

*A voice of the customer survey of Gulf
Cooperation Council (GCC) countries*

What customers want

Customer insights to inform growth strategies of Islamic banks in the Middle East

October 2014



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Foreword

The setting is ripe for rapid growth at the GCC's Islamic banks. Growing populations and economies, with high proportions of Muslims, are creating a market with huge potential. But there are challenges for the Islamic banking industry in the Middle East; it is a relatively young industry with most Islamic banks being less than 40 years old that are trying to compete, differentiate and grow in a crowded and fragmented regional and global marketplace. Rapidly changing developments in technology and growing aspirations of customers make this challenge even greater.

More broadly, Islamic banking is becoming accepted as a significant part of the global banking sector and as one of the means to increase financial inclusion using an alternative philosophy. Commercially, Goldman Sachs, the International Finance Corporation, and the governments of the UK, South Africa, and Hong Kong have used Islamic finance offerings as a way to raise funds and invest using the tenants of Shariah. As Islamic finance increasingly becomes an institutionalized part of the world's capital markets, Islamic banks stand to reap the rewards and Islamic banking assets have the potential to expand rapidly.

However, Islamic banks appear to be finding growth hard to achieve, perhaps because any increase in banking assets is spread across so many institutions in the region. If they are to differentiate, grow and become market leaders they need to become more customer-centric, which means understanding and responding to what customers want. But, what is it customers, and as importantly potential customers, want? What's important, and what's not?

To help provide some insight, and we hope to create a debate about the opportunities for the region's Islamic Banks, we commissioned a survey of retail banking customers to find out. Here's what we found, and what we think banks might want to consider in their strategies to compete, differentiate and grow.

Ashruff Jamall
Partner, Global Islamic Financial Services Leader

Executive summary

Islamic banks find themselves at crossroads; the growth they have achieved on the back of religious faith is beginning to slow down and their customers are becoming more discerning. There is huge potential for the region's Islamic Banks but there are challenges to overcome.

We believe that Islamic banks may be missing a huge opportunity within the Muslim population due to a perception problem – a perception amongst existing customers, and potential customers, that Islamic banks are not true to Shariah values. As an intrinsically values-based industry, Islamic banks must address this perception issue.

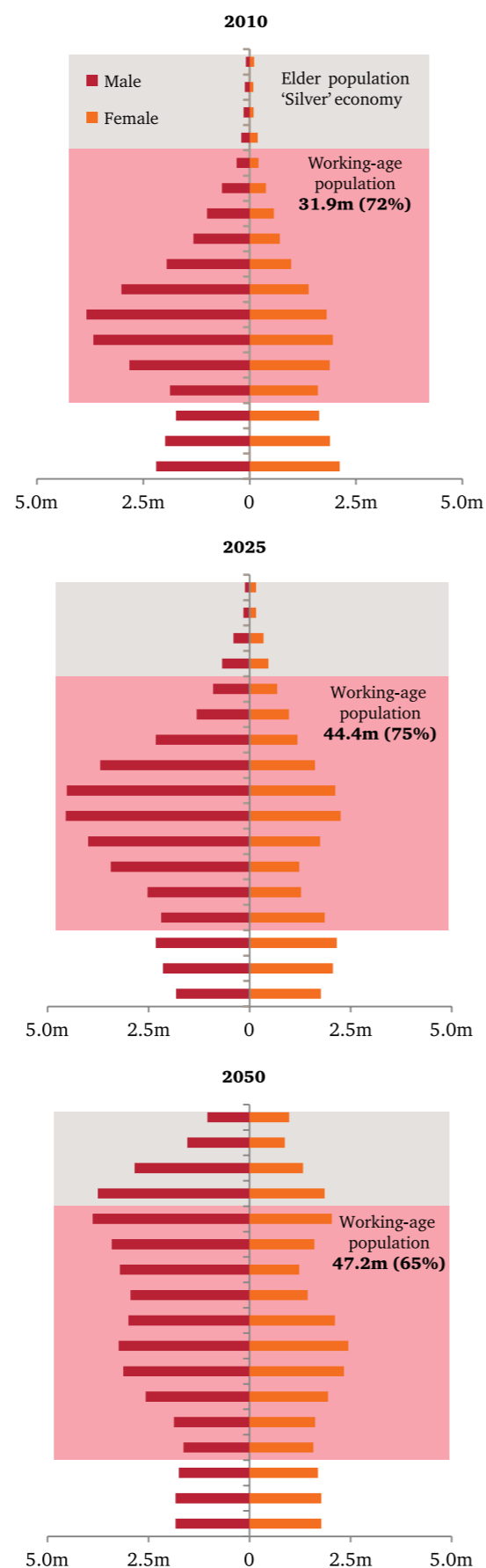
Service levels are found wanting, and Islamic banks generally rated lower than conventional banks in terms of service provision such as well-located ATMs, a good branch network, a good reputation and good internet banking products. Unless Islamic banks can narrow the services gap, and create a 'customer-centric' mindset, they will find it difficult to continue to win over new customers, especially given the practical difficulties of switching bank accounts in the Middle East. This is especially important as more customers prefer and use digital platforms such as online and mobile banking.

