# Do Bank Customers Prefer Profit Sharing Investment Accounts? A Proposed Conceptual Framework

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Keywords: Islamic Banks, Investmment Account Holders, Investment, Profit Sharing, Islamic Finance.

Abstract: The concept of sharing profit earned by Islamic banks with their investors is one of the distinguishing features that set Islamic banks apart from their conventional counterparts. The contract of mudarabah is used by Islamic banks to mobilise funds with the objective to share profit with the investors. Any financial losses incurred by the banks in the course of their financing or investment is to be borne entirely by the depositors, except in cases of negligence and breach of contract. Based on literature that investigated the factors effecting the adoption of Islamic banking and finance products, the factors differ based on countries. It is found that GCC countries showed that religious factor in terms of compliance with the provisions of Shariah by the Islamic banks is the most important factor that influences the selection of Islamic banking products in the GCC countries. However, in the MENA region, it could be observed that religious belief and compliance with Shariah by Islamic banks were not the major factors that influence customer's choice of Islamic banks unlike in the GCC countries. Not only that, it is also found that the factors that influence the choice of Islamic banks amongst customers in Asia were not consistent. Whereas some studies show religious inclination as the most important factor in choosing Islamic banks by customers especially in some studies in Malaysia, other studies show that high profit and low-cost service as the most important selection criteria. Hence, the proposed conceptual framework that integrated both the Theory of Reasoned Action (TRA) and Theory of Planned Behaviour (TPB) together with the unique elements of religiosity and risk tolerance are expected to predict the behaviour of profit sharing investment account holders.



## 1 INTRODUCTION

The Islamic financial services industry continues to record impressive growth as at the end of the 2018 financial year as reported by various reports that track developments in the industry. According to the Thomson Reuters' Islamic Finance Development Report (Reuters, 2018) Islamic finance is currently present in 56 countries with Iran, Saudi Arabia and Malaysia rated as the largest markets dominating for 65% of the total market Share in 2017, while Cyprus, Nigeria and Australia recorded the fastest growth in Islamic finance assets in 2018. The Islamic finance industry assets grew by a compound annual growth rate (CAGR) of 6% to US$2.44 trillion in 2017 from 2012 with the banking sub-sector contributing US$1.72 trillion or about 70% of the total asset of the industry. The Islamic banking assets was estimated to have expanded at a CAGR of 8.8% between 4Q 2013 and 2Q 2017 (IFSB, 2018). Financing recorded a CAGR of 8.8% between 4Q 2013 and 2Q 2017 and annual growth rates of 6.8% in 2Q 2017 while deposits on the other hand recorded a CAGR of 9.4% with an annual growth rate of 9.2% (IFSB, 2018). From the statistics, the Islamic banking industry tends to attract deposit at a rate faster than the rate at which the banks are willing to extend financing to their clients.

The nature of Islamic finance and conventional finance are different. In spite of that the notable difference between Islamic banks and conventional bank is that Islamic banks are Shariah compliant while conventional banks applied charging and received interest which is riba and hence not compliant to Shariah. Furthermore, conventional finance is almost void of risk sharing. On the resource mobilization side, fund owners provide their financial resources on the basis of the classical loan contract. Accordingly, banks taking deposits would guarantee both principal and interest on their customers' deposits (Ali Al-Jarhi & Ali Al, 2017). This is not the case with Islamic banks as observed by (Ramli, 2014) a major distinctive feature between Islamic banks and conventional banks is profit-and-



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loss sharing (PLS) paradigm, which is primarily based on the concepts of mudarabah (profit sharing and loss bearing) and musharakah (joint venture) of Islamic investment contracting. Hence, it becomes imperative on Islamic banks to pay more attention on these very important and distinct sources of funding their activities. Among the two profit and loss sharing contracts (i.e. musharakah and mudarabah), where mudarabah is commonly used as the underlying contract for both the restricted and unrestricted investment account by Islamic banks for the mobilization of resources (ISRA, 2018).

Moreover, Islamic banks which are similar to their conventional counterparts also rely on monies from depositors as their major source of funding and the share of unrestricted investment accounts in the total deposit of Islamic Banks varies considerably from near zero to over 80% in some banks (M. Iqbal, Ali, & Muljawan, 2012). As such, it is critical for the management of Islamic banks to know the factors that influence customers' decision making in investing their money with Islamic banks. This is particularly important if we consider the risk appetite of the investment account holders (IAHs). As explained by (Alhammadi, 2016), unrestricted investment account holders (UIAHs) are typically risk averse and would normally seek a low-risk low return deposit-like account. Understanding the savings and investment culture and factors that influence the savings behaviour of the UIAHs would assist the management of the Islamic banks to develop strategies to attract and retain the investments. It would equally assist regulators ensure that the rights of this class of depositors is protected by the Islamic banks.

