Chapter 1

Introduction

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1.1 Preamble

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.

1.2 Growth of Islamic Banking in Iran

Islamic banking has been defined as banking in consonance with the ethic and value system 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, the more general term is expected not only to avoid interest-based transactions, prohibited in the Islamic Shariat, but also to avoid unethical practices and participate actively in achieving the goals of an economy based on Islamic laws. (Schacht, J ,1995)

In Muslim communities the limited banking activity, such as the acceptance of deposits, goes back to the time when the Prophet Mohammad was still alive. At that time, people deposited money with the Prophet or with Abu
Bakr Sedique, the First Khalif of Islam. The first modern Islamic bank, established in Egypt in 1972, was called Nasser’s Social Bank. (Ray, N.D ,1995)

The desirability of abolishing fixed interest rates and the Islamization of financial systems were discussed at the first meeting of the Islamic Organization Conference (IOC) in Jeddah in 1973. Subsequently, many Islamic banks were founded under the profit-and-loss sharing system (PLS), which will be discussed below.

Modern Islamic banking has undergone three phases of development:

(a) Emergence-1972 through 1975: This period was marked by a surge in oil revenues and great liquidity. Parallel events included a resurgence of fundamentalist Muslim movements and establishment of the Islamic Organization Conference (IOC).

(b) Expansion-1976 to the early 1980s: Islamic banking spread from the Persian Gulf eastward to Malaysia, and westward to England.

(c) Maturity- 1983 to the present: The Arab world was confronted by economic setbacks, including slowdowns in oil revenues, the relative strength of the U.S. dollar, higher interest rates in the United States, and capital outflows
from OPEC nations. At the same time, Arab banks opened branches in the United States and Islamic banking practices were implemented in both Iran and Pakistan (Wilson, R, 1990).

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. (Haron, S. and Shanmugan, B, 1997)

On the basis of the last census in 2004, the property of Islamic banks was more than $260,000,000,000. This shows that Islamic laws weren’t an obstacle for the development of Islamic banks.

Before a bank in its present form was established in Iran, banking operations had been carried out in traditional form, or in other words in the form of money changing. Simultaneous with the promotion of trade and business in the country, more people chose money changing as their occupation. Exchanges of coins and hard currencies were also common in Iran.
Before the advent of the Achaemenid Dynasty (550-330 B.C.), banking operations had been carried out by temples and princes and seldom had ordinary people been engaged in this occupation.

During the Achaemenid era, trade boomed and subsequently banking operation expanded to an extent that Iranians managed to learn the banking method from the people of Babylon. (Jansen, J.J.G, 1989)

Following a boost in trade and use of bank notes and coins in trade during the Parthian and Sassanian eras, exchange of coins and hard currencies began in the country.

Some people also managed to specialize in determining the purity of coins. Bank notes and gold coins were first used in the country following the conquest of Lidi by Achaemenid King Darius the Great in 516 B.C. At that time, a gold coin called Derick was minted as the Iranian currency.

During the Sassanids eras (224-651 A.D.), both Iranian and foreign coins were used in trade in the country. However, with the advent of Islam in Iran, money changing and use of bank notes and coins in trade faced stagnation because the new religion forbade interest in dealing.
In the course of Mongol rule (1217-1335 A.D.) over Iran, a bank note which was an imitation of Chinese bank notes was put in circulation. The bank notes, called Chave bore the picture and name of Keikhatu. On one side of the bank notes there was the following sentence: “Anybody who does not accept this bank note, will be punished along with his wife and children.” The face value of the bank notes ranged from one half to ten Dirhams. Besides Chave, other bank notes were used for a certain period of time in other Iranian cities and then went out of circulation. These bank notes were called ‘Shaahr – Rava’ which meant something that was in use in cities.

Before the printing of the first bank notes by the Bank Shahanshahi (Imperial Bank), a kind of credit card called Bijak had been issued by money dealers. It was in fact a receipt of a sum of money taken by money dealers from the owners of Bijak. The credence of the Bijak depended on the creditability of the money dealer who had issued it.

As mentioned before, money changing went out of fashion with the advent of Islam under which usury is strictly forbidden. At that time, only a few persons with weak religious faith continued their occupation as money dealers. They were the same persons who promoted usury even during the post – Islamic era. They offered various excuses to justify their unlawful act.
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With a boost in trade during the role of the Safavid Dynasty, particularly during the reign of Shah Abbas the Great, money changing brisked again and wealthy money dealers started their international activities by opening accounts in foreign banks. Major centers for money changing at that time were Tabriz, Mashhad, Isfahan, Shiraz and Boushehr.

