

CUSTOMER'S AWARENESS TOWARDS THE ISLAMIC BANKING SYSTEM

Case Study on Selected Banking in Duhok City- Kurdistan Region

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ABSTRACT

Islamic banking system (IBS) is one of these sectors that affect the economy and it works with free interest rate. This study investigates the level of customer's awareness toward IBS. The study was conducted on the two Islamic Banks only in Duhok city- Kurdistan Region. The data were collected using structured questionnaire and the sampling was random. Descriptive statistics and Statistical Package Social Science (SPSS V.20) were used to analyze the participants' responses. The results indicated that customers of Cihan Islamic bank - Duhok and Kurdistan International Bank for Investment and Development are not fully aware of Islamic banking system. Therefore, the study suggests that for Islamic banks to remain active and competitive they need to develop quality-service level in order to supersede the conventional banking standards, invest in new products and services and also develop an effective communication plan by advertising and marketing in order to achieve Islamic customer needs and demands.

KEYWORDS: Customer's Awareness, Islamic Banking System (IBS), Islamic Banking Operation, Duhok - Kurdistan Region.

1. INTRODUCTION

Islam is the next largest religion worldwide, which comes after Christianity. Muslims are approximately 1.8 billion people and the majority of them are in the Middle East and in parts of Africa and Asia. In addition, some have migrated to the other parts of the world (Saini, Bick & Abdulla, 2011). Muslims are nearly existences in all over the world and most of them are keen to lead their lives according to Islamic *shariah* (Khan & Asghar, 2012). Therefore, Islamic banking system has been opened and operated in many countries alongside conventional bank. For instance, Citibank have created new sections to cater to Muslim customers by offering various products, primarily financing Business (Lue & Ahmad, 2010). IBS has become one of the important forces that participate in universal financial circle for the last thirty years. In other words, it can be found in over seventy countries worldwide (Khan, 2010). IBS has converted Islamic banks from an obscure financial experiment into an important factor in global finance. It posed a challenge to bankers because of the improvement of *Shariah* compliance (Luo & Ahmad, 2010; Ahmad & Bashir, 2014). The definition of Islamic banking system (IBS) has been argued by the organization of the Islamic conference as "a financial institution whose statutes, rules and procedures expressly state its commitment to the Principles of Islamic *Shariah* and to the banning of the receipt and payment of interest on any of its operations" (Hassan, 1999: 60). Likewise, IBS is also defined as "a non-interest based financial institution which complies fully with Islamic Laws and has creative and progressive financial engineering to offer efficient and competitive banking, investment, trade finance, commercial and real estate financing services" (Haque, Osman & Ismail, 2009: 922). The main aim of IBS is to foster welfare of prosperity, justice, and mankind and to protect religious life. Islamic banking system is facilitated by Islamic law to grow as well as to get the needs of financial markets (Khan & Asghar, 2012). IBS considers customers as the most important stakeholders in the system, thus the level of awareness plays a vital role. However, awareness level differs from one customer to another depending on demographic factors. Furthermore, customers' awareness plays a significant

role in the extremely competitive market worldwide (Ahmad & Bashir, 2014).

According to Cook, Hababou, and Roberts (2000), IBS is a new endeavor comparing to conventional bank. This system has grown so fast and competed with conventional bank in many areas at the moment. IBS offers products and services allowable in Islamic *sharia* whereas conventional bank offer products and services according to interest basis (AbdulQawi & Lynn, 2001; Abedifar, Molyneux & Tarazi, 2013). Dar & Presley (2000) advocated that Islamic and conventional banks are in reality the same except *riba* (interest). As stated by Khan & Asghar (2012), Islamic bank is based on *Shariah* Law and is not merely about maximum profit but are more about indorsing Islamic values, whereas conventional bank is toward profit maximization, borrowing and lending but with regard to cost efficiency.

In Kurdistan region, very little research is conducted on evaluating the level of customer's awareness towards IBS. Therefore, the current study aims to examine customers' awareness toward IBS in Duhok city.

1.1 Research Questions

The Islamic banking system has existed for a long time (nearly a half century), but many people around the world are still unaware of the Islamic banking products and services even though majorities of the Muslims community are aware of such products. Besides, the lack of awareness about Islamic banking product and services made differing opinions. As stated by Cheteni (2014: 98) said that "a product or services may be accepted by one individual and be considered un-Islamic by another, showing a major rift between the Muslim community and Non-Muslim". Therefore, this study attempts to answer the following questions:

- 1- Do the customers of Islamic banks understand the context of awareness towards Islamic banking system?
- 2- Are the customers of Islamic Banks aware of the Islamic banking products?
- 3- Is there an opportunity to grow a system of Islamic banking in Duhok city?