As the industry matures it will need to transition from being attractive solely because of its values - adherence to Shariah principles - to being competitive with and against other Islamic banks and conventional banks from a customer service perspective. But, for those that can get it right, there is huge potential to create a truly differentiated Islamic Banking offering.

The growth of the Muslim population will be double the rate of non-Muslims in the period to 2025

The world's Muslim population is forecast to expand by a third (600 million people) by 2030

Changing demographics
Population pyramids for GCC countries



Source: UN

Values drive decisions: a perception gap

Islamic values are what primarily drive the decisions and behaviours of Islamic Finance customers, however worryingly for Islamic banks many customers expressed skepticism of Islamic banks actually living up to these values. Only half (52%) of existing Islamic bank customers agreed* with the statement that their provider was 'an Islamic bank and followed Islamic Shariah'.

A missed opportunity

The survey data suggests that Islamic banks may be missing a huge opportunity with their customers, and the Muslim population, due to a perception gap. Banks looking to grow by attracting a greater market share of the Muslim population need to build trust amongst their core customer base and more clearly communicate and demonstrate their Islamic values. As an intrinsically values based industry, Islamic banks must address this problem of perception.

To best capitalise on the opportunity in the Islamic banking sector, institutions will need to realise that merely branding themselves as Islamic is not enough – they can't just talk the talk, Islamic banks need to walk the talk. Articulating more clearly the values of the bank, and clearly demonstrating action and fulfilment of their values may help banks to close this perception gap and attract greater market share of the Muslim population.

Awareness and understanding of Islamic banking

Just over half of respondents say that they are familiar with Islamic banking, with 56% of Muslims and 40% of non-Muslims saying they are extremely or somewhat familiar with it.

Non-Muslims say they do not use Islamic financial products because they do not know enough about them, with 64% citing lack of awareness as the reason they don't use Islamic financial services.

The challenge that Islamic banks will face is converting that awareness into new banking customers.

Service levels lacking

Non-Islamic bank customers were more likely to strongly agree with "My bank provides fast service" than Islamic banking customers. While Muslims more broadly value Shariah compliance, they ranked similar areas to non-Muslims as the most important reasons why they use their current bank such as reputation and brand recognition, the branch network, and location of ATMs. This changes for existing Islamic bank customers, 31% of whom said that being Shariah compliant was the most important factor in why they use their current bank.

Our research finds that retail banking customers are willing to switch to Islamic banks, but will only do so if they feel that service levels at least match what they get from conventional banks – a fifth of non-Islamic banking customers tell us they would consider switching to Islamic banks if service levels of Islamic banking banks matched their conventional peers. This creates a huge opportunity for the region's Islamic banks, suggesting that a focus on enriching the customer experience can help to drive growth.

Islamic banks face a twin challenge - they must first convince their natural customer base of Muslims that the products they offer are indeed Shariah compliant, then they need to ensure that service levels at least match up to that on offer elsewhere.

* Customers scoring 8, 9 and 10 on a scale where 10 is 'strongly agree' and 1 is 'totally disagree'

Rise of the silver economy

Generally, older Muslims were most aware of Islamic banking, probably reflecting a greater degree of importance attached to religious and cultural issues as people mature.

However, this does not necessarily translate into usage. The proportion of Muslims using a non-Islamic, or 'conventional' bank rises with age.

The demographics of the GCC mean there will be a huge increase in the elder population, or 'silver economy' forecast by 2050, and with it potential for Islamic banks to grow with the region. Winning, but more importantly retaining customers from an early age will be more and more important as customers have the potential to stay customers for longer. Islamic banks need to reverse the trend of conventional bank use as customers get older.

