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Journal homepage: www.publishing.globalcsrc.org/jafee**Challenges in Marketing of Islamic Banking Products in Malaysia**¹Rabia Rasheed, ²Ajay Chauhan¹PhD Scholar, OYA Graduate School of Business, Universiti Utara Malaysia rabia7862009@live.com²Professor, OYA Graduate School of Business, Universiti Utara Malaysia ajay@uum.edu.my**ARTICLE DETAILS****History***Revised format: May 2015**Available Online: June 2015***Keywords***Islamic Banking,
Islamic Banking Products,
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Malaysia.***JEL Code:** M31, G21,**ABSTRACT**

The history of banking is as old as Islam but the history of Islamic banking is only half a century old. It is agreed that Islamic banking started with a saving bank based on profit sharing in MitGhamr, Egypt in 1963. But, the first proper Islamic bank is deemed to be the Nasser Social Bank in 1971, again in Egypt. In 2013, after 50 years, there are about 400 Islamic banks and institutions in 53 countries with a fund based of USD 992 billion and asset based of USD 1.3 trillion. When Islamic banking started, Malaysia was busy with independence. Therefore, the start of Islamic banking in Malaysia was delayed by two decades. Malaysia passed Islamic banking Act in 1983 to start Bank Islam Malaysia Berhad with a capital based RM 80 million. The next three decades saw a tremendous growth. By 2013, there were 16 domestic and 5 international Islamic banks in Malaysia with an asset based of RM 442 billion, which does not include 15 Takaful operators. In spite of this tremendous growth, Islamic banking does not compare with conventional banking in terms of volume and acceptability. There have been studies which show that while 80% of the banking customers in Malaysia are aware of Islamic banking, but were not aware of Islamic banking products like Ijarah, Murabahah, etc. This conceptual paper brings out the challenges of marketing Islamic banking products in Malaysia and traces the roots of the problem to the lack of customer centricity.

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1. Evolution of Islamic Banking

The history of prohibition of interest or *Riba* is much more ancient than Islam or Islamic Banking. The loans were available from the temples during the time of Hammurabi, the king of Babylon. However, it must be noted that Hammurabi put a cap on the rates of lending e.g. 33.33% on grain and 25% on silver loans (Ahamad&Pradhan, 2012). Even before that, in 24th century BC, the cap on interest was at 24% in the Hindu system founded by Manu. With the advent of Islam in 7th century AD, the prohibition of usury became more refined. Systematic laws were implemented and there was a full commitment to the principles of *Syariah*¹. However, the practice of borrowing and lending remained individual and was never institutionalized till recently. Researchers agree that Islamic banking, practically, started in 1963 with establishment of an undercover savings bank in the town of MitGhamr in Egypt which was based on profit sharing (Ahamad&Pradhan, 2012; Khir, Gupta &Shanmugam, 2008; Historyworld.net, n.d.).

The MitGhamr bank neither took interest from the borrowers, nor paid interest to the investors. The investors were attracted by the profit sharing, which is again based on the *Syariah* principles. It must be noticed that majority of the Muslim states gained independence from the colonial rule by 1963. Indonesia was the first one to gain independence in 1945, immediately by India and Pakistan in 1947. Malaysia became independent in 1957 but the constitution was formed by 1963 only. Immediately after independence, a fund was created for *Haji* pilgrims under the name LembagaTabung Haji in 1963. This fund was a savings mechanism for the devout Muslims to cover the cost of pilgrims. Tabung Haji did not pay any interest but invested the funds collected in productive sectors and earned the profit which was shared with all the members.

There were more attempts in the same year e.g. Philippine Amanah Bank to meet the financial need of Muslims and another bank in Karachi, Pakistan by some individuals, which did not survive for long (Ahamad&Pradhan, 2012). The first proper Islamic Bank promoted by the state was Nasser Social Bank in 1971 in Cairo, Egypt. This was followed by number of Islamic banks promoted by the state because of the political climate prevailing in the Muslim nations. State owned Islamic banks proliferated in the Middle East during this period e.g. Dubai Islamic Bank in 1975, Islamic Development Bank, Saudi Arabia in 1975, Faisal Islamic Bank of Sudan in 1977 and Bahrain Islamic Bank in 1979 (Khir, Gupta &Shanmugam, 2008).