1.2 Research Objective

The main objective of this study is to find out level of customers' awareness towards the Islamic banking system in Duhok City – Kurdistan Region; the specific objectives of this study are:

- 1- To analyze the context of awareness regarding Islamic banking system,
- 2- To evaluate the level of customer's awareness about the basic of Islamic banking product, and
- 3- To investigate the growing area of Islamic banking system in Duhok city.

1.3 Research Hypotheses

The main hypothesis of the research is that customers of selected banks sample have awareness to some extent towards Islamic banking. Further, this hypothesis divided into three sub hypotheses which are:

- 1- Customers of selected banks sample, are assumed that have awareness about Islamic Banking Operation within Duhok City – Kurdistan region.
- 2- Customers of selected banks sample, assumed that the Potential of Islamic Banking system would expanded in Duhok City – Kurdistan region.
- 3- Islamic Banking Products are clear to Customers of selected banks sample within Duhok City – Kurdistan region.

2. LITERATURE REVIEW

2.1 Islamic Banking Products

Islamic banking system (IBS) offers various kinds of products and services. El-Gamal (2000), Ramdhony (2013), and Hassan (2015) have identified the products provided by IBS, which are acceptable according to Islamic laws, as follows:

2.1.1 Sukok (Islamic Bonds): Islamic banks use this product to increase their funds in order to invest in business activities and then sukok holders can get profit from project income. A sukok that contains interest bearing and fixed income is prohibited according to Islamic Shariah (Nanava, 2007).

2.1.2 Murabaha (Cost plus Trade Financing): According to Ahmed Rahman and Ahmed (2006), and IBBL (2008), Murabaha is a type of credit trade in which the bank performs as a median between the seller and customers. In other words, bank attempts to buy the goods from the seller then resell what they bought to the customer (what they need from the bank to buy) on a contract that includes the specified time to pay and sale price plus profit margin, no charge or added interest is applied when the buyer delays the payment to the bank.

2.1.3 Mudaraba (Finance trusteeship):

As stated by Siddiqi (2004), any customer who has managerial or technical skills for running the business can get funds from Islamic banks. Under this form, the Islamic bank and the entrepreneur are sharing profit and loss on a specific agreed ratio. According to Rammal and Zurbruegg (2007: 3), in this product there is an agreement between two parties, where the first part (*Rabb-ul-mal*) offers funds to the second part (entrepreneur) for utilization in agreed manner. Execution and management of the project referred to as Mudarib are requested by the entrepreneur. The parties attain their income by sharing the profit of the project that has been divided on a proportional basis. They also confirm that “to fulfill the requirements of this contract the parties must decide on a rate for sharing of the profits prior to the commencement of the business activity” (Rammal & Zurbruegg, 2007: 3).

2.1.4 Takaful (Insurance): With reference to Ramdhony (2013), Islamic Shariah determines takaful. Islamic bank receives the amount of premium from the insurer when any loss or damage happens by him or her. Then, the bank tries to

invest the amount of premium in commercial activities according to Islamic laws.

2.1.5 Musharaka (equity partnership): This product is a type of partnerships among customers and the Islamic bank. Both partners provide the capital for the business, along with efforts in managing and other essential services (Garett, 2010). Additionally, Hassan argued that musharaka can be “similar to joint venture method of financing which designed for limited business activities. The percentage of capital contributed is a main base of the profit and loss ratio sharing among partners” (Hassan, 2015: 3). Musharaka refers to a joint partnership shaped for conducting business and all partners share loss with regard to the ration of the contribution, whereas the profit is shared with regard to a specific ration (Rammal & Zurbruegg, 2007).

2.1.6 Ijara (Leasing): Islamic banks and conventional banks are nearly the same in terms of this type of product. Yet, the main difference among them is the risk of leasing which in Islamic bank both the bank (lessor) and the customer (lessee) are sharing responsibility. Under this service bank try to lease to their customers from what they bought (asset or property) by installments for short or long leasing financing and then give the customers option to buy it in the end of the contract (Ramdhony, 2013).

2.2 Principles of Islamic Banking System

Khair, Gupta, and Shanmugam (2008) stated that IBS abides by Islamic law according to which interest rate is prohibiting even though it encourages profit-sharing. Generally, the Islamic banking system consists of several principles as follow:

2.2.1 Profit and Loss Sharing: According to Ali and Sarker (1996); Ahmed, Rahman and Ahmed (2006), Islamic bank depositor provides a number of sharing profits such as earning rental assets and returning upon capital invested. This principle is a fundamental element of conducting banking according to Shariah law when financing money in any trade (*halal*) financing person becomes a partner with the bank and shares profit as well as takes risks too.

