Chapter 2
REVIEW OF LITERATURE

2.1 Introduction

The primary aim of this thesis is to determine the prospects of Islamic banking in India. In particular, it aims at exploring the level of awareness of the various terminologies of Islamic banking and Islamic methods of finance, the influence of demographic and socioeconomic variables on the awareness, motivating factors and their potential patronage (i.e. bank selection criteria) towards Islamic methods of finance. Accordingly, the purpose of this chapter is to provide a review of literature related to the issues focusing on the retail consumers’ attitudes and patronage towards Islamic methods of finance.

This chapter contains the following four sections.

1. General studies that were carried out on Islamic banking.
2. Studies related to awareness and attitude towards Islamic banking
3. Studies related to bank patronage or bank selection criteria.
4. Studies related to the need, scope, growth potential, feasibility and prospects of Islamic banking in India.

After conducting a careful study of the literature available from different sources, the researcher got familiarized with the conceptual and theoretical aspects of Islamic finance and banking and this helped in the identification the research gap.

2.2 General Studies on Islamic Banking

Although the concept and practice of Islamic Finance has been in vogue as early as the time of Prophet Muhammad (Peace and Blessings of Allah be upon him), the first formal Islamic banking transaction was conducted in Mit Ghamr in Egypt as late as in 1963 only. Islamic Banking is a banking activity carried out based on the principles laid out in Shariah i.e. the laws of Islamic jurisprudence. Since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks. (Source: Gerrard and Cunningham [1]).

Chapra and Khan [2] highlighted the need to establish an institution that would help to set regulatory standards and a framework for supervision of Islamic financial institutions. They also stated that there is a need to train Islamic bank regulators and
supervisors for developing effective internal rating and control systems and risk management culture which will in turn improve the external rating of these banks and help them not only in utilizing their equity capital more efficiently but also in enhancing their growth and stability. They further discussed some of the crucial juridical issues that need to be resolved to facilitate the effective supervision of Islamic banks and accelerate their development. It also highlights the facilities that need to be provided to help them to overcome a number of the difficulties they are facing.

Alam [3] used a case study approach on an interest free financial institution–Islamic Bank Bangladesh Limited (IBBL) to see how Islamic banking practices differ from a conventional bank and also to see how Islamic banks contribute towards small and rural sectors. While discussing various aspects of the IBBL, the author has shown in detail how interest free banks function besides many established conventional banks in the country. An introduction of Islamic banking systems and various financing models and techniques used by Islamic banks are discussed along with a short history of IBBL and empirical based detailed accounts of its financial activities in the country since the inception of this financial institution.

Bagsiraj [4], in his project, “Islamic financial institution of India: Progress, Problems and Prospects”, stated that in India there are about 300 Islamic financial institutions but very little is known about their functioning, socio-economic performance and potential. He classified those institutions on the bases of their functional model and registration authority in four categories; Islamic financial societies (IFSS), Islamic co-operative credit societies (ICCSs), Islamic investment and financial companies (IIFCs), and financial association of persons (FAPs).

Vasu [5] while discussing the future of Islamic banking and finance in India discussed the interest free mechanism as an essential feature of the Islamic finance. Although banking without interest seems to be a misnomer, as one cannot think of the concept of lending without interest, the concept is catching up with the world, in Muslim as well as non-Muslim countries and which according to the author may find a place in the Indian banking sector in the near future. While discussing the viability of Islamic banking and finance in India, the author discussed the evolution of Islamic banking and finance and it success in different Muslim as well as non-Muslim countries.

Tripathy [6] reported that Muslims constitute over 15 percent of the population in India but they hold only 12 percent of the accounts in the 27 public sector banks of
India as far as priority sector advances are concerned. Also priority sector lending by 29 private sector banks reveal that Muslim held over 11 percent of accounts only. Now the government of India is considering the demand for Shari’ah complaint banking, which has gained support from a wide spectrum of political parties. She further said that interest free banking institutions can attract more Muslims to the banking system and thus can hasten the community’s development.

**Haque, Lone and Thakur** [7] undertook a study using SWOT analysis and used the Michal Porter’s five point model and explained how Islamic finance is viable and better for India. In the support of their statement that Islamic finance is better for India, they conducted the SWOT analysis and used the Michal Porter's five point model and also suggested the necessary measures for its implementation. While explaining the necessary for implementation of Islamic finance in India, They suggested Islamic Bank of Britain, Islamic banks of Thailand, Singapore and USA as glaring models for Indian bankers to introduce Islamic banking in the country. It was suggested that the reputed domestic and international banks along with Reserve Bank of India should be involved in the process of determining and implementing Islamic Banking products. They further suggested referring ‘Islamic Banking’ as ‘Interest Free Banking’ so that it could be looked through the broad economic kaleidoscope and not a narrow religious prism.