Going Glocal

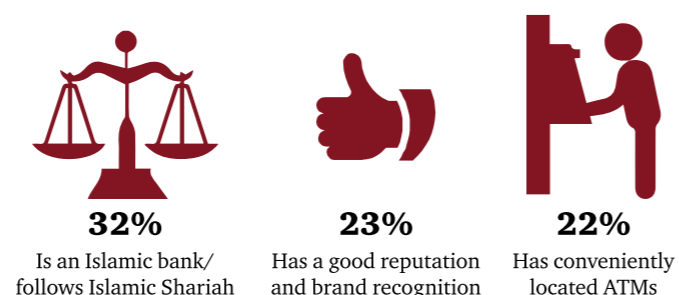
There are several strong brands that have emerged in the Islamic banking space. What is lacking though are brands that exist across multiple countries and are attractive to the Middle East's population, which consists of a large proportion of expatriates. When asked to list the top three reasons why respondents use their current banks, more than twice as many non-Islamic bank customers cited banking with an institution with a worldwide network as important compared to Islamic bank customers.

What are the main three reasons you chose to work with your main bank?

Non-Islamic bank customers



Islamic bank customers



Although some Islamic banks are starting to expand beyond their home countries, in general few can offer services beyond their home market. When considering that the world's Muslim population will expand by a third (600 million people) by 2030, this becomes particularly compelling.

Switching or staying-put?

Non-Muslims are more likely to switch their bank (22%) than Muslims (15%), but Muslims are more likely to switch to an Islamic bank if they do change their accounts.

Women are loyal and far less likely to switch providers, but are relatively inactive customers compared to men. It's fair to say that a much higher proportion of all women surveyed had their own bank account than we initially expected - only 8% of women surveyed did not have an independent bank account.

Bricks versus clicks

Customers who are spending less time in branches are increasingly using the internet and mobile banking platform as their most frequent way of interacting with their bank. For those institutions looking to achieve scale and grow market share, this behaviour offers Islamic banks the opportunity to leapfrog the development of an extensive branch network by creating something more innovative. Smaller branches designed to deal with procedures such as account opening and personal banking may be a better investment, coupled with developing mobile and internet platforms to capitalise on how active Muslim customers are on those channels.

Muslim women continue to like/prefer having women only branches available, but in reality they are rarely using them. More generally, women (Muslim and non-Muslim) use branches far more than men, but, they also prefer to use online banking and they cited online and mobile as very important when selecting a bank. This suggests that a compelling digital offering could be a far more significant factor in attracting new female customers than a much costlier effort to develop a network of women only branches. Islamic banks that can create a strong online and mobile offering that appeals to young females will find themselves with a more loyal customer base for the future.

These findings should inform the strategies of the region's Islamic banks, which are relatively young and still developing their distribution networks. Expensive outlays on acquiring branches and segregating female customers may be obsolete as the importance of visiting a bank diminishes.



A perception gap

An issue for Islamic banks that presents huge opportunity

Penetration levels (those actually using Islamic banking) are still surprisingly low, especially considering that our survey was conducted in the GCC. The majority of respondents (79%) identified themselves as Muslims, with 70% of them being either locals or expatriates from other Arab nations, suggesting at least some familiarity with Islam and Islamic banks.

How familiar are you with Islamic Banking?

