



Determinants of Bank Choice in Afghanistan

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Abstract

Afghanistan is a country with a 99% Muslim population. It was believed that subsequently after the emergence of Islamic banking in the country, the conventional banks would weaken and gradually disappear from the society. But today, the situation is not as expected, even in the presence of Islamic banking, a larger part of the market is still captured by conventional banks. For whys and wherefores, this study deals with a comprehensive descriptive discussion in determining the factors influencing the choice between Islamic and conventional banking. The study also aims to assess the level of awareness of people regarding Islamic banking products. Moreover, the study considers determining the future willingness of conventional banking customers to switch to Islamic banking. Besides, the study also includes a part to understand the reasons for the slow growth of Islamic banking in Afghanistan. The outcome of this study can help Islamic banks to assess their weaknesses and take new steps for improving their products. As a result, the researcher recommends that Islamic banks and windows operating in Afghanistan should focus on developing new marketing strategies, arrange certain seminars to create Islamic banking awareness among people. Furthermore, they should focus on introducing new *Shariah*-based products as per the market needs and should not only rely on their Islamic image. Moreover, Islamic banks should consider all those factors discussed in this study which influence customer's choice in today's highly competitive banking industry.

Keywords: Bank selection, Islamic banking awareness, Afghanistan

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1. Introduction

The conventional banking system is based on interest. Taking and receiving any amount of interest is undisputedly prohibited in Islam. On the other hand, banking is inevitable in modern day life, it has become a need and very difficult to avoid because modern banks provide a number of essential functions like security, convenience, online payments, savings, investments and many more. As the conventional banking system involves interest (*riba*), it creates a big problem for Muslims, since it is prohibited in Islam. It is clearly reminded in verses of the Quran on the matter i.e. Al-Baqarah (2:275-to-280), Al `Imran (3:130), An-Nisa (4:16), and Ar-Rum (30:39). The solution is that there should be an alternative for the current conventional banking system that is consistent with Islamic *Shariah* principles.

In order to fulfill the banking needs of Muslims, Islamic banking is introduced in Malaysia during the 1970s in which all the operations were according to *Shariah* principles (Henry and Wilson, 2004). Later on, it was introduced in many parts of the world and now Islamic banking can be found in almost every region of the globe. It was believed that by the emergence of Islamic banking, conventional banks would weaken and gradually disappear in Islamic countries because Muslim customers should never opt for conventional banking in the presence of interest-free banking system since interest is regarded as taking notice of war with Allah and His prophet and no Muslim can afford that. However, despite having the opportunity of Islamic banking in many Islamic countries, people still go for conventional banks. Even in a country like Afghanistan where 99% of the population is Muslim a bigger market share is being captured by conventional banks.

The growing competition between Islamic and conventional banking makes it necessary to investigate the determinants of bank choice among customers. There could be several reasons for the choice of conventional banking in the presence of Islamic banks, the most important reason can be the service quality

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of relevant products. Different researchers such as Rashid et al. (2009), Metawa and Almossawi (1998), Shanka (2012), Dusuki and Abdullah (2007), Naser et al. (2013) and Leeds (1992) have explored the reasons for bank choice, but most of them focused on the service quality.

Now, the current banking system in the Islamic Republic of Afghanistan mostly exhibits a different picture, one bank operates Islamic and conventional banking branches under one roof in the same building. This indicates no significant difference in service quality, and customer satisfaction of Islamic and conventional banks, as both branches will have the same facilities, like, ATMs, opening hours, parking facilities, internal layout of the bank, furniture and so forth. In this scenario, an interesting question arises, if there is no significant difference in service quality then what are the factors determining the bank choice? The possible factors may be lack of awareness, lack of Islamic banking experts, product availability, lack of government support, misconceptions regarding Islamic banking and so forth.

To find out the exact factors, a study is needed to explore the reasons behind dealing with the two types of banking. This study also aims to determine the level of customer's and Islamic bank employee's awareness regarding Islamic banking and its products and to identify the customer's sentiments regarding concepts and modes applied by Islamic banks.

2. Objectives of the study

The major objective of this study is to find out the determinants of choice for the two types of banking .i.e. Islamic versus conventional banking in Afghanistan, the specific objectives are as follow:

1. To determine the awareness level of customers and employees on various aspects of Islamic banking.
2. To examine the future willingness of customers on switching to Islamic banking and also to find out the reasons for the slow growth of Islamic banking in Afghanistan.

3. Significance of the Study

As Muslims, we are bound to eliminate interest-based transactions from our society. Though Islamic banking has been successful in Afghanistan, initiatives still need to be taken in order to reduce conventional banking. The findings from this study will assist Islamic banks to understand why the customers are not opting for Islamic banking thus, appropriate steps could be taken to promote Islamic banking. As already mentioned, Islamic banks have emerged but still a major part of people continue their dealings with conventional banks and the major reasons could be unveiled by this study. The outcome of this research can help Islamic banks to identify their weaknesses and take steps to improve their products. To understand customer's bank selection criteria and their awareness level is very important as both will assist the bank managers in developing appropriate marketing strategies for retaining the existing and attracting new customers. Furthermore, it will help Islamic banks to attract customers, take better positions in the market and finally increase their profitability.

4. History of Banking in Afghanistan

The first banking in Afghanistan formally started from the establishment of Bank-e-Millie Afghan (BMA) in 1933 which is the first and former bank in Afghanistan where in its early days BMA was in charge of dealing with the central bank until the establishment of central bank in 1939. From the year 1933 till now, the scope of banking in Afghanistan has increased and expanded continuously.

As of December 2014, according to the central bank of Afghanistan website, they have licensed sixteen local and foreign banks to operate in the country, out of which eleven banks are local and the remaining five are branches of foreign banks. The bank's total network in Afghanistan reaches 459 branches across the country, out of which 184 are located in Kabul and the remaining 275 are located in different provinces of Afghanistan.

