors more significant yet still 40% of their Malaysian respondents gave religion as a prime motivator. Nasser et al. (1999) reported 70% of Jordanian respondents indicating religion was a 'very important' factor in choice of bank. Gerrard and Cunningham (1997) conducted a study of Islamic banking customers in Singapore and found that 25% of respondents cited religion as the only factor in their choice. A study of Iranian banking customers found that reliability and assurance were the leading dimensions of service quality and also that basing bank facilities on Islamic principles was an important factor (Ebrahimi and Moghadam, 2012). In seeking to understand what motivates a customer to opt for an Islamic bank, Al-Hunnayan and Al-Mutairi (2016) surveyed Islamic bank customers in Kuwait using a convenience sample (n=250). Notably, religious motives ranked only fifth as a factor behind service quality, low service fees, attitude of bank staff, and recommendation from family/friends. A 2013 customer satisfaction study of Kuwaiti Islamic banking customers (n=150) reported that the most important factors influencing choice of bank were location/ availability of ATMs, opening hours, and safety of deposits. Compliance with shariah principles was the fifth most important factor (AbuAlsoud and Abdallah, 2013). Survey research conducted in Saudi Arabia and Bahrain found that while ethical principles are a central tenet of Islamic banking this does not automatically translate into customer awareness of corporate social responsibility activities (Hidayat and Rafiki, 2021).

An Indonesian study of existing Islamic banking customers reports that spiritual well-being and religious commitment were significant factors in determining customer satisfaction and loyalty (Afendi and Ghofur, 2021). Hidayat and Al-Bawardi, (2012) examined whether non-Muslim customers may use the services of an Islamic Bank. With the GCC countries including Kuwait and Saudi Arabia having large non-Muslim expat communities this is a significant question. Of Kuwait's 4.6 million population, 3.3 million are expatriates (Abdullah, 2020). The study's results showed that while aware of the ethical and social aspects of Islamic banking this group would be more likely to use Islamic banking services based on their assessment of transaction costs and levels of customer service (Hidayat and Al-Bawardi, 2012). One group of potential Kuwaiti customers who may be remaining with conventional banking are family business owners. This group is an important demographic in Kuwait as the country seeks to grow entrepreneurship and the SME sector. Abdullah (2020) used a multiple case study method to identify the needs and preferences of this segment and found a greater inclination to use conventional banks. Relationships with bank management, transaction costs and the availability of digital banking services were prominently stated as important influencing factors. While difficult to generalize, this study may point to family businesses being a potential target segment for Islamic banks. When assessing service quality of Islamic banks, Ghazi and Marwa (2021) argue that traditional service models need to be adjusted to accommodate 21st century Islamic banking. They suggest two additional dimensions. The first is compliance; the degree to which a bank is perceived to comply with Islamic principles. The second is digitalization; the degree to which a bank has embraced digital banking technologies.

Student segment

Banks around the world recognise the importance of being a young adult's first bank as banking relationships can endure for many years even decades (KIB, 2023). One Kuwaiti Islamic bank underscores this longevity with their slogan 'Bank for Life' (KIB, 2023). The importance of the university student segment and young people in general is reflected in banks' marketing promotions specifically targeting this group with discounts and other privileges (e.g. Boubyan, 2024). Understanding the preferences, motivations and behaviours of the student market has long attracted research interest in both Muslim and non-Muslim contexts (e.g. Chau and Ngai, 2010; Mahdzan et al., 2017; Pass, 2006; Tootelian and Gaedeke, 1996; Narteh and Owusu-Frimpong, 2011). However, recent evidence on Muslim student attitudes to Islamic banking is scant. A study of Bahraini college students reported that bank reputation, convenient parking, staff friendliness and ATM location were the most prominent factors for customer satisfaction (Almossawi, 2001). Digital banking is not mentioned due to the timing of the study. The findings suggest priorities among the student segment are similar to the general population. However, there were no survey items related to Islamic banking. Khursheed et al. (2021) surveyed customer perceptions of Islamic banking with a three country sample (Kuwait, UAE and Saudi Arabia) comprised of university students and bank employees. They identified five significant independent constructs that each correlated with customer perceptions and indicated that these perceptions were positive. These constructs were religious inspiration, awareness, perceived risk and customer innovativeness (Khursheed et al., 2021). Hamid et al. (2020) propose the construct of consumer innovativeness as the key determinant of opting for Islamic banking though this may not be generalizable beyond the Indonesian market as in this market Islamic banking has remained niche and not challenged the dominance of conventional banks. Among the trends identified for young people's banking preferences in the Middle East are the valuing of seamless digital experiences with an expectation for a high degree of customization and personalization often AI-driven and as part of open banking technology (Al-Sharaf, 2023; Albous, 2024).