A study by **Manzoor Khalidi and Amanullah** [8] for finding out about the perception of customers about Islamic banks among 100 customers of Pakistan using Z test revealed that though the respondents had adequate knowledge of the Shariah based banking system, there was doubt about the legitimacy of the Shariah compliance of the Islamic banking products and services and that religion was low in priority with regard to the choice of the bank.

**Redimerio and Andrew** [9] reported, “Growing and deepening market for Islamic financing is a key reason why the Islamic finance market is worth to consider for the infrastructure sector. Infrastructure projects are a logical fit for Islamic finance, which is governed by Shari’ah and predicted on asset backing and shared business risk.” Asset backing nature of Islamic financing may provide a better funding match for infrastructure projects than traditional lenders such as banks.

**Sehrish Rustam et al.,** [10] examined the perception of corporate customers towards Islamic banking products and services by using a random sample of 60 corporate customers of six Pakistani Islamic banks and found that the Islamic banking
products and services have a good potential within the Pakistani corporate sector. In this study which involved only Muslims as respondents, 55% indicated their willingness on introduction of Islamic banking system as a replacement to conventional banking system. About 68% of the respondents felt that it Islamic banks and conventional banks must adopt profit maximization in order to survive in the competitive business environment. Also, 63.3% of the respondents perceived that religion and economics were the patronage factors in the selection of Islamic banking system.

Malik, A., Malik, M.S. and Shah, H., [11] analysed the Islamic banking and Finance in the West to highlight its unprecedented growth especially in the UK and the factors that lead to it. They concluded that unprecedented support from the government, fastest growing population of Muslims, petro dollar wealth of the Middle East were the prime factors for the same. They also concluded that the future of Islamic banking in UK was very bright, although it was not without its set of challenges.

Rasheed, H., Amin, W. and Ahmed, A., [12] evaluated the satisfaction in Pakistan by comparing foreign and Islamic banks and found that there exists a positive relationship between customer satisfaction and factors.

Abdul Aziz Abdullah, Sidek, R., and Adnan, A., [13] studied the perception of non-Muslims towards Islamic banks among 152 customers of Kuwait Finance House, Kuala Lumpur, Malaysia. The results of this study showed that Islamic banking services are making headway among non-Muslims and they concluded that most respondents strongly thought that Islamic banking would dominate conventional banking in the near future in Malaysia. Norma Md. Saad [14] compared the customer satisfaction of Islamic and Conventional Banks in Malaysia and also investigated the relationship between different demographic variables and the satisfaction of customers. A large sample of 1153 respondents used in this study revealed that the customer satisfaction of a particular bank often depends on the quality of services offered. Perception towards Islamic banking among 134 respondents of the people of Gombe Local Government Area in Nigeria by Fada, K and Bundi Wabekwa [15] revealed that Islamic banking is popular among young and educated people and majority of the respondents have heard of Islamic Banking. A significant percentage (26.87%) of the respondents felt that Islamic banking is only for Muslims. It was concluded that the perception of Islamic banking is but largely consistent with the misconception of the subject matter and suggested that programs should be initiated to educate people about it.
In an exploratory research among 103 expatriate workers in Saudi Arabia, of whom majority were Indians, the perception of non-Muslims towards Islamic banking, was studied by Sultan Emir Hidayat and Nouf K Al Baward [16]. It was found that about 48% of the respondents preferred to use Islamic banking services as the service charges are less compared to their conventional counterparts. It was also found that a majority of non-Muslim customers perceive that the benefits of Islamic banking are good and that the services of Islamic banking are suitable in satisfying their banking needs.

In the Indian context, a few studies have been done in this regard. A study by Urvi Amin [17] using a non-probability sampling of 100 respondents from the district of Ahmedabad, Gujarat showed that Gujarati Muslims are not inclined towards following the principles of Shariah while investing. Yet they showed interest in Islamic financial products, if made available to them. Another study carried out by Shanmugam Muniswamy, Soundararajan, G. and Ramasamy, R., [18], among 150 teachers from 10 colleges in Chennai city, revealed that significant difference exists between Muslims and non-Muslims in their willingness to accept Islamic finance.

2.3 Awareness and Attitude on Islamic Banking

Focusing on students’ knowledge and perception of Islamic banks, Bley and Kuehn [19] investigated the relationship between university students’ knowledge of Islamic and conventional banks in the United Arab Emirates. Their sample comprised six hundred and seventy six graduate and undergraduate students at the School of Business and Management at the American University of Sharjah. This sample contained both Arab and non-Arab students who purportedly may have different attitudes towards Islamic and conventional methods of finance. The major finding was that Muslim students preferred the Islamic bank services because of religious convictions. The second finding was that successful Arabic Muslims had a high level of knowledge about Islamic financial terms and concepts, however, successful non-Arab students had a high level of knowledge about conventional banks’ products. Nonetheless, the overall corresponding banking knowledge of students was at a low level.

