

STUDENT BANKING CHOICES: UNDERSTANDING ATTITUDES TO ISLAMIC AND CONVENTIONAL BANKS IN KUWAIT

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ABSTRACT

We examine university students' banking preferences as these new customers choose between Islamic or conventional options. We also explore the reasons behind their banking choices, their perceptions of the differences between these two types of banks and their levels of satisfaction with their choice. We deploy a survey questionnaire to a sample of mixed gender students (n=503). Descriptive statistics analyze whether choices, difference perception and satisfaction are influenced by major program followed. Results show that Islamic banks were the preferred choice among the sample and that this type of bank was chosen for religious reasons. Where students chose conventional banks, social reasons were given. Satisfaction levels were higher among Islamic banking customers. The findings offer fresh insight into the attitudes towards banking among an important subpopulation in Kuwait. Findings also confirm the level of interest among younger banking customers for Islamic banking. The implications will be of interest to those currently offering or seeking to offer banking services to this group as well as researchers working in the field of consumer banking preferences.

Keywords: Islamic banks, Conventional banks

BACKGROUND

Retail banks around the world recognize the importance of the university student customer segment. In Kuwait, 112,595 students were enrolled at universities at the end of the 2018/19 academic year, accounting for 8.5% of Kuwaiti citizens (Kuwait Central Statistical Bureau, 2019). University students represent an important segment for retail banks as they may be opening their first bank account and could potentially remain customers for many decades. Furthermore, this group are, on average, more likely to occupy high income groups in the future. A further consideration is the digitalization of banking services which meets the demands of educated students familiar with these new technologies.

While Islamic banking and finance in Kuwait can trace its roots to the 1970s (GIFR, 2018) it is only more recently that Islamic retail banking has become a serious rival to conventional banking. Confirming this trend, in the first half of 2020, data demonstrate that Islamic banks were experiencing faster growth than conventional counterparts. Market share, expressed as percentage of sector assets held reached 42% (FitchRatings, 2020). With five Islamic retail banks and five conventional retail banks (Central Bank of Kuwait, 2021a), Islamic banking is set to be a major feature of the banking sector in Kuwait throughout the lives of today's student population.

Understanding the perceptions of this important group towards the strategically important retail banking sector is therefore a justified area of research. In particular, the rise of Islamic banking and the response to it among both consumers and investors has attracted research interest (Di et al., 2021). Research has provided evidence that Islamic banks performed better

during and after the global financial crisis and are more grounded in the real economy than conventional alternatives with the former having a close relationship with GDP (Abduh & SaeedIssa, 2018). Almutairi (2010) examined the choice between conventional and Islamic home financing provision in Kuwait and found that despite their relative newness the Islamic finance choice was well-received and on a rising trajectory.

Research objectives

The banking sector is the second largest sector of the Kuwaiti economy after oil and gas extraction (Central Bank of Kuwait, 2021b). It is also a leading source of employment. This study aims to identify the banking choices of university students, whether they were Islamic or conventional, the influence of their choice of major, the reasons behind their choice how likely they are to recommend their bank to others.

Research questions

The following research questions were set to delimit the study:

1. What is the distribution of university students in terms of their choice of Islamic and conventional banks?
2. What are the reasons that led university students to their banking choices?
3. Do university students perceive the type of bank (Islamic and conventional) as influential for their banking experience?
4. Do university students feel satisfied with their banking choices?

METHODS

The study adopted survey methodology to collect data from the mixed gender student population of the college of business studies at the public authority for applied education and training. This population was following one of 6 majors: Banking, law, computer, accounting, insurance and business administration. The population represented a knowledgeable one judged as being able to make informed decisions regarding their personal banking arrangements.

A 5-item paper questionnaire (see Appendix 1) was physically distributed and subsequently collected at the campus. Of the 600 questionnaires distributed, a total of 503 usable questionnaires were returned (83.8%). Descriptive statistics were generated using the SPSS application.

RESULTS

Table 1 shows the distribution of respondents according to their majors and choice between Islamic and conventional banks. The results show that 78% of the students had accounts with Islamic banks, whereas 22% of the students had accounts with conventional banks.