There is sufficient evidence within the literature to suggest that Islamic banking customers' expectations go beyond sharia compliance and that in addition to this compliance these customers expect similar benefits to conventional banking customers. While Islamic banks have a fundamentally different set of principles to conventional banks some of the challenges faced are shared. Customer expectations and priorities are largely similar and include convenience, transaction costs (Hidayat and Al-Bawardi, 2012) and digitalization (Zouari and Abdelhedi, 2021).

Research Purpose

This study aims to examine the banking preferences of university students, their preferences between Islamic and conventional, the reasons supporting their choice and the likelihood of them recommending their bank to people close to them.

Hypothesis

H1 *Islamic banking in Kuwait is at least as popular as conventional banking among university students.*

Research questions

The following research questions were set to delimit the study,

1. What is the distribution of university students in terms of their choice between Islamic and conventional banks?
2. What are the reasons that led university students to make their banking choices?
3. Do university students perceive the type of bank (Islamic or conventional) as having an influence on their influential banking experience?
4. Are university students satisfied with their banking choices?

Methods

Survey methods were used to gather data from the mixed gender student population enrolled at the College of Business Studies at the Public Authority for Applied Education and Training (PAAET). Students at the college fall mainly within the 20-24 yrs age range (Al-Ali and Al-Ali, 2020). This population represents a knowledgeable and technologically savvy group capable of making informed decisions regarding their personal banking. Practical considerations of conducting the survey across multiple sites and gaining the requisite permissions from each also guided the decision for a single-site study. In terms of age and gender balance this population is considered broadly representative of the wider Kuwaiti university student population. A short (4-item) printed questionnaire (see Appendix 1) was physically distributed and later collected on campus. Six hundred questionnaires were distributed of which 503 (83.8%) completed questionnaires were received back. A similarly high rate of response was achieved by Al-Ali and Al-Ali (2020) when surveying this population for a mobile banking study. The SPSS application was used to produce descriptive statistics which are presented graphically in the following section.

Findings and Discussion

Findings

The results show that a large majority of the respondents (78%) reported having accounts at Islamic banks while 22% held accounts with conventional banks (See Figure 1: Distribution of banking choices

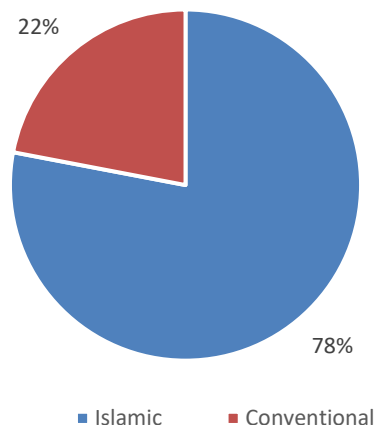


Figure 1: Distribution of banking choices

When account holders at Islamic banks were asked to indicate a reason for their choice of bank type, respondents answered 'religious' in 40% of cases. The next most common response was 'social' (24%) followed by 'marketing' (14%) and 'geographic' (13%). One in ten respondents indicated a reason outside these four categories (See figure 2).

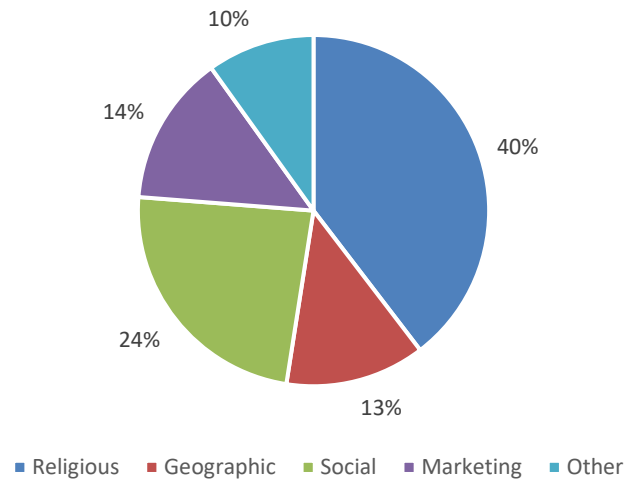


Figure 2: Reasons for choosing of Islamic banks

For the subsample who held an account at a conventional bank, the most common response when indicating the reason for their choice was ‘social’ (41%). This was followed by ‘geographic’ (29%), ‘marketing’ (14%), and the ‘religious’ category (8%). Lastly, 7% indicated another reason (see Figure 3: Reasons for choosing conventional banks