Money changing continued until the establishment of New East Bank in 1850. With the establishment of the bank, money changing actually came to a standstill. The New East Bank was in fact the first banking institute in its present form established in Iran. It laid the foundation of banking operations in the country. It was a British Bank whose headquarters were in London.

The bank opened its branches in the cities of Tabriz, Rasht, Mashhad, Esfahan and Boushehr. Of course, at that time, foreigners were free to engage in economic and trade activities in the country without any limitations. For the first time, the New East Bank allowed individuals to open accounts, deposit their money with the bank and draw cheques. It was at this time that people began to draw cheques in their dealings.

In order to compete with money dealers, the bank paid interest on the fixed deposits and current accounts of its clients. The head office of the bank in Tehran issued five ‘Qeran’ bank notes in the form of drafts. These drafts were
used by people in their everyday’s dealings and could be changed into silver coins when offered at the bank. According to a concession granted by the Iranian government to Baron Julius de Reuter in 1885, Bank Shahanshahi (Imperial Bank) was established. This bank purchased the properties and assets of the New East Bank, thus putting an end to the banking operations of the former.

The activities of Bank Shahanshahi ranged from trade transactions, printing bank notes, and serving as the treasurer of the Iranian government at home and abroad in return for piecework wage.

In return for receiving this concession, Reuter obliged to pay six percent of the annual net income of the bank, providing that the sum should not be less than 4000 pounds and 16 percent of incomes from other concessions to the Iranian government.

The central branch of the bank was in London and it was governed by British law but its activities were centered in Tehran.

In 1894, the right of printing bank notes was purchased from Bank Shahanshahi for a sum of 200000 pounds and ceded to the Bank Melli of Iran.
Bank Shahanshahi continued its activities until 1948 when its name was changed to the Bank of Britain in Iran and the Middle East. The activities of the bank continued until 1952.

In 1856, a Russian national named Jacquet Polyakov received a concession from the then government of Iran for the establishment of Bank Esteqrazi for 75 years. Besides, banking and mortgage operations, the bank had an exclusive right of public auction. In 1898 the Tzarist government of Russia bought all shares of the bank for its political ends. Under a contract signed with Iran, the bank was transferred to the Iranian government in 1920. The bank continued its activities under the name of Bank-e-Iran (Bank of Iran) until 1933 when it was incorporated into the Bank Keshavarzi (Agriculture Bank).

Bank Sepah was the first to be established with Iranian capitals in 1925 under the name of Bank Pahlavi Qoshun, in order to handle the financial affairs of the military personnel and set up their retirement fund. The capital of the bank was 388395 tomans (3.88 million rials).

With Bank Sepah opening its branches in major Iranian cities, the bank began carrying financial operations such as the opening of current accounts and transfer of money across the country. The Iran – Russia Bank was formed by the
government of the former Soviet Union in 1926 with an aim of facilitating trade exchanges between the two countries.

The headquarters of the bank were in Tehran with some branches being inaugurated in northern parts of the country. The bank dealt with the financial affairs of institutes affiliated to the government of the former Soviet Union and trade exchanges between the two countries. The activities of this bank, which were subjected to Iranian banking regulation, continued until 1979. In that year, this bank along with 27 other state–owned or private banks were nationalized under a decision approved by the Revolutionary Council of the Islamic Republic of Iran.

The proposal to establish a national Iranian bank was first offered by a big money dealer to Qajar King Naser–o–Din Shah before the Constitutional Revolution. But the Qajar king did not pay much attention to the proposal. However, with the establishment of constitutional rule in the country, the idea of setting up a national Iranian bank in order to reduce political and economic influence of foreigners gained strength and at last in December 1906 the establishment of the bank was announced and its articles of association compiled.
In April 1927, the Iranian Parliament gave final approval to the law allowing the establishment of Bank Melli of Iran. But, due to problems arising from preparing a 150 million rial capital needed by the bank, the Cabinet ministers and the parliament’s financial commission approved the articles of association of the bank in the spring of 1928. The bank was established with a primary capital of 20 million Rials, 40 percent of which was provided by the government. The bank was formally inaugurated in September 1928.