2.2.2 Prohibition of Riba: This principle works with interest free. Thus, fixed interest rate cannot be taken on any deposit by the Islamic bank without making effort (Ahmad, Rehman & Humayoun, 2011). Beside this, Riba (interest) is considered as non-permissible (*haram*) according to Shariah law Ling, Ling, Pey and Hui (2012).

2.2.3 Activities Approved by Islamic law: According to Imeson (2007), IBS is not allowed to support and work on any activity that is against Shariah law such as gambling, nightclubs, pork, alcohol, etc. These activities are forbidden according to Shariah law. As Ling et al. (2012) argued that IBS able only to work with reference to the rules of Islamic Shariah.

2.2.4 The Principles of Certainty: With reference to Imeson (2007), the certainty principle means that risk, speculation, or uncertainties are forbidden in Islamic banking too. Accordingly, a contract that deals with future and option are not agreed activity, because that is due to uncertainty and interest differentials. However, Ling et al. (2012: 5) confirmed that “minor uncertainties can be permitted when it is necessary”.

2.2.5 Sanctity of Contracts Principles: The main objective of this principle is to decline the risk of moral hazard as well as asymmetric information problems. For this reason, the customer who deals with Islamic banking system should have sufficient information with regard to services that are planned to be demanded (Imeson, 2007). Moreover, Islamic banks should provide a disclosure of information to their customers and that is an obligated duty by Islamic banks (Hassan, 2015).

2.3 Customer's awareness of Islamic Banking System

Generally, awareness comes from understanding something such as a service, a product, a person, etc. (Ahmad & Bashir, 2014). Awareness stimulates and encourages people to act and make decisions based on advantages and disadvantage, and analysis or intuition of the subject matter. In other words, customer awareness exposes other aspects of customers' psychological side in references to their understanding and knowledge of services, products or whether the person would support the Islamic banks or not (Khattaki & Rehman, 2010). Moreover, awareness is one of the fundamental factors that make IBS spread globally, particularly in countries of Muslim majority. Yet, many people around the world still do not have a good background about the IBS. Hence, those who are not familiar with IBS always compare it to conventional banks (Imran, Samad, & Masood, 2011). Therefore, many studies have been conducted to investigate the role of religion in awareness towards Islamic banking system. A study conducted by Ling *et al.* (2012) in Malaysia showed that religion plays a good role to attract customers to adopt IBS and that Muslims can understand Islamic banking system easier than non-Muslims because non-Muslims may not have a good background about Islamic teachings that IBS is supposed to be based on. Kirkpatrick (2005: 4) also added that religion is a psychological attachment, a prevalent emotional belonging to things and *"a cause, principle, or a system of beliefs, practices held to with ardor and faith. Islamic bank has a spirit and philosophy of Islam, regarding interest-free transactions and risk sharing"*. However, Haron, Ahmed and Planisek (1994) discussed that only 40% of Muslim customers consider that religion factor plays a vital role in patronizing Islamic banks. Another study done by Gerrard and Cunningham (1997) in Singapore about the awareness of Islamic banking system, suggested Muslims and non-Muslims in general lacked awareness of IBS. Another study done by Ahmed Rahman and Ahmed (2006); Tara (2014) in Pakistan and Abdullah & Dusuki (2007); Marimuthu, et al. (2010) in Malaysia indicated that religion is not the main factor in attracting people towards the IBS. In addition, Doraisamy, Shanmugam & Raman (2011: 292) pointed that *"Islamic banks do not need to rely on religious factor as a strategy in attracting customers, but they should focus more on provision of quality, efficient services and product and services innovations"*.

Quality Services System is another factor that influences the customers to adopt IBS. A study has been conducted by Nawi, Yazid and Mohammed (2013) in Malaysia suggested that the quality of service is the main patronage factors in IBS. Haque, Osman and Ismail (2009) found out that the availability of high quality service encourages customers to deal with IBS. Hassan (2015) mentioned that there is a positive relationship among awareness and the quality of service in IBS. Imran, Samad and Masood (2011: 2) explained that *"an Islamic bank needs to focus on the service quality which can boost the growth of the Islamic banking sector as a whole as Riba might not sustain in the long run as a single largest factor for growth"*.

