

CHAPTER 3

Islamic Retail Banking in the GCC

3.1. Retail banking products: An evolution in the offering

The GCC is the nesting ground for Islamic banking and finance. The region has seen robust growth in Islamic banking since its inception in 1975. Islamic retail banking has witnessed product introductions on both the asset and liability sides of bank balance sheets. However, these remain limited and concentrated on a few contracts.

To take account of product range and concentration,

a survey was conducted of ten leading Islamic banks in GCC. The focus was on financing products, as the inter-bank market is known to be dominated by commodity murabaha.

Over the years Islamic banks came to rely on murabaha and ijara products for their assets and murabaha and wakala products for their liabilities. The survey was conducted to understand any shift in this trend and the

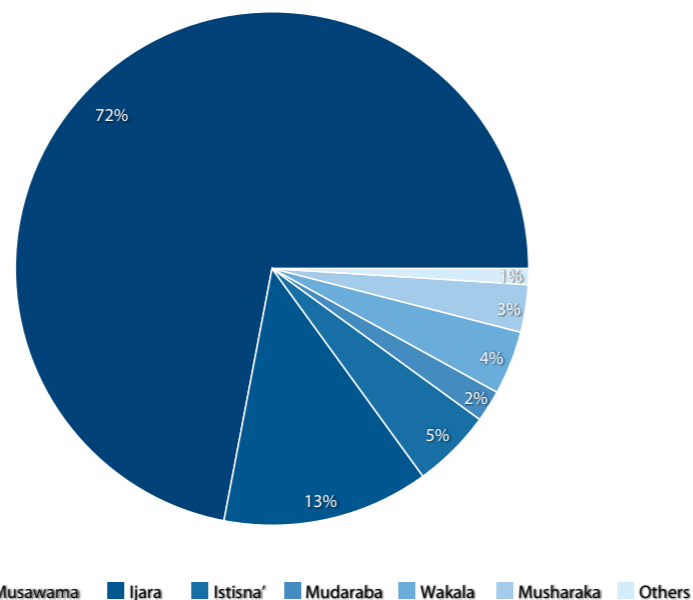


Figure 3: Share of products in financing portfolio

use of Islamic financing contracts in the banks' overall financing strategies. All data pertains to the financial year of 2008.

Figure 3 illustrates that banks within GCC typically follow the same trend mentioned previously, and murabaha is still leading the financing product range offering (72% of total financial portfolio). It is followed with wide margins by ijara and istisna' (13% and 5%) respectively.

However, underlying trends are emerging in different jurisdictions. Just as in the case of the UAE, all three leading banks exhibit a greater range of diversity in their product portfolios and despite murabaha's dominating presence, other products are also emerging indicating a maturing market and a growing expertise in using products of alternate risk/return profiles. In part, this is also an indicator of a corporate and commercial sector which has the appetite and understanding of sophisticated products. The UAE economy is comparatively more diversified than various other regional markets as illustrated in figure 4.

Islamic banks in Saudi Arabia are still overly reliant on products structured on murabaha and its derivate contracts like mutajara and instalment sales. Both Al Rajhi and Bank Al Bilad are using murabaha as their prime mode of financing. Mutajara and instalment sales collectively represent 97% and 86% financing of Al Rajhi and Bank Al Bilad, respectively. Considering the size and diversity of Saudi market, reason for this concentration appears to be the presence of other conventional banks that fill the gap relating to sophisticated and diversified products. It also reflects a situation where customers of Islamic banks have locked-in banking relationships and show a passive attitude in demanding a broad range of products. The third important reason that contributes to this trend is the fact that the Islamic banking market in the Kingdom of Saudi Arabia (KSA) has not yet reached a level where competition stimulates innovation or product offering diversity.

Another interesting case is Bahrain, home to a large

number of banks, only a few of which offer Islamic retail banking services due to the small retail market size. Banks that were covered in our survey show heavy concentration of their portfolio in murabaha financing. These banks are channelling most of their assets in investment activities that target real estate projects. A comparatively small industrial base in the country and limited retail banking customer base compel the banks to focus on investment activities rather than developing their financing book. Though there are signs of change and recently some banks like Bahrain Islamic and Shamil Bank have rolled out retail market products the shift is slow as can be seen by looking at their financing portfolio that is a small portion of their overall asset book. Comparably, Kuwait Finance House Bahrain has been offering a comprehensive retail banking offering available for the last several years and maintains a dominant position in the Bahrain banking sector.