# 2 DISCUSSION

***Unique Nature of Islamic Banks***

The major differences in the mode of operations are: (i) Islamic banks do not operate on interest as riba is prohibited in Islam. (ii) The avoidance of interest leads Islamic banks to the development of risk sharing contracts namely musharaka and mudarabah contracts where there is no predetermined fixed interest as sources of funds mobilisation and fees generation(Samad, 2014). Another major difference between the two forms of banking as observed by (Karim & Ali, 1989) is that unlike in conventional banking where depositors are guaranteed a fixed interest payment, Islamic banks operate on an equity-based system in which economic agents are not guaranteed a predetermined rate of return, instead depositors share in the profits made by the bank as well as in the losses that may be incurred by it.

Islamic banks' depositors can be compared to investors or shareholders of companies, who receive dividends when the bank makes a profit or lose part of their economies if the business makes a loss(Khaldi & Amina, 2018). Also, Islamic banks are not permitted to offer a fixed and predetermined interest rate on deposits, and cannot charge interest on loans(Toumi, Viviani, & Belkacem, 2011).

Unlike in the conventional banking space where the principal banker-customer relationship is that of a debtor-creditor(Campbell, LaBrosse, Mayes, & Singh, 2009), several contractual relationships exist between Islamic banks and their customers including being that of partners, investors and traders, as well as buyer and seller(Mahinar, Bakar, Mohd Yasin, & Teong, 2019).

The concept of sharing profit earned by Islamic banks with their depositors is one of the distinguishing features that set Islamic banks apart from their conventional counterparts. The contract of mudarabah is used by Islamic banks to mobilise funds with the objective to share profit with the depositors. Any loss incurred by the banks in the course of their operations is to be borne entirely by the depositors, except in cases of negligence and breach of contract. Hence a financier-entrepreneur relationship exists between the depositors as rabbul mal (i.e. investors) and the bank as mudarib (i.e. fund manager/entrepreneur). The investment account holders are no longer creditors like the depositors in conventional banks but investors with the right to claim profits and shoulder the risk of having low, or even no return on their investment(Alaeddin, Archer, Karim, & Mohd. Rasid, 2017) . However, as observed by Muneeza et al, (2011) as cited by (Mahinar et al., 2019), all the rights and obligations of a banker and customer in conventional banks are also applicable in Islamic banks, except that some rights and duties of banker and customer are a bit different from that of conventional banks depending on which contract or product is being considered. It is obvious that various customers of Islamic banks may patronise them for different reasons and are thus likely to be influenced by different factors in patronising the Islamic banks.

CIMA (2007) explains the key differences in the banker-customer relationship that subsist between Islamic banks and conventional banks and their customers in **Table 1.**

Table 1: Banker-Customer Relationship Between Islamic Banks and Conventional banks.

| PRODUCT TYPE | TYPE OF RELATIONSHIP | |
|---|---|---|
| | Conventional Banks | Islamic Banks |
| Deposit/ Liability | Lender-Borrower | • Depositor-custodian<br>• Lender-borrower (but free from interest)<br>• Investor-entrepreneur |
| Financing/ Asset | Borrower-Lender | • Purchaser-seller<br>• Lessee-lessor<br>• Principal-agent<br>• Entrepreneur-investor |

*Source: CIMA 2017*

The basic relationship between conventional banks and their customers are that of debtor-creditor and vice versa whereas Islamic banks have many different relationships between them and their clients. All these go to show that customers of Islamic banks may have different motives for patronise them based on the contractual relationship that subsist between the Islamic banks and their clients. However, the existing literatures on factors that influence customers' decisions to patronise Islamic banks do not take into account these obvious differences in contractual relationships that exist between Islamic banks and their clients.

***Profit Sharing Investment Accounts***

Profit Sharing Investment Accounts (PSIAs) offered by Islamic banks operate fully under the profit and loss sharing (PLS) scheme where neither capital is guaranteed no any pre-fixed returns(Kaleem & Md Isa, 2003). Unrestricted Investment Accounts (UIAs) is one of the two variants of mudaraba accounts used by Islamic banks in the mobilization of funds the other being restricted investment account (RIA). (SUNDARARAJAN, 2007) observed that Islamic banks mobilise over 60% of their funds from PSIAs which shows the importance of such source of funds to the soundness and stability of Islamic banks.

