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## IMPACT OF CUSTOMER'S AWARENESS AND UNDERSTANDING ON PATRONAGE OF NON-INTEREST BANKING SERVICES IN NIGERIA: EVIDENCE FROM JAIZ BANK PLC, KADUNA.

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### Abstract

*The incessant development that resulted from the global financial crisis has made it necessary for financial firms to be customer centered in their entire operational activities especially new entrant in the industry like Jaiz Bank Plc that offers new kinds of banking products. This study examines impact of customers' awareness and understanding on the patronage of non-interest banking services in Nigeria. The population of the study consists of all the customers of the bank who are resident within Kaduna metropolis. A combination of snowball and convenience sampling techniques was employed to collect data from 210 customers of Jaizplcbank through an 18– item Likert scale questionnaire. The study employed correlation and multiple regression analysis as analytical techniques. The result shows that the awareness and understanding of non-interest banking services has a significant influence on the willingness of customers to patronize non-interest banking products and services. The study recommends that non-interest banking operators should focus on the people's understanding of business transactions, the concept of profit and loss sharing practice and the benefits of non-interest banking products and services that would impact on customers' decision, irrespective of their religion.*

**Keywords:** awareness, understanding and patronage of non-interest banking services

### 1. INTRODUCTION

The role and functions of the banking system in a contemporary economy are of great significance to the development process and, thus, banking system is often considered as the heart of every prosperous economy (Fakhrul-Ahsan, 1998). In view of this, the emergence of non-interest banking services (NIBs) in the world has remained the most inspiring and outstanding financial and economic phenomenon of the 20th Century (Alao & Alao, 2012). Non-interest banking services subsector has appeared as one of the fastest growing sub-sector all over the world in the last three decades. It has extended to all places of the world and gained extensive identification by Muslims and non-Muslims alike. NIB performs similar functions as

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conventional banks do in the conventional system, except that NIB carries out their transactions in accordance with Islamic rules, hence the misconception of referring to NIB as strictly the bank for the Muslims. As one of the most important players in service industry today, NIB is no longer considered as a business entity only to carry out the religious duty of Muslim community, but also to fulfill the need of non-Muslims by offering different innovative banking products.

The development of different products requires banks to create customers awareness of their products and availability of alternative product packages compared to conventional bank products in the market so as to gain customers loyalty and higher patronage. For individual consumers and business firms, this factor determines the extent to which they choose to patronize these alternative products and services. Customers could not source funds from conventional banks, not only because of the high interest rates, but also their inability to provide collateral. However despite the fact that a non-interest bank has addressed the aforementioned problems, the prospective Nigerian customers of NIB are bound to be skeptical about NIB operational services and products. Some customers are likely to delay opening account with NIB until they are convinced about NIB operational opportunities, challenges, and benefits (Malik, 2010). This study attempts to examine customer awareness and patronage of Non-interest banking services in Nigeria using Jaiz bank Kaduna as a case study. If banks are to achieve their mission and goals, they will have to understand their customers' perceptions and create awareness for their different products (Metawa, 1998).

On the basis of the above problem, the study seeks to answer the following questions; to what extent does customer's awareness influence patronage of NIB and Does the customer have a clear understanding of NIB products and services?

## 2. LITERATURE REVIEW

Studies on impact of customer's awareness and understanding on patronage of non-interest banking services in Nigeria will be discussed under evolution of Non Interest Banking and Finance in Nigeria, Interest-Free Banking Products and Services.

Aliyu (2013) observes that the major determinants of soundness of a financial system, its stability and continued survival, are public trust and confidence in its institutions and markets. He further postulated that, the introduction of non interest banking services in Nigeria by Central Bank of Nigeria (CBN) marks another major turning point in the history of banking operation in the country, the move was greeted with steep resistance from all and sundry – religious groups, industry experts with astounding years of practice in conventional banking, and the gullible public.

However, the key issues of concern, especially among the religionist were that the attempt by the CBN was meant to Islamize the industry and expose non-Muslims into some form of financial exclusion. Critics from other quarters challenge the specific nature of the operations of the bank wondering how a banking system will operate without charging interest on its operations (Rano 2012). The efforts to establish NIBs in Nigeria dated back to the 1990s when the idea was first mooted and subsequently, two licenses were granted in 1992 (Mustafa, Ibrahim



& Adewale 2011). With granting of these two licenses in 1992, none could commence operation until 1999 when the (former Bank PHB Plc. and now known as Keystone Bank Plc.) started to offer non-interest banking services on a “window basis (Rano, 2012). Despite this giant move by the bank, the momentum for continuity could not be sustained due to lack of the required political will and determination (Mustafa et al 2011). However, a new phase for development of NIB operation in Nigeria came to limelight when the CBN enacted new provisions for the proper establishment and operation of NIB through what it conceptualized as “Non-Interest Financial Institutions” (NIFI). Hence, the first full-fledged non-interest bank with the name Jaiz Bank Plc. commenced operations as a regional bank in January, 2012, in Abuja, Kano and Kaduna (Aliyu, 2012)

The non-interest banks used the funds mobilized from depositors to participate in financing business ventures. The bank adopts several methods of financing projects and participating in business ventures which include among others.