Like banks in the UAE, leading banks in Kuwait also show a diversification in the use of products for their financing portfolios. Kuwait Finance House Kuwait is a noted example that is using multiple products for its financing portfolio.

There are several reasons for the continued preference on the use of murabaha by Islamic banks. The most important reason is its similar features to debt, which makes it easier for bankers to manage as they are familiar with the structure from conventional banking. Another reason is the limited expertise of several institutions to involve the participatory type of financing arrangements which is also the reason why Islamic venture capital financing has not seen much growth in the GCC region. Additionally, participatory financing requires a supporting environment of transparency and friendly regulations including a sound legal system. These critical factors are slowly evolving and greater experimentation with Islamic financial products and structures along with increasing demand will help in achieving greater product diversity. Finally, willingness to share returns on profitable venture by businesses is an important demand side variable that requires a societal shift in thinking. Despite this situation,

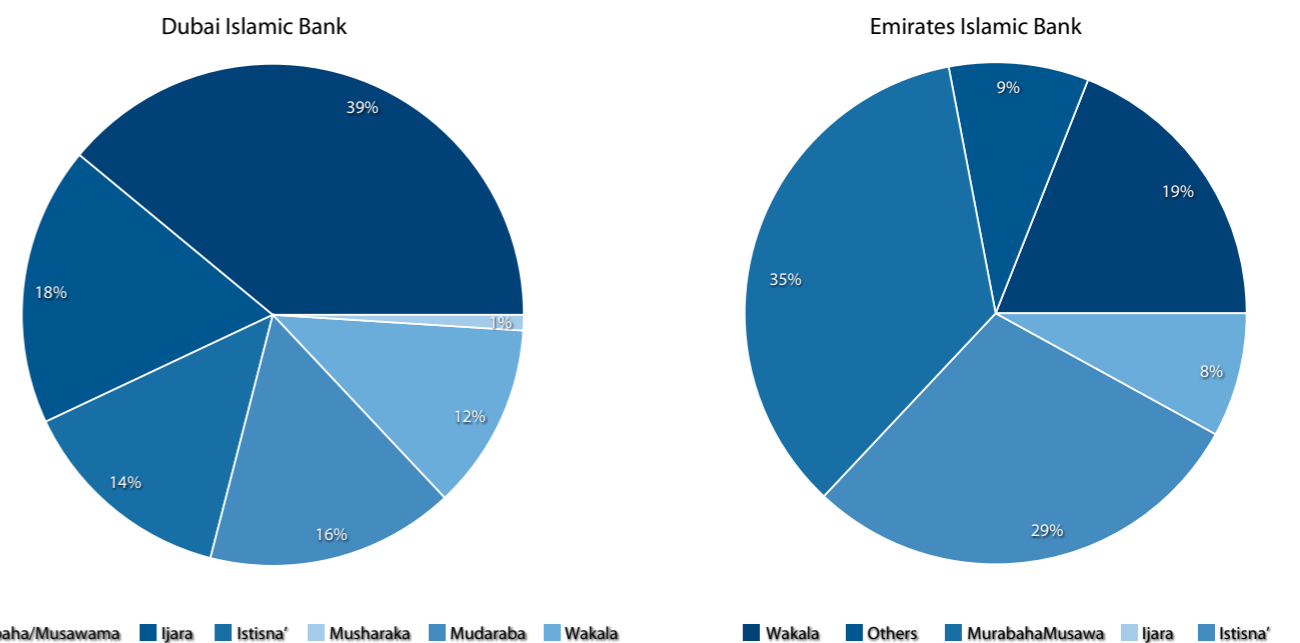


Figure 4: DIB and Emirates Islamic Bank product offering

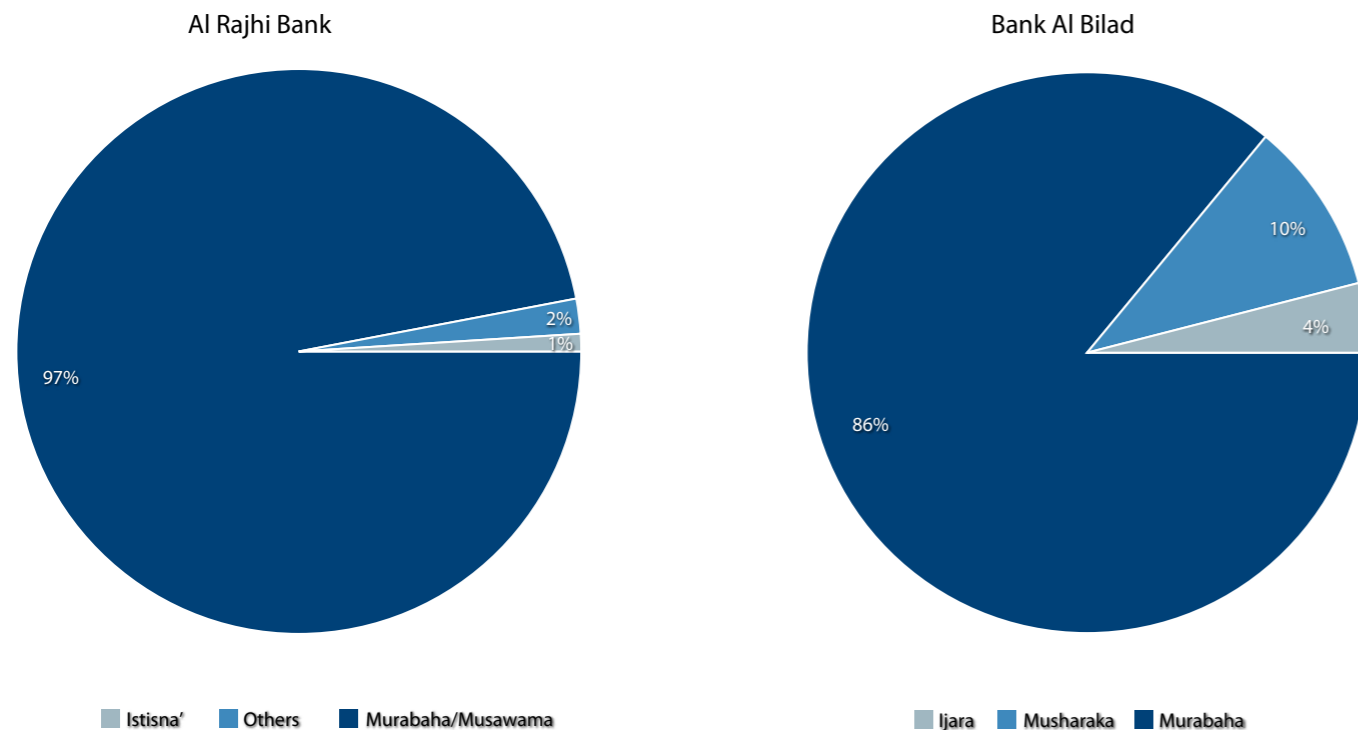


Figure 5: Al Rajhi Bank and Bank Al Bilad product offering

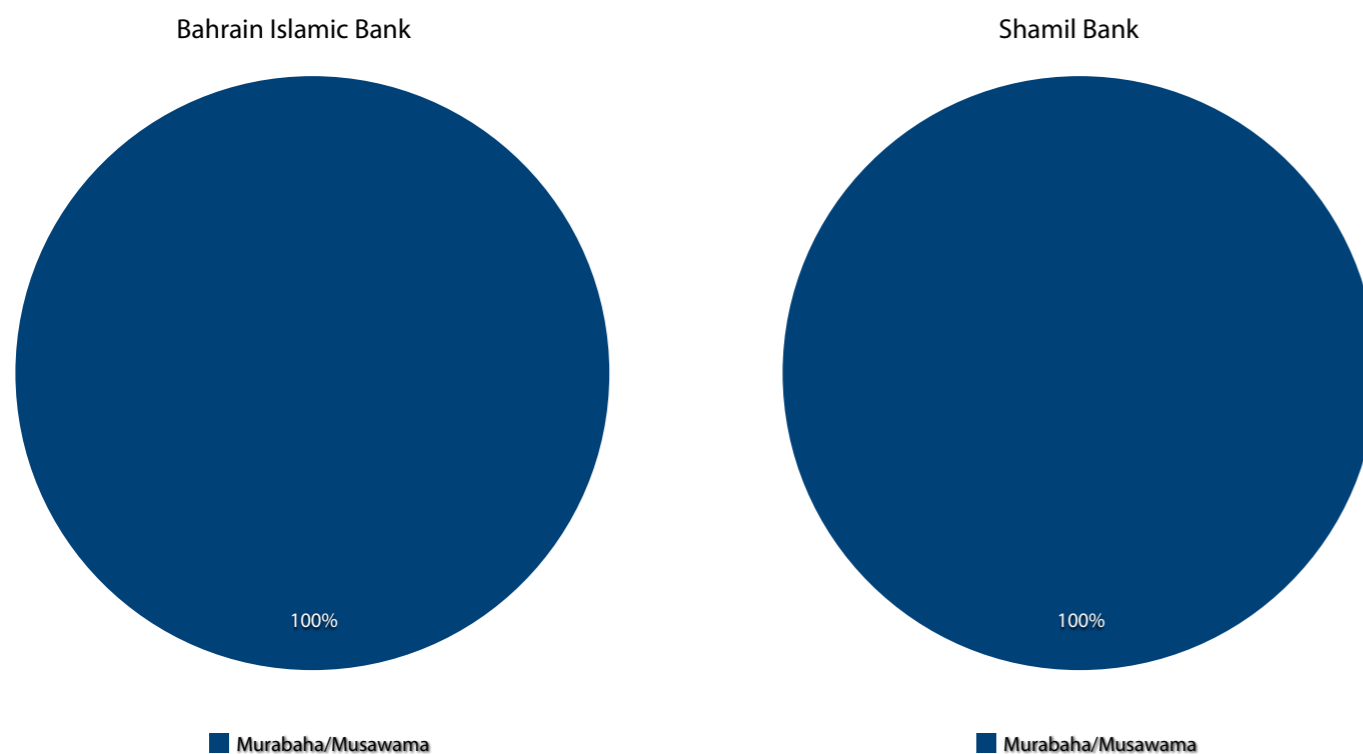


Figure 6: Bahrain Islamic Bank and Shamil Bank product offering

competition and desire to increase market share is forcing Islamic banks in the UAE increase product diversity. Other markets with the right mix of enabling