The central bank of Iran was established in 1928, tasked with trade activities and other operations (acting as the treasurer of the government, printing bank notes, enforcing monetary and financial policies and so on). The duties of the CBI included making transactions on behalf of the government, controlling trade banks, determining supply of the money, foreign exchange protective measures (determining the value of hard currencies against Rial) and so on.

In June 1979, Iranian banks were nationalized and banking regulations changed with the approval of the Islamic banking law (interest free), and the role of banks in accelerating trade deals, rendering services to client, collecting deposits, offering credits to applicants on the basis of the CBI’s policies and so on was strengthened. (El Ashke. A, 1987)
Based on the Islamic Banking Act in Iran, the structure of Islamic banking is as
below:

1. Central Bank

2. Governmental Banks: Which are divided into two groups:
   a) Commercial banks: Which include six banks.
   b) Special banks: Which include three banks.

3. Private Banks: Which include five banks.

1.3 Review of Earlier Studies

A lot of literature is available on banks relating to their role in the
economic development of a country, problems faced by them, challenges before
them and strategies to tackle them. But literature on the marketing of their
services is scanty particularly in the case of the marketing of Islamic banking
financial services. Most of the literature available is in the form of articles.
Whatever books available on bank marketing are mostly theoretical in nature
with scant regard to empirical study. Though a number of research works have
been undertaken on deposit mobilization, credit, customer service, costing of
services, business promotion, employee development etc., they are found to be narrow in their approach. A comprehensive research endeavour to study the marketing of financial services in Islamic banks is hardly seen. The summary of some studies that survey Islamic banking, as follows:

Abbas Mirakhor (1987), 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. However, number of problems have surfaced during the transition period, among which is a tendency for short-term assets to dominate commercial bank portfolios. The negative effects on capital formation are one result of this portfolio behavior. The cause of this behavior is a set of regulations constraining the profit-sharing activities of commercial banks. It is shown that such regulations rather than reducing the risks of bankruptcies in the banking system may well increase them.

Luca Errico and Mitra Farahbaksh (1998) analyze the implications of Islamic precepts on bank structure and activities, focusing on banking supervision issues. They point out and discuss these issues in the context of a paradigm version of Islamic banking, as well as in frameworks that fall between the paradigm version and conventional banking. The case of Islamic banks operating in a conventional system is also examined.
Abbas Mirakhor (1989) 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. He describes the developments in Islamic banking in Iran and Pakistan. As these two countries have initiated the most far-reaching experiments with Islamic banking, their experiences have a significant bearing on the feasibility of such a system. The developments in these countries are evaluated against the theory underlying the Islamic banking, and suggestions are made to achieve a more efficient system.

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. Effective and efficient risk management in Islamic financial institutions has assumed particular importance as they endeavor to cope with the challenges of globalization. This requires the development of not only a more suitable regulatory framework, but also new financial instruments and institutional arrangements to provide an enabling operational environment for Islamic finance. The recent establishment of the Islamic Financial Services Board, facilitated by the IMF, addresses these needs.

Sundararajan et al (1998) 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. The paper also touches on the institutional arrangements for interbank market operations and the design of effective central bank credit facilities that are needed under Islamic banking to support the development and operation of these new instruments.

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. Islamic banks provide financial products that do not violate Sharia, the Islamic law of human conduct. The Islamic principles upon which the banks claim to operate give an important role to social issues. Applying these principles, they develop a benchmark set of social disclosures appropriate to Islamic banks. These are then compared, using a disclosure index approach, the actual social disclosures contained in the annual reports of twenty-nine Islamic banks (located in sixteen countries) to this benchmark. In addition, content analysis is undertaken to measure the volume of social disclosures. Their analysis suggests that social reporting by Islamic banks falls significantly short of their expectations. The results of the analysis also suggest that banks required to pay the Islamic religious tax, Zakat, provide more social disclosures than banks not subject to Zakat.
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. This new trend is not only channeled through the frame of corporate social responsibilities programs and policies or limited to ad hoc financial institutions (like microcredit banks or Islamic banks) as it is entering the financial offer of mainstream banks. The paper primarily outlines that many elements of microfinance could be considered consistent with the broader goals of Islamic banking. Apart from pure economic considerations, which are not the aim of the analysis, the paper supports the thesis that by addressing new markets and embracing unconventional financial proposals, the global banking sector can contribute to the quest for diversity-oriented policies posed by an increasingly globalized scenario. The consequences this new trend is likely to have on internal banking structures are still unknown and are likely to interest the issue of wealth distribution. Moreover, from a more general point of view, by showing that even different moral ethos deep rooted in different cultural paradigms can be as profitable and available as western capitalistic ones, the banking sector can play a potential role in disseminating awareness on specific cultural and religious issues, resulting in increased integration of Muslim communities and low income investors in the long run and supporting commercial banks the close relation between economy and culture.
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. Islamic banks operate under different principles, such as risk sharing and the prohibition of interest, yet both types of banks face similar competitive conditions. The combination of effects makes it unclear whether financial ratios will differ significantly between the two categories of banks. They input 26 financial ratios into logit, neural network, and \( k \)-means nearest neighbor classification models to determine whether researchers or regulators could use these ratios to distinguish between the two types of banks. Although the means of several ratios are similar between the two categories of banks, non-linear classification techniques (\( k \)-means nearest neighbors and neural networks) are able to correctly distinguish Islamic from conventional banks in out-of-sample tests at about a 92% success rate.