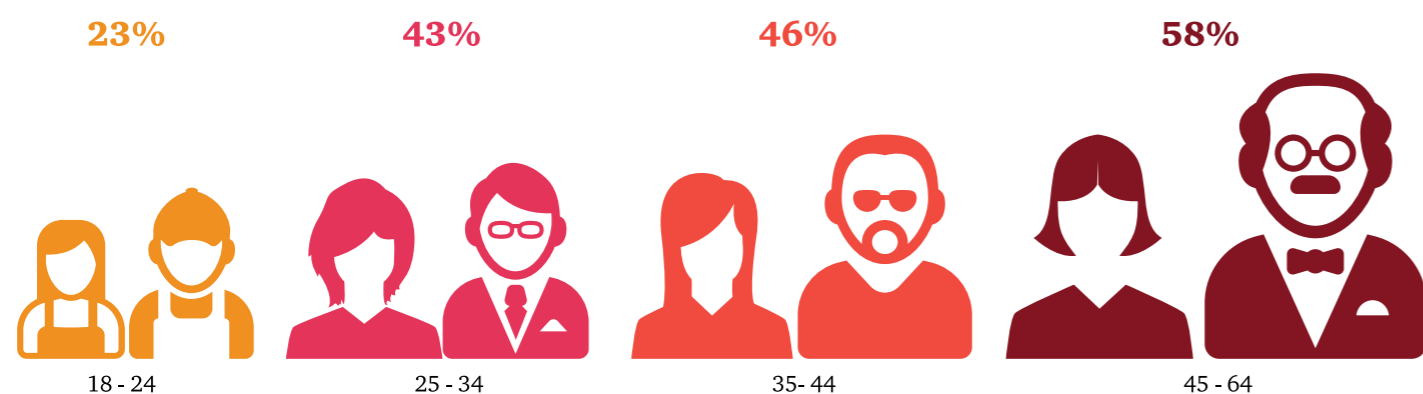


Generally, older Muslims were most aware of Islamic banking, probably reflecting a greater degree of importance attached to religious and cultural issues as people mature.

However, this does not necessarily translate into usage. The proportion of Muslims using a non-Islamic, or 'conventional' bank rises with age.

Age groups

% of Muslims banking with non-Islamic banks



Of the 53% of respondents who said they were either somewhat or extremely familiar with Islamic banking, the most common features they were aware of about Islamic finance was that it was values based.

What do you know about Islamic Banking?

Adherence to Sharia Laws

27%



No interest rates

20%



Islamic banking products (Murabaha, Mudaraba..etc)

14%



Free from Riba

12%



Adherence to Shariah law, absence of Riba (the Islamic concept of unjust gain, often equated with interest) and no interest rates were the main features of Islamic banking that respondents said they had some knowledge of. A concern to Islamic banks will be the low scores that they received from both Islamic banking users and non-users for facilitating transactions, trustworthiness, and for providing financial services.

Islamic banks have undoubtedly benefited from a large portion of their user base saying that they will choose Shariah compliant products regardless of the price and benefits. A total of 55% of existing Islamic bank customers said they always seek Islamic financial products.

The most pressing issue that Islamic banks must address is a values perception problem among Muslims. Only half (52%) of existing Islamic Bank customers agreed* with the statement that their provider was 'an Islamic bank and followed Islamic Shariah'. It's evidence of the lack of faith in the industry, when a significant portion of existing Islamic bank customers lack trust and it should strike a chord with Islamic banks.

This requires a much broader and deeper process of educating the public and their own customers. If they can do that, the benefits for banks could be substantial. Nearly 45% of Muslims said they would switch to an Islamic bank for religious reasons including to follow the teachings of Islam or to avoid Riba.

Customers not currently using Islamic banks are more willing to consider switching to Shariah finance than we expected:

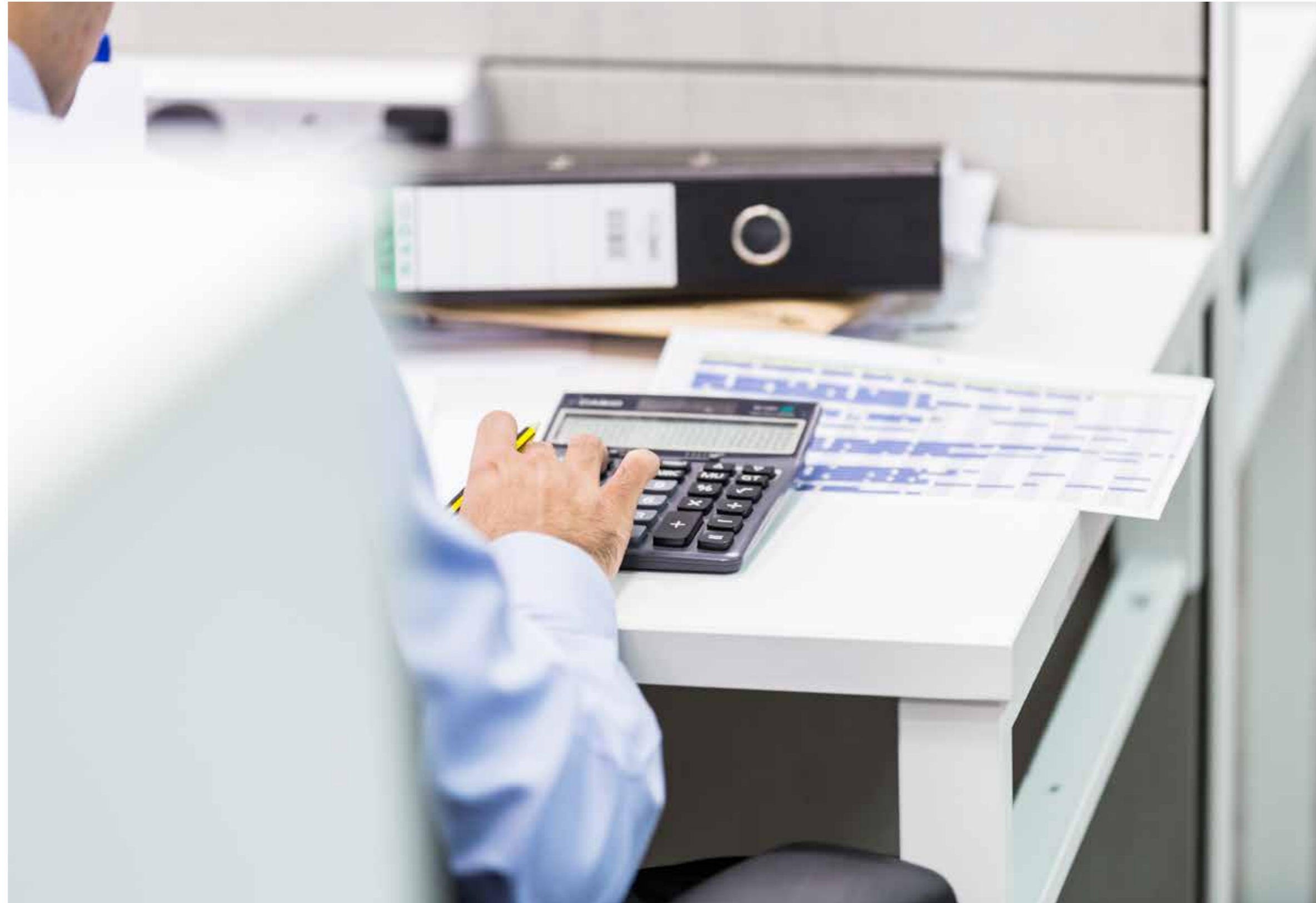
- 20% of all non-Islamic bank users said they would switch to Islamic banking if the services provided were better, more convenient and easier, of these one third were Muslims and two thirds were non-Muslims.
- 12% of non-Islamic bank users would switch for Shariah values / Islamic standards, these were all Muslims.

If Islamic banks can reassure Muslims that they really are Shariah compliant and not just 'dressing up' conventional banking and products as being Shariah compliant, and at the same time provide products and services that are competitive against conventional banks, they will reap great rewards by having a larger universe of possible customers.

A part of the reason many Muslims are suspicious of Islamic finance maybe the industry's tendency to mirror conventional banking products. This lack of innovation is perhaps also part of the reason why Islamic banks have so far struggled to truly differentiate themselves in the mindset of consumers.



45% Muslims said they would switch to an Islamic bank for religious reasons including to follow the teachings of Islam or to avoid Riba



* Customers scoring 8, 9 and 10 on a scale where 10 is 'strongly agree' and 1 is 'totally disagree'

What's important to customers

Aspirations and needs of customers and potential customers

Service levels and infrastructure are overwhelmingly the most significant factors for determining which bank a customer uses. When asked to name the top three reasons that customers use their current bank, the most popular responses all related to customer service and ease of use. The most frequently cited reasons were conveniently located ATMs, a good branch network, a good reputation, good internet banking products, and Shariah compliance. However, Islamic banks generally rated lower than conventional banks in terms of service, except around the friendliness of staff and online/mobile banking products.

In light of the survey's findings about the use of online/mobile banking, importance of ATMs, and declining use of branches, Islamic banks may be able to capture a significant part of the market by developing a wider network of smaller branches or banking facilities. These could include a next generation of smarter ATMs that can handle more of the transactions that people currently use branches for. These could also fit more easily into regional population centers like residential districts and malls, rather than investing in traditional branches. This presents opportunity to achieve more scale at a relatively lower cost.

Although Shariah compliance was obviously ranked more highly as a determining factor by Muslims, it was not the most significant factor. Instead, Muslims and Non-Muslims ranked similar issues as the most important reasons why they use their current bank. The top three reasons for Muslims were reputation and brand recognition, the branch network, and location of ATMs.

This changes for Islamic bank customers, 31% of whom said that being Shariah compliant was the most important factor in why they use their current bank. They seem to be less interested in service levels as a result. Islamic customers rated their primary bank significantly lower than conventional bank customers for having easy processes, being innovative, providing fast services, and having a good network of ATMs.