environment and competitive market space can also achieve this state which would not only minimize risk at the institutional level but will also contribute in the creation of stronger financial systems.

3.2. Product offering by leading Islamic banks

Islamic banks in the GCC have different product availability profiles. After understanding the portfolio distribution on product types, we move on to review the product categories that are on offer by key institutions.

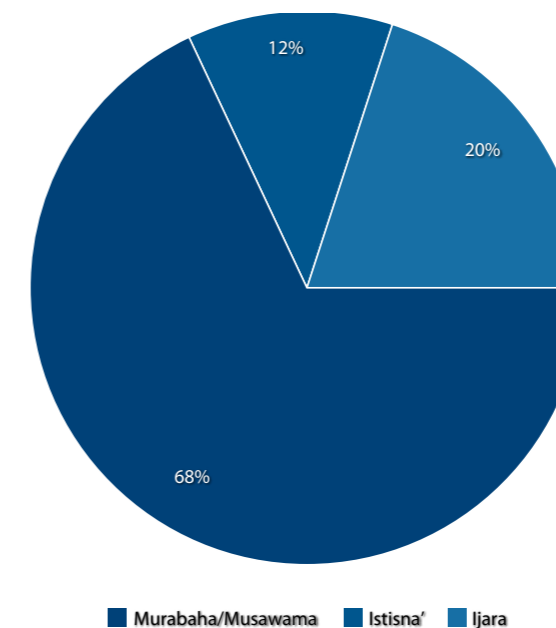


Figure 7: Kuwait Finance House product offering

Deposit accounts are bank relationship initiators and the main source of funds for investment and financing activities. Various Islamic banks have a wide spectrum of account offering that reflects their funding strategy. The wider the range, the more sophisticated the liquidity management approach.