The next wave of Islamic banking started in Malaysia when National Steering Committee was established in 1981 to study feasibility of Islamic Banking in Malaysia. As a result of this study in July, 1983 the government of Malaysia setup a bank with an initial capital of RM 80 million (Malaysian Ringgit²) with the name of Bank Islam Malaysia Berhad (Bank Islam). In the same year, Sudan launched 4 additional Islamic Banks such as Islamic bank of Western Sudan, Sudanese Islamic Bank, Al-Baraka Bank and Islamic Cooperative Development Bank. Bangladesh and Qatar also setup Islamic banks in the same year. The Islamic Bank also reached western countries an Islamic Finance house was setup in Luxembourg. Dar-Al Mal-Al Islamic Trust was setup in Geneva in 1984 (Ahamad&Pradhan, 2012; Khir, Gupta &Shanmugam, 2008).

According to Wikipedia, worldwide there were 144 Islamic financial institutions had been established worldwide, in which 40 private banks, 33 government-run banks and 71 investment companies were included by 1995 (Wikipedia, 2014). By 2010, there were about 396 Islamic banks in 53 countries managing a fund base of USD 992 billion (Nasser &Muhammed, 2013; Worldbank, 2014).

According to the World Islamic Banking Competitiveness Report (2013) the Islamic banking assets stood at \$1.3 trillion in 2011 (Ernst & Young, 2013). According to this report the annual growth of Islamic banking asset was 19% during the years preceding 2011. Report further stated that the Islamic banking asset could grow to cross \$2 trillion by 2014. However, the profitability at 12% lagged behind

conventional banking profitability of 15% in 2011 (Ernst & Young, 2013).

2. Brief History of Islamic Banking in Malaysia

As pointed out in the previous section that Tabung Haji was the first Islamic Banking institution in Malaysia. Royal Professor Ungku Abdul Aziz presented a paper in 1959 on plans to improve economy of Haj³ pilgrims. His idea was to create a mechanism to save money for the Haj pilgrims, who in the past had to sell their properties or had to have a substantial dent in their living standards in order to perform Haj. This led to establishment of Lembaga Tabung Haji (Sufian & Abdul Majeed, 2008; Nasser & Muhammed, 2013). However, Tabung Haji was just a savings bank with a special objective. It was not a commercial bank.

But, the success of Tabung Haji led to awareness of a need to establish full-fledged Islamic bank on commercial basis. Therefore, there was a pressure on government by Bumiputra Congress, which represented majority Muslim population, around 1980. Due to this pressure, a National Steering Committee was set up in 1981 to oversee formation of an Islamic Bank of Malaysia. The government of Malaysia passed the Islamic Banking Act 1983, which enabled the country's first Islamic Bank to be established. The result was Bank Islam Malaysia Berhad (BIMB) which was setup in July, 1983 with an initial capital of RM 80 million. BIMB was listed on Kuala Lumpur stock exchange on January 17, 1992 and operates through more than 80 branches (Nasser & Muhammed, 2013).

The central bank of Malaysia called Bank Negara Malaysia (BNM) introduced the scheme called “Skim Perbankan Tanpa Faedah” in March 4, 1993, which was an interest free banking scheme. Under this scheme government allowed commercial banks to open Islamic window using their existing infrastructure, staff and branches. This resulted in 15 commercial banks to offer Islamic window in which Islamic banking products were made available to the customers. BNM also setup a National Syariah Advisory Council on Islamic Banking and Takaful (NSAC) on May 1, 1997 (Nasser & Muhammed, 2013; Abdullah, Hassan & Mohamad, 2007).

The Asian financial crisis of 1997-98 did not stop BNM to establish another Islamic bank Bank Muamalat Malaysia Berhad (BMMB) on October 1, 1999. BMMB was formed using combined assets and liabilities of the Islamic banking windows of the Bank Bumiputra Malaysia Berhad, Bank of Commerce Berhad and BBMB Kewangan. As on March 31, 2014 the asset base of BMMB was over RM 20 billion and the share capital was RM 1.95 billion (BMMB, 2014).

In 2006, BNM issued 3 new licenses exclusively for Islamic banking. In the same year, BNM setup an International Centre for Education in Islamic Finance (INCEIF). The aim of this university was to provide certified and skilled personnel for Islamic Finance in Malaysia to further strengthen the country's position as an international Islamic finance center (Wikipedia, 2014). By December, 2012, there were 16 domestic Islamic Banks (**Table 1**) and 5 international banks (**Table 2**) in Malaysia. According to Bank Negara Malaysia the total assets of Islamic Banks in Malaysia stood at RM 442 billion (approximately USD 138 billion) as on May 31, 2014 (BNM, 2014).