Only 14% of Islamic bank customers said they thought their bank provided fast service and 11% said they thought their bank has easy processes, compared to 20% and 21% respectively for conventional bank customers. This also showed up in how strongly people agreed with the statement "My bank provides fast service". Non-Islamic bank customers were more likely to strongly agree with this statement than Islamic customers.

One area where Islamic banks did score better than conventional banks was for the friendliness of their staff. Just under 15% of Islamic customers said their bank had 'willing and polite staff' compared to 11% for conventional banks. This is one service orientated area where the performance of Islamic banks is better than conventional ones. Non-Muslims respondents said they would happily switch to an Islamic bank if the service levels matched or exceeded their current bank.

At the moment the figures suggest that Islamic banks have some way to go before service levels match those of conventional peers.

One fifth of non-Islamic bank customers said they would switch to an Islamic bank if they offered better services and were more convenient. Other considerations would also tempt them, with 10% saying that higher profit rates would encourage them to switch to an Islamic bank, and 17% saying that lower charges would convince them to switch. In comparison, just 4% of Islamic bank users said they would switch to another Islamic bank for higher profit rates, 7% would switch for lower charges, and only 9% would switch for better services and greater convenience. Unless Islamic banks can narrow the services gap, they will find it difficult to continue to win over new customers, especially given the practical difficulties around switching bank accounts in the Middle East. This is reflected in how few people are open to the idea of changing their bank

accounts, with 29% of respondents saying that not likely to change their accounts in the next 12 months and no difference the likely of Islamic and non-Islamic customers to change their accounts.

As 26% of non-Muslims said they chose their current bank based on personal recommendations, Islamic banks will perhaps have to improve their services before their current customers start recommending them to anybody else.

Islamic banks face a disadvantage when trying to attract conventional bank customers, due to their lack of a global network. When asked to list the top three reasons why respondents use their current banks, more than twice as many non-Islamic bank customers cited banking with an institution with a worldwide network as important compared to Islamic bank customers.

Although some Islamic banks are starting to expand beyond their home countries, in general few can offer services beyond their home market.

Given this lack of a global network, Islamic banks will need to try harder in providing fast and efficient services and attractive returns, if they hope to attract conventional customers.

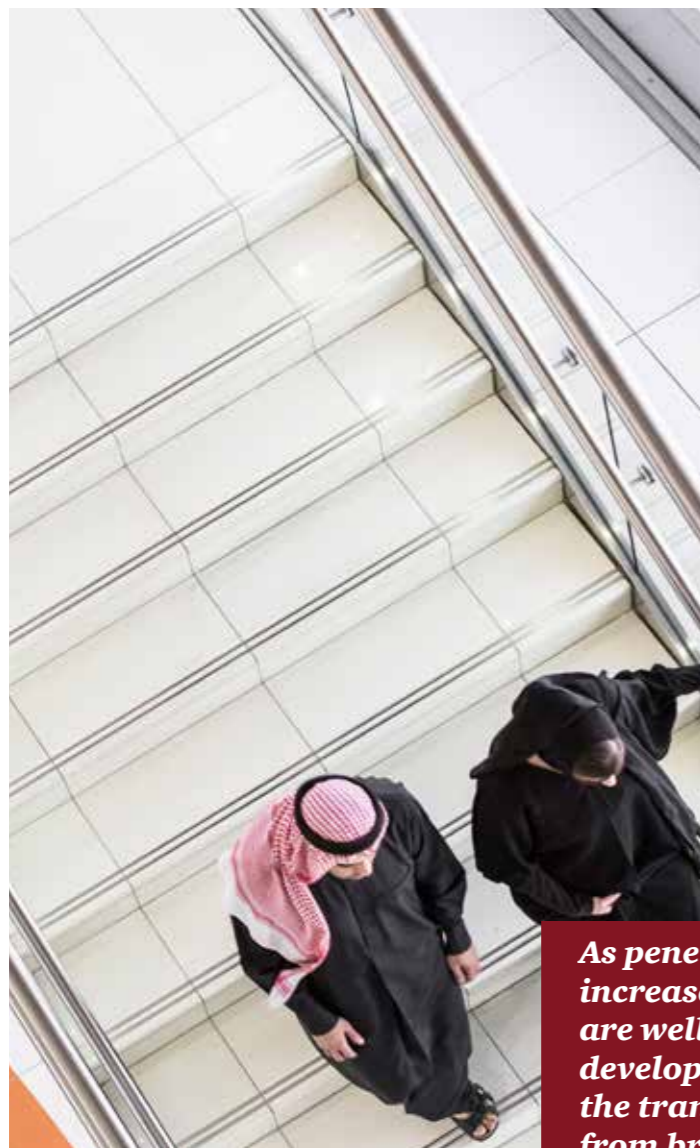
One fifth of non-Islamic bank customers said they would switch to an Islamic bank if they offered better services and were more convenient