Differentiated deposit accounts also reflect a bank's strategic choice to raise deposits of a particular type and make it easier to predict the impact of their customers' financial behaviour on their deposit pools.

A broad range of deposits also enables a bank to structure innovative financing products that are aligned with deposit behaviour.

A sample of II banks in the GCC shows that almost all banks offer basic accounts to their customers. However, the way individual deposit products are packaged differ significantly. Most of the accounts now provide access through alternative banking channels, i.e. internet banking, phone banking, ATM and such features as free cheque book, debit card and monthly statements. Despite such common offerings the differentiation occurs in service and delivery quality. We have explored the quality of alternative banking channels of selected banks

in our subsequent section.

It is important to note that out of the II banks only 4 offer value added accounts to their customers. There are different reasons for this practice. In the case of older Islamic banks the need for new account types is not felt due to their established customer base. Several studies have shown slow and passive customer behaviour in switching banking institutions in the GCC and the UAE. Some banks were simply awash with liquidity and had easy access to the money market until the financial crisis hit the region. Moreover, several of these banks are directly or indirectly owned by governments and in cases where economies are less affected by the financial crisis banks have received support in different forms.

Similarly, the reason of offering value added accounts differ from bank to bank. Banks in the UAE are facing a more competitive environment and one way to compete is to focus on market niches. As the UAE have the largest expat population in percentage terms, focusing on their investment and salary management needs appeared to be a sound strategy. Banks such as Bahrain Islamic Bank (BIsB) offered reward based accounts to raise capital which had considerably dried up at the peak of the financial crisis. KFHH in Kuwait is focused on

BANKS	CURRENT ACCOUNTS	SAVINGS ACCOUNT	TIME DEPOSITS	VALUE ADDED ACCOUNTS		
Bahrain Islamic Bank		Savings Account	Investment Deposit	Iqra	Tejori	
Shamil Bank	Current Account	Savings Account	Mudaraba/Investment Account			
Kuwait Finance House	Current Account	Savings Account		Bara'em	Shabab Al Deera	Electron Account
Al Rajhi Bank	Current Account	Salary Package	Pension Account			
Bank Al Bilad		Al Bilad Account	Ithmar			
Dubai Islamic Bank	Current Account	Savings Account	Investment Account			
Dubai Bank	Current Account	Savings Account	Value Account	Recurring Investment Account	Payroll Account	
Qatar Islamic Bank	Current Account	Savings Account	Time Deposit			
Qatar International Bank	Current Account	Savings Account				
Noor Islamic Bank	Noor Current	Noor Savings	Noor Term Deposit	Noor Saving Plus	Noor Dual	Noor Payroll
Al Hilal Bank	Al Hilal Current / Al Hilal Privileged	Al Hilal Saving	Term Deposit			

Figure 8: Deposit accounts in selected Islamic banks

developing and capturing a loyal customer base which has prompted it to offer special accounts targeted to a younger demographic.

The review of financing products in the following section will further highlight how banks with value added deposit accounts are able to offer a wider range of products.

3.2.1. Residential financing

During the last ten years, the GCC markets have seen tremendous growth in domestic mortgages. The real estate boom was the main driver for this activity, where almost all Islamic banks took on huge exposure to real estate. In the case of Islamic investment banks, this investment preference, at least until recently, had its reasons as no bank wanted to miss out on the windfall profits generated by financing real estate assets.

Retail housing finance has two demand drivers in the GCC: a higher birth rate and migration. Population growth in the GCC is amongst the highest in the world and the region also had an increasing expatriate population increasing the demand for housing. For the aforementioned reasons, real estate was generally considered a low risk / high return investment class, and attracted both genuine and speculative investors.