After the continuing expansion and success of Islamic banking around the world between 2008 and 2009, the concept of Islamic banking was introduced in Afghanistan. Currently there is one newly opened full-fledged and eight window-based Islamic banks (Table 1) that has the permission from the central bank to offer Islamic banking in Afghanistan. It is a concern that a greater part of the population in this country approximately out of 30 million Afghans do not use banks, only 1.8 million uses banks (Hamdard, 2011). This means there is a huge demand for *Shariah*-compliant financial services indicating a great potential of growth for Islamic Banks.

Table 1: List of Banks Offering Islamic Banking

| No | Bank Names |
|----|--------------------------------|
| 1 | Islamic Bank of Afghanistan |
| 2 | Bank-e-Mili Afghan |
| 3 | Ghazanfar Bank |
| 4 | New Kabul Bank |
| 5 | Maiwand Bank |
| 6 | Afghanistan International Bank |
| 7 | Afghan United Bank |
| 8 | Bank Alfalah Ltd |

5. Potential of Islamic Banking in Afghanistan

Over the last four decades, Islamic banking has attained a global momentum and progressively it becomes a very important and common field of interest for the present-day economic and financial institutions. Nowadays, a considerable niche area is being taken by Islamic banking among the global financial markets. The present interest free banking and finance as a form of the current Islamic banking system was first formally introduced in the 20th century for the purpose of developing an interest free banking system, which is based on the concept of profit and loss sharing.

After a global progress, now Islamic banking is progressively gaining momentum in Afghanistan market too because 99% of the population of this country are Muslims (Arno Maierbrugger, 2018). An attempt was made by the Afghanistan financial services USAID to assess the capital markets in Afghanistan. Their survey concludes that 72% of the investment has been raised through self-financing, where 93% thought it was important and wished to raise their capital in the near future. Besides that, 78% faced problems and found it difficult to raise their capital, while only 5% of them relied on conventional banks for raising their business capital. In addition, the survey reveals that majority of the respondent selected Islamic financing for their dealings. Further in this survey, the respondents were asked about their wishes regarding the raising of capital.

Collectively, in terms of US Dollar (USD), they need to raise USD714.4 million through *Qard-al-Hassan*, USD40.44 million through *Musharakah* and only USD2 million through conventional interest based financing (USAID, AFS - Afghanistan Capital Markets Assessment, 2010). These values clearly indicate a high demand and financing are needed in Afghanistan. Moreover, this study identifies a need for specialized products and banking operations. The study also suggests that for Islamic banking window system in Afghanistan there should be *Shariah* compliant full-fledged Islamic banks to meet and fulfill the needs of 93% respondents who are willing to raise their capital. This will increase the investment and enrich the economy as a result of funds circulations. The findings of this survey provide a hypostatical outcome that as a result of practicing Islamic banking, there will be a 30% growth in excess to financing assistance which can definitely contribute to a rapid economic development in the country.

According to the aforementioned opportunities, the concept of Islamic banking helps to foster economic growth in Afghanistan by contributing to industrialization, reconstruction, and self-sufficiency. It will trigger an overall increase in financial inclusion by providing financing facilities to different classes of society. In Afghanistan, the conventional banking system has been in operation since 1933, yet their achievements could not fulfill the banking needs of Afghanistan. This is because more than 99% of the total population are Muslim population and they refuse to be involved in *riba* based transactions.

According to a news article (Dana El Baltaji, 2011), there is a great chance for Islamic banks to attract around USD3 billion in less than 4 years. Khan Afzal Hadawal, the chief executive officer of Bank-e-Mili Afghan, the nation's oldest lender, said in a telephone interview from Kabul in December 28, 2011, "You will be surprised if I tell you that some people keep cash in their pillows". Another official, Sayed Jawid Iqbaal, the chief executive officer at Kabul based Ghazanfar Bank said "Almost 10% of Afghan population use banks". While a 35 years old Afghan citizen holding Islamic bank account with Ghazanfar Bank said: "I prefer to open an account with Islamic banks rather than conventional banks".

The current Islamic banking window system which is operating under the umbrella of the existing interest based or conventional banking systems cannot convince people of the bank being an interest free banking system and it also cannot fulfill the needs of the Muslims in this society. Hence, there is a need for the existence of a more full-fledged Islamic banks with variety of products and such a solution will lead to national

stability because, after the elimination of interest, a major part of the population will start dealing with Islamic banks. The aforementioned statistics obtained by USAID also indicate a prospective demand for Islamic banking in Afghanistan. The statistics also indicate a potential demand for capital investment as well as financing through Islamic banking. As capital investment and financing increases, more enterprises will be established and this will lead a country towards industrialization. Consequently, in the long term, capital market development will lead to a stabilized and self-sufficient economy.

6. Literature Review

6.1. Reasons behind Dealing with Two Different types of Banking Systems

Why did people choose to use Islamic banks? The answer to this question can be a good definition of Islamic banking selection criteria. Several studies have been done to determine the reasons for the selection of Islamic banking. The results of different studies have shown various factors influencing customers' decision regarding Islamic banking selection. Naser et al. (2013) attempted to determine the reasons for which the Kuwait Finance House (KFH) Customers were dealing with such an Islamic financial institution. They revealed that most of the KFH customers have chosen this institution for having a trusted *Shariah* Supervisory board, a well-known name and image, and finally for having guaranteed confidentiality.

Hegazy (1995) carried a survey to identify customer's attitude for selecting Islamic banking. The finding of the study indicates that majority of the respondents chose Islamic banking for their efficiency and being quick in-service delivery. In Nigeria, Maiyaki (2010) have done a research on factors determining the Nigerian customers' decision for selecting Islamic banks and found the size of bank's asset as a first criterion, followed by the accessibility of the bank, more branches and a having a wide network across the country.

Ahmad and Haron (2002) on the other hand, attempted to investigate motives that influence Malaysian customers for selecting Islamic banking and concluded that 55% of the customers chose Islamic banking due to their religion. However, about 75% of the respondents believed that the Malaysian government is supposed to promote Islamic banking by means of marketing channels. In Malaysia, Haron et al. (1994) attempted to understand the behavior of customers regarding Islamic banking selection. Their study concluded that friendliness of the staff, efficiency, and speed of service delivery as the greatest influencing factors of bank selection. They also revealed that 40% of customers ranked religion as the main reason for selecting Islamic banking. Similarly, a study was performed by Naser et al. (1999) in Jordan and concluded that a great number of the respondents pointed out that religion as the main factor when deciding to choose Islamic banking. Moreover, 10 years prior to this study, in 1989 the same effort was made by Erol and El-Bdour (1989) to explore the reasons of Jordanian customers for choosing Islamic banking and found that profitability was the most influencing factor in that time.