Mudarabah is a partnership in profit whereby one party provides capital (i.e. Rab al-Mal) and the other party provides labour (i.e. Mudarib)(AAOIFI, 2015). AAOIFI Shari'ah Standard No. (40) 2/1/1 defines Unrestricted Investment Accounts (UIA) as amounts received from investors who authorize the institution to invest their funds on the basis of Mudarabah without restricting the investment of such funds to a specific project or investment program. The holders of the accounts and the institution share the profit, if any, according to the ratio specified for each of them either in the Mudarabah contract or in the application for opening the account. The holders of the accounts bear all the losses in proportion to their respective shares in the capital, except losses arising from transgression, negligence or breach of the contract, which have to be borne by the institution. (Moha-Karim, Muhammad, 2010) opined that, in order to give the mudarabah contract legal backing, the parties must agree on the following important elements of the contract prior to consummating the contract which are: (i) amount of investment, (ii) tenure of the investment, and (iii) profit-sharing ratio (PSR). Here, all parties must abide with these important elements of the contract to ensure full-compliance with Shariah principles and would also prevent dispute between the Islamic bank and the PSIA Holders.

PSIAs held by IAHs constitute about 62 percent of assets on average for a sample of Islamic banks in 12 countries in the Middle East and South East Asia (Archer, Ahmed Abdel Karim, & Sundararajan, 2010). Also, (Yahaya, 2013)in his study of the implication of PSIA for liquidity risk management for sample of 14 Islamic banks drawn from 8 countries with well developed Islamic banking and markets shows that the average percentage of investment accounts in relation to total deposit of the sampled banks was around 53% while the combination of investment accounts and savings accounts which are mostly based on mudarabah contracts and can be classified as investment accounts too averaged 72%.This shows the importance of PSIAs as a major source of funding for Islamic banks. (Lahrech, Lahrech, & Boulaksil, 2014), opined that PSIAHs try to choose among Islamic banks based on the level of confidence in banking competencies and abilities to realize returns from the invested capital where the lack of such confidence will drive PSIAHs to switch to less-opaque Islamic banks.

Importantly, PSIAs do not meet the basic characteristics of depositors(Lahrech et al., 2014) . This is because neither their capital investment nor return on their investement is guaranteed by the bank. In the same vein, they do not meet the definition of shareholders, because whereas shareholders have the right to vote in general meetings, to elect the members of the Board of

Directors (BOD), and thus typically have a powerful influence to appoint or dismiss senior management through their control of the BOD (Alhammadi, 2016). Also, unlike shareholders who can sell their shares in the capital when they are dissatisfied with the operations of the bank, UIAHs can only withdraw their monies when dissatisfied with Islamic banks operations with a possible loss of any profit that would be due to them if they withdraw before the maturity of the contract.

In principle, under the mudarabah contract that typically governs the PSIA, all losses on investments financed by these funds due to credit and market risks are to be borne by IAH, while the profits on these investments are shared between the IAH and the Islamic banks as manager of the investments (mudarib) in the proportions specified in the contract. However, any loss due to misconduct and negligence (i.e. operational risk) should be borne by the Islamic banks, under the shariah principles applying to mudarabah contracts(Archer et al., 2010). However, in practice, Islamic banks engage in various practices aimed at cushioning the returns paid to PSIAHs in order to protect the cash flows due to the PSIAHs against variability and volatility and to ensure that they get returns that are closely related to what other Islamic banks and even conventional banks pay their depositors in the market (SUNDARARAJAN, 2007). This practice of maintaining the returns paid out to PSIAHs by Islamic at a certain rate is called "income smoothening" and exposes the banks to displaced commercial risk (DCR).

(IFSB, 2015) defines DCR as the additional risks that the shareholders of Islamic banks borne as a result of assuming all the commercial risks associated with the performance of the assets financed by the deposits of PSIAHs at the expense of the returns (i.e. dividend) due to the shareholders. To guard against the risk of withdrawal of deposits by PSIAHs, Islamic banks use different methods to smoothen the returns of PSIAHs in order to make it competitive and to also guard it against volatility. (IFSB, 2015). based on a survey of the practice of income smoothening by Islamic banks across different jurisdictions identified the following income smoothening practices:

i. Adjusting the bank's share as a muḍarib: Islamic banks smooth returns paid to PSIAHs by temporarily reducing their share as muḍarib below the agreed contractual ratio. This reduces the returns due to the bank's shareholders. This method is used only as an income smoothening mechanism but not as a loss-absorbing product. This is because investment losses on PSIA funds are to be borne by the IAH themselves, while the Islamic banks receive no share of profit as mudarib.