Major	Islamic bank		Conventional bank		Total
	n	%	n	%	

Banking	89	71%	37	29%	126
Law	178	79%	47	21%	225
Computing	29	78%	8	22%	37
Accounting	58	82%	13	18%	71
Insurance	16	84%	3	16%	19
Administration	20	80%	5	20%	25
Total	390	78%	113	22%	503

Table 2 presents the reasons that led students to choose Islamic banks. The religious category is considered the main reason for the students to choose Islamic banks (40%) followed by the social category (24%). This was followed by marketing (14%) and then the geographic (13%). One in ten stated another reason.

Major	Reasons for choosing the Islamic banks										Total
	Religious		Geographic		Social		Marketing		Other		
Banking	32	37%	12	14%	20	23%	14	16%	9	10%	87
Law	67	38%	23	13%	48	27%	26	15%	13	7%	177
Computing	15	52%	4	14%	5	17%	3	10%	2	7%	29
Accounting	27	47%	10	18%	5	9%	9	16%	6	11%	57
Insurance	5	31%	2	13%	6	38%	0	0%	3	19%	16
Administration	6	33%	1	6%	5	28%	5	28%	1	6%	18
Average %	40%		13%		24%		14%		10%		384

Table 3 presents the reasons that led students to choose conventional banks. The social category is considered the main reason for the students to choose conventional banks (41%), followed by the geographic category (29%), marketing (14%), and the religious category (8%). Finally, 7% indicated another reason.

Major	Reasons for choosing conventional banks										Total
	Religious		Geographic		Social		Marketing		Other		
Banking	2	6%	10	28%	15	42%	6	17%	3	8%	36
Law	2	4%	6	13%	22	48%	12	26%	4	9%	46
Computing	0	0%	3	38%	3	38%	1	13%	1	13%	8
Accounting	0	0%	3	23%	7	54%	1	8%	2	15%	13
Insurance	0	0%	1	33%	2	67%	0	0%	0	0%	3
Administration	2	40%	2	40%	0	0%	1	20%	0	0%	5
Average %	8%		29%		41%		14%		7%		111

Table 4 reports the extent to which respondents perceived that bank type influences their experience as customers of that bank. The results showed that most students (61%) believe that

bank type makes an important difference, with only 11% indicating that it did not. A significant 28% responded 'don't know'.

Major	All Customers						Total
	Important difference		No difference		Don't know		
Banking	79	63%	17	13%	30	24%	126
Law	129	57%	39	17%	57	25%	225
Computing	25	68%	4	11%	8	22%	37
Accounting	40	56%	10	14%	21	30%	71
Insurance	10	53%	1	5%	8	42%	19
Administration	17	68%	1	4%	7	28%	25
Average %	61%		11%		28%		503

Table 5 reports whether students who are customers of an Islamic bank believe that bank type influences their experience as customers of that bank. For 64% of respondents bank type was an influence on their experience whereas a lower 10% thought bank type made no difference. A sizeable 27% responded 'don't know'.

Major	Islamic bank customers						Total
	Important difference		No difference		Don't know		
Banks	58	65%	8	9%	23	26%	89
Law	111	62%	27	15%	40	22%	178
Computer	19	66%	4	14%	6	21%	29
Accounting	34	59%	8	14%	16	28%	58
Insurance	9	56%	1	6%	6	38%	16
Administration	15	75%	0	0%	5	25%	20
Average %	64%		10%		27%		390

Table 6 reports whether students who are customers of a conventional bank believe that bank type influences their experience as customers of that bank. For 48% of respondent's bank type was an influence on their experience whereas a lower 14% thought bank type made no difference. A sizeable 36% responded 'don't know'.

Major	Conventional bank customers						Total
	Important difference		No difference		Don't know		
Banking	21	57%	9	24%	7	19%	37
Law	18	38%	12	26%	17	36%	47

Computing	6	75%	0	0%	2	25%	8
Accounting	6	46%	2	15%	5	38%	13
Insurance	1	33%	0	0%	2	67%	3
Administration	2	40%	1	20%	2	40%	5
Average %	48%		14%		38%		113

Table 7 shows whether students who are customers of either Islamic and conventional banks would recommend their bank to others. The results show that most (68%) would do so. Only 3% of respondents would not recommend their chosen bank to others while a significant 29% responded 'don't know'.