In 2007, a similar study was conducted by Abdullah and Rahman (2007) to explore Malaysian businessmen's attitude regarding bank selection. The study revealed that 80% of Malaysian businessmen chose Islamic banking because of religion, followed by the safety of capital and revenue. On the other hand, 58% of the respondents declared that they are motivated to choose Islamic banking as a result of their ability to bring proper rights to their customers as well as offering more returns on investment as compared to conventional banking. Metawa and Almossawi (1998) have conducted a research on banking behavior of customers in Bahrain whereby they have stated two factors, religion and rate of return as the main reasons of selecting Islamic banks by Bahraini customers.

With the same objectives Naveed and Rehman (2010) performed a study in Pakistan. The study indicated that a large number of respondents have pointed a few reasons for choosing Islamic banking system for their financial dealings, such as bank reputation, effective management for handling transactions, provision of privacy or assurance, and likewise religion is also pointed as a key factor of Islamic banking selection.

6.2. Customers' Awareness

Customer awareness can be defined as knowledge or understanding of customers regarding products and services offered by Islamic banks. Naser et al. (2013) performed a study on customer awareness and satisfaction in the case of Kuwait Finance House (KFH). In the said research, they distributed 650 questionnaires to the KFH customers, out of which 429 were returned completed. The end result shows that a higher percentage of the respondents are unaware of products and services currently offered by the bank. Gerrard and Cunningham (1997) attempted to find out the awareness level in the case of Singapore and their finding indicates that the majority of the customers were not aware about the products and services offered by Islamic banks. Gerrard and Cunningham concluded that a lack of awareness existed in the case of Singaporean customers.

Naser et al. (1999) conducted a survey with 206 respondents in Jordan and it was found that the customer's awareness in respect of products and services offered by Islamic Banks as the main contributor. Their finding shows that most of the respondents only know about those products which are commonly offered by Islamic banks around the world, such as, *Mudarabah* (Islamic partnership), *Musharakah* (Islamic joint venture partnership) and *Murabahah* (a particular kind of sale). However most of the respondents expressed that they have not used all of those products. Meanwhile, in the Turkish Islamic banking sector, Okumuş (2005) attempted to determine the level of the customer's awareness in respect of Islamic banking products. The results showed that a great number of respondents is only aware of *Musharakah* and *Mudarabah* and yet they have not used them.

In Malaysia, Hamid and Nordin (2001) conducted a research to determine the awareness between the customers of 45 different business enterprises with regard to Islamic banking system. The result indicated that most of the respondents have no understanding of Islamic financial system, especially related to the aspects of profit-sharing. The study also revealed that a lower portion of respondents used Islamic banking products. The study further revealed that almost all of the participants have started to utilize Islamic banking products 10 years after the emergence of Islamic banking in the country.

In order to understand the awareness level of Australian Muslims regarding profit-and-loss sharing products offered by Islamic banks, Rammal and Zurbruegg (2007) surveyed 300 Australian Muslims. The finding revealed that the majority of the customers are willing to purchase these products, but most of them do not properly understand how they function. The study elaborated that most of the respondents were interested to purchase these products only in the case of availability of credit facility.

7. Methodology

Two different questionnaires have been developed, one for customers and the other was for Islamic bank employees. This is due to the awareness level of Islamic bank employees must be better than the customers and therefore the awareness level of both target groups cannot be correctly determined through a single questionnaire with the same level of questions.

The data for this study is being collected through these two separate structured questionnaires drafted in English and also translated into two local languages, Pashto and Farsi. There are sixteen local and foreign banks operating in Afghanistan, only 8 of them have opened the Islamic banking windows. For the purpose of this study, five banks have been selected randomly whereby 3 selected branches were chosen from each bank. In each branch, the researchers have interviewed 2 employees and 20 walk-in customers, 10 customers with 2 employees from Islamic banking window and 10 customers from conventional banking window. Thus, the total sample size is 330 respondents from 15 branches of 5 different banks. It is worth mentioning that we have conducted this survey only in Kabul province, because it is the capital and the largest city of Afghanistan.

7.1. Sample Size Determination

The researchers wish to keep margin of error not exceeding 6% and adopted the following standard formula for calculation of sample size (Freedman et al. 2002).

$$\sqrt{\mu} = t_x \times \frac{s}{e}$$

Where 'μ' in sample size S is standard deviation, e is margin of Error and t_x is the value of t statistic. Corresponding to the required significance level which we take 95%, so we have $t_x = 1.96$

And

$$\begin{aligned}\sigma &= 0.5 \\ e &= 0.06\end{aligned}$$

Putting these values, the result is

$$\begin{aligned}\sqrt{\mu} &= \frac{1.96 \times 0.5}{0.06} \\ \mu &= 266\end{aligned}$$

Therefore, the sample size should be larger than 266 for the required accuracy. Therefore, we take $\mu = 330$. Since banks were hesitate in providing data, the researcher used purposive sampling method to ensure the following composition of the respondents. It is worth mentioning that the following data composition is related to our sample size of 330. The following Table 2 and 3 show how this study has selected the sample

size within the customers and employees. As shown in Table 2, researchers have selected 10 customers from the conventional banking with 5 customers holding a business account and 5 non-business account holders. Table 3 shows the selection of employees' composition within Islamic banking windows where in each bank two Islamic banking employees were interviewed where one from the operations and the other from marketing.

Table 2: Composition of Sampling Method for Customers

| | Conventional Bank | Islamic Bank |
|--------------|-------------------|--------------|
| Business | 5 Customers | 5 Customers |
| Non-business | 5 Customers | 5 Customers |

Among the employees, the following composition is proposed for respondents.