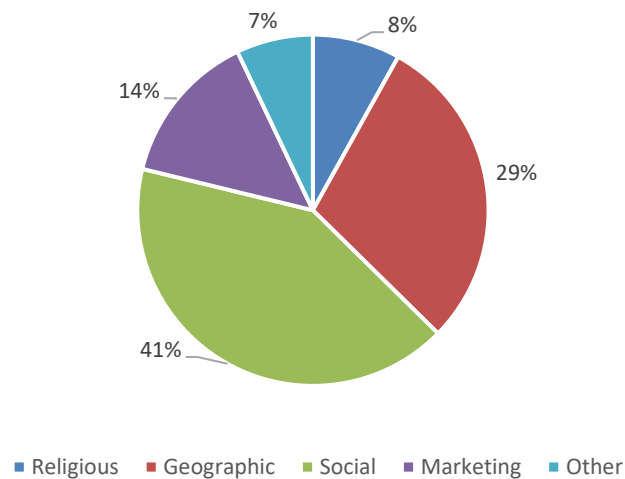


Figure 3: Reasons for choosing conventional banks

Respondents were asked to indicate whether they felt their banking experience was influenced by the type of bank they had chosen. The majority of students (61%) did feel that bank type made an important difference with only 11% reporting that it did not. There was a significant number (28%) who responded ‘don’t know’ (See Figure 4: Perceptions of bank type influencing banking experience – all respondents

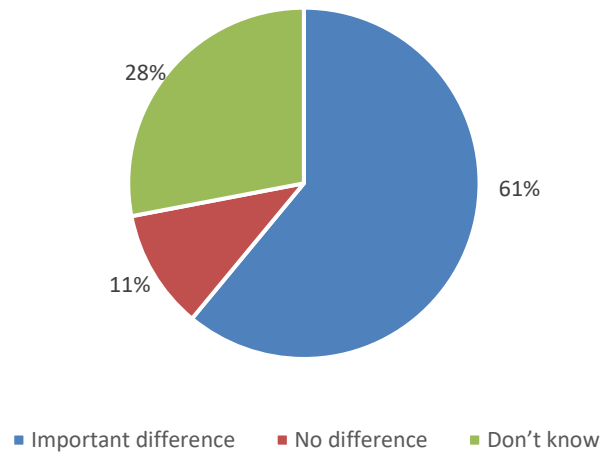


Figure 4: Perceptions of bank type influencing banking experience – all respondents

Among the Islamic bank customers, 64% indicated that bank type made an important difference to their banking experience. One in ten thought bank type made no difference. Again, a sizeable number (26%) responded with ‘don’t know’ (see figure 5).

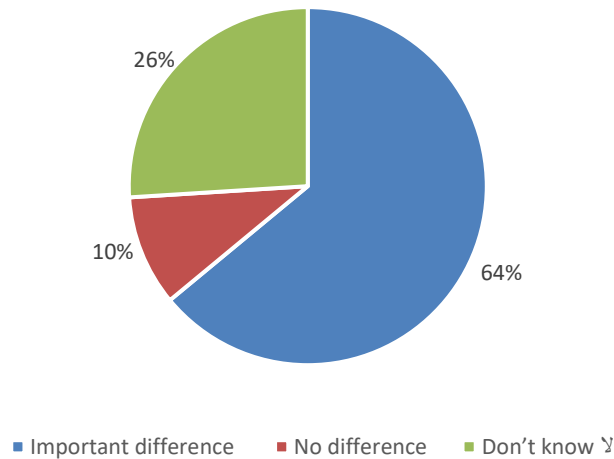


Figure 5: Perceptions of bank type influencing banking experience – Islamic bank customers

Among the conventional bank customers 48% indicated that bank type made an important difference to their banking experience. It made ‘no difference’ according to 14%. As many as 38% responded ‘don’t know’ (see figure 6).