**Direct Investment:** Direct investments is a situation whereby the banks function more like investment companies than institutions of financial intermediation (Ausaf 1993). Direct investments provide non-interest banks with opportunities for investing in priority areas as may be determined by the host community or government policies. The banks usually undertake direct investments by establishing companies dealing with investment, insurance and re-insurance, partnership, trade construction of real estate etc. or promotion of particular projects like construction of a housing complex, shopping plaza etc.

**Musharaka (partnership):** Khan (2002) defines *Musharaka* as “a joint ventures between a bank and an individual or business entity geared for certain operations and may terminate within a specific period of time or when certain conditions are met”. Net profit or losses are shared between partners according to the capital invested. There are two types of *Musharaka* business; Permanent and diminishing (Ausaf 1993).

**Mudaraba Partnership:** this is a form of partnership in which the bank, *Rabalmaal* (provider of funds) provides funds and the other partners (*mudarib*) provides labour and profit is shared in proportion agreed in advance. Losses not due to willful negligence, fraud or breach of trust by the trustee, are liabilities of the bank. The *mudarib* loses only the benefit of his efforts.

**Murabaha financing:** *Murabahah* transaction is described as a process which starts with the customers requesting the bank to finance his or her project which may be purchase of capital goods, raw materials, machinery or customer durables. The customer in addition to the specification of the goods, will also provide information about the price, nature and availability of the goods in the market. The bank after making independent investigations, and is convinced of the viability of the project, will then inform its customers of the profit margin it is likely to make on the original price. If the two parties agree with one another's proposal, then the *murabahah* agreement as a “promise to buy/sell” will be entered into. Based on the agreement, the bank will purchase the said goods or equipment as requested by its customer, by paying the seller directly either in full or in part. The customer thereafter will commence payment of the goods at a price that includes the cost price of the commodity paid by the bank of the original



seller and the bank profit, either in full or on installment basis. This type of payment is known as *Baimu'ajjal* (deferred payment). If the bank pays the agreed amount of the financing before delivery of goods, then the transaction becomes *Baisalam* (advance payment sale). This type of transaction is similar to “pre-shipment credit” granted by conventional banks.

**Leasing (*Ijarah*):** Under the scheme, the customer requests the bank to purchase capital goods like machinery or equipment and rent it to him or her thereafter. From the date of delivery, the lessee (customer) pays rent to the lessor (bank). Khan (2000) identified two forms of leasing:

**Operating leasing:** In this type of leasing, the lessor allows the lessee the use of the assets for a limited period of time, ranging from a few days to a few months or years, at a rent normally in excess of the depreciation amount of the asset. Depending on what is agreed upon, the rent can be fixed or varied for the period of the lease. However, maintenance and ownership of the asset remain with the lessor, during the period.

**Finance Lease:** this type of arrangement also known as “full pay out lease” involves the lessee paying the lessor a rent for the use of an asset with a promise of purchasing it at an agreed amount within a specified period. The lease rental which may be fixed or varied becomes the installment payment for the acquisition of the asset. With the completion of payment, the title of the asset is transferred from the lessor to the lessee. Pending this time, ownership and maintenance of the asset remain with the lessor.

**Syndication:** Syndication means many banks pooling together their resources with a particular bank taking the lead, to finance usually large scale trade-related transactions (IPS 1994). It is a special financial instrument devised for large scale ventures, which a single bank cannot afford to solely bear the risk of financing. The lead bank, also known as the “lead manager” acts as an agent for all the participating banks. The banks are expected to deal with the agent bank, not the client directly. The agent bank establishes a special *mudaraba* account in its books to which all participating banks contribute. When the payments are made, it is the responsibility of the agent bank to distribute proportionate share of each participating bank, after deducting the agreed agent fees.