Table 3: Composition of Sampling Method for Employees

| | Islamic Banking Window |
|-----------------|------------------------|
| Operating Staff | 1 Employee |
| Marketing Staff | 1 Employee |

7.2. Instruments

The developed questionnaire is divided into three sections, the first section was related to the respondents' demographic profile, and the second section contained questions about customers' understanding and awareness of Islamic banking as well as about their willingness to switch from conventional to Islamic banking. The third section was the bank selection criteria investigating the reasons behind dealing with Islamic and conventional banks. The developed questionnaire also contained Yes, No, and questions in Likert scale.

Since this study is an exploratory study in nature, descriptive analytical tools will be used to analyze the relationship between the customer's characteristics and bank choice. In addition, propensity score matching methods is used to test the relationship between the characteristics of customer and bank choice. Propensity Score Matching (PSM) is a statistical technique which involves estimating the effect of a treatment, policy, or other intervention by accounting for the covariates that predict the receiving of the treatment. In other words, PSM refers to the pairing of treatment and control units with similar values on the propensity score, and possibly other covariates and the discarding of all unmatched units (Rubin, 2001). In PSM the ideal comparison group is being selected such that matches the treatment group using either a comprehensive baseline survey or time invariant characteristics. In this technique all the matches are selected on the basis of similarities in observed characteristics.

8. Results and Discussion of Customer's Questionnaire

This study distributed 330 questionnaires out of which 286 were returned and usable. In the questionnaire, a question to determine the purpose of holding an account with banks were included. It was found that most of the respondents opened their accounts only for the safekeeping of their money, as shown in Figure 1.

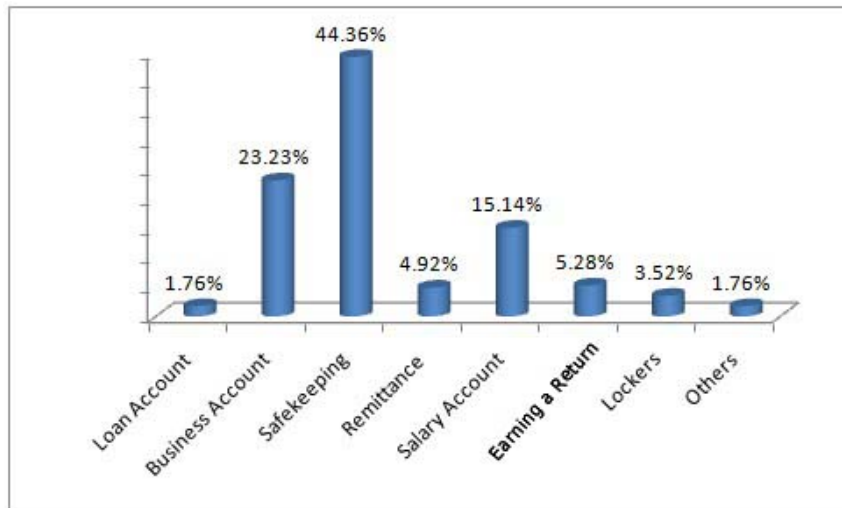


Figure 1: Purpose of Account

The above result provides a rough idea of why Afghan customers are visiting banks. It can be seen here that a large proportion of the respondents have opened the current accounts just to keep their money safe, conventional banks are free to invest in whatever business that seems profitable to them, it means there is no limitation of *halal* and *haram*. On the other hand, Islamic banks are restricted to *Shariah* compliant businesses. As Muslims, when the money is kept by the conventional bank on the basis of a current account, the conventional bank might invest the money in *haram* businesses such as cooperating in committing sin and rancor. In Quran (5:2) Allah says, “Help one another in righteousness and piety, but don’t help one another in sin and aggression”. If Islamic banks can convince people and let them know the difference between holding a current account with these two types of banks, definitely people will convert to Islamic banking as there is a chance of helping someone in sin which is forbidden following the Quran.

8.1. The Result of Whether or Not People Heard About Islamic Banking

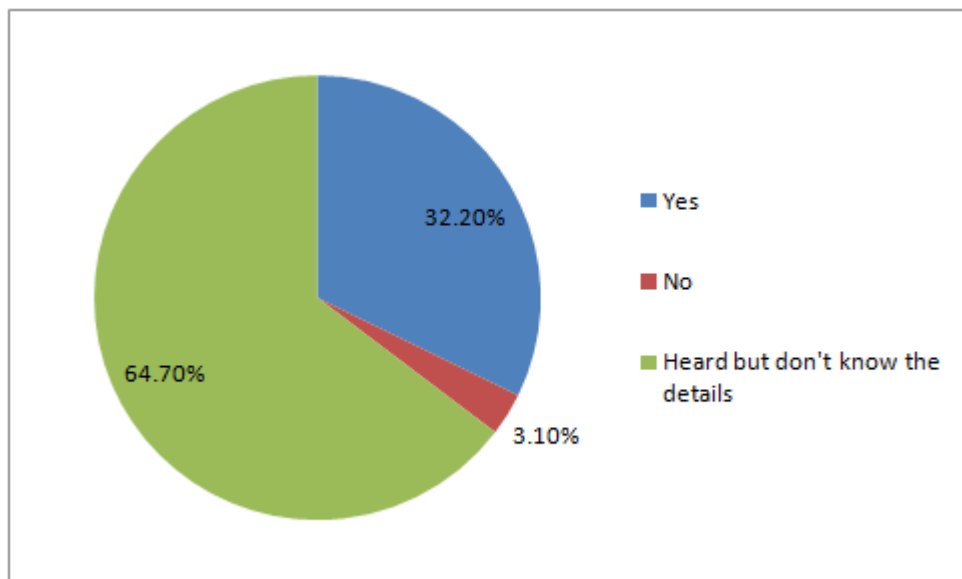


Figure 2: Whether or Not People Heard About Islamic Banking

Figure 2 shows the Islamic banking awareness level of the respondents. In percentage form, 32.2% of respondents declared that they heard about Islamic banking, 3.1% haven't heard about Islamic banking, and 64.7% say that they heard about Islamic banking but they do not know the details. A great proportion of the respondents said they have heard about Islamic banking but do not know the details. It means, they could accept Islamic banking if properly conveyed.