2.4 The relationship between customer's awareness and IBS

Many studies have been done by different authors and researchers in different countries about the awareness of IBS. IBS is becoming one of the most conventional issues nowadays in the global. Consequently, several studies have investigated the awareness towards IBS as follow:

A study done by Khan and Asghar (2012) in Pakistan about customer adoption of Islamic banking and the results indicated that customers have good awareness and positive attitude towards Islamic banking products and this motivated many people to switch from conventional banks into IBS. Another study done by Ahamd and Bashir (2015) also in Pakistan investigated customers' decision and customers' awareness concerning IBS. It showed that customers who have a good

background on Islamic religion need to be informed to be fully aware of Islamic banking product. A different study done by Buchari, Rafiki and Al Qassab (2015) in Bahrain about employees' awareness and attitude toward Islamic banking products and the results showed that not only more than a half are aware of Islamic bank system, but also have a positive attitude toward it too. another study conducted by Saini *et al.* (2007) in South Africa examined consumers' usage and awareness of Islamic banking products and the result confirmed that many Muslims are aware of IBS, however they do not prefer to use it and the usage rate decreases because ATM, accessibility, efficiency, and availability are important for customers. Therefore, they suggested that Islamic banks should not depend on religion only to attract customers and they have to rely on the quality of services.

On the other hand, other studies have been done by other researchers that show different results from the above studies even though some of them have been done in same country but in a different city and using different samples. For example, Imran *et al.* (2011) study that was conducted in Pakistan to examine awareness level of Islamic bank and they found that awareness of Islamic banks has raised over the past decade, but it may not be able to dominate the conventional banks at least for the next 10 years because people are not fully aware of Islamic banking and even they do not fully know how these products are operating, the quality of the services provided by Islamic banks is not better than conventional bank; therefore, Islamic banks are required to reorder their service quality level to achieve customers' satisfaction. Another study conducted by Khattaki and Rehman (2010) in Pakistan supports Imran study concerning customers' awareness and satisfaction of IBS. They found that the level of awareness about Islamic banking system with regard to some general product like current accounts is quite good; though many customers are unaware of Islamic banking products such as Ijara and Murabaha. One more study has been done by Ramdhony (2013) in Mauritius about Islamic banking selection criteria and he found that awareness in general was lacking especially regarding Islamic banking terminology. Therefore, he suggested that the existing Islamic finance and potential banks should establish informative advertising campaigns. A different study conducted by Rammal and Zurbruegg (2007) in Australia about awareness of Islamic bank products between Muslims; the results demonstrated that the awareness of Islamic bank with regards to the principles and the basic rules are lacking and they also argued that a number of respondents were unaware of Islamic banking products. Besides this, Cheteni (2014) conducted a research in South Africa about the awareness of Islamic banking system among customers and results pointed out that understanding the principles of Islamic banks among customers was lacking. Therefore, he recommended that Islamic banks should educate customers on how their system works by advertising and so on. An additional study done by Ling *et al.* (2012) in Malaysia about the awareness of IBS among non-Muslims and the finding indicated that more than 63.9% were aware of the existence of IBS in general.

3. RESEARCH METHODOLOGY

3.1 Research data collection

A structured questionnaire was utilized to collect data. The questionnaire included a five-point Likert scale that consisted of *strongly agree, agree, neutral, disagree and strongly disagree*. The questionnaire was divided into two sections. The first section contains information about the profile of respondents such as age, level of monthly income, occupation, gender, work experience with Islamic banks, and level of education. The second section contains information about IBS

and it is divided into three parts –Islamic Banking Operation, Potential of Islamic Banking and Islamic Banking Product.

3.2 Research Sample and Data Analysis

This study attempts to evaluate customers’ awareness towards Islamic banking system (IBS) in Duhok City – Kurdistan Region. Random sampling has been used for the study. The sample size was obtained by running a power analysis through the Minitab®. Minitab® is a statistics software package that can calculate a representative sample size for a given power, level of significance, and the difference between the mean of one population variables (M) and a reference value. Given a 5% level of significance, an estimated standard deviation of 3.9 for the variables, and the difference of 1.5, the minimum size

of a representative sample for a power of 0.90 are 42. The researcher distributed 50 questionnaires and he got 45 which mean more than level of significance. Currently, two banks in Duhok city operate in IBS. These banks are Cihan bank - Duhok for Islamic and Kurdistan International Bank for Investment & Development. Both banks have been selected by the researcher in order to obtain data from bank’s customers. Statistical Package Social Science (SPSS V.20) and descriptive statistical analysis are used to analyze the data obtained from the questionnaire. In addition, the questionnaire has been tested by reliability statistics, thus, Cronbach’s Alpha was 0.829 as showed in Table (3.1) and Table (3.2) which explain in details with regard to Alpha if Item Deleted.