The government of Malaysia also paid attention to Islamic non-banking financial services. Immediately following the Islamic Banking Act, 1983, Takaful Act came into effect in 1984 for the Islamic insurance activities. Due to these developments, not only BIMB and BMMB introduced a lot of Islamic products and services in market according to the *Syariah* laws but other commercial banks were also able to offer a range of Islamic finance products combining banking and insurance products. As on December, 2012 there were 11 Takaful operators (**Table 3**) in Malaysia (BNM, 2014). This list includes 2 foreign

operators, such as AIA and Great Eastern. However, an association of Takaful operators in Malaysia was formed by signing of an Inter-Takaful Operator Agreement on May 22, 2008. As a result of this agreement, an association was formed called Malaysian Takaful Association (MTA). MTA mentions 15 members as on June, 2014 (MTA, 2014). Takaful operators divided the Takaful business in two sections (Laldin, 2008; Nasser & Muhammed, 2013):

- *Family Takaful*, which is Islamic Life Insurance and
- *General Takaful*, which is Islamic General Insurance

The Takaful in Malaysia follows the *Syariah* principles and uses the concept of *Tabarru*, which means the donation of *Takaful* fund. The operation of *Takaful* is on a profit sharing basis between *Takaful* operator and the participants of *Takaful*. Under the *Tabarru* concept, the participants reciprocally guarantee each other against certain losses or damages endured by any one of them (BNM, 2014).

A similar development of non-banking Islamic finance too place with the evolution of bond market in Malaysia. With the support of Malaysian government in 1990, Shell MDS SDN BHD issued first Islamic bond, which led to a rapid development in Islamic capital market (ICM) in Malaysia. In 1994, first full-fledged Islamic stock broking company was established in Malaysia. An ICM unit was established by the security commission of Malaysia, wherein both Islamic law and Islamic finance researchers get trained. NSAC introduced the first Shariah-approved securities in 1997 which were listed on the Kuala Lumpur Stock Exchange (Nasser & Muhammed, 2013). Global Islamic capital market size increased in 2012 by 22.6% to RM1.4 trillion and as the leading Sukuk market Malaysia maintained its position, capturing 69.2% of global Sukuk and 76.9% of global Sukuk issuances (MIFC.com, 2012).

3. Islamic Banking and Finance Products in Malaysia

It is essential to understand the source and structure of Islamic banking and finance products before the discussion on marketing of these products. In Islam, the faith and daily activities are linked together unlike any other religion. The practice of Islam is guided by three foundations which are:

- *Aqidah*, which is faith and belief in Allah
- *Akhlaq*, which is code of conduct and
- *Syariah*, which is guidance on daily practices and activities

Since banking is part of daily activities, banking practices are guided by *Syariah*. The rulings of *Syariah* can be classified into 5 categories, such as below:

- *Wajib* – appropriate conduct e.g. daily prayers and fasting
- *Haram* – prohibited activities e.g. drinking and gambling
- *Mandoob* – recommended but not mandatory e.g. zakat (charity)
- *Makrooh* – discouraged but not prohibited e.g. divorce
- *Mubaah* – discretionary activities e.g. helping the nation

However, the first two categories are the most important in Islamic banking. The *Riba* (Interest) and *Gharar* (Risk and uncertainty) are prohibited in Islam. Therefore, the *Syariah* compliance means:

1. Prohibition on *Riba*
2. Prohibition of *Garar*
3. Prohibition on business dealing with *Haram* activities

This is the basic difference between the conventional banking and Islamic banking. The conventional banking deals with interest, whereas the same is unthinkable in Islamic banking. The conventional finance products deal with *futures* and *options*, which involves *Gharar* (risks and uncertainties) whereas

the Islamic finance deals with only *Halal* (permissible) equities. Most of the Islamic banking products are based on concepts of Islamic contracts, which is the best way to avoid *Gharar*. BNM has provided specification of the contracts applicable to Islamic banking and finance. For this purpose, BNM has identified 12 Shariah contracts and arrangements which includes *Murabaha*, *Musharakah*, *Mudarabah*, *Istisna'*, *Ijarah*, *Kafalah*, *Wakalah*, *Wa'd* and *Hibah*. In 2013, Islamic Financial Services Act was passed which provided a comprehensive regulatory framework for the *Shariah* contracts and arrangements.