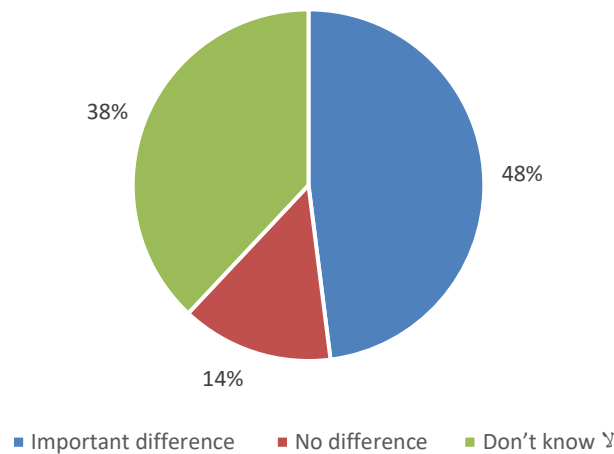


Figure 6: Perceptions of bank type influencing banking experience – Conventional bank customers

Respondents were asked whether they would recommend their choice of bank type to those closest to them. The results report that most (68%) would do so. Just 3% of respondents would not. A significant minority (29%) responded 'don't know' (see figure 7).

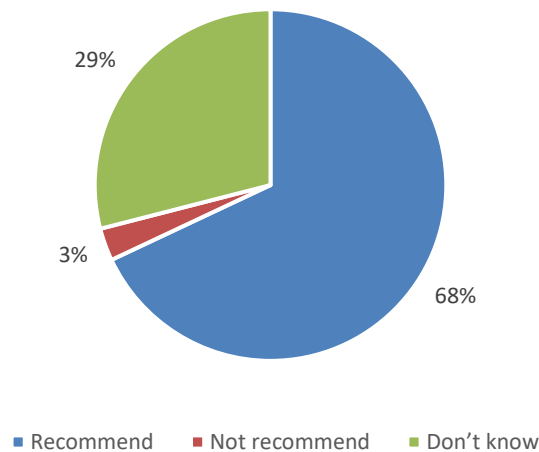


Figure 7: Likelihood of recommending own bank type to others

When the subsample of student customers of Islamic banks were asked whether they would recommend that type of bank to those closest to them, 71% indicated that they would do. Just 3% indicated they would not. A significant 28% responded 'don't know' (See Figure).

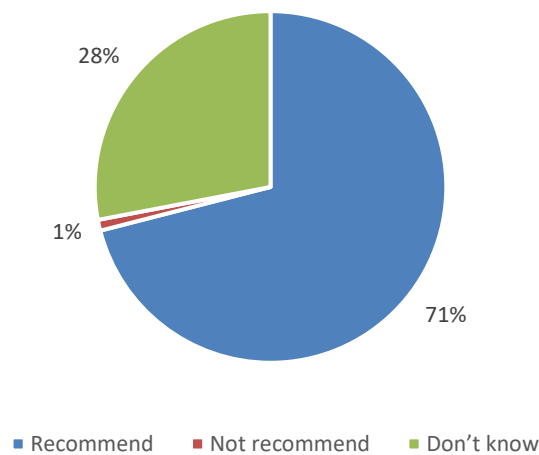


Figure 8: Likelihood of recommending own bank to others - Islamic bank customers

When the subsample of student customers of conventional banks were asked whether they would recommend that type of bank to those closest to them, 56% indicated that they would do. One in ten respondents would not recommend their chosen bank type. A significant minority (34%) responded 'don't know' (See Figure 9).

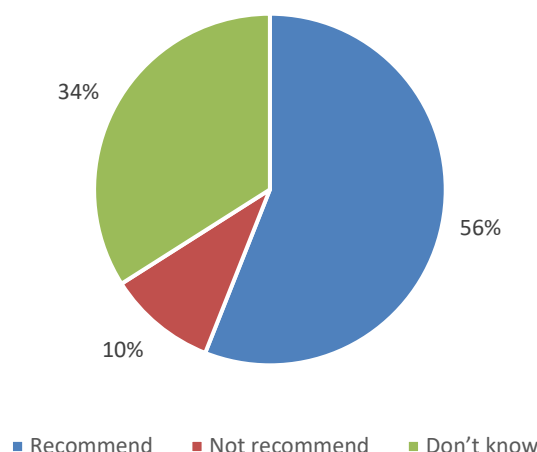


Figure 9: Likelihood of recommending own bank to others – Conventional bank customers

Based on these results we can confirm the hypothesis that *Islamic banking in Kuwait is at least as popular as conventional banking among university students*. Indeed we can go further and state that based on this study Islamic banking is the preferred choice among this population and is associated with a high level of satisfaction.