Table 3.1: Reliability Statistics

Cronbach's Alpha	N of Items
.829	3

Table 3.2: Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Islamic Banking Operation	6.43	1.755	.728	.745
Potential of Islamic Banking	6.41	2.359	.648	.802
Islamic Banking Product	6.37	2.510	.738	.741

4. Empirical Analysis and Results

4.1 Descriptive Statistical

Table 4.1: Profile of demographic Respondents

Demographics	Classification	Frequency	Percentage (%)
Gender	Male	28	62.2
	Female	17	37.8
Age	Less than 25 years	13	28.9
	25 to 35 years	22	48.9
	36 to 45 years	6	13.3
	More than 46 years	4	8.9
Level of Education	High School or less	6	13.3
	Diploma	6	13.3
	Bachelor	23	51.1
Occupation	Postgraduate	10	22.3
	Employed	33	73.3
	Self-employed	3	6.8
	Student	2	4.4
Monthly Income	Retired	1	2.2
	Others	6	13.3
	Less than 500000 ID	16	35.6
	500000 to 1000000 ID	16	35.6
Work Experience with Islamic bank	1000001 to 1500000 ID	2	4.4
	More than 1500000 ID	11	24.4
	Less than 1 Year	7	15.6
	I to 5 Years	28	62.2
	6 to 10 years	6	13.3
	More than 11 years	4	8.9

Table 4.1 illustrates that the majority of respondents are males with 62.2% while females are only 37.8%. Most respondents aged between 25-35 (48.9%) and others as follow: less than 25, 36-45 and more than 46 are 28.9%, 13.3%, and 8.9% respectively. The education profile of the respondents discloses

that the majority of the respondents (51.1%) have bachelor degrees, whereas those who have high school or less and diploma are only 13.3%. On the other hand, about 22.3% of respondents have postgraduate qualifications. Moreover, the respondents are asked to state their occupations and the result shows that 73.3% of respondents are employed with

government, 6.8% are working as self-employed, 4.4% are students, and only 2.2% are retired respondents and 13.3% are do some other businesses. Beside this, the study shows that the level of monthly income for the majority of respondents (71.2%) ranged among less than 500000 to 1000000 ID, while others earn 1000001 to 1500000 ID (4.4%) and more than

1500000 ID (24.4%). In addition, work experience with Islamic bank has divided into year experience. Therefore, most of respondents (62.2%) work with Islamic bank for a period ranged between 1-5 years while the lowest experience is more than 11 years who represent 8.9%.

Table 4.2: Islamic Banking Operation

No.	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
X1	14	31.11	6	13.33	8	17.79	11	24.44	6	13.33
X2	8	17.79	3	6.67	11	24.44	13	28.88	10	22.22
X3	2	4.44	10	22.22	9	20	12	26.67	12	26.67
X4	5	11.11	13	28.89	11	24.44	8	17.78	8	17.78
X5	3	6.67	13	28.89	9	20	16	35.55	4	8.89
X6	9	20	3	6.67	7	15.56	15	33.33	11	24.44

As seen in Table 4.2, results indicate that 37.77% of respondents are aware that IBS is conducted according to *Shariah* law. This highlights a lack of knowledge in general especially that 44.44% are unaware about that. In addition, results showed that 51.1% of respondents are aware that Islamic banking systems are available to both Muslims and non-Muslims and 24.44% are neutral. At least 53.34% believe that interest (RIBA) in Islamic banking system is prohibited

and 20% were neutral. At least 40% of respondents are unaware that a return in Islamic banking is based on profit and loss sharing but only 35.56% are aware of sharing. At least 44.44% believe that Islamic bank invests their money in business activities that are not prohibited by *shariah* law and 35.56% are unaware of that. However, most respondents (57.77%) agree that Islamic banking system must have *shariah* board.

Table 4.3: Potential of Islamic Banking

No.	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
X7	8	17.78	9	20	7	15.56	10	22.22	11	24.44
X8	4	8.89	9	20	7	15.56	17	37.78	8	17.77
X9	12	26.67	5	11.11	8	17.78	11	24.44	9	20
X10	7	15.56	8	17.78	11	24.44	13	28.89	6	13.33
X11	3	6.67	3	6.67	19	42.22	13	28.89	7	15.55

Table 4.3 illustrate that 46.66% of respondents believe in the possibilities of Islamic banking system to grow in Duhok city. More than half of respondents believe that Islamic banking system is able to be an alternative to the conventional bank. At least 44.44% reported that Islamic banking system is based on Islamic *shariah*. When respondents have been asked if they

believe that Islamic banking system provide low costs service and products, 42.22% said yes. This means that most of respondents had a lack of awareness of how Islamic banking system works. In addition, 44.44% detailed that returns in Islamic banking are high and 42.22% were neutral.