ii. Transferring from shareholders' funds: Management of Islamic banks may sometimes with the approval of their shareholders donate some portion of the income due to the shareholders to IAHs on the basis of hibah (gift). This is often done in order to offer the IAHs a level of return close to the market benchmark level, when the overall investment returns of the IIFS are lower than the average rate offered in the market.

iii. Maintaining a Profit Equalisation Reserve (PER): Islamic banks often establish PER by setting aside amounts from the investment profits realized from their respective investment pools before allocation between the shareholders and the UIAHs and the calculation of the IB's share of profit as a Mudarib. The PER is used to smooth the profit attributable to UIAHs when investment returns decline or are not at par with the market benchmark.

iv. Establishing an Investment Risk Reserve (IRR): IBs also maintain a reserve called the IRR by setting aside amounts from the investment profits attributable to the UIAHs, after deducting the Islamic bank's share as a Mudarib. The IRR belongs entirely to the UIAHs and can be used only to supplement losses if any incurred by the UIAHs.

***Theory of Reasoned Action and Theory of Planned Behaviour***

In making the decision of what portion of their income is to be consumed immediately and what portion to save for the future, different individuals are influenced by different factors and variables. The Theory of Reasoned Action (TRA) and the Theory of Planned Behaviour (TPB) as in Figure 1 emphasis on theoretical constructs that is concerned with individual motivational factors as determinants of the likelihood of performing a specific behaviour (Montano & Kasprzyk, 2008).

TRA was introduced in 1967 by Martin Fishbein, and was extended by Fishbein and Icek Ajzen (e.g. Fishbein & Ajzen 1975; Ajzen & Fishbein 1980). It assumed the best predictor of a behaviour is behavioural intention, which in turn is determined by attitude towards the behaviour and social normative perceptions regarding it. According to

TRA, the intention to perform a given behaviour is viewed as a function of two basic factors: the person's attitude toward performing the behaviour and/or the person's subjective norm concerning his or her performance of the behaviour (Fishbein, 2008). In essence, the more one believes his performance of certain action would lead to positive outcome or would at least prevent negative consequences, the more one is inclined to pursue and perform such action. TRA have shown that it is critical to have a high degree of correspondence between measures of attitude, norm, perceived control, intention, and behaviour in terms of action, target, context and time (e.g Montano & Kasprzyk, n.d.; Montano & Kasprzyk, 2008). Man Kit Chang, (1998) observed that attitude towards behaviour is a function of the product of one's salient belief that performing the behaviour will lead to certain outcomes, and an evaluation of the outcomes. Subjective norm on the other hand was defined as a function of the product of one's normative belief which is the person's belief that the salient referent thinks he should or should not perform the behaviour (Ajzen and Fishbein, 1980) as cited by (Montano & Kasprzyk, 2008) and his motivation to comply to that referent.

In 1985, Ajzen extended TRA by introducing "perceived behavioural control" as an antecedent to behavioural intentions and called it Theory of Planned Behaviour (TPB)(Madden, Ellen, & Ajzen, 1992). Ajzen introduced the concept of perceived behavioural control as a predictor of both intention and behaviour(Fishbein, 2008). Ajzen's inclusion of perceived control was based in part on the idea that behavioural performance is determined jointly by motivation (intention) and ability (behavioural control)(Montano & Kasprzyk, 2008). Ajzen believes the more resources and opportunities individuals think they have, the more their perceived behavioural control over the behaviour(Madden et al., 1992). That is the more people believe they have little or no resources to control a behaviour, the less inclined they would be to perform such action and vice versa.

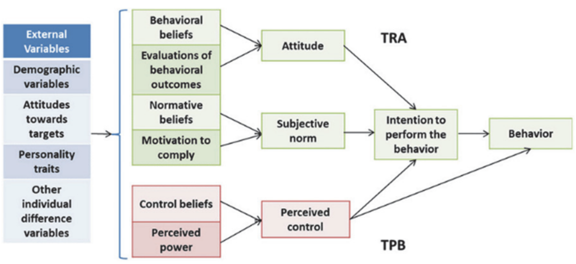


Figure 1: TRA and TPB. Source: Ajzen (1992).