Discussion

This purpose of this study is to examine the banking choices of university students, their preferences between Islamic and conventional, the reasons justifying their choice and, as a measure of satisfaction, the likelihood of them recommending their bank to other people. To address the first research question, our study shows that Islamic banks have a significantly greater market share among our sample of College of Business Studies students than they have of the general population, with nearly eight out of ten opting for an Islamic bank. This is even higher than the two-thirds share identified by (Al-Ali and Al-Ali, 2020) and far higher than the market share across the general population that is less than half (FitchRatings, 2021a).

The second research question considers the reasons for choice of bank. Studies of motivating factors for banking choices involving Islamic banks have reported a wide range of results showing contrasting levels of importance attributed to religion (Haron et al., 1994; Nasser et al., 1999; Gerrard and Cunningham, 1997). The present study found that religion had the strongest influence among Islamic bank customers in our sample. This contrasts some earlier studies which found factors such as location of branches and ATMs, quality of service, low service charges, responsive staff and recommendations from family and friends were of greater importance than religion (Al-Hunnayan and Al-Mutairi, 2016; AbuAlsoud and Abdallah, 2013). It aligns, however, with Al-Ajmi et al. (2009) who also reported the prominence of religious principles in banking choices. Our result may indicate that students place a greater emphasis on applying religious principles to other aspects of their lives including their finances. Conventional banking customers in this study placed greatest weight on social factors (i.e. being recommended by friends or family). Furthermore, Islamic banking customers among our student sample were more likely to affirm that the type of bank they have chosen determines their overall banking experience with nearly two-thirds asserting this. Just under half of conventional banking customers also made this link. This addresses the third research question. No other studies have directly examined this question so comparisons are not available.

The fourth research question addressed satisfaction. In this study we used a likelihood to recommend item to measure this satisfaction. By this measure Islamic bank customers expressed a higher level of satisfaction than their conventional counterparts with seven in ten likely to recommend and only 1% saying they would not. This compared to 56% of conventional customers likely to recommend and 10% who would not. The balance in each case is made up by don't knows. This result indicates that for the student market segment Islamic banks have succeeded in balancing adherence to the principles of Shariah law with the provision of valued banking products and services.

Conclusions

We can conclude from our findings that demand for Islamic banking is particularly high among the university students in our sample. Further, we can conclude that religious motivations are particularly significant in driving this demand. We also found that type of bank (Islamic/conventional) was perceived as being more important to Islamic banking customers' experiences than to those of customers at a conventional bank. Islamic bank customers were more likely to recommend their bank type than their counterparts at conventional banks indicating higher levels of satisfaction. The present study contributes important evidence of both the current strength and the future potential for Islamic retail banking services in Kuwait and, with reasonable generalization, the wider Gulf region. Particularly, the attitudes of the vital student segment have been examined. These findings will be interesting to those providing retail banking services in either conventional or Islamic banks in addition to researchers in this field. For Islamic banks,

the significance of maintaining a strong reputation with the underpinning of robust Shariah principles has been emphasized by our findings. Maintaining Shariah adherence while deploying fintech into open banking practices will be a key consideration for Islamic banks going forward.

Our study has limitations. Primarily, we used a short questionnaire with just four items. We believe this could form the core of expanded questionnaires for future research which may, for example, break banking preferences and satisfaction into components to produce a more nuanced picture. Another future research direction could include a scale measuring religious adherence or identity to measure the relationship with banking preferences in a more detailed way. A further limitation was our choice of a single site at which to collect data. Future studies could extend this to multiple sites to improve on generalizability.

Acknowledgement

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

Conflicts of Interest: The author declares no conflict of interest.

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Appendix

1. Bank type:
2. The reason for choosing the bank:
 - a) Religious (to avoid usury / riba)
 - b) Geographic (the bank's branch is close to home or college)
 - c) Social (in line with family and friends)
 - d) Marketing (to get use of bank offers)
 - e) Other reason.....
3. Do you see important differences between Islamic and conventional banks?
 - a) Yes
 - b) No
 - c) I don't know
4. Would you recommend those closest to you to open accounts in Islamic banks/ Conventional banks?
 - a) Yes
 - b) No
 - c) I don't know

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