Table 4.4: Islamic Banking Products

No.	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
X12	7	15.56	7	15.56	11	24.43	16	35.56	4	8.89
X13	2	4.44	9	20	15	33.33	16	35.56	3	6.67
X14	5	11.11	4	8.89	12	26.67	20	44.44	4	8.89
X15	1	2.22	4	8.89	15	33.33	17	37.78	8	17.78
X16	10	22.22	3	6.67	10	22.22	14	31.11	8	17.78
X17	11	24.44	3	6.67	13	28.89	8	17.78	10	22.22

The table above shows that 44.45% of respondents believed *Musharaka* is that Islamic bank lends money based on profit and loss sharing technique and 31.12% disagreed. While 42.23% of respondents are aware that *Murabaha* is that the Islamic bank provides business financing techniques and 33.33% are neutral. More than half of respondents, 55.56%, are aware about *Mudhraba* as well as *Ijara* that Islamic bank

offers lease financing. Moreover, 48.89% are aware that *Takaful* is that Islamic bank provides insurance service based on Islamic law and on the same question 22.22% are neutral. The last question was about *Sukuk* which indicates that Islamic banks issue bonds with free fixed interest and the result found that 40% believed that while 28.89% were neutral.

Table 4.5: Summary of Descriptive Statistics of the Study

Variables / Dimension	Mean	Standard Deviation	Percentage	Trend Sample
Islamic Banking Operation	3.17	1.34	63.4	Neutral
Potential of Islamic Bank	3.2	1.32	64	Neutral
Islamic Banking Products	3.23	1.21	64.6	Neutral

Table 4.5 shows that the summary of descriptive statistics of the study that pointed the overall average in the study including Mean, Standard deviation, Percentage and Trend Sample for each dimension. Based on research results all hypotheses were accepted.

4.2 Results Discussion

The discussion of the results begins with Islamic banking operation. The majority of respondents are unaware that Islamic banking system is conducted under Shariah law; while about 40% believed that interest (Riba) is prohibited in IBS. Additionally, Table 5 shows that customers are less aware of Islamic banking operation comparing to other variables in the study in terms of Mean statistics while the standard deviation is the highest one. Also, the findings of the present study indicated that awareness towards Islamic banking operation in general are neutral. The results are similar to other studies like Ramdhony (2013) on Mauritius customers; Cheteni (2014) on South Africa customers; and Rammal & Zurbruegg (2007) on Australian Muslims. This study has shown that customers are not fully aware of how Islamic bank operates and that they do not have a good background on Islamic banking principles and even basic rules.

Moreover, the findings also highlight the potential of Islamic banking system in Duhok city. Thus, the results indicate that there is a possibility for Islamic banks to grow in Duhok city especially that returns are high in the Islamic bank, but it needs time in order to dominate the conventional bank for two main reasons. First, recently the country has been influenced by bad economic crisis. Second, customers are not fully aware of IBS and findings enhance that. Customer's awareness towards the potential of Islamic banking systems in general are trend to neutral. The results are similar to a study by Imran et al. (2011) in Pakistan.

Furthermore, the results of the present study also emphasized that awareness towards Islamic banking products also is lacking, especially for *Musharaka* and *Sukuk* products, Whereas, awareness towards *Maurabaha* is better than other products because both banks deal with *Maurabaha*. Likewise, respondents are more aware of Islamic banking products than Islamic banking operation and the potential of Islamic banking in general with regards to Mean statistics. The findings are consistent with the findings of several studies like Khattak & Rehman (2010) in Pakistan; Ling et al. (2012) in Malaysia, in which most of customers were not fully aware of Islamic banking products. In addition, the study revealed that customer's awareness towards Islamic banking products in general is neutral.

5. Conclusion and Recommendations

5.1 Conclusion

According to the previous sections, Islamic banking system has become one of the conventional issues worldwide, especially after the improvement of *shariah* law compliance. Beside this, Islamic banking system has converted Islamic banks from an obscure financial experiment into an important factor in global finance and adapted challenges into bankers. IBS considers the customers as the most important stakeholders in the system. As

a result, IBS attempts to gain a wide number of customers as any other business. The present study was designed to evaluate levels of customers' awareness towards IBS in Duhok city-Kurdistan region. The study attempted to evaluate the customer's awareness towards IBS through three dimensions. These dimensions are Islamic Banking Operation, Potential of Islamic Banking and Islamic Banking Products. The results of the study suggested that these dimensions interrelate with each other and are important to measure the level of awareness based on literature review. Islamic banking products determinants such as *Sukok*, *Murabaha*, *Ijarah*, *Takaful*, *Mudhraba*, and *Musharaka* have higher degree of awareness towards Islamic banking with Mean (3.23), followed by potential of Islamic banking with Mean (3.2). The findings also revealed that the Islamic banking operations such as "1) Islamic banking is conducted under *shariah* law, 2) Islamic banking is available for Muslims and non-Muslims, 3) Interest is prohibited, etc." have less awareness on Islamic banking system with Mean of (3.17). It can be concluded that customers are not fully aware about IBS. As a result, the contexts of IBS are still not clear to many people. Hence, more actions should be taken by Islamic banks to attract more customers and this is supposed to increase awareness of IBS.