In the city of Adelaide in Australia, 300 Muslims were surveyed regarding their awareness of Islamic banking products by Rammal and Zurbruegg [20]. Their results
illustrated that the majority of the respondents were interested and prepared to use Islamic methods of finance, but they were not properly informed about their function. In other words, even though most of the respondents had knowledge about availability of Islamic financial products, they were still unaware regarding the basic Islamic banking principles and specific Islamic methods of finance such as profit/loss sharing contracts. They added that the lack of awareness and experience with ‘halaal’ (in accordance with Islamic Sharia) products were not to be a detriment to the willingness for respondents to use Islamic methods of finance even profit/loss sharing contracts. Also, the respondents indicated that using Islamic financial products was depending as long as the organization to be well known and the availability of banking benefits such as ATM access and phone banking.

Khattak, N.A., and Kashifur Rehman [21] investigated the relationship between different demographic variables and the satisfaction and awareness of the customers of the Islamic banking industry by taking a sample of 156 respondents from different cities in Pakistan. The respondents expressed their satisfaction to some of the services and dissatisfaction with a few, although overall the customers were mostly satisfied with the Islamic banking services provided to them. It was found that the awareness level with regard to the general products but were unaware of the different Islamic financial products such as Mudarabah and ijarah.

A lot of studies have been carried out among the Malaysians. Mark Loo [22] studied the differences in attitude and perception towards Islamic banking between Muslims and non-Muslims by taking a sample of 200 Malaysians – 100 Muslims and 100 non-Muslims in Klang valley of Malaysia and found that Muslims are supportive of Islamic banking while non-Muslims view Islamic banking as relevant primarily to Muslims. Ahsanul Haque[23] conducted a face to face interview of 473 Malaysian customers to study the attitudinal difference of Malaysian customers about Islamic banking and found Malaysian consumers have positive attitude towards Islamic banking and a significant attitudinal difference exists only between Malay & Chinese and between Chinese & Indian, while the overall attitudes of all three races were positive towards Islamic banking. Results of this study also revealed that there are attitudinal differences between males and females.

Tambiah et al., [24] compared the rural and urban customers, both Muslims and Non-Muslims in Malaysia on awareness, perception and preference on Islamic Retail
Banking. Findings indicate that region and awareness are associated with customers from rural and urban areas being aware about Islamic Banking, though unawareness being higher in respondents from in rural areas. Among the terms, respondents were aware of Riba followed by Al-Wadiah and Shari’ah. Most of the Muslim respondents indicated awareness of the above mentioned terms. In terms of complexity and uncertainty, rural respondents considered Islamic retail banking to be more complex and are uncertain about it when compared with urban respondents. Urban respondents considered Islamic retail banking to be more observable than rural respondents. The respondents also varied with respect to returns from fixed deposit, saving schemes, home loans with fixed repayment period, over draft facilities, and low service charges with the perception level of urban respondents being more than that of rural respondents. The results revealed that there is a significant difference in terms of awareness and on perceived complexity, and uncertainty and also that there was a lack of awareness on Islamic Retail banking between the urban and rural banking customers and that the perception and preference on IRB varies between rural and urban customers.

A study carried out by Md. Faisal, Asif Akhtar and Asad Rahman [25] across four class B cities of North India, they found that both Muslims and non-Muslims showed a positive attitude towards Islamic banking. In a similar study, Nissar Ahmed Yatoo and S.Sudalai Muthu[26] analysed the demographic variables on attitude towards Islamic Banking by carrying out an empirical study based on primary data collected from 6 states in India and found that despite the significant growth of Islamic finance globally in 100 countries, Muslims in India have no idea and are not aware of the facts, issues and practices of Islamic banking and finance. They suggested that there was a need to conduct campaigns for creating awareness on the practice of Islamic banking and finance.

Jamshidi D., Hussin, N. and Wan, H.L. [27] conducted a literature review of the potential impact of demographic items on the acceptance and usage of Islamic banking services and concluded that Islamic banking system needs to attract new customers in order to remain competitive in the market and therefore, using appropriate strategies was needed for such a banking system. Recognizing customers based on their segmentation and preferences will be a mandatory requirement, so that suitable and customized services could be provided to the customers by the banks.
Yusuf and Shamsuddin [28] carried out a study to find out about the attitude of Muslims staying outside the Islamic world by carrying out a purposive random sampling of 128 respondents from Leicester, UK. They found out that Muslims had a positive attitude towards Islamic finance as they were willing to change from the conventional system into the Islamic system of finance. Regardless of their knowledge of Islamic finance, 64% of the total respondents were willing to close their existing account and open new account with the new Islamic institution. It was also found that the levels of education did not contribute to the understanding of Islamic finance as most of them were not trained in Islamic studies.

2.4 Consumers’ patronage towards Islamic Banking

The bank selection criteria (patronage) towards commercial banking have been studied over a long period of time and hence an abundant literature exists. On the other hand, as far as studies of the above nature with specific reference to Islamic banks are relatively new and therefore not much literature does exist.