**Empirical Evidence on Why Customers Choose Islamic Banks**

Empirical studies have shown that different factors influence clients of both conventional and Islamic banks when selecting which bank to patronize and save their funds.(Naude, 2015) Naude, (2015) interrogated customers' selection criteria around the globe using a generation theory perspective. Her study found that bank selection criteria were dependent on the age and generation of the customers. Older generations were found to be influenced by such factors as, reputation and availability of credit, location, convenience, recommendation by parents, friends and family, interest rates and reputation; while the younger ones were found to be influenced more by factors including: price, convenience, product type, service, competence and recommendation by parents, good customer service incorporated with convenience, recommendation free banking or bank charges, international debit card, distribution channel – internet banking and host of other factors.(Al-Tamimi, Anood, & Kalli, 2009) found that religiosity, reputation of the firm, perceived ethics of the firm, and diversification purpose were the top four most influencing customers to patronize banks in South Africa. (Bashir, Hassan, Nasir, Baber, & Shahid, 2013) found that gender and age play important role in the people of Pakistan when making their decisions on banks' patronage.

(Gait & Worthington, 2008) found religiosity, bank reputation, service quality, pricing and cost of finance as important factors that influence Islamic banks' customers in selecting a financial institution's products and services. However, several other studies found different factors as influencers of the choice of Islamic banks by their respective customers. For example,(Erol & El-Bdour, 1989) found that profit motivation and peer group influence and not religiosity were the key factors that influence Jordanians in patronizing Islamic banks. In the same vein. (Akbar, Zulfiqar Ali Shah, & Kalmadi, 2012) in their study on the consumer criteria for the selection of an Islamic bank in Pakistan found that high profit & low service charges were the main factors that influenced customers' selection of Islamic banks and not religious criteria.

The empirical studies reviewed investigated the rationale behind customers' choice of Islamic banks without segregating the customers into different categories based on the relationships that subsists between the Islamic banks and their customers. This is important when we consider the fact that unlike in conventional banking where the banker-customer relationship is mainly based on debtor-creditor(Ahmad & Hassan, 2007) in Islamic banking various relationships subsists between the bank and their customers and each class of customers have their unique characteristics. As was observed by (Mahinar et al., 2019), one of the distinctive feature of Islamic banking is the multiple contractual relationships that exist between Islamic banks and their customers which could be that of partners, investors and traders, as well as buyers and sellers.

(Metawa & Almossawi, 1998) surveyed 300 customers of the only existing Islamic banks then in Bahrain namely Bahrain Islamic Bank and the Faisal Islamic Bank with the aim of understanding their banking habits and their selection criteria. The result of their study shows that religious factor was the most important consideration in Bahrain in the selection of Islamic banks, next to it was the rate of return offered by the banks, reference by family and friends was the third most important factor, while convenience of bank location was the fourth important factor. The result of this study shows the importance of religiosity as well as rate of return in the selection of Islamic banks in Bahrain. In a more recent study by(Al-Hadrami, Hidayat, & Al-Sharbti, 2017) on the important selection criteria in choosing Islamic banks in Bahrain has confirmed the findings by Metawa & Almossawi (1998) on the centrality of religious belief as the most important criteria in Islamic bank selection in Bahrain.

(Shome, Jabeen, & Rajaguru, 2018), surveyed a total of 367 undergraduate students from Abu Dhabi on the factors that influence their decisions to patronize Islamic banks. The result of the study shows that the expectation that a bank will act in conformity with Islamic principles is the most important factor that influences the respondents to patronize Islamic banks. This was followed by fluency in Arabic language by the staff of the banks. The study found no significance between respondent's' level of education, gender, nationality and familiarity with Islamic banking products. The result of another study conducted by(Kaakeh, Hassan, & Van Hemmen Almazor, 2019) of 178 customers of Islamic and conventional banks residing in the UAE shows that attitude and awareness affect intention directly, while image, awareness, Shariah compliance and individualism affect attitude directly and intention indirectly mediated by attitude as factors that affect the choice of Islamic banks over conventional by the respondents.

(Sayani, 2015) surveyed a total of 319 respondents in the UAE on the factors that influenced their selection of both Islamic and conventional banks. The respondents were asked questions about efficiency in handling transaction on the phone, confidentiality, knowledge and friendliness of personnel, quality of advice provided by the personnel, reputation, management, range of products and services, location and number of branches, operation hours, as well as transaction costs. Islamic bank customers were also asked to rate their satisfaction on the Shariah supervisory board. The result of the study shows that Islamic banks' customers were satisfied with the Shariah Advisory Board, convenience-related factors such as number of branches, and efficiency- related factors like handling issues on the phone. However, an inverse relationship is found between advice by the personnel and length of association with the bank. On the other hand, the importance of reputation and efficient handling of issues on the phone were highlighted with respect to conventional banks.