5.2 Recommendation

This study offers the following recommendations in the light of the aforementioned:

5.2.1 To remain active and competitive, Islamic bank needs to develop quality service level in order to supersede the conventional banking standards.

5.2.2 Islamic bank needs to invest in new products and services as well as progress an effective communication plan by advertisement and marketing in order to achieve Islamic customer demands and needs.

5.2.3 Islamic banks need to educate their customers about how Islamic banking system works such as banking transaction including the basic principles and rules.

5.2.4 Customers play a significant role of creating awareness about merits of Islamic bank in the society, hence, increasing the number of customers due to develop and grow Islamic banking system.

5.2.5 The study also suggest that Islamic banks should provide ATM to customers and work 24 hours in 7 days and this is due to encourage customers to keep their money in the bank and then bank would be able to invest funds in different activity based on *shariah* law to attract and increase the market share for the bank.

5.2.6 The number of actual respondents and sample size are limited because of time and cost. Further study might evaluate the level of customer awareness by expanding their actual respondents and sample on the whole country not only one city.

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Appendix: Questionnaire

Section One: Demographic Profile

Gender (الجنس):	Male	Female
Age (العمر):	Less than 25 Years	25 to 35 years
	36 to 45 years	More than 46 years
Level of Education:	High School or less	Bachelor
(المؤهل العلمي)	Diploma	Postgraduate
Occupation (المهنة):	Employed	Self-employed
	Student	Retired
	Others	
Monthly income level:	Less than 500,000 ID	500,000 to 1000,000 ID
(مستوى الدخل الشهري)	1000,001 to 1500,000 ID	More than 1500,000 ID
Work Experience with bank:	Less than 1 year	1 to 5 years
(عدد سنوات التعامل مع المصرف)	6 to 10 years	More than 11 Years

Section Two: Awareness towards Islamic Banking System:

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
First: Islamic Banking operations أولاً: عمليات المصارف الإسلامية						
1	Islamic banking conducted under Shariah law. يعمل المصارف الإسلامية ضمن اطار الشريعة الإسلامية.					
2	Islamic banking available to non-Muslim and Muslim. المصارف الإسلامية متاحة لغير مسلم ومسلم.					
3	Interest is prohibited. المصارف الإسلامية لايتعامل مع الفائدة (الربا).					
4	Returns are based on profit sharing. تستند العائد على تقاسم الأرباح.					
5	Islamic banking invests in businesses not prohibited by Shariah. تستثمر المصارف الإسلامية في الاعمال التي لايحضرها الشريعة الإسلامية.					
6	Islamic banking should have a Shariah Board. يجب على المصارف الإسلامية ان يكون لديها الهيئة الشرعية.					
Second: Potential of Islamic Banking ثانياً: امكانيات الخدمات المصارف الإسلامية						
7	Islamic banking has a potential to grow in Duhok City. المصارف الإسلامية لها القدرة على النمو في مدينة دهوك					
8	Islamic banking can be an alternative to the conventional banks. يمكن ان تصبح المصارف الإسلامية بديلاً للمصارف التقليدية					
9	Islamic banking is based on Islamic Shariah. يستند المصارف الإسلامية على الشريعة الإسلامية.					
10	Islamic banking provides low costs products and services. يوفر المصارف الإسلامية المنتجات والخدمات بتكاليف منخفضة.					
11	Returns in Islamic banking are high. العوائد في المصارف الإسلامية مرتفعة.					
Third: Islamic Banking Products ثالثاً: صيغ المصارف الإسلامية						
12	Musharaka: Islamic bank lends money according to profit/loss sharing method. المشاركة: المصارف الإسلامية يقرض الاموال وفقاً لطريقة تقاسم الأرباح والخسارة.					
13	Murabaha: Islamic bank provides trade financing methods. المرايحة: المصارف الإسلامية يوفر اساليب تمويل التجارة للعملاء .					
14	Mudhraba: Islamic bank may invest according to profit sharing method only. المضاربة: تستثمر المصارف الإسلامية وفقاً لطريقة تقاسم الربح فقط.					
15	Ijarah: Islamic bank provides lease financing. الاجارة: يقدم المصارف الإسلامية التأجير التمويلي.					
16	Takaful: Islamic bank provide insurance service according to Islamic Law. التكافل: تقدم المصارف الإسلامية خدمة التأمين وفقاً للشريعة الإسلامية.					
17	Sukuk: Islamic banks issue bonds with free fixed interest. الصكوك: تصدر البنوك الإسلامية سندات بدون سعر الفائدة.					