Beng Soon Chong and Ming-Hua Liu (2008) found that Islamic banking is not very different from conventional banking. Their study on Malaysia shows that only a negligible portion of Islamic bank financing is strictly PLS based and that Islamic deposits are not interest-free, but are closely pegged to conventional deposits. Their findings suggested that the rapid growth in Islamic banking is largely driven by the Islamic resurgence worldwide rather than by the
advantages of the PLS paradigm and that Islamic banks should be subject to regulations similar to those of their western counterparts.

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 contracting constitute a quasi-equity claim instead of debt (Dayn) as construed by the majority of Islamic jurists. These results are of importance as they: (i) remove a major hurdle against future contracting by the Islamic jurists thereby enabling the renovation of the financial intermediation system of emerging Muslim economies; and (ii) demonstrate that the arbitrage principle needs to be re-examined under non-linear asset pricing.

Matthias Schramm and Markus Taube (2003), in their article, examine the evolution and the institutional foundation of the century-old Islamic Hawala financing system. Analysis of the functional principles of this system will show that it is a highly efficient, extremely robust institutional arrangement for overcoming the risks of opportunism among the transaction partners. It is an institution that was developed against the backdrop of a lack of formal legal systems. Thus, Hawala can be seen as club-like arrangements, which are able to
provide the transaction parties with an institutional framework to assure enforcement of contracts without relying on any national law. Today, therefore, it is able to be expand outside and independent of existing laws and regulations. It is able to move large amounts of money without recourse of the formal banking system and even without retaining any bookkeeping notes. Instead, it is based on the trust of the participating parties and its social and religious embeddedness within the Islamic community.

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. Unlike conventional commercial banks, Islamic banks are prohibited from charging or paying interest. Instead, Islamic banks offer profit-sharing investment accounts, such that investors' return depends on the return on the assets financed by the investors' funds. Supervisory authorities in countries in which Islamic banks operate have taken various approaches to regulate Islamic banking. Such variations appear to have resulted in Islamic banks adopting different accounting treatments for investment accounts, although most of the countries in which Islamic banks operate either look directly to international accounting standards as their national standards or develop national standards
based primarily on international accounting standards. This renders the financial statements of Islamic banks incomparable. It also implies that the calls for worldwide adherence to international accounting standards to achieve harmonization in financial reporting, regardless of cultural differences that affect the way in which business transactions are carried out (in substance as well as in form), should not go unchallenged. The paper also sheds light on the need to implement the accounting standards promulgated by the Accounting and Auditing Organization for Islamic Financial Institutions (AOIFI), because these standards specifically cater for the unique characteristics of the contracts that govern the operations of Islamic banks.

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. The study proposes PGB to be considered as an alternative way of raising funds for open market operations by the governments of Muslim countries constrained by religious regulations against fixed-interest debt (Ribawi) financing. The security (PGB) is developed using partial equilibrium analysis under the assumption that the assets backing the financial package do not trade in a secondary market—a situation which invalidates the risk-neutral pricing of the well-known Black and Schole model. The study finally
demonstrates the efficiency of a PGB over a conventional (Ribawi) debt vehicle thereby providing results contrary to assertions of the (i) Capital Structure Irrelevance Theorem and (ii) Capital Asset Pricing Model (CAPM).

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. The system is briefly described in this paper as part of an initial attempt to develop a simple model for the portfolio management of an Islamic bank. The model is built on the assumption of certainty for one period. A numerical example based on actual data of Faisal Islamic Bank of Sudan is given to illustrate the model and reveal its relevance.