Globally there have been studies carried out in this field and one of the earliest studies was carried out by Erol and El-Bdour[29]. This study was carried out in Jordan and investigated 434 respondents to study the attitudes, behavior and patronage factors of bank customers towards Islamic banking. It was found that the respondents were aware of the Islamic banking services and that religious motivation did not appear to be the primary criterion for the selection of Islamic banking services. They concluded that although the religious motivation was not completely absent among the respondents, they were profit-oriented in their choice of Islamic banks due to the fact that they have been used to the conventional interest-based banking environment.

Omar [30] surveyed three hundred Muslims in the UK to show their selected patronage factors and awareness towards Islamic finance methods which were applied in UK as an attempt to serve Muslims by conventional financial institutions. It was found that a high level of ignorance existed among the respondents about the principles of Islamic finance. This suggests that the awareness of Islamic methods of finance differs between Muslims according to their country of residence.

Norafifah Ahmad, Sudin Haron and Sandra L. Planisek [31] surveyed 301 Muslim and non-Muslim commercial bank customers in Malaysia to study their bank patronage factors by collecting data through self-administered questionnaire. They
analyzed the data using both univariate and multivariate analysis. The most significant fact revealed by this study was that both Muslims and non-Muslims who patronized commercial banks have a common perception in selecting their banks. Islamic banks were suggested to not rely on or over emphasize the religious factors for attracting the customers. Islamic banks were suggested to give attention to the way bank personnel handle their customers and to improve the quality of services.

Gerrard and Cunningham [1] conducted study for the differences in awareness level and attitude between Muslims and Non-Muslims towards Islamic finance in Singapore by administering a questionnaire to 190 respondents. They found that Muslims were more aware of the meaning of the fundamental terms in Islam and that both Muslims and non-Muslims were unaware of the meaning of the Islamic financial terms. Their study also revealed that Muslims and non-Muslims have different attitude towards Islamic banking. They also concluded that there are significant differences between the Muslims and non-Muslims in the ranking of the bank selection criteria. It was also found that the Muslims were far more of the opinion that religious and profitability reasons motivate people to deposit money with an Islamic bank. In the selection of bank, the Muslim customers were more influenced by the references than the non-Muslim customers. A lack of awareness of Islamic banking culture among the respondent was also found and suggested for informative designing and delivering of advertising campaigns. The study also suggested that Islamic banks should focus on fast and efficient services to the customers.

Mahmood Ahmed [32] sought to identify the attitude of bank customers and professional bankers towards Islamic banks and conventional banks in Bangladesh using a purposive random sampling by collecting data from both primary and secondary sources. Two hundred bankers and two hundred customers were interviewed to record their opinions. He found that both bankers and customers have confusing notions about Islamic banking practices and argued that this misconception is partly due to incomplete knowledge of the fundamentals of Islamic finance and due to the over-reliance on short-term trade financing.

Metawa and Almossawi [33] investigated the banking behavior of Islamic banking customers by surveying 300 customers of two commercial Islamic banks in Bahrain, which were the only such banks, then. They studied the profile of the customers, the relationship between the demographic factors and the customer usage of
Islamic banking products/services, the relationship between customer satisfaction with Islamic bank products/services, satisfaction with the basic elements of the service delivery systems and the bank selection criteria. They found that the bank selection decisions by bank customers are predominantly religious decisions. While adherence to Islamic principles was the most important selection criterion, convenience of the location was found to be the least important selection criteria.

For Jordanian Islamic bank customers, Naser, Jamal and Al-Khatib [34] again investigated their satisfaction and attitudes towards Islamic banks. They found the majority of Jordanian Islamic bank customers were satisfied with Islamic banks’ products and services. In addition, bank’s reputation and religion were the most significant factors that determined their bank selection criteria. However, as with the studies conducted by Erol and El-Bdour[29] and Erol, Kaynak and El-Bdour[35], the Jordanian Islamic bank customers were found to be well aware of Islamic methods of finance with little knowledge regarding financing products, because there were a limited number of respondents who indicated potential use of Islamic finance methods.

Al-Sultan [36] analyzed the attitudes of three hundred and eighty five customers in Kuwait towards the services and products of the Kuwait Finance House (KFH), an interest-free bank. Similarly to the factor analysis technique and the major finding of Metwally[37], he confirmed that adherence to the Islam was the primary motivation for Kuwaitis dealing with KFH. Furthermore, he observed that there was no difference between KFH and other banks in terms of cost and returns. On the other hand, 51.7% of respondents preferred to deal with conventional banks because of their better service. This means even though Kuwaiti customers have religious reasons for using Islamic methods of finance, they ranked the quality services at the top of their bank selection criteria. These findings are similar to those found by Haron, Ahmad and Planisek [38] in Singapore.