(Hegazy, 1995), in his empirical study on the selection criteria for Islamic and commercial banks in Egypt, found that the speed of banking services, the bank vision of serving the community (regardless of expected profitability), the bank name and image, the internal design and comfort of the bank, friendliness of personnel, equity financing, the bank architectural design, magazines advertising, and the prior experience of a family member were important selection attributes in selecting Islamic banks among Egyptian customers. In their study of the role of awareness in Islamic bank patronizing behaviour of Mauritanians using the Theory of Reasoned Action (TRA), Mahmoud & Abduh, (2014) found that intention of Mauritanians to patronize Islamic bank was influenced by their subjective norm, attitude and awareness upon Islamic banking products and practices.

(Erol & El-Bdour, 1989)in their study to determine the attitudes of bank customers towards Islamic banks and the unique characteristics of Islamic banks as perceived by their customers in Jordan, found that religious motives did not stand out as being the major significant motive which contradicts the general perception prevailing in most Muslim countries which emphasizes religious motives as being the major promoting factor of the Islamic banking movement. The second important result relates to the opening of new branches of Islamic banks. The other major findings are that peer group influence plays an important role in selecting Islamic banks and that there is a high degree of awareness on the part of bank customers of the advantages related to the profit-loss-sharing modes of the investments and income distributional role of the Islamic banking system.

(Mahadin & Akroush, 2018) found that attracting new customers and retaining the current ones depend on the perceived benefits in the areas of service quality, convenience and several value aspects. Factors such as staff readiness, knowledge, attentiveness and proficiency, the variety of services offered, confidentiality of the bank, availability of e-banking services and ease of use are the major factors that attract Islamic banks customers. Religious motives have a positive but non-significant effect on perceived value for Islamic banks' customers. This shows that being consistent and compliant with the Shariah law is not the deciding factor when customers make the decision to deal with an Islamic bank by Jordanians.

(Idris et al., 2011) in their study of 250 Islamic bank customers in seven Malaysian Public Institutions of Higher Learning found that religious value appears to be the most important factor in selecting which Islamic bank to patronise. Other factors perceived to be important include ATM services, financial security, cost and benefit and attractiveness. On their part, (Suhartanto, Gan, Sarah, & Setiawan, 2019) who studied 412 Islamic bank customers from Indonesia found that customer loyalty towards Islamic banks is driven more by emotional attachment and religiosity rather than by perceived service quality. In his study of customers' determinant factors in the selection of Islamic banks in Indonesia, (Krisnanto, 2011) found that secondary factors such as recommendation from friends and family members were the major factors that motivate people to patronize Islamic banks in Indonesia.

(Bin et al., 2019) who studied the factors that persuade individuals' behavioural intention to opt for Islamic banks' services in Malaysia found that attitude, subjective norms and perceived behavioural control has significant influence on the behavioural intention of the depositors to choose Islamic bank services. (Selvanathan, Nadarajan, Farzana, Zamri, & Suppramaniam, 2018) in their study that aimed to determine and identify the factors that influence consumers of Selangor area of Malaysia to choose Islamic banking products and services found bank reputation, religious and cost benefit factors as the most significant factors that influence customers' selection of Islamic banks. They found a positive relationship between a bank's reputation and cost benefit on customer' choice of an Islamic bank, while religious belief does not much influence. (Fadhli Bassir, Zakaria, Hasan, & Alfan, 2014) who studied factors that influence the adoption Islamic home finance in Malaysia found that religiosity was the main influencing factor for the adoption of Islamic home financing among Muslims in Malaysia. Other influencing factors based on the results of their study include the brand/reputation of the financial institution, cost of financing and knowledge and awareness. The result of the study by (Selamat, K. and Abdul Kadir, 2012) who studied the selection criteria used by Muslim and non-Muslim in a dual banking system in Malaysia found a contrary result to that obtained by Fadhli et al (2014), the result of their study shows that the most important selection factor in the adoption of Islamic bank in Malaysia was fast and efficient service delivery, followed by confidentiality of the bank and banks' image and reputation but not religious motivation.

(Akif Hasan, Imtiaz Subhani, & Osman, 2012) investigated the criteria used in the selection of Islamic banks in Karachi, Pakistan. Their study found that high profit & low service charges is the most important factor followed by religious motives and quality of service for selecting Islamic banks by consumers. On their part, (Awan & Shahzad Bukhari, 2011) found product features and quality of service to be the major factors that influence their respondents to patronize Islamic banks in Pakistan while religious beliefs tend to have less influence on the population of their study.