Bricks versus clicks

Technology as a springboard for growth

Customers are spending less time in branches and more time engaging with their banks through digital services like internet and mobile platforms. As a result Islamic banks, most of which are less than 40 years old, have the potential to leapfrog the development of widespread retail outlets and move instead to provide best-in-class online offerings as a way of attracting and retaining customers.

Internet banking is the preferred channel for both men and women, and 51% of respondents said internet banking was an important factor in determining who to bank with.



As penetration of smartphones increases Islamic banks are wellplaced to invest in developing this area to facilitate the transfer of customers away from branches and onto digital platforms.

Nearly 60% cited the convenience of being able to bank anywhere at any time without having to visit a branch, and ease of use, as the reason why they attach such importance to online banking.

Only 8% of women do not have an independent account and it is significantly higher among non-Muslim females.

Just over half of respondents said a good online banking service was very important when choosing who to bank with. Both Islamic and non-Islamic bank customers ranked online banking at about the same level of importance, but women tended to rank online banking as more important than men. As both sets of customers rank online banking as such an important feature this areas presents a good opportunity for Islamic banks to boost their offering to appeal to Muslims and non-Muslims.

Mobile banking featured less prominently, and was not among the top 10 reasons for choosing a bank for either Islamic or conventional bank customers.

This is perhaps surprising given the prevalence of smartphones in the region, but is probably more a reflection of the slow adoption of mobile services by the banks, rather than the customers. As penetration of smartphones increases Islamic banks are well-placed to invest in developing this area to facilitate the transfer of customers away from branches and onto digital platforms.

This should be a compelling investment for Islamic banks as those customers that do use mobile banking are strong supporters of it. Several respondents said that mobile banking was the quickest and easiest way of interacting with their bank for simple tasks like transfers and checking statements.

Whilst customers don't cite it as really important when choosing a bank, mobile banking apps are one of the most frequently used ways they to interact with banks. Nearly 50% of respondents that use mobile banking do so at least weekly. For internet banking users the figure is 54%. For branch users it falls to just 7% and 17% for telephone banking.

Muslim customers were also twice as likely to say that mobile banking was their preferred channel, compared to conventional bank customers, although the majority of both Muslim and non-Muslims cited online as their favourite method of banking.

There also appear to be some differences in how Islamic bank customers interact with mobile and online banking:

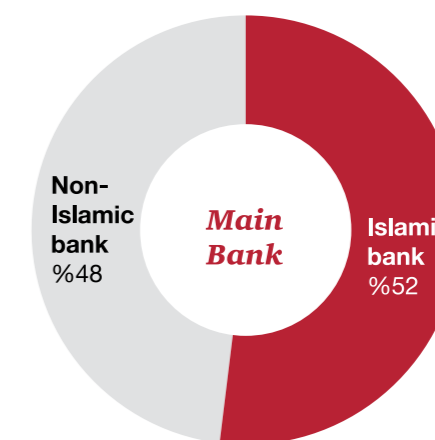
- Islamic customers say the services are useful for making transactions easier and are faster,
- Non-Islamic bank customers like the convenience that mobile platforms offer.

The implication of this could be that Islamic bank customers are using mobile apps for transactions, while other customers are simply checking and monitoring their accounts, which in turn feeds into the idea that Islamic bank customers are leapfrogging branch-banking and moving straight to mobile banking.