To support this burgeoning demand, Islamic banks devised different housing finance products that fulfil demands of different customer groups. It is interesting to note that the most diversified use of Islamic finance contracts has only been observed in housing finance products. Some contracts used to structure housing finance products throughout the GCC are ijara, forward ijara, musharaka, murabaha, musawama and istisna'.

The figure 9 below provides a snap shot of the financial products available for residential real estate purchase by leading banks in the GCC.

All the Islamic banks in our sample, offer housing finance products to their retail clients. Positioning a product requires an easy and relevant name that will attract customer attention. Most of these banks it appears, have not given their product a catchy name for customer reference. In the absence of a product name and effective product marketing, customers associate a particular service with their perception of a financial institution. Although it can be an effective strategy when the bank itself is an established brand name in the market, it would

most likely limit the promotion of a product that is not aligned with the bank's overall image.

Banks are using a multitude of underlying contracts for their products. The most favoured contract is ijara, because it provides banks with more flexibility in terms of structuring and restructuring financing arrangements. It also allows banks to charge for the depreciation of financing assets and to receive tax advantages. Forward ijara, a modified version of ijara, has also been adopted by financial institutions by facilitating their clients to reserve properties under construction. Istisna', murabaha and musharaka, though offered by several banks at a retail level, are mostly used for project financing.

In recent years, banks have adopted the features of pure mortgage type products, i.e. long mortgage tenors with the mortgaged property serving as a primary security on the finance. Until recently, in Bahrain, due to various political and legal issues residential financing was structured as a personal finance product, not as a pure mortgage product. Shamil Bank, Bahrain Islamic and Kuwait Finance House however have each developed competitive, true mortgage products.

The residential finance market after experiencing a slow period, is now enjoying an upward trend. Recent government measures and rescue efforts are recreating interest in real estate. Both banks in our sample from Qatar show a maximum mortgage tenor of 8 and 7 years, respectively. This information on their website needs some revision, as banks in Qatar are allowed to extend financing for up to 25 years. Qatar Islamic Bank enjoys a dominant position among Islamic banks with reference to housing products, and has the ability to accommodate customers with various degrees of residential financing needs.

The requirement of a down payment in almost all GCC countries has become a stringent criterion to avoid reoccurrence of a real estate bubble. Such regulatory measures will certainly impact the demand of housing products by discouraging speculative activity.

3.2.2. Auto finance

Auto finance is one of the most dynamic product categories in the GCC markets. Competition is intense with similar pricing strategy among the key players. The key

factors behind market share are quality of service and marketing. The figure 10 below shows that branding is an issue with several of the banks in our sample. Differentiating a product from the rest of the market offering is necessary, and catchy product names can help in achieving this goal.

Almost all auto finance products have been structured on the murabaha/musawama contract due to the rapid depreciation of vehicle values. Banks like to avoid repossession and prefer to convert their exposure into debt for better recovery. It further absolves them from assuming any responsibility relating to non-performance/bad performance of the asset. Takaful covers protect customers against such risks.

Shamil Bank, Qatar International Islamic Bank, and Kuwait Finance House lead in terms of offering long term auto finance. It can be an attractive feature but exposes banks to higher risks as most auto assets lose a significant portion of their value by their fifth year.

Low down payment requirement is a motivating factor in sustaining the auto finance industry, as most of the vehicle purchases in the GCC have been financed this way. Several institutions offer financing on zero down payment. Such features have now increasingly become standardized as banks focus on adding value to delivery and services for their customers.

Kuwait Finance House in Bahrain with its Auto-Mall, and Al Hilal Bank with its Financial Mall branch have offered a new experience for their customers. Al Hilal Bank claims to process an auto finance request and delivery of a car in just one hour. Innovative product and delivery solutions will surely be the critical factors in determining leadership in the industry.

Islamic banks in Qatar resort to a strategy that is unique to the country. Banks in our survey offer amazingly large financing upper limits. In fact, in the case of Qatar Islamic Bank, there is no upper limit and its product offering perfectly suits the needs of the rich local population.

3.2.3. Banca takaful

Bancatakaful is defined as 'the delivery