The impact of demographic factors on customers’ selection of a specific bank within a dual-banking system as a case study was studied by Metwally [37] in the state of Qatar. Notwithstanding that most previous studies exploited demographic and socio-economic characteristics to make the profiles of respondents, this study was the first research which discussed the relationship between these characteristics and bank selection criteria. The main results were that females, older persons and public servants preferred to deal with Islamic banks. There was also a preference for Islamic banks
Delta Khoirunissa [38] studied the factors motivating consumers’ preference towards saving in Islamic banking by using a purposive sampling of 95 respondents from two Islamic banks in Indonesia. It was found that the consumers’ decision to save in Islamic banking is influenced by both economic factors such as receiving economic benefits, quick services, online facilities and religious factors such as compliance to Islamic teachings, lessening economic imbalances in the society, having good understanding on Islamic principles. The existence of the relationship between economic and religious preferences shows that in the choice of their banking criterion, the respondents wished to attain maximum satisfaction with regard to their economic and religious needs.

Turkey is a Muslim country with many Islamic financial institutions. In Turkey, customer satisfaction of interest-free banking and bank selection criteria was analyzed by Okumus[39]. This study assessed the degree of satisfaction and awareness of customers who dealt with Special Finance Houses (SFH) that offered Islamic banking services and products in Turkey. Furthermore, it observed the significant reasons for the choice of these Islamic methods of finance and the relationship between these bank selection criteria and the socio-demographic factors of Turkish customers. The most important finding for it was that the majority of the SFH customers expressed that religion was the primary motivation for the use of Islamic banking products and services as found by many earlier studies (Omer [30]; Metwally[37]; Metawa and Almossawi [33]; Al-Sultan [36] and Bley and Kuehn[19]). In addition, the second vital motivation was the provision of conventional facilities by SFH in accordance with Islamic law, which promoted the first motivation. As a result, this led to create a high level of satisfaction for Turkish customers towards most of the products and services offered by SFH. Turkish customers, as well as most Arabic Muslim customers surveyed in previous studies were found to be generally aware of basic Islamic methods of finance, except more-complex Islamic finance structures such as profit/loss sharing methods of finance. Otherwise, this study discussed the connection between socio-demographic factors and the Islamic bank selection criteria. For instance, the efficiency
and speed at inter-branch transactions was more essential for males than females. The advice of friends and relatives was also appeared to be more important for business customers than those who were in service sector. To conclude, there was a significant relation between the extent of the customer’s satisfaction and variables such as the age of the customers. For example, respondents in the 20-39 years age group was more satisfied with staff friendliness than other age groups.

Dusuki and Abdullah [40] focused on two Islamic banks’ customers in Malaysia namely Bank Islamic Malaysia Berhad and Bank Muamalat Malaysia Berhad examined the main factors that motivate these customers to deal with Islamic banks. Their findings are consistent with many earlier Islamic banking patronage studies such as Erol and El-Bdour[29], Erol, Kaynak and El-Bdour[35], Haron, Ahmad and Planisek [31] and Gerrard and Cunningham [1], in which the quality of service delivery including staff friendliness and competency, efficient and speedy service were found to be important factors in influencing customers’ banking selection.

Mohd Saif Noman Khan, M. Kabir Hasan and Abdulla ibn eyy Shahid[41] conducted a non-probability sampling of 100 customers of 5 Islamic banks in Dhaka to study their banking behavior and found out that the most customers of Islamic banks are highly educated and have durable relationship with the banks. Income category and education of the customers have a significant role in the usage of the products and services of the banks. Another important and significant finding was that among bank selection criteria, religious principle was the key factor in choosing Islamic banks.

Ahmad, W.M.W., et al., [42] examined the role of religiosity in shaping the consumers’ choice of banking by using convenience sampling of 480 working Malay Muslims. They found that there are significant differences between a Muslim’s level of religiosity and Islamic banking as his main choice of bank. They concluded that, if Islamic banks want to retain and attract customers, they should focus on developing and expanding their electronic services in order to fulfill their preferences for faster and more efficient services.

Gait and Worthington [43] investigated the attitudes, perception and motivation towards IF among 385 Libyan retail customers using factor analysis and discriminant analysis. They both found that the respondents were aware of Musharakah and Qard Hassan, even though Islamic finance was not practiced formally then. However, the respondents were unaware of Mudarabah, Murabahah, Bai Muajjal and
Istisnaa. Four factors namely, community service, profitability, religion, and unique services reflected the attitude of the respondents towards Islamic finance. They were potential users of Islamic finance at the retail level and concluded that religion and community service are the most important factors determining the same.

Mamunur Rashid and Kabir Hassan [44] examined the impact of demographic disparities on the bank selection criteria applied by diversified customers of Islamic banks in Bangladesh by running regression analysis after controlling four demographic variables such as gender, marital status, age and educational qualification. Their study yielded six factors—corporal efficiency, core banking, compliance, convenience, confidence and cost-benefit which influenced customers in their choice among Islamic Banks with the first two Non-Islamic factors being more important in choosing banks. Demographic variables gender, marital status, education and age were shown to impact the six factors. Female respondents considered core banking important, where-as, the male respondents considered corporal efficiency to be more important. Married respondents considered core banking, corporal efficiency and compliance (in the order mentioned) to be important and Unmarried respondents considered corporal efficiency, core banking and compliance to be important in the mentioned order. Under graduates considered corporal efficiency more important followed by core banking and compliance where-as postgraduates considered corporal efficiency more important followed by confidence and core banking. In terms of age, respondents aged 21-30 considered corporal efficiency followed by core banking. Respondents aged 31-40 years considered compliance to be an important factor where-as respondents who were above 40 considered confidence to be important.