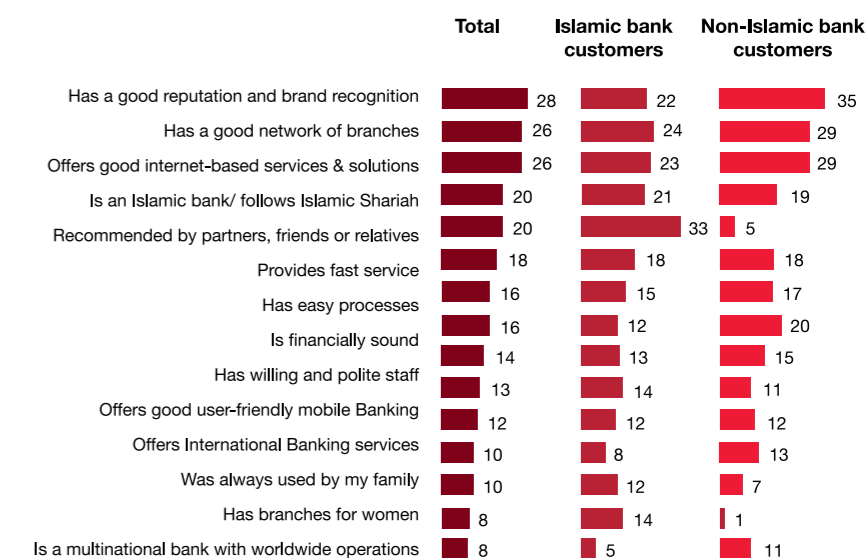
Given the emphasis customers are putting on digital channels, Islamic banks also have an opportunity to attract conventional bank customers if they can use technology as a way to provide a differentiated service. Digital channels may well be a better focus of investment than branches.

Drivers for choosing main bank

The main reason for choosing an Islamic bank is the fact that it follows the Islamic Shariah. For conventional banking it is more important to have conveniently located ATMs



What are the main three reasons you choose to work with your main bank?



All figures in %

What women want

Looking again at how to grow the female customer base

One of the key differentiating factors for Islamic banks has been their embrace of services designed exclusively for women. Although this has developed as a result of cultural and religious factors, it can be extremely beneficial to Islamic banks.

Women are loyal customers, with far less females open to the idea of switching their accounts than men. The survey found that 35% of women would not consider changing their bank accounts, compared to 25% of men. Islamic banks could do well to focus more attention on understanding what women customers want and how to better serve them. The assumption that women are best served via female only branches could soon become outdated and a better model could be developed around a robust digital strategy.

Our survey found that more women than men visit branches, while men are the most active users of internet banking. While at first this may suggest banks should invest more in female only branches, this may not be the case - although more women than men visit branches, they are far less frequent visitors to them. Only 10% of women said they use a branch more than once a month, compared to around 30% of men.

The majority of female respondents said that their preference is to use online banking. Women also rated online and mobile banking platforms as very important when selection a bank.

This suggests that a compelling digital offering could be a far more significant factor in attracting new female customers than a much costlier effort to develop a network of women only branches. Bricks and mortar investment to segregate branches will increasingly lose value as women use more services online.

The challenge for banks will be to ensure that their digital offering satisfies the demand of female customers, who appear to want different things to men. Although the ease of use was the main reason for women to prefer online banking, they were much less interested in saving time by using it. Instead more women than men saw online banking as an issue of

safety, offering security in the event of an emergency. The research suggests that rather than a single online offering for both genders, men will be more receptive to a product that saves time and effort, while women want a platform that is easy to use and offers security in an emergency. In particular respondents said that being able to make emergency money transfers or get faster responses for their bank than through a branch was attractive to them.

Women are also far less active as customers in general compared to men. Male customers use every channel more than females, whether branches, online and mobile banking, or telephone banking. Nearly 40% of women are using internet banking at least once a week, compared to over 60% of men. While less active as customers, women may be more loyal. 55% of women ranked themselves as unlikely to switch banks in the next 12 months. Only 35% of men said the same.

The majority of women have their own independent bank accounts. Only 8% of women do not have their own account, and of that minority over half say they intend to open an account soon.



The assumption that women are best served via female only branches could soon become outdated and a better model could be developed around a robust digital strategy.

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Methodology

Approach

Quantitative survey

Data Collection

Online data collection using YouGov research panel

Fieldwork dates

September 2014

Language of interviewing

English or Arabic based on respondent's preference

Sample description

We conducted 540 interviews with:
Males and females
Ages 18-64 years old
Coverage: UAE, Kingdom of Saudi Arabia (KSA), Bahrain, Qatar, Kuwait, Oman
Respondents who currently use a bank for personal banking needs



Sample description

Gender	
Males	62%
Females	38%

Age	
18-24	15%
25-34	43%
35-44	29%
45-64	13%

Country of residence	
UAE	34%
KSA	33%
Other GCC	33%

'Other GCC' made up of:

Bahrain	7%
Kuwait	9%
Oman	9%
Qatar	8%

Nationality per country			
	UAE	KSA	Other GCC
Locals	15%	63%	35%
Arab Expats	35%	31%	31%
Asian Expats	40%	2%	27%
Westerners	10%	4%	6%

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