هوشياريا به كارهينهري به رامبهري سيسته مي به نكين ئيسلامي

بাবে تي فه كولينى ل سهر به نكيت دهست نيشانكرى ل باژيرى دهوكى - هه ريما كهردستانى

پوخته:

سيسته مي دارى به نك ئيكه ژوان كه رتايه كارى گه ريبى دكه ته سهر ئابورى دهوله تى و كار دكه ت بى نرخبى قازانجى (سو)، ئامانج ژفى فه كولينى زانينا ئاستى هوشيارى به ل دهف (زبونى) به رامبهري سيسته مي به نكين ئيسلامي ل باژيرى دهوكى - هه ريما كهردستانى. ژبو دهست فه ئينانا فى ئارمانجى دوو به نكين ئيسلامي بيئ ئيكانه ل باژيرى دهوكى / هه ريما كهردستانى هاتينه دهست نيشانكرن وهك نمونه بوڤى فه كولينى. فه كوله رى دڤى فه كولينىدا پشت ب (استماره استبيان) به ستبه و چاره سه ريا داتايين فه كولينى هاتينه كرن برىكا (SPSS V.20) ى، ئه فى فه كولينى كومه لكه ده رنه نجام و راسپارده ده رهاڤيشتين ژوان كو (زبانينين) (به نكا جيهان - دهوك يا ئيسلامي) و (كهردستان يانيف دهوله تى بو به ريه ئينانى و پيئغه هشتنى) هوشياريه كا تمام نينه ده رباريه به نكين ئيسلامي ئه فجا فه كولينى پيشنبار كريه، هه تا كو به نكين ئيسلامي چالاك بيمين و شيانين هه فركيى هه بن پيئغه ئاستى خزمهت گوزاريا پيش بيخت ژبه ر دا كو شيانين هه فركيى هه بن دگه ل پيغه رين به نكين كلاسيكى و وه به ريه ئينانى د به رهم و خزمهت گوزارييت سه ردهم دا بكه ت هه روه سا پلانكا ئه كتيڤ به ئته دانان بو په يوه ندى كرنى دگه ل (زباننا) درىكا بازاركرن و ريكلامادا، دكو پيئغى و هه زو ئاره زويت (زباننى) خو پر كه ت.

په يڤين سه ره كى: هوشياريا به كارهينهري، سيسته مي به نكين ئيسلامي، دهوك، هه ريما كهردستانى.

وعى الزبائن تجاه نظام المصارف الاسلامية

دراسة الحالة على بنوك محددة في مدينة دهوك - إقليم كردستان

الملخص:

يعد نظام المصرف المالي الاسلامي واحد من تلك القطاعات التي لها تأثير في اقتصاد الدولة ويعمل بدون سعر الفائدة (الريا)، تهدف هذه البحث الى التعرف على مستوى الوعي لدى الزبائن تجاه نظام المصارف الاسلامية في مدينة دهوك - إقليم كردستان. ومن اجل الوصول الى هذا الهدف تم اختيار اثنين من البنوك الاسلامية الوحيدة في مدينة دهوك / إقليم كردستان وهما مصرف جيهان - فرع دهوك ومصرف كردستان الدولي للاستثمار والتنمية لتكون عينة لهذه البحث. وقد اعتمد الباحث على استخدام الاسلوب الاحصائي للوصول الى البيانات ومعالجتها ببيانات باستخدام (SPSS V.20)، وقد افرز هذا البحث مجموعة من الاستنتاجات والمقترحات، ومنها ان زبائن المصرفين ليس لديهم وعي كامل عن المصارف الاسلامية لذلك اقترح البحث انه لكي تبقى المصارف الاسلامية نشطة وقادرة على المنافسة فانها تحتاج الى تطوير مستوى جودة الخدمة المقدمة من اجل منافسة معايير المصارف التقليدية والاستثمار في منتجات وخدمات جديدة وايضا وضع خطة فعالة للاتصال بالزبائن عن طريق التسويق والاعلان لاشباع حاجات ورغبات الزبائن.

الكلمات الدالة: وعى الزبائن، نظام المصارف الاسلامية، دهوك، إقليم كردستان.