Majority of the study on GCC countries showed that religious factor in terms of compliance with the provisions of Shari'ah by the IB is the most important factor that influences the selection of IBs in the GCC. This should not come as a surprise when we consider the fact that the GCC is a predominantly Muslim region that are known to be conservative and that adhere to the teachings of Islam. However, in the MENA region, it could be observed that religious belief and compliance with Shariah by Islamic banks were not the major factors that influence customer's choice of Islamic banks unlike what obtains in the GCC. The most important factors were the perceived quality of service that the banks could offer as well as the reputation of the banks. This perhaps might be due to the fact that unlike in the GCC where the people are known to be very conservative and the Islamic financial system is very dominant, in the MENA region Islamic finance is still at its growing stage and the Islamic banks have to compete with the conventional ones in order to attract and keep their customers. There seems not to be consistency in the factors that influence the choice of Islamic banks amongst customers in Asia. Whereas some studies show religious inclination as the most important factor in choosing Islamic banks by customers especially in some studies in Malaysia, others show high profit and low-cost service as the most important selection criteria. However, one thing that stands out is the fact that in all the studies reviewed above, religious motive plays a significant role in the selection of Islamic banks among Asians.

***Empirical Evidence on Why Customers Deposits and Invest in Investment Accounts of Islamic Banks?***

A number of studies abound in the field of Islamic finance and also on the factors that motivate customers of Islamic banks to patronize such banks. However, as observed by (Tahir, 2007), most of the intellectual work in Islamic finance were geared towards developing Shariah-compliant alternative financing products with little attention paid to deposit mobilization by Islamic banks. The few researches on Islamic banking deposits only discuss Islamic banking products and services in general terms using secondary data without segregating the depositors into different categories based on the type of relationships between the clients and the Islamic banks. Also, most of the studies conclude that Islamic banking depositors like their conventional counterparts are attracted by the prospect of returns. The segregation is important because in Islamic finance, each type of deposit is devised using different approved Islamic banking contract such as qard or wadiah for demand and savings deposits, while mudarabah is offered for investment deposits(Yusoff & Wilson, 2005). It is important to study the behavioural pattern of each of this category of depositors in order to have a good understanding of what really motivate them to patronize Islamic banks.

As was observed by (Karim, 2001) the total investment portfolio of Islamic bank is mostly financed by IAH's funds. It is then imperative to both the management of Islamic banks as well the regulators to understand the behavioural patterns of this very important category of depositors. Islamic banks receive funds from their customers on the basis of mudarabah and are allowed to use the funds in any activity that the bank deems appropriate, so long as the activities do not contravene the provisions by Islamic laws (Olson & Zoubi, 2008). (Karim, 2001) observed that the total investment portfolio of an Islamic bank is mostly financed by IAHs' funds, in addition to other sources like shareholders' funds and others. IAHs' funds could be either restricted or unrestricted. RIAs are mudaraba accounts whose holders authorize the Islamic banks to invest their funds either on mudarabah or wakala basis with certain restrictions as to where, how and for what purpose the funds are to be invested(IFSB, 2018). Under RIAs, Islamic banks are constrained by the IAHs as to which sectors and sometimes even locations they could invest their funds. Unrestricted Investment Accounts (URIAs) on the other hand is a mudaraba contract whereby the capital providers IAHs permits the Islamic banks as the mudarib to invest their funds as the bank deems fit without any restriction on the type of investment to be undertaken, the location, time, comingling of the funds(ISRA, 2018). Under URIA contract, the IB has a wide range of choices as to the type of trade to undertake, with whom to trade and in which location to undertake such trade. Losses if any is borne by the PSIAHs except in proven cases of negligence or breach of contract on the part of the bank as a mudarib.

The share of unrestricted investment accounts in the total deposit of Islamic banks varies considerably from near zero to over 80% in some banks(Iqbal, Ali, & Muljawan, 2012) Islamic banks like their conventional counterparts rely on monies from depositors as their major source of funding. As such, it behoves on the management of Islamic banks to know the factors that influence customers' decision making in depositing their money with Islamic bank (Haron & Ahmad, 2000).

This is particularly important if we consider the risk appetite of the UIAHs. As was expounded by (Alhammadi, Archer, Padgett, Ahmed, & Karim, 2018), UIAHs are typically risk averse and would normally seek a low-risk low return deposit-like account. Understanding the savings and investment culture and factors that influence the savings behaviour of IAHs would assist the management of the Islamic banks to develop strategies to attract and retain such clients. It would equally assist regulators ensure that the rights of this class of depositors is protected by the Islamic banks.