Major	Likely to recommend-Customers of both banks						Total
	Recommend		Don't recommend		Don't know		
Banking	79	63%	4	3%	43	34%	126
Law	149	66%	6	3%	70	31%	225
Computing	26	70%	0	0%	11	30%	37
Accounting	47	66%	1	1%	23	32%	71
Insurance	16	84%	0	0%	3	16%	19
Administration	15	60%	2	8%	8	32%	25
Average %	68%		3%		29%		503

Table 8 shows whether students who are customers of Islamic banks would recommend their bank to others. The results show that most (71%) would do so. Only 3% of respondents would not recommend their chosen bank to others while a significant 28% responded 'don't know'.

Major	Islamic bank customers						Total
	Recommend		Don't recommend		Don't know		
Banking	59	66%	1	1%	29	33%	89
Law	127	71%	5	3%	46	26%	178
Computing	21	72%	0	0%	8	28%	29
Accounting	41	71%	0	0%	17	29%	58
Insurance	14	88%	0	0%	2	13%	16
Administration	12	60%	0	0%	8	40%	20
Average %	71%		1%		28%		390

Table 9 shows whether students who are customers of conventional banks would recommend their bank to others. The results show that just more than half (56%) would do so. One in ten respondents would not recommend their chosen bank to others while a substantial 34% responded 'don't know'.

Major	Conventional bank customers						Total
	Recommend		Don't recommend		Don't care		
Banking	20	54%	3	8%	14	38%	37
Law	22	47%	1	2%	24	51%	47
Computing	5	63%	0	0%	3	38%	8
Accounting	6	46%	1	8%	6	46%	13
Insurance	2	67%	0	0%	1	33%	3
Administration	3	60%	2	40%	0	0%	5
Average %	56%		10%		34%		113

DISCUSSION AND IMPLICATIONS

Among our sample of college of business studies students, nearly eight out of ten had opted for an Islamic bank, a far greater market share than in the general population. Religion was shown to be the most powerful motivator for the choice of an Islamic bank. A general population survey of Islamic banking customers showed religious motives were significant but ranked fifth behind quality of service, low service charges, responsive staff and recommendations from friends and family (Al-Hunnayan & Al-Mutairi, 2016). A second general population survey of existing Islamic banking customers in Kuwait recorded high ratings for these banks across a range of service-based indicators such as ATM availability, ease of deposit and withdrawal, convenient hours, electronic services and a pleasant experiences. Adherence to Sharia principles also rated highly (AbuAlsoud & Abdallah, 2013). We can conclude that among the university students in our sample demand for Islamic banking is strong and, for many, religiously inspired. Customers of Islamic banks were also more likely to perceive the type of bank as being an influence on their banking experience. Students choosing an Islamic bank also reported experiencing higher levels of satisfaction as demonstrated by their greater willingness to recommend their bank to friends and family than their counterparts at conventional banks.

An earlier study of Bahraini students of a similar age to the sample in the present study investigated what these potential banking customers most valued in a bank. Although bank reputation featured strongly, practical considerations prevailed including parking availability, staff friendliness and ATM availability (Almossawi, 2001). A study examining the choice between Islamic and conventional banks in Bahrain found that while service related factors were important to customers of both types of bank religious factors had a stronger influence for those who chose Islamic banks, a finding in line with the current study (Al-Ajmi et al., 2009). For the student market segment it appears that Islamic banks have successfully managed the balancing act of providing satisfactory and innovatory services while adhering to the fundamentals of Shariah law.

The current study adds an important contribution to the understanding of the current strength and future potential of Islamic retail banking services in Kuwait and by generalization the wider Gulf region. In particular, the attitudes of the crucial student segment has been examined. The findings will be of interest to those involved in providing retail banking services in either Islamic or conventional banks as well as those researching in this field. For Islamic banks, the importance of ensuring a strong reputation and the maintenance of robust Shariah principles has been emphasized by this study.

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