Ahsanul Haque, Jamil Osman and Ahmad ZakiHj Ismail [45] studied to investigate the major factors influencing that are reflecting the customer’s perception and the satisfaction on Islamic banking among the Malaysian customers and found using a Logit model that there is a significant and positive relationship of quality of services, confidence in bank, social and religious perspectives and availability of services with the customer perception about Islamic bank. These factors are expected to have a great role for influencing customer mind.

Sajeevan Rao and Sharma [46] conducted an empirical analysis to find out the bank selection criteria among 312 MBA students in Delhi and concluded that reliability is an important bank choice criterion.
Maran Marimuthu et al., [47] carried out a non probability method of sampling among the 450 respondents from Klang Valley of Malaysia to find out about the acceptance of Islamic banking and the factors that determine it using Chi-square analysis. Cost benefits, service delivery, convenience, influence of friends/relatives were found to have significant relationship with the acceptance of Islamic banking for both Muslims and non-Muslims.

Muhammad Z Mamun [48] investigated 100 responses each from 11 Islamic banks and 13 banks which offer dual -both Islamic and Conventional banking-system in Bangladesh to study prospects and problems of Islamic banking and found that the foremost factor making Islamic banking attractive to customers is the adherence to the rules of Shariah.

Idris, A.R. et al., [49] analyzed the factors considered important in the patronage of an Islamic bank by surveying a sample of 250 Islamic bank customers in Malaysia and found that religious value as the main influencing factor for patronizing an Islamic bank. Other factors perceived to be important include ATM services, financial security, cost and benefit and attractiveness in that order.

Norafifah Ahmad and Sudin Haron [50] carried out an exploratory research of the customer perception of Islamic banking products and services among 45 corporate respondents from Kuala Lumpur and concluded that Islamic banking system had good potential as an alternative to the conventional system. Also, it was found that the most important factor perceived by corporate customers in selecting their banks is the cost of the services and products. This means that Islamic banking products will not be attractive to their market unless and until its costs are lower than those of their conventional counterparts.

Hin C., et al. [51] examined the relationship between bank selection criteria and service quality towards the level of satisfaction using a field survey of 270 students in one of the universities in Malaysia and found that both bank selection criteria and service quality are vital factors that determine the level of students’ satisfaction towards a banking institution. The acceptance of Islamic banking was analyzed by Asif, M. and Anjum, M., [52]. They used multiple regression models to study the data collected from 45 Muslim customers of Peshawar KPK and found that a positive relationship exists between benefits of Islamic banking and its acceptance.
Yvonne Saini, Geoff Bick and Loonat Abdullah [53] did a non-probability convenience sampling of 250 Muslims to find out about the consumer awareness and use of Islamic banking products and found out that Muslim customers regard efficiency, availability of ATMs, lower bank charges and extensive branch network rather than religious motivations for compliance with Islamic conventions. They concluded that religion as the sole motivation for choosing an Islamic bank was inadequate and therefore Islamic banks need to develop relevant strategies to meet customers’ needs and expectations of the market segments in order to attract, acquire and retain customers. The results of this study were similar to an earlier study by Dusuki and Abdullah [40].

Hayat M. Awan and Khuram Shahzad Bukhari [54] used Friedman’s test and factor analysis to list the bank selection criteria of customers of Islamic banks in Pakistan. They investigated 250 respondents from four cities of Pakistan and found out that most of the customers value product features and quality of services as major factors for selection of Islamic banks and give lesser importance to religious belief as influencing factor in selecting an Islamic bank. There was a lack of awareness about basic conventions of Islamic financing options among the respondents and customers of both the pure Islamic banks and conventional banks with IBBs do believe that the bank’s staff lacks ability to provide credible information about religious compliance of Islamic banking financial services.

Abdullah.M,, and Omar.M.A,[55] investigated the Islamic bank selection criteria in Malaysia by collecting responses from 279 respondents using AHP approach and found that sharia-compliant attribute got the highest priority while profitability, banks’ reputation, banks’ status, facilities and services and friendly personnel were ranked in that order while an individual decides to patronize an Islamic bank.

Zarehan Selamat and Hazlina Abdul Kadir [56] did a random sampling to investigate the bank selection criteria in a dual environment among 150 bank customers of Klang Valley in Malaysia. They found out that both Muslims and non-Muslims have a common perception in the bank selection and the religious motivation is not a primary factor in the bank selection process but provision of fast and efficient service, confidentiality of the bank and banks’ reputation and image were their main banking selection criteria.