A number of Islamic economists and researchers conducted numerous studies on Islamic banking deposits and the behavioural patterns of depositors of Islamic banks mostly by using secondary time series data. (Haron & Ahmad, 2000) who studied the effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia confirms the negative effect of conventional interest rates on the deposit mobilisation by Islamic banks, such that any increase in the interest rates paid by conventional banks to their depositors leads to an increase in their conventional total deposits but leads to a decrease in the total deposits of Islamic banks. Another study by (Kaleem & Isa, 2003) on the causal relationship between Islamic and conventional banking instruments in Malaysia found a strong relationship between Islamic and conventional term deposit returns. Kaleem et al (2003) then concludes that Islamic banks in Malaysia consider interest rates offered by conventional banks before adjusting their deposits returns. This confirms the influence of conventional interest rates on the deposit of Islamic banks in Malaysia. The findings by Kaleem et al (2003) and Haron and Ahmad (2000) were further corroborated by other studies by (Bacha, 2004)(Chong & Liu, 2009) who studied the impact of interest rate risk on Islamic banks operating in a dual banking environment such as Malaysia.

In their study of the determinants of savings in Islamic banks in Indonesia, (Kasri & Kassim, 2010) found that depositors of Islamic banks were influenced by the return they receive from their savings as well as the interest paid by conventional banks, such that depositors in Islamic banks are willing to transfer their savings to conventional banks when the conventional banks offer rates that are higher than what the Islamic banks are offering. The results of the above reviewed studies are another proof that depositors of Islamic banks are motivated by the profit maximization motive because they are easily swayed by the prospect of increase in interest rates by conventional banks and are ready to move their funds there except if the Islamic banks are ready to also increase their rate of return to match that which the conventional banks are paying. Other studies that confirm the influence of conventional banks' interest on Islamic banks' deposits and that depositors of Islamic banks are motivated by the profit they expect to receive from their respective banks include (e.g. (Anuar, Mohamad, & Shah, 2014), (Arshad, Zakaria, & Irijanto, 2014), (Akhtar, Akhter, & Shahbaz, 2017), (Haron & Nursofiza Wan Azmi, 2008) and (Meutia, 2016).

Other studies on the determinant of factors influencing deposits in Islamic banks show that depositors of Islamic banks are influenced more by their religious believes than by profit motive. (Akhtar et al., 2017) in their study of the determinants of deposits in conventional and Islamic banking in Pakistan shows that the most important factor that attract customers to deposit with Islamic banks is religious belief.

***Proposed Conceptual Framework***

The critical literature reviews on both factors influencing customers choose Islamic banking products and specifically factors influencing customer to choose deposits in Islamic banks as compared to conventional banks. Because of the unique characteristic of PSIA, the common model of TRA and TPB to understand the behaviour of customer's deposit in PSIA need to be modified. Hence, Figure 1 proposed the conceptual framework. In addition to Attitude, Subjective Norm; and Perceived Control; Religiosity variable is added to the model. Moreover, variable on risk tolerance acts as a moderating variable for Intention to Behaviour.

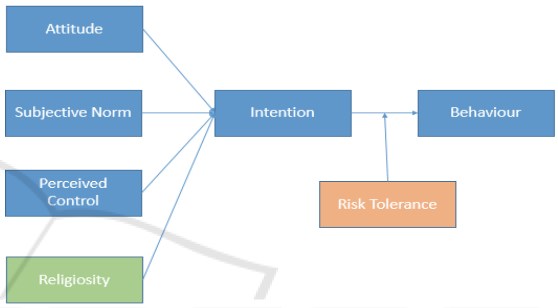


Figure 1: Proposed Conceptual framework.

## 3 CONCLUSION

With the exception of (Moha-Karim, Muhammad, 2010) who examined the level of awareness, knowledge, perceptions, and attitude of the Islamic banking depositors in Malaysia towards the characteristics of profit-sharing deposits accounts using primary data, to the best of the researcher's knowledge , no other research has attempted to study the behavioural pattern of IAHs using primary data obtained directly from the IAHs, majority of the studies reviewed used secondary time series data to analyse the behaviour of depositors in Islamic banks. Hence, this is among the first model that integrate TRA and TPM with two unique factors which are risk tolerance and religiosity to explain on why customers choose PSIA.

Therefore, this study is considered unique and distinct from previous studies that considered only secondary data to determine the behavioural pattern of IAHs. It aims to fill the gap in the existing literature. Firstly, it would contribute to the body of knowledge on factors that influence IAHs to patronise IBs and would also provide an insight as to the understanding by the IAHs of mudarabah as the underlying contract in Investment account. Considering the importance of deposits to banks, the study would benefit the regulatory body that is charged with the responsibility of supervising and regulating Islamic banks to understand the factors that influence customers of Islamic banks to patronise them, which would assist them in making policies that have implication for financial system stability in the banking sector.

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