1.4 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.

Before the mid-1950s, banks had little understanding or regard for marketing. Banks were supplied needed services. Bankers did not have to make
a case for checking accounts, savings, loans or safe-deposit boxes. The bank building was created in the image of a Greek temple, calculated to impress the public with the bank’s importance and solidity. The interior was austere, and the tellers rarely smiled. One lending officer arranged his office so that a prospective borrower would sit across from his massive desk on a chair lower than his own. The office window was located behind the officer’s back, and the sun would pour in on the hapless customer, who tried to explain why he or she needed a loan. This was the bank’s posture before the age of marketing.

Marketing came into banks in the late 1950s, not in the form of the “marketing concept” but in the form of the “advertising and promotion concept”. Banks and other financial institutions were experiencing increased competition for saving. A few financial institutions decided to adopt the marketing weapons of the soap companies. They increased their budgets for advertising and sales promotion. By offering umbrellas, radios and other “come-ons”, they managed to attract new customer accounts. Their competitors were forced into adopting the same measures and scurried out to hire advertising agencies and sales promotion experts.

The banks that first introduced modern advertising and promotion soon found their advantage dissipated by the rush of imitators. They also learned another lesson: attracting people to a bank is easy; converting them into loyal
customers is hard. These banks began to formulate a larger concept of marketing, one of trying to please the customer. Bankers had to learn to smile. The tellers had to be retrained. The bars had to be taken off the tellers’ windows. The interior of the banks had to be redesigned to produce a warm, friendly atmosphere. Even the outside Greek-temple architecture had to be changed.

The first banks to implement these changes began to outperform their competitors in attracting and holding new customers. Their competitors, however, quickly figured out what was happening and rushed into similar programs of friendliness training and décor improvement. Soon all banks were so friendly that friendliness lost its potency as a determinant factor in bank choice.

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
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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.

1.5 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.

1.6 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.”
1.7 Research Methodology

(1) Data Collection

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.

The questionnaires were originally prepared in English and then translated into Persian by using the backward translation method with an assistant from an expert in both languages to reduce translation bias and error.
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Only minor discrepancies were observed between the original instrument and its back translated version, which was resolved by the translator.

(2) Statistical Population and Sample Design

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.

(3) Statistical Tools

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

**Frequencies:** 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.

**Descriptives:** The Descriptives 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.

**Crosstabs:** 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.

**Independent-Samples T Test:** The Independent-Samples T Test Procedure compares means for two groups of cases. Ideally, for this test, the subjects should be randomly assigned to two groups, so that any difference in response is due to the treatment (or lack of treatment) and not to other factors so here this test was used to compare means for two groups.
**One-Way ANOVA:** The One-Way ANOVA Procedure produces a one-way analysis of variance for a quantitative dependent variable by a single factor (independent) variable. Analysis of variance is used to test the hypothesis that several means are equal. This technique is an extension of the two-sample t test. Here this test was used to compare variance for age groups, education levels, work experience status and occupational status which have more than two groups.

**Chi-Square Test:** Chi-Square is used to judge the significance of variance to compare variance of the overall difference between groups of frequencies (Azar, Adel and Momeny, Mansoor, 2006).

**SPSS Software:** SPSS for Windows Version-16 (2007) was employed for statistical analysis.

**1.8 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
genralise 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.

1.9 Thesis Design

This dissertation is based on objectives and hypotheses of the study
divided into five chapters as follows:

Chapter I: preamble of the subject, growth of Islamic banking in Iran,
review of earlier studies, need for the study, study objectives, hypotheses,
research methodology, data collection, statistical population and sample design,
statistical tools, study limitations, thesis design.

Chapter II: socially oriented bank, the Islamic development banks,
Islamic commercial banking, unique features of Islamic banks, history of
banking in Iran, Islamic banking services in Iran

Chapter III: concept of service marketing, concept of bank marketing,
marketing mix issues for Islamic banking, evolution of bank marketing, Islamic
banking financial services.
Chapter IV: Customers’ Profile Analysis, analysis of customers satisfaction with Islamic banking based on Shariat standard, analysis of customers’ satisfaction with adequacy and quality of financial services provided by Islamic banking in Iran, analysis of cost efficiency of financial services marketed by Islamic banks in Iran, Customers’ Profile Analysis, analysis of the adequacy of the banks’ effort in marketing of its services

Chapter V: Major Findings, suggestions, conclusion, scope for further research

References


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