**Benevolent loans (*Qard Hasan*):** *Qard Hasan* are interest free loan granted on compassionate grounds with a view to removing the financial distress caused by the absence of sufficient money in the face of dire need (Ausaf 1993). The provision of this kind of loan is made to accomplish the social roles of non-interest banks in addition to the income generating activities. Banks differ in the application of *Qard hasan*. For instance the Jordan Islamic bank restricts its *Qard hasan* to productive purposes. The Iranian banks on the other hand extend their *Qard hasan* to all needy customers with a minimum service charge to cover the cost of administering the funds (Iran year book 1988).

Customer's awareness is often measured by their level of patronage towards such product. Consumer awareness has been tested as one of the key variable in numerous studies specifically in the area of NIB. However, limited studies have investigated consumer awareness in the area of NIB patronage. Whereas, some studies reported, Muslim respondents, though aware of important terms in Islam, were almost likely unaware of the meaning of specific Islamic



financial terms *Mudaraba, Musharaka and Ijara* (Kamal 1999). Hence the need for in depth understanding of various alternative products of conventional banks which though many customers are aware of their availability but do not understand their applicability. Initially, it is expected that religiosity has a significant influence for consumers in selecting between conventional bank and NIB bank. However it has been treated as a minor contributor for bank's patronage compared to awareness and understanding of various products offered by NIB. In contrary, the study by Sudin (2004) reported that non-religious aspect such as service efficiency, transaction speed and friendliness of bank personnel seem to largely influence bank patronage, and their study also reported there is no significant difference between Muslims and non-Muslims in their selection criteria. Similarly, Gerrard & Cunningham (1997) replicated the study in Singapore and found that there is no difference in banking selection criteria between Muslims and non-Muslims. Nearly 25% of the feedback shows that religion was not the only basis for choosing an Islamic bank. They found that financial reputation, consumer awareness and understanding, and quality service, are the key factors affecting consumer decision to select banks. These results pointed that Islamic banks do not need to rely on religious factors as a strategy to attract consumer for business.

Product patronage is germane to the survival of any product or service; hence many theories have been used to describe the concept of customers' behavior which includes among others: Learning Theory, Pavlovian Theory, Economic Theory, Modern Utility, Sociological Theory and Psychological/Motivational Theory (Maslow need and Freudian Theory).

**Learning Theory:** The learning theory holds that learning occurs in every consumer, learning involves the acquisition of skills; knowledge, attitudes, emotions and ideas about the product all of which will result in a relatively permanent change in behavior of the consumer (learner). Some of the principles of learning adoptable from the fields of education and psychology include learning being purposeful, transferable, creative and cross applicable. Hence customer awareness and understanding of NIBs will go a long way in increasing the bank patronage.

However, theories impact of customer's awareness and understanding on patronage of non-interest banking services in Nigeria centers on economic theory.

**Economic Theory:** The theory is based on the idea that every man is an economic man. The bedrock of the theory is that an economic man is rational in purchase and his sole aim is maximization of satisfaction or utility. The economic man will buy only his need not what he wants. He will buy according to his disposable income. He makes prudent; objective design; using formal; systematic; logical; and rational processes (Britt Steuart, 1979). The classical economic theory assumes a complete knowledge of relevant information ability to rank preference according to some yardstick of utility and ability to choose the maximal alternative; and increase maximal utility. Therefore the in-depth understanding of NIBs is germane to its patronage.

However, the study adoption of the Learning theory and Economic theory does not suggest that it is in anyway superior to the other theory but because they are more germane and most appropriate as it presents the research variables of interest in this study.



Recently there has been an increasing interest in awareness and patronage studies of non-interest banking services, particularly to survey the customers and other stakeholders' opinions and views towards the operation of NIB. Haron (1994), stated that about 100 percent of the Muslim population and 75 percent of non-Muslims are aware of the existence of non interest banking services in Nigeria and out of this only 43 percent understood the difference between Islamic banks and conventional banks. Notwithstanding the progress made to date in the study of customer's awareness towards NIB, the more focused research studying the understanding of Nigerian stakeholders about NIBs products and services seems inexistent. Therefore, this study seeks to fill the knowledge gap and to serve as input for potential NIBs promoters and policy makers on policy formulation, especially as it relates to the potential customer's insight into Islamic bank products and services.

From the research conducted on consumer patronage of non interest banking services in Mauritius (Dineshwar 2013), Pakistan and Turkey (Okumus, 2005), Thailand (Lateh et al, 2009), South Africa (Privilege, 2014), Malaysia (Thambiah 2011, and Australia (Rammal & Zurbrueg 2006) to mention a few, there is a high level of awareness of conventional banking products such as current accounts and savings accounts. It was also noted that the only knowledge a large number of non-Muslim respondents in those countries had in relation to NIBs was the prohibition of interest in the operation of Islamic banking. They had little or no knowledge of the various non-interest banking products and services.

Previous studies have acknowledged the influence of awareness of customers for Non-interest banking products (Erol, Kaynak & El-Bdour, 1990; Omer, 1992; Metawa & Almossawi, 1998; Bley & Kuehn, 2004; James, 2004; Okumus, 2005). The most persistent finding was that majority of non-interest bank customers responded that religion was the primary motivation to patronize Islamic banking products and services. Hence, there is a need to focus on the awareness and understanding of various NIBs products of value.

### 3. METHODOLOGY

The research design is cross-sectional in nature which involves the collection of data from individual respondent on their awareness and understanding of their decision to patronize non-interest banking products and services in Kaduna State, Nigeria using Jaiz bank as a case study. The population of this study consists of all the customers of the bank who are 18 years and above and resides in Kaduna metropolis of Kaduna State where the bank's branch is located. Kaduna metropolis comprises four local government areas which are Kaduna North, Kaduna South, Chikun, and Igabi local government areas. The work used a combination of snowball and convenience sampling technique to select a hypothetical population of 210 customers of the bank who were sampled in this study. The adoption of this sampling technique is not strange as Shanka (2012), Saghier & Nathan (2013) and Akhtar & Zaheer (2014) adopted these sampling methods in their studies on non-interest banking services. The process of data collection was quite interesting and tasking because; the ultimate customers were approached to collect data through self-administrated questionnaires at the bank when they come to transact. Using a Likert scale of 5 points, the degree of agreement by the respondents to each of the items in the questionnaire is measured by calibrating the scale into Strongly agreed (SA) Agreed (A)

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Undecided (U), Disagreed (D) and Strongly disagree (SD) with the value of 5, 4, 3, 2, and 1 respectively. The numbers have no intrinsic value.

#### 4. FINDINGS AND DISCUSSION

The data collected from the questionnaires distributed to respondents are presented here to provide answers to the research questions earlier stated and the findings of the research were also discussed. The Multiple regression analysis identifies the contributory variables among the set of independent variables that predicts bank patronage of NIB product and services

**Table 1: Demographic characteristics of Respondents**

| VARIABLES | CHARACTERISTICS | FREQUENCY | PERCENTAGE% |
|-----------|-----------------|-----------|-------------|
| Gender    | Male            | 173       | 68.09       |
|           | Female          | 37        | 31.90       |
| Education | SSCE/OND        | 56        | 26.66       |
|           | B.Sc/HND        | 110       | 52.38       |
|           | PGD/Masters     | 34        | 16.19       |
|           | P.hd and above  | 10        | 4.76        |
| Age       | 20-30           | 44        | 20.95       |
|           | 31-40           | 92        | 43.80       |
|           | 41-50           | 54        | 25.71       |
|           | 51 and above    | 20        | 9.53        |
| Religion  | Muslim          | 161       | 76.66       |
|           | Non muslim      | 49        | 23.34       |

Source: Author's Computation, (2018)

Table 1 above reflects majority of respondents were males aged between 20 and 50 years, whose educational qualification is high, (74%) possess first degree and above; 76.66% were muslim respondents and 23.34% were non- muslims.



**Table 2: Descriptive statistics**

| Constructs    | Variable                                                                                                                   | Mean | Standard Deviation | Minimum | Maximum |
|---------------|----------------------------------------------------------------------------------------------------------------------------|------|--------------------|---------|---------|
| Awareness     | Awareness of transaction cost of doing business in non-interest products.                                                  | 4.83 | 0.6745             | 1.06    | 6.00    |
|               | Awareness of Shariah compliance for non-interest banking products operation                                                | 4.76 | 0.0894             | 1.28    | 6.00    |
|               | Awareness of non-interest banking loans without collateral                                                                 | 4.92 | 0.6516             | 1.36    | 6.00    |
|               | Awareness of participation in business transactions without capital contribution                                           | 4.88 | 0.6329             | 1.22    | 6.00    |
|               |                                                                                                                            |      |                    |         |         |
| Understanding | Understanding of profit and loss sharing offered by non-interest banking system                                            | 5.40 | 0.7765             | 2.00    | 6.00    |
|               | Understanding the benefit of non-interest banking products                                                                 | 5.00 | 0.9300             | 1.75    | 6.00    |
|               | Indepth understanding of the non-interest banking services concept                                                         | 4.78 | 0.8765             | 1.25    | 6.00    |
|               | Understanding the similarities and relative advantages between non-interest and conventional banking products and services | 4.82 | 0.8642             | 1.32    | 6.00    |
|               |                                                                                                                            |      |                    |         |         |
| Patronage     | Decision to patronise non-interest banking products and services                                                           | 5.35 | 0.8763             | 1.64    | 6.00    |
|               | Decision to open account with non- interest banks                                                                          | 5.35 | 0.8852             | 1.64    | 6.00    |

**Source: Author's Computation, (2018)**

Table 3 shows the descriptive statistics for the three constructs of the study (awareness, understanding and patronage) of non-interest banking products and services. The overall mean on the variables is 5.08 with a minimum score of 1.05, a maximum score of 6.00, and a standard deviation of 0.8979. The result indicates the level of awareness and understanding of customers about NIB in relation to bank patronage.



**Table 3: Correlation Results .**

| Variables         | 1     | 2     | 3     |
|-------------------|-------|-------|-------|
| 1. Bank Patronage | 1.000 |       |       |
| 2. Awareness      | 0.701 | 1.000 |       |
| 3. Understanding  | 0.579 | 0.451 | 1.000 |

Source: Author's Computation, 2018

**4.1 Pearson Correlation Analysis**

Table 4 shows the result of correlation analysis between awareness, understanding and decision to patronize NIBs. Overall, the result indicates that the relationship between the variables: awareness and understanding and decision to patronize NIBs were statistically significant. The multivariate relationship between awareness, understanding and decision to patronize NIB were identified to provide the answers to the research objectives of the study. A correlation analysis was performed to determine the direction and strength to the relationship between the independent and dependent variables. An overall result shows that all the independent variables were significant to the dependent variable at  $p < 0.01$ . The strongest positive correlation was the relationship between awareness and decision to patronize Non-interest banking products and services.

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .767 <sup>a</sup> | .876     | .825              | .159                       |
| 2     | .545 <sup>a</sup> | .654     | .603              | .036                       |

a. Predictors: (Constant), AWR and UND

**Coefficient**

| Model         | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|---------------|-----------------------------|------------|---------------------------|-------|------|
|               | B                           | Std. Error | Beta                      |       |      |
| (Constant)    | .486                        | .273       |                           | 1.185 | .009 |
| 1 Awareness   | .265                        | .134       | .325                      | 2.761 | .026 |
| Understanding | .3477                       | .109       | .422                      | 7.123 | .001 |

a. Dependent Variable: Bank Patronage

**Test of Hypothesis 1**

H<sub>01</sub>: Customer's awareness does not have any significant influence on the patronage of NIBs

For null hypothesis, the study observed that the  $r^2$  is 0.876 (table 5). 87.6% of bank's patronage is explained by customer's awareness of NIBs. This implies that awareness of non-interest banking product and services influence bank patronage, while the remaining 12.4% are explained by

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other variables which are outside the model. Hence, Customer's awareness has significant influence on patronage of NIBs.

*Ho2: Customer's understanding of NIBs products and services does not have significant influence on its patronage.*

Generally, the regression result shows that the two predictor variables are statistically significant in association with a decision to patronize non-interest banking products and services. The two variables were understandings ( $\text{Beta}=0.439$ ,  $p=0.000$ ) and awareness ( $\text{Beta}=0.273$ ,  $p=0.050$ ). The predictor understanding level ( $\text{Beta}=0.439$ ,  $t=7.123$ ,  $p=0.000$ ) had the highest and significant standardized beta coefficient, which indicates that level of understanding was the most important variable in predicting the decision to patronize non-interest banking products and services.

## 5. CONCLUSION AND RECOMMENDATIONS

On the basis of the above findings, the study concludes, customers in conventional banks are confronted with some challenges in their decision to patronize Islamic banking products and services. Also, new products should be developed to cater to the various needs of existing and potential customers of the banks. That it is statistically evident that there is perfect positive correlation between customer's awareness, understanding and bank's patronage of non-interest banking products and services. From the findings and conclusions of the study, this study recommends that Non-interest banks need to pay more attention to consumer education programmes, awareness and understanding through workshops, seminars, conferences and possible jingles in radio and television crucial to spreading the understanding and unique characteristics of non-interest banking products and services. Beside, there is a need to develop policies, strategies and the institutional legal framework which will reduce the issues of dishonesty, moral laxity and information asymmetry from the sides of both the non-interest banking operators and their customers. Also, there is need for enhancement of people's understanding of the position of Shariah on business transactions, the concept of profit and loss sharing practices and the benefits Islamic banking products and services would impact on customers' decision irrespective of their religion and ethnic background.

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