Intiaz Subhani et al., [57] did a random sampling of 300 retail customers of banks in Karachi, Pakistan to determine the bank selection criteria of Islamic banks in
Pakistan using one sample t-test. Ten factors were taken to investigate the same and it was found out that high profit and low service charges were the most influencing factors followed by religious motives and quality of service.

**Sana Chebab and Houda Zribi** [58] investigated the bank selection criteria among the bank customers when moving from a conventional bank to an Islamic bank. They carried out a non probability sampling of 200 customers of Zaytuna bank in the city of Tunisia. The results revealed that the most important variables influencing customer choice are quality of the relation customer/bank, diversity and quality of the products and the image of the bank.

**Nissar Ahmed Yatoo and S. Sudalai Muthu** [59], in another research, studied the impact of demographic variables on the opinion about the nature and purpose of Islamic methods of finance among 609 Indians and found that Muslims in India connote religious value rather than commercial value to Islamic finance.

**Dineshwar Ramdhony** [60] investigated the awareness about Islamic Banking terms and preference for investment among 232 Muslims and non-Muslims from Mauritius and found that more than half of the respondents have heard about the terms of Islamic Banking although the level of awareness of both the groups are low. Most of the respondents believed that a combination of religious beliefs and returns motivates people to deal with Islamic Banks. It was concluded that Islamic banks cannot target Muslims alone to prosper.

In Turkey, **H.Saduman Okumus and Elif Generen Gene** [61] did a random sampling of 281 customers of banks in Turkey to study Customers’ awareness and bank selection criteria and found that most of the respondents give the highest importance to religious beliefs as a major factor for selection of bank, although it varied between the respondents of varied demographic profile. On the other hand, the factor such as the rate of return was ranked the last among the other bank selection criteria. It was also found that there was a low level of satisfaction about the limited number of branches and high service commission and fees.

**Ramana Sheikh and Mohammad Faisal Ahammad** [62] studied the feasibility of establishing Islamic Banks in UK by obtaining responses from both Muslims and non-Muslims and found that there is a lack of awareness and understanding of the alternative banking system. Hence, it was suggested that Islamic banks in UK undertake more aggressive marketing and promotion of its services in order to increase awareness.
among potential customers.

Guyo, W and Adan, N. [63] examined the determinants of retail consumer choice of Islamic banking in Kenya by adopting a simple random sampling of 293 respondents and found that the customers chose the bank without any religious motives although it was largely a Shariah compliant bank. On the other hand, financing options highly influenced the choice of the bank but bank profits did not have an express influence on bank selection criteria. Friendliness of the staff of the bank also scored heavily on the choice of the bank. It was concluded that the religious value had the least influence on the choice of Islamic banking while the range of financial options offered by the bank had the strongest influence.

A study by Zeyad Saleem Ramadan [64] to investigate the bank selection criteria as perceived by the customers of Islamic banks in Jordan showed that the selection criteria is a mix of both religious and other factors, which were tested. The most important criteria were friendly personnel, Islamic reputation and image, and product price, in that order. It was concluded that Islamic banks cannot attract their customers by the religious aspect alone as it was placed only second in the order of importance in the bank selection criteria. Therefore, it would require Islamic banks to properly understand the needs of the existing and prospective customers and fulfill them in order to survive in the competitive market.

Zahidur Rahman, Md. Shariful Islam and Tahmina Akter [65] surveyed 52 customers of three branches of IBBL, Bangladesh to find out about the customer satisfaction and their bank selection criteria. This study revealed that the customers irrespective of different demographic segments are mostly satisfied with IBBL and that the satisfaction level of customers does not significantly vary among the different demographic group and that the compliance to Islamic shariah(i.e. religious principles) is the top most bank selection criterion followed by corporal efficiency.

A study of literature review for the selection criteria of Islamic banks in Malaysia was carried out by Nawri,F.A.M., Yazid,A.S and Mohammed,M.O [66]. They concluded that a new conceptual model for selection criteria of an Islamic bank should include understanding of the concept, Shariah compliance, quality and attractiveness of the offerings, prospect and potentials of Islamic banking and willingness to deal with Islamic banks.
Ranjar A and Sharif S.P [67] did an empirical study of the differences in the level of awareness, attitude and Islamic bank selection criteria among 150 Muslim and non-Muslim respondents in Malaysia and found that Muslims are more aware of the culture of Islamic banking and as a consequence more aware of the meaning of the fundamental terms used in Islamic banking and finance. With regard to the attitudes, there were many differences between the Muslims and non-Muslims. In the context of bank selection criteria, four factors – mass media advertising, credit on favorable terms, financial counseling and location near the place of work- showed significant differences among Muslims and non-Muslims while there were no significant differences with regard to the other 18 factors. They concluded that Islamic banks need to offer fast and efficient services with high confidentiality in order to attract more customers.