8.2. The Result of How People Came to Know About Islamic Banking

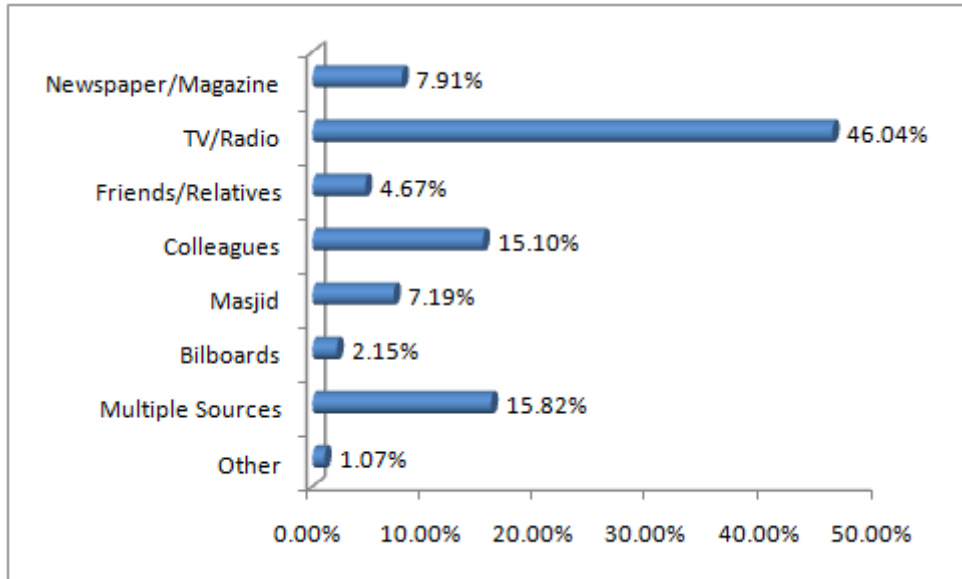


Figure 3: The Result of How People Come to Know About Islamic Banking

Figure 3 shows the respondent's medium through which they heard about Islamic banking. Out of hundred, 7.91% of the respondents heard about Islamic banking from Newspaper/Magazine and the remaining 46.04% TV/Radio, 4.67% Friends/Relatives, 15.10% Colleagues, 7.19% Mosque (Masjid), 2.15% billboards, 15.82% multiple sources, 1.07% from other sources. Most of the respondents declared that they have heard about Islamic banking on TV/Radio. Therefore, in order for the Islamic banking industry to attract more customers, the marketing managers of Islamic banks should focus on investing on television ads.

8.3. The Most and Least important Reasons Behind Dealing With Islamic Banking

In order to determine the reasons behind the dealing with the two types of banking, two questions were included, one for Islamic banking customers and the other was for conventional banking customers. Both of these questions contained seven different possible reasons and the respondents were asked to rank their reasons accordingly. Figure 4 below shows the respondent's answers as to why they have preferred opening their account with an Islamic bank. They were supposed to write (1) in front of their first reason, (2) for their second reason and so on up to seventh reason.

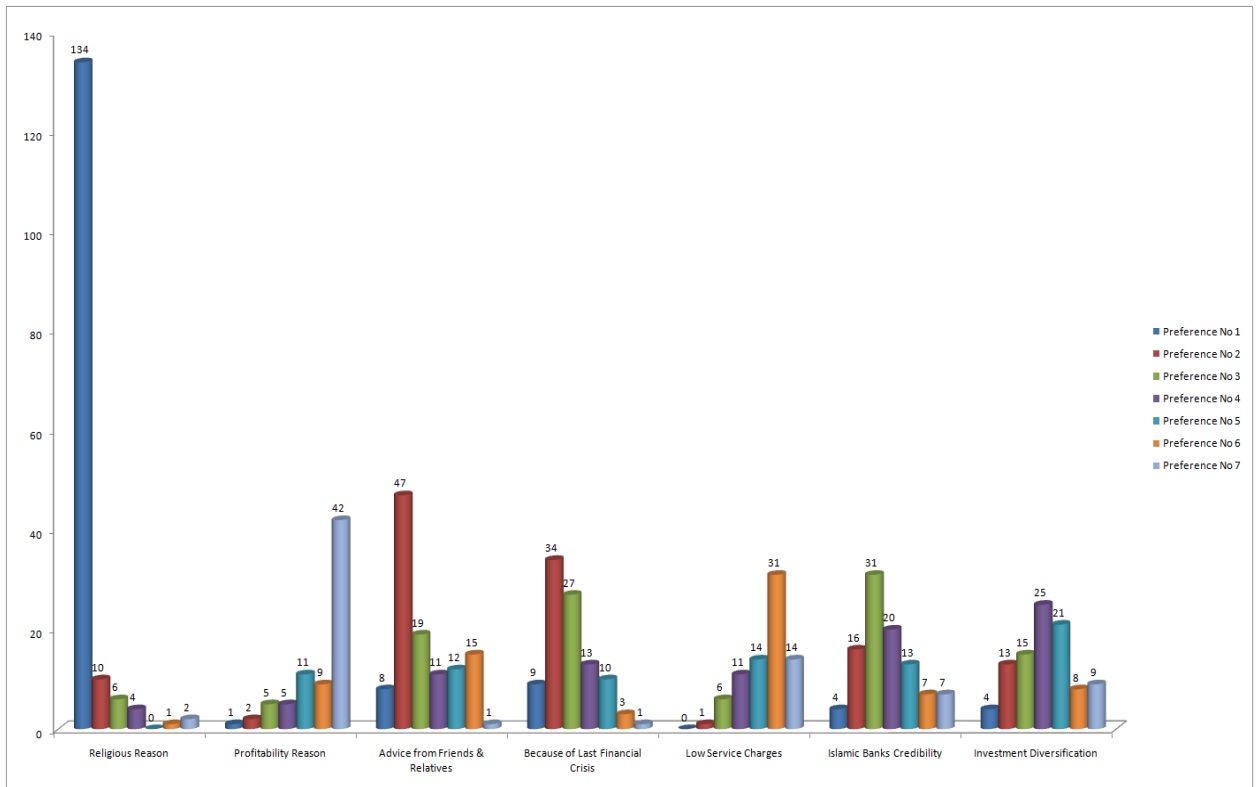


Figure 4: Most and Least Important Reasons behind Dealing with Islamic Banking

To summarize the above Figure, the highest pillar (Religious Reason) was selected by 134 respondents as the first factor which means, majority of the respondents have opened up an Islamic banking account because of religious factor. The remaining factors includes, advice from friends, the financial crisis in 2008, Islamic banks credibility, and investment diversification that has influenced the respondents up to some extent. Lastly, the profitability and service charges factors have a little influence on the customer’s choice in selecting Islamic banks as shown by the shortest pillars in the chart.