Deposits are the key sources of funds for any bank. So is the case with Islamic banking where the deposits accounts are called *Wadiah* accounts, which are governed by *Syariah* principles. *Wadiah* is defined as an amount entrusted by the depositor (customer of the bank) in the care of another (bank). The bank is known as *Wadi* and deposit asset is known as *Wadiah*. This is the basis of savings and current accounts which are the main products of an Islamic bank. Similarly, the current account is based on principle of *Mudharabah*. The *Mudharabah* refers to business contract in which bank customers brings capital and the bank provides the services based on a pre-agreed profit sharing ratio. Therefore, the current accounts could be *Wadiah* account or *Mudharabah* accounts. The summary of contracts adopted by Islamic banks in Malaysia and regulated by BNM is given in **Figure 1**.

Most of the products designed by Islamic banks in Malaysia are based on the concept of contracts. A representative list of Islamic finance products, in addition to the normal savings and current account, is as below:

1. ***Murabahah***: It is the most common short term financing product. It involves trading or investment with markup cost of which both vendor and buyer are aware. The profit may be lump sum or a percentage. The bank acts as an intermediary between customer and the seller for purchase of property or working capital loan. The bank purchases the assets from the seller at purchase price and then sells the assets to the customer at purchase price plus marked up profit, mostly at staggered payment.
2. ***Ijarah***: It refers to lease for a certain period of time on mutually agreed rental payments. The bank purchases the asset from the seller and leases to the buyer. After the agreed rental payments are over, the possession of asset goes to the bank, which bank may dispose-off, in an appropriate manner.
3. ***Mudharabah***: It is the basis of trust financing, sometimes called unit trust also, where customers (*rabb al-mal*) put funds and bank acts as an investment manager (*mudharib*), for an agreed service charge and profit sharing terms. The same principle has been used by Islamic banks in savings, current and investment accounts.
4. ***Musharakah***: It means a joint investment project through a partnership based on a contract, where all the partners share the profit or loss. The difference from *Mudharabah* is that, here, the bank becomes an investor/entrepreneur instead of just remaining an investment manager.
5. ***Istisnaa***: It is a kind of manufacturing or building contract, where an asset or a product is to be constructed. Also built/manufactured as per the agreed specifications. It delivered at a pre-determined price on a specified future date.
6. ***Sukuk***: It is a long term bond or a freely tradable Islamic participation certificate which is based on the exchange of an asset and ownership. It is typically issued for infrastructure projects.

There are plenty of Islamic banking and finance products (**Table 4**). It is important to consider how these products have been marketed by the Islamic banks.

4. Current Marketing of Islamic Banking Products

The growth rate of Islamic banking in Malaysia is much higher compared to the growth of deposits and loans in the commercial banks. The introduction of Islamic products has been in response to a growing need of segments of customers, Muslim and non-Muslim, who refuse to deal with financial instruments with high interest e.g. small and medium enterprises who were unable to gain access to the loans due to lack of collateral and high interest costs. The marketing strategies adopted by Islamic banks are summarized as below:

1. **Targeting Muslim Customers:** The main niche for Islamic banks is the Muslim customers for whom a range of *Syariah* compliant products are offered guided by *Syariah* supervisory committees or councils (SSC). The SSC acts as customer advocate representing the religious interest of the investors (Elfakhani, Zbib& Ahmed, 2007).
2. **Conveying Trust and Credibility:** The banks, as Islam based institutions, try to convey an image of trust, credibility and piousness assuring that all products are *Halal* products. The customers are assured of safety and security of investments under the assumption that the bank cannot indulge in any manipulation or cheating which are *Haram* under *Syariah* laws (Elfakhani, Zbib& Ahmed, 2007).
3. **Using Referrals:** Research by Hegazy (1995) demonstrated that the criteria of selection by customers are different in Islamic and conventional banks. The Muslim customers, typically, seek Islamic financial products based on the recommendations or pressures by relatives and friends. Similarly, the image that banks serve the Islamic community induces the customers to use Islamic banking products regardless of profitability (Metawa and Almossawi, 1998).
4. **Offering Conventional Banking Services:** The Islamic banks try to offer all conventional banking services such as ATM, Savings accounts, Current accounts, Credit cards, Transfer of funds, etc.
5. **Targeting Non-Muslim Customers:** The Islamic banks have also been trying to project competitive and risk-sharing nature of Islamic financial products, which provides viable and attractive alternatives to non-Muslims (Elfakhani, Zbib& Ahmed, 2007).

Due to these marketing strategies the Islamic banking products have been well accepted in Malaysia. This can be gaged from the example of BIMB in Malaysia. At the end of the first year of operation, the deposits and loans stood at RM 241 million and RM 162 million, respectively. The corresponding figures for 1994 are RM 2.55 billion and RM 0.98 billion representing a growth of 106% and 60% respectively (Haron& Wan Azmi, 2006). By 2014, the deposits and loans in BIMB stood at RM 36.16 billion and RM 24.96 billion representing a growth of 71% and 128% over 1994 level (BIMB, 2014). The total loans and advances, considering all the Islamic banks and Islamic windows in Malaysia, stood at RM 294.5 billion as on March 31st, 2014 (BNM, 2014).

5.Challenges of Marketing Islamic Banking Products

In spite of the marketing strategies adopted by the Islamic banks, there are apprehensions about the sustainability of growth. Even for BIMB, it was admitted that its leading role in the initial years of Islamic banking has been diminishing. Haron and Wan Azmi (2006) pointed out that the BIMB was recording a negative growth of profits. Therefore, it can be said that this growth of Islamic banking has been saturated and it is becoming increasingly difficult and challenging to compete with commercial banks (Haron& Wan Azmi, 2006). Other researchers have also expressed apprehension that the initial advantage is likely to vanish in absence of proper marketing approach (Elfakhani, Zbib& Ahmed, 2007).

It has been claimed that the growth of deposits in Islamic banks in Malaysia could be due to increased contribution from Islamic organizations such as Tabung Haji, who are obligated to park their funds with

Islamic banks instead of increased awareness among individual customers (Kamarulzaman&Madun, 2013). The literature on satisfaction and loyalty (e.g. Fornell et al, 1996) indicates that the customers cannot be loyal to a product if there are complaints and if the customers are satisfied they may indulge in loyalty behavior such as positive recommendations or word of mouth (WOM).

Now those international banks, such as Citibank, have been allowed to open branches under Islamic window in Malaysia and Qatar in order to operate according to the Islamic Shariah principles. Islamic banks functioning in Islamic countries faced strong competition from Islamic banks as well as from non-Islamic opponents, who are very professional. It is therefore very interesting to understand the marketing challenges for these Islamic banks to face competition.

While there are plenty of studies regarding the customer satisfaction and retail banking, there have been limited attempts to measure consumer satisfaction with respect to Islamic banking though there are some studies in Malaysia (Osman et al, 2009) and few other countries e.g. Jordan (Naser et al, 1999), Pakistan (Khattak and KasifurRehman, 2010) and Iran (Estiri et al, 2011). One of the earliest and most cited customer oriented study belongs to Erol and El-Bdour (1989) and the important finding of this early study is that the contribution of religion is insignificant in attracting customers to Islamic banks. Astrom (2012) has argued that this is a country specific and time specific result only, because similar studies have come out with conclusion that religion is the most significant factor in selection of Islamic banks (Metawa and Almossawi, 1998). Similar studies in Malaysia also conclude that religion is significant determinant of Muslim consumer behavior (Syed, Rohani&Badrul, 2011). Hence, the relationship between religion and Islamic banking is not conclusive. Therefore, marketing on the basis of religion could be challenging in future though it might have been useful in the initial years.

A study by Doraisamy, Shanmugam& Raman (2011) in Sungai Petani, Malaysia disclosed that only 79.1% of respondents were aware of Islamic banking products. Even these respondents, who were aware of Islamic banking products, had familiarity only with Al-Wadiah savings and current accounts. They had no knowledge about specific Islamic financial products like Ijarah, Mudharabah, Murabaha, Musyrakah, Quard Hassan, etc. This result is also corroborated by other studies (Thambiah et al, 2011), which concluded that there is a lack of awareness of Islamic banking products in rural areas. Even in urban areas, the banking customers were not aware of the relative advantages of Islamic banking and finance products in comparison to conventional banking products (Thambiah et al, 2011). Therefore, Haron and Wan Azmi (2006) critically analyzed the strategies of Islamic banks and concluded that they do not market their products aggressively. Increasing awareness of Islamic banking products among non-Muslim customers is quite a marketing challenge, who would like to evaluate the benefits in comparison to similar conventional banking products.

While Islamic banks and Islamic financial institutions also face the same marketing challenges as the conventional banks, these institutions face additional challenges that are specific to them. The marketing challenges faced by Islamic banks can be summarized as below:

1. **Comparison of products with conventional banking:** The conventional banking is well established and has the lead of 100 years over Islamic banking. Therefore, the conventional banking has a wider range of products and marketing strategies e.g. many customers want to have guaranteed returns on their investments, which is not possible in *Wadiah* accounts although some investments (such as mark-up) provide more stable returns than others (such as *Mudharabah*). Therefore, the Islamic banks need to have their own products and marketing strategies instead of comparing the products with conventional banking.

2. **Market structures favoring conventional banking:** Islamic banks operate in an environment where rules, regulations, norms, laws and attitudes belong to an economy which is interest based. While conventional banks have no problems dealing with overnight deposits/ loans, overdrafts, etc., it is not possible for Islamic banks due to *Syariah* compliance. Therefore, they are faced with the difficulty of investing short-term deposits and paying returns on them to depositors (Elfakhani, Zbib& Ahmed, 2007), whereas the conventional banks can make overnight or short term deposits of surplus funds with each other and earn some returns or bridge the short term deficits. In short, it limits the capability of Islamic banks to provide as much returns to the customers.
3. **Dual Controls:** Islamic banks and institutions face double regulatory hurdles affecting their marketing capability. Not only Islamic banks have to comply with the regulatory supervision from central banks, but also to the regulatory supervision of *Syraiiah* supervisory councils.
4. **Training of Human Resources:** The success of marketing also depends on the quality of human resources available to the Islamic banks. The concept of customer relationship marketing (CRM) is not very well known in Islamic banks. There seems to be insufficient training of marketing staff in Islamic banks (Kahf, 1999). It has been admitted that greater professionalism and competencies by proper training programs could become the key ingredients of the successful customer orientation of Islamic banks (Metawa and Almossawi, 1998).
5. **Absence of customer centric product strategies:** The image is a central factor in building a competitive marketing advantage. The image of the Islamic institution can be built by the way the Islamic products and services are made available to the customer. A proper products strategy is important because the customer experiences with a specific product and service will affect their attitude towards the bank and other products and services. Since customers purchase Islamic products and services to satisfy their specific needs, Islamic banks need to study the customers' needs and wants and the kind of benefits customers expect (Haron& Wan Azmi, 2006). With the knowledge of customer needs, Islamic banks could provide products tailored to specific needs of individual and business customers (Metawa and Almossawi, 1998).
6. **Lack of customer centric marketing strategies:** The Islamic banks do not follow four Ps of marketing-mix (product, price, promotion and place/distribution) aggressively. For example, the marketing strategy starts with a complete and up to date customer profiles. There is lack of customer databases wherein the customer preferences are recorded. The Islamic financial institutions need customer centric periodic service to assess whether customers are aware of new products or whether these products are being used on a regular basis. The Islamic banks need to target specific customer segments, such as young generation customers, female customers, educated customers, wealthy customers, non-Muslim customers, foreign customers etc. In short, the Islamic banks need customer centric promotional strategies (Elfakhani, Zbib& Ahmed, 2007).

7. Conclusion

The marketing challenges cited above can be classified into two categories – controllable and non-controllable. The Islamic banking has to operate interest driven financial market. Therefore, the nature of the market or competition platform cannot be controlled. It is neither feasible nor advisable to create another financial niche industry. The Islamic banking has to operate in the same market and still come out as a winner, which is very much possible by appropriate marketing strategies and product strategies based on customer profile researches. Secondly, the dual control from the government regulatory bodies as well as from the Islamic *Syariah* councils. Focusing on non-controllable factors will be loss of time and resources. As such, the Islamic banking suffers from low profitability compared to the conventional banking. Hence, should not put any more resources in influencing the industry or the regulatory controls. Instead, Islamic banks should focus on profit sharing as a tool to face competition from the interest

promoting conventional banks. The banking customer is interested in rate of return or the cost of capital. It should not matter to the customer whether it is profit or the interest. This needs to be ascertained with research based evidences.

Therefore, the Islamic banks need to focus on controllable challenges first, such as customer centricity and human resource training in promoting Islamic banking products and services (Doraisamy, Shanmugam& Raman, 2011; Thambiah et al, 2011; Elfakhani, Zbib& Ahmed, 2007; Haron& Wan Azmi, 2006; Kahf, 1999; Metawa and Almossawi, 1998). The Islamic banks could overcome marketing challenges through the following:

1. **Training Need Analysis:** The Islamic banks should focus on training of human resources, especially in the areas of innovation, customer orientation, customer relationship management (CRM), leadership (instituting winning spirit in place of feeling of failure) apart from thorough training in Islamic banking products. In addition to the knowledge of Islamic products the banking staff should also be aware of full features of conventional banking products. Then only the banking staff will be able to guide the customers appropriately. This requires a proper training need analysis (TNA).
2. **Competitive products strategies:** Islamic banks should ensure that not only Islamic banking products follow *Syariah* principles but should also ensure better benefits to the customers. The benefits to the customers can be in the form of better returns or better services. This requires evaluating each Islamic product from the customer's point of view. Not only Islamic banks should be aware of customer requirements but also the competitive conventional banking products and an innovative mindset. Therefore, the Islamic banks need to resort to product researches and strategy canvases to come up with competitive product strategies.
3. **Customer centric marketing strategies:** The Islamic banks should not only design customer centric products but should also pay attention to customer centric marketing strategies. The marketing of conventional products focuses on standard four Ps of marketing. In a similar fashion, the Islamic banks should focus on price, promotion, and place strategies in addition to product strategies. For example, there seems to be prohibitive entry costs (5% to 6.5%) to the prospective customers of some of the Islamic banking products. This kind of cost is justified only the product is ensuring a return of 10-15% or more⁴. Then the promotion on Islamic banking products need to be improved (Doraisamy, Shanmugam& Raman, 2011; Thambiah et al, 2011). Appropriate marketing strategies have to be designed as per the characteristics of the place – urban, rural or foreign. The base of customer centric marketing research needs to be detailed customer profiles and researches on customer behavior.

Islamic banking, in spite of its size, is still an emerging market. A kind of saturation has already been arrived (Haron& Wan Azmi, 2006). Therefore, Islamic banking should discard the old mindset and adopt customer centric competitiveness.

Notes

1. *Syriah* is also written as *Shariah* in literature. Both the words have the same meaning.
2. Ringgit is the official currency of Malaysia, often referred as RM (Ringgit Malaysia) or MYR (Malaysian Ringgit). One MYR is equal to 0.32 USD (as on July 21, 2014).
3. *Haj* (pilgrimage to Mecca) is also referred as *Haji*.
4. For example, CIMB Islamic Al-Azzam Equity Fund charges 5.5% whereas CIMB Islamic Equity fund charges 6.5% as an entry cost. These products are similarly priced in other banks.

Tables**Table 1****List of Islamic Banking Institutions in Malaysia (As on December 2012)**

Sr. No.	Name	Ownership
1	Affin Islamic Bank Berhad	Local
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
3	Alliance Islamic Bank Berhad	Local
4	AmIslamic Bank Berhad	Local
5	Asian Finance Bank Berhad	Foreign
6	Bank Islam Malaysia Berhad	Local
7	Bank Muamalat Malaysia Berhad	Local
8	CIMB Islamic Bank Berhad	Local
9	Hong Leong Islamic Bank Berhad	Local
10	HSBC Amanah Malaysia Berhad	Foreign
11	Kuwait Finance House (Malaysia) Berhad	Foreign
12	Maybank Islamic Berhad	Local
13	OCBC Al-Amin Bank Berhad	Foreign
14	Public Islamic Bank Berhad	Local
15	RHB Islamic Bank Berhad	Local
16	Standard Chartered SaadiqBerhad	Foreign

Source: (Bank Negara Malaysia, 2014)

Table 2**List of International Islamic Banks in Malaysia (As on May 2012)**

Sr. No.	Name	Ownership
1	Al Rajhi Banking and Investement Corporation	Foreign
2	Alkhair International Islamic Bank Bhd	Foreign
3	Deutsche Bank Aktiengesellschaft	Foreign
4	Elaf Bank B.S.C. ©	Foreign
5	PT. Bank SyariahMuamalat Indonesia, Tbk	Foreign

Source: (Bank Negara Malaysia, 2014)

Table 3**List of Takaful Operators in Malaysia (As on August 2012)**

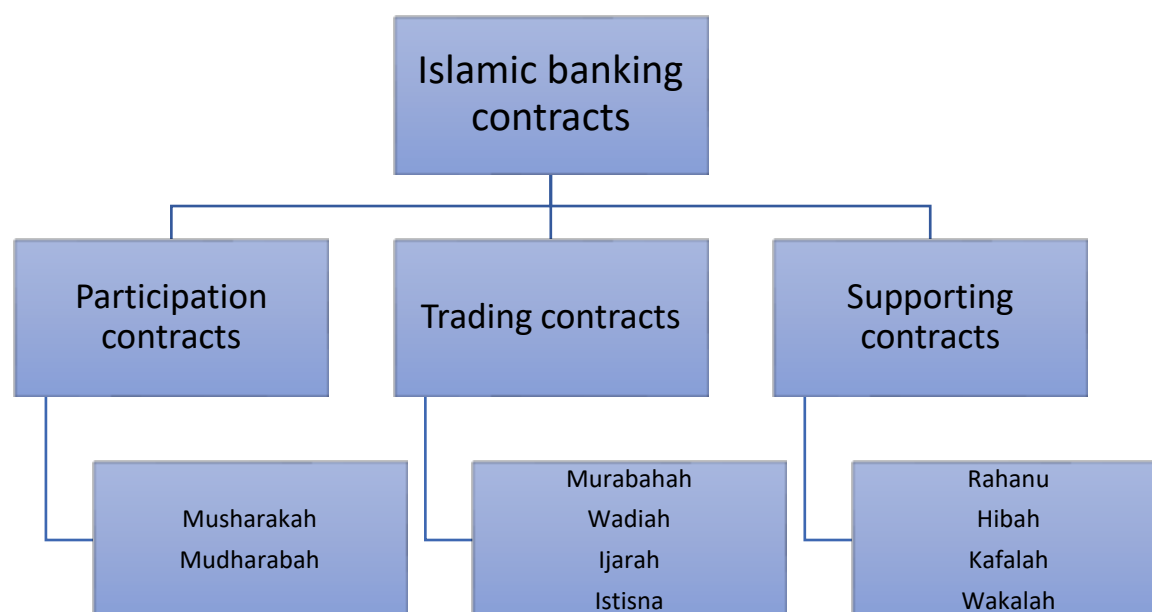
Sr.No	Name	Ownership
1	AIA Public Takaful Bhd	Foreign
2	Amfamily Takaful Bhd	Local
3	Etiqa Takaful Berhad	Local
4	Great Eastern Takaful Bhd	Foreign
5	HSBC Amanah Takaful Bhd	Local
6	Prudential BSN Takaful Bhd	Local
7	Hong Leong MSIG Takaful Bhd	Local
8	MAA Takaful Berhad	Local
9	Sunlife Malaysia Takaful Berhad	Local
10	Syarikat Takaful Malaysia Bhd	Local
11	Takaful IkhlasSdn. Bhd	Local

Source: (Bank Negara Malaysia, 2014)

Table 4**A sample of Islamic banking and finance products in Malaysia**

PRODUCT CATEGORY	ISLAMIC BANKS	
	BANK ISLAM	BANK MUAMALAT
Deposits	Wadiah Savings Account-i	Al-Wadiah Savings Account
	Basic Savings & Current Account	Basic Savings & Current Account
	Term Deposit (Tawarruq)	Fixed Term Account-i
Loans	Al-Awfar Junior	BeeStar-i
	Ar-Rahnu	Ar-Rahnu
	Home Financing-i	Home Financing-i
Financing	GradHitz Vehicle Financing-i	Muamalat Vehicle Financing-I
	Vehicle Financing-i	Gradpack
	Trade Working Capital Financing-i	Muamalat Hire Purchase
Trade Financing	Accepted Bills-i	Murabahah Working Capital Financing-i
	Letter of Credit-i	Accepted Bills-i
	Personal Financing Takaful Plan	Inward Letter of Credit-i
Takaful	Motor Takaful	Takaful MyPA
		Takaful MyReturn
PRODUCT CATEGORY	COMMERCIAL BANKS WITH ISLAMIC WINDOW	
	MAY BANK	CIMB BANK
Savings Accounts	Maybank2u	
	Savers-i	EcoSave Savings Account i
	Golden Savers-i	Wadiah Savings Account i
Current Account	Basic Current Account i	Basic Current Account i
	Net Current Account i	Current Account i for preferred
	Current Account i	Wadiah Current Account i
Investment	Foreign Currency Mudharabah Deposit and placement i	
	HWANG Aiiman	CIMB Islamic Sukuk
	Income Plus	HWANG Aiiman Select Income
Financing	Pheim Dana	
	Makmur	Eastspring Investments Dana Al Iiham
	Home Equity-i	Ijarah Property Financing-i
Financing	May bank Islamic personal financing-i	
	Al-IjarahThumma	Xpress cash financing i
	Al-Bai	CIMB Islamic Ar-Rahnu
PRODUCT CATEGORY	FOREIGN BANKS	
	STANDARD CHARTERED BANK	AL-RAJHI BANK

Deposits	Basic Saving Account-i	Savings Account-I (QARD)
	Basic Current Account-i	Current Account-I (QARD)
	Basic Account-i Personal	Mudharabah Current/Saving Account
Financing	Financing-i	Personal Financing-i
	SaadiqMyHome-i	Structured Home Financing-i
	Letter of Credit-i	Letter of Credit-i
Trade Financing	Bank Guarantee-i	Bank Guarantee-i
	Shipping Guarantee-i	Shipping Guarantee-i

**Figure 1****Types of Islamic banking contracts**

Source: Khir, Gupta &Shanmugam, 2008

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