Kader et al.,[68] undertook a study to understand the customer preferences in selecting a bank in a competitive market of Islamic banks in Malaysia. They found using factor analysis that both Muslim and non-Muslim customers are attracted to bank because of its quality of service, its returns and its physical image. The results suggest that the customers look for other criteria like service satisfaction and cost benefit considerations while selecting a bank, when they are assured of the religious factor.

2.5 Studies related to Islamic banking in India

Pandu, A., and Hussain, M.G., [69] studied the introduction of Islamic banking in India and suggested a legal framework. They suggested that though there are constraints in the implementation of Islamic banking in India due to the provisions in the Banking Regulations Act, special provisions could be created, on the lines of provisions for NBFCs, to permit Islamic banking in India so that resources could be attracted from the Middle Eastern countries. This would be useful for the infrastructure facilities and this in turn will drive the economic growth of the country. They also suggested that initially, experimentation with existing models could be carried out and then RBI can issue licenses to global players in a phased manner to drive growth. Islamic windows could be opened in such ventures by following the examples set by secular countries like US, UK, France and Germany and then finally full-fledged Islamic banks can be made operational.

Ahangar G.B., Padder M.U.J and Ganie A.H. [70] studied the scope of Islamic banking in India and concluded that Islamic banking not only covers the needs
of Muslim population but also fulfills the needs of development of all the communities. Also, India stands to gain tremendous advantages by attracting around US$ 1 trillion in Islamic Investment funds from Gulf countries and this would help the national current account and keep the fiscal deficit in check. It would not only help the poor and vulnerable, but also allow small manufacturers, retailers and agricultural enterprises to access finance and to provide equity funding for infrastructure projects such as irrigation, dams, roads, electricity and communication projects which are key factors to the development of the Indian economy.

Jeet Singh and Preeti Yadav [71] studied the growth and potential of Islamic banking in India and stated that Islamic banking has been misunderstood in India as a religious charitable venture restricted to the poverty-ridden and economically downtrodden Muslim community. Even after years of successful Islamic banking operations and its phenomenal growth around the globe, it has failed to demolish this myth and therefore, RBI and the Ministry of Finance should examine Islamic banking as a viable alternative to tackle the macro-economic problems confronted in the country. When Islamic banking reaches Indian shores, it should be welcomed as a vibrant, progressive and modern alternative financial system and not as a rudimentary, indigenous and outdated method of finance. It shall be in the interest of India to allow Islamic banks to operate and expand their network in the country along with the traditional banks as their main focus is on social well being and wealth generation activities in the society.

Khan K A [72] studied the need and scope of Islamic banking in India vis-à-vis its present status. It was brought out that Islamic banking result in financial instruments that are not only profitable but also ethically motivated. He concluded that the future prospects of Islamic banking in India is very good and it should be looked at as “Interest free banking” through a broad kaleidoscope and not through a narrow religious prism.

Bhat, Z. A., [73] studied the nature, scope and feasibility of Islamic banking in India and stated that since India needs huge investments in its infrastructure building, Islamic banking can provide interest-free loans to fulfill the need and therefore, a huge potential exists for Islamic banking in India but it will need some strong policy decisions to make it a reality. Also, it needs to be positioned as a professional banking entity rather than as a religion-based banking.
Basha, S.N. and Ahmed, M. [74] studied the relevance of Islamic banking to the Indian Economy and suggested that Indian government must seriously consider adopting Islamic banking as it would solve many economic problems faced by India like suicides of farmers, shutting down of small scale industries, increase in poverty and non-inclusive growth. India may implement the same taking a cue from global examples like that of Singapore and UK.

Singh V.G., and Kaur, N. [75] studied Islamic banking in the Indian context doing a SWOT analysis for a clear view of this concept and suggested a 10 point process to make this practically viable to the people of India. They suggested that there are many challenges to be faced by Islamic banks and that they have to come out of the religious set up and offer products of wider range to be accepted and used by the audience. The banks have to not only offer products that are in compliance with the principles of Islamic finance but also ensure that they remain flexible enough to meet the growing demands of the changing mindset of the Indian customers.

A recent study by Aisha Badruddin [76] suggested that there are prejudices about Islamic banking due to the non-availability of any reports on its economic viability and its impact on the inclusive growth in India. It also suggested that efforts should be taken to give training and education in this area by including Islamic banking and finance in the curriculum of professional courses. As Islamic banking cannot be adopted in India under the current legal framework, India needs to follow the lines of UK and introduce new laws to govern the Islamic banking business.

2.6 Research Gap:

Based on the foregone review of literature, it becomes clear that there has been no formal studies conducted to study the patronage behavior of Indians towards Islamic banking, involving both Muslim and non-Muslim retail customers of banks in India. Therefore, this pioneering research is an effort to fill this gap and is carried out to examine the prospects of Islamic banking in India by studying the awareness levels, patronage factors, perception of the benefits and motivation towards Islamic banking.