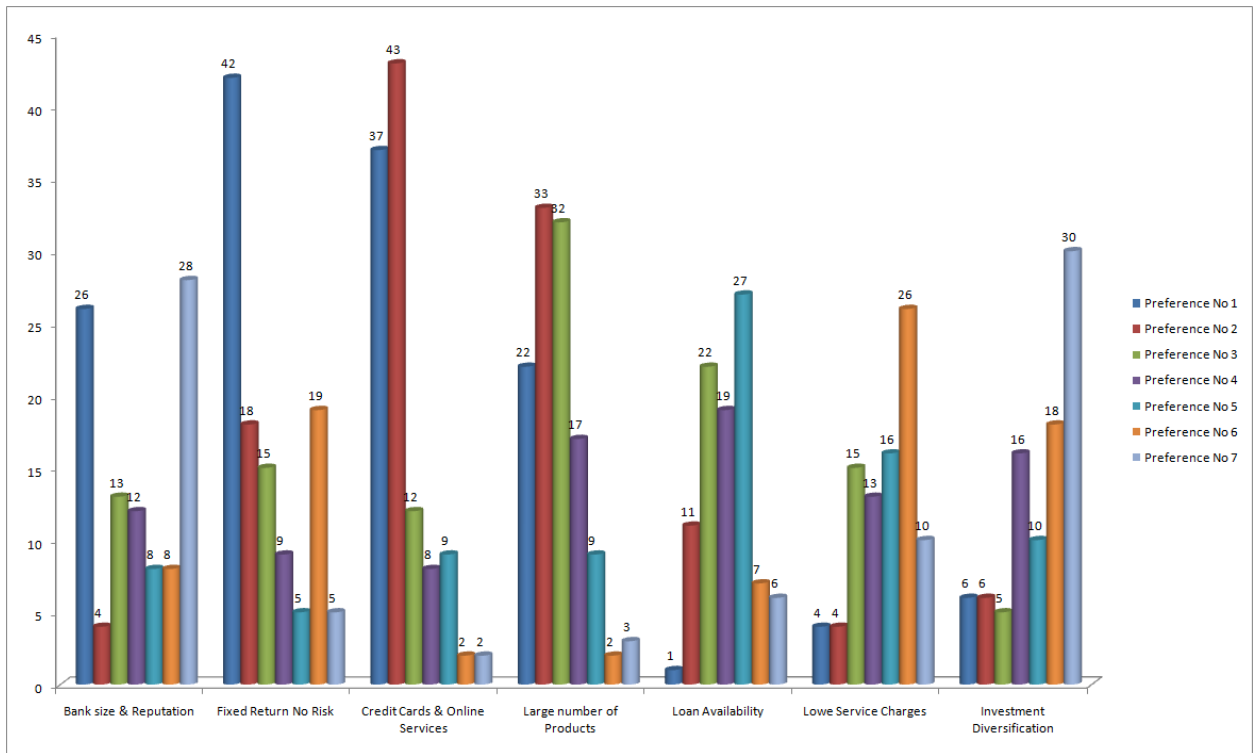


Figure 5: Most and Least Important Reasons behind Dealing with Conventional Banking

The second question in this part is related to determining the reasons of the customers who opened their bank accounts with conventional banks. Seven (7) possible reasons were provided in this section for the respondents to choose. To summarize the above Figure 5, out of the total respondents, only 99 conventional banking customers responded to this question and most of them selected the 2nd, 3rd and the 4th given factors (Credit Cards & Online Banking Services, Large number of Products, and Fixed Return) as the main reasons for opening their accounts with a conventional bank. It means that these three factors have significantly influenced the customer’s choice in opening their account with a conventional bank and the remaining four factors have no great influence on the customer’s choice towards conventional banking.

8.4. The Willingness of Switching from Conventional to Islamic Banking

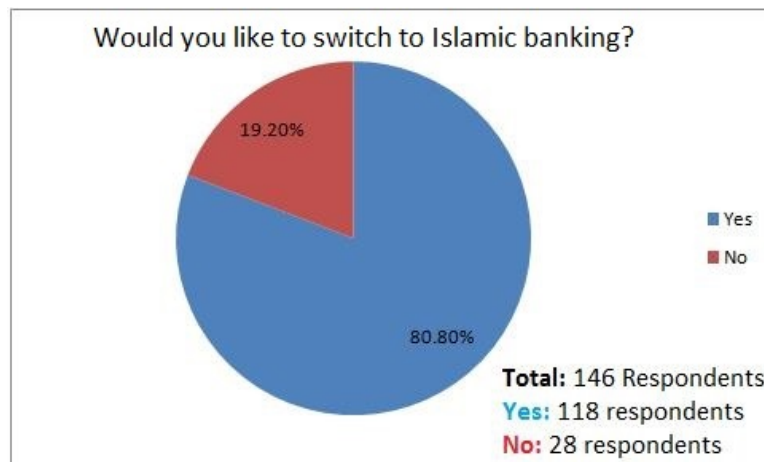


Figure 6: The Willingness of Conventional Banking Customers about Switching to Islamic Banking

A part has been included in the questionnaire to determine the future willingness of the respondents about converting their conventional bank accounts to Islamic banking. The obtained result shows that out of 146 conventional banking customers, only 28 of them were not willing to do so because they believed that there is no difference between Islamic and conventional banking, and the remaining 118 customers were interested. In other words, 19.2% of respondents are not willing to switch their bank accounts and the remaining 80.80% are willing to switch their bank accounts from conventional to Islamic banking. It means that the majority of the respondents are interested in switching their banking account from conventional to Islamic banking. This result denotes that Islamic banks have a great opportunity to capture the market and they should continue developing new and different products and should extend the current range of facilities.

8.4.1. Respondent's Reasons for Converting to Islamic Banking

What are the reasons for switching from conventional to Islamic banking? To determine the reasons of the respondents, the following possible reasons were included in the questionnaire:

1. Conventional banks involve Interests.
2. Islamic Banks are safer than Conventional Banks.
3. Islamic banks offer more profit.
4. Islamic banks perform well than conventional banks.

The respondents were asked to choose their reasons from the above or they can provide any other reason(s) if they have. As a result, 45.87% of the respondents ticked reason number (Interest) as the first reason for switching to Islamic banking. This is because majority of the country's population are Muslims and most of them want to avoid interest. Based on this, it can be summarized that Islamic banking has a potential market in Afghanistan.

8.4.2. The Respondent's Reasons for not Converting to Islamic Banking.

What are the reasons for those who are not willing to switch from conventional to Islamic banking? In this part, the following possible reasons were provided and the respondents were asked to choose their reasons and also to provide any other reason(s) as they think necessary.

1. There is no difference between Islamic and Conventional Banking.
2. Conventional Banks offer more products.
3. There is no risk involved in Conventional Banks
4. Islamic Banks do not extend loans.

The obtained result shows that 37.21% of the respondents ticked reason number one (There is no difference between Islamic and Conventional Banking) as the first reason for not switching to Islamic banking and this indicates a lack of awareness regarding Islamic banking among the banking customers. Now, it is the responsibility of Islamic bank managers to focus on marketing strategies and convince them that Islamic banking is totally different from conventional banking. Respectively, 27.91% of respondents ticked reason number three (No Risk) as a second reason for not switching to Islamic banking. They declared that conventional banks entail no risk and for this reason they would not switch to Islamic banking product. Next, 20.93% of the respondents declared that they would not switch to Islamic banking because of availability of different products. Here, if Islamic banks extend the number of their products, a larger number of customers will surely switch to Islamic banking. The remaining 13.95% of the respondents declared that they would not switch to Islamic banking because of the availability of loans. Thus, it is believed that if Islamic banks develop new products and fulfill different financing needs of the customers then surely these respondents will switch to Islamic product as well.

9. Result and Discussion of Employees Questionnaire

A separate questionnaire was developed to check the awareness level of Islamic bank employees regarding Islamic banking concepts, because we could not measure the awareness level of Islamic bank employees through the same questionnaire designed for unprofessional and general customers. Rather than the basics, here we have included a few questions about the modes and other concepts of Islamic banking and below are the results.

Among the total employees of Islamic banking industry, 63.7% of them were bachelor degree holders, 13.30% were Master degree holders, 3% PhDs, and the remaining 10% were 14 years institute graduates. In order to check their awareness level, their responses regarding the general modes of Islamic banking contracts were checked. To achieve the required results, a kind of puzzle were designed by giving them six definitions of different contracts without the names, and they were asked to name the said contract. The result is summarized in Figure 7.

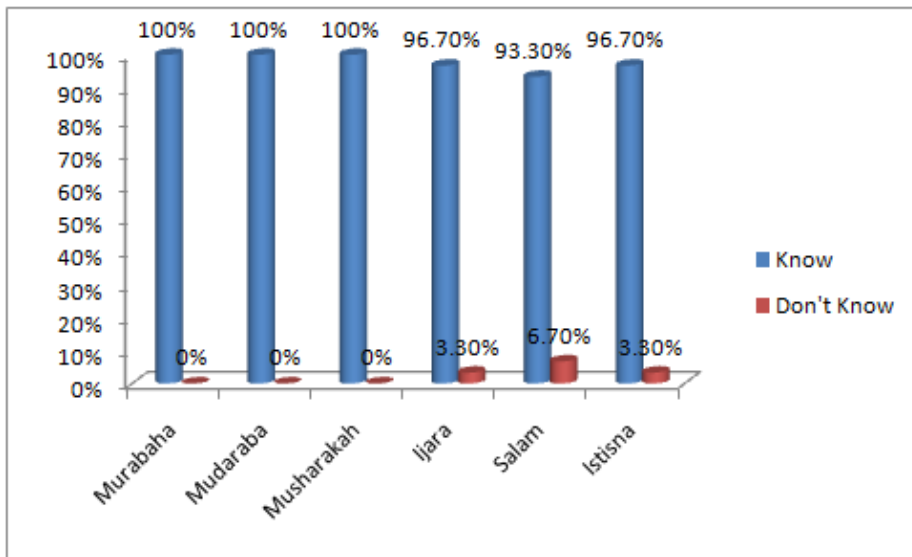


Figure 7: Islamic Banking Concepts

As can be seen in Figure 7 above, most of the Islamic banking employees could differentiate between the basic given modes of Islamic contracts. Next, the employees were asked on *Ijarah Muntahiyah Bittamlik* (إجارة منتهية بالتمليك) and Diminishing Musharakah (مشاركة متناقصة).

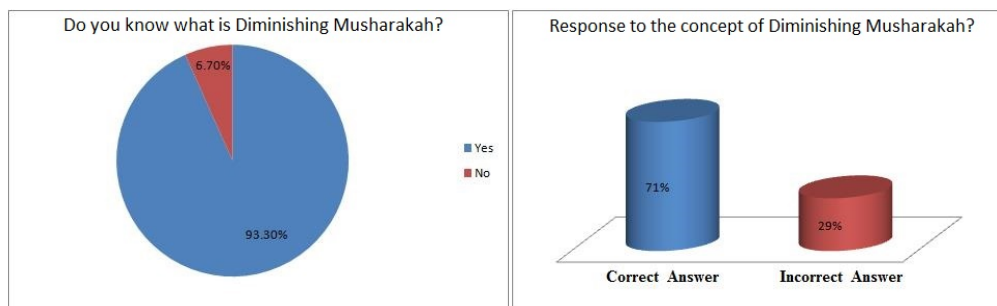


Figure 8: Awareness of the Islamic Banking Concepts

First, the employees were asked if they know about the concept of Diminishing *Musharakah*. It can be seen in the chart on the left, 93% claimed they are aware of the concept. As a second part of this question, multiple choice questions with four different definitions were asked and the respondents were supposed to identify the correct one. 71% of them could answer correctly as in the above right-side chart. The same pattern was applied for the concept of *Ijarah Muntahiyah Bittamlik*, this time 86% of the respondents claimed they know about the concept, but when the details were asked, 77% of them could answer correctly and the remaining 23% could not.

9.1. Summary of Results (Employee’s Questionnaire)

A greater part, 97% of the Islamic bank employees constituted males and a majority of them were bachelor degree holders with no Islamic educational backgrounds. Most of them knew about the basic modes of Islamic banking like, *Murabahah*, *Musharakah*, *Mudarabah*, *Salam*, *Istisna* and *Ijarah* but some of respondents did not know about the developed modes of Islamic banking like Diminishing *Musharakah* and *Ijarah Muntahiyah Bittamlik*. The researchers feel that there is a need for capacity building programs on different levels.

10. Conclusion

The outcome of this study reveals that most of the bank customers were young males and middle incomes, majority of them were private and government employees with a bachelor's degree or 16 years of educational backgrounds. Most of them declared that they have opened their bank accounts just for safekeeping of their monies, and a few of them maintained their bank accounts for business purposes.

This study is mainly carried out to understand the determinants of bank choice in a dual banking environment in Afghanistan. The main subject of this study, the bank selection criteria is one of the interesting topics discussed by researchers in different countries obtaining different results. In Kuwait, Egypt, Nigeria, Malaysia, Jordan, Bahrain and Pakistan they have concluded that most of the customers have opted Islamic banking because of having trusted *Shariah* Board, quick services, bank efficiency, size of bank's assets, accessibility, religion, rate of return, bank reputation and effective management.

The result of this study shows that religion is the highest priority before an individual decides to opt to an Islamic bank. Factors like advice from friends, financial crisis of 2008, Islamic banks credibility, and investment diversification have also influenced the respondents but to a small extent. On the conventional banking side, most of the respondents indicated that they have opted for conventional banking because of having Credit Cards, Online Banking Services and large number of products. So, these results require Islamic banks to remain competitive in the market by offering new Islamic banking products as per the customer needs.

Likewise, when the conventional banking customers were asked about their future willingness to switch to Islamic banking, 80% of them showed interest for switching, if they are offered modern banking facilities in the platform of interest free banking, and the remaining 20% were not interested believing that there is not difference between Islamic and conventional banking. This perception indicates a lack of awareness regarding Islamic banking products, otherwise they would also be interested. This result requires Islamic banks to develop effective marketing strategies, as most of the conventional banking customers will switch to Islamic banking if they could differentiate between Islamic and conventional banking products. The last part of the questionnaire was to take the views of Islamic bank employees regarding the reasons for the slow growth of Islamic banking in Afghanistan, the finding to this part is included in the appendix.

11. Recommendations

As has been determined, most of the customers are not aware of Islamic banking products and concepts. Therefore, the researchers feel that Islamic banks should seek to sustain their positions in the market by focusing on developing new marketing strategies, arranging certain seminars to ensure that their products are properly introduced and differentiated from that of conventional banking products. They need to ensure their service quality, as this will entail customer satisfaction and ultimately customer loyalty. They need to be competitive by offering good quality products and services as per the market needs and should not just rely on their "Islamic image" for attracting customers.

After determining the customer's priorities in opting for a bank, Islamic banks should focus on those determined factors and provide all those facilities which can attract new customers. As mentioned above, most of the customers declared religion as the first reason for dealing with Islamic banks. Therefore, Islamic banks should inform the general public and customers regarding interest and its consequences in Islam, and they should assure customers that Islamic banking is an interest-free system. Some of the customers opted for conventional banks because of having a wide range of facilities. Therefore, in today's highly competitive banking industry, Islamic banks should consider different products provision to customers and know their needs and expectations.

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Appendix

The Last Part of Employee's Questionnaire

In the last part of employee's questionnaire, we asked Islamic banking employees to tell us about the reasons for slow growth of Islamic banking in Afghanistan. Below are the acquired reasons.

The possible reasons for slow growth of Islamic banking in Afghanistan are as follow:

1. Limited investment opportunities for Islamic banks.
2. Trust on agent is one of the big problems for Islamic banks.
3. Most of the *Shariah* board members are not aware of banking procedures, they are only aware of *Shariah*.
4. Insufficient Islamic banking services.
5. Customer's wrong perception about Islamic banking.
6. Fixed profit rate from central bank of Afghanistan, there is no standard like KIBOR or LIBOR.
7. It is perceived by customers that, Islamic banking has a complex process, it is easy and less time consuming to get loan from conventional banks.
8. Bank owners are just looking for profit, they have no intention of *halal* and *haram*.
9. *Shariah* board problems on profit distribution method.
10. Public awareness about Islamic banking.
11. Lack of professionalism.
12. Trust on banking sector in general.
13. No sufficient and proper support from government.
14. There is no attention for government bodies to work and support Islamic banking.
15. Non familiarity of people with banking system.
16. Security and political situation of the country.
17. Strong support of business men for conventional banking.
18. Lack of Islamic banking experts.
19. Foreigner customers/Investors are not interested in Islamic banking.
20. After Kabul bank crisis, people don't trust banks.
21. Islamic scholars are not involved in Islamic banking, most of them don't discuss *riba* in their speeches.
22. Generally slow growth of economy.
23. Islamic banking is something new in Afghanistan, it will take more time.
24. No sufficient marketing for Islamic banking.
25. Lack of Islamic banking associations and unions.
26. Lack of trust and confidence of customers on Islamic banking.
27. Bank owners are not much interested in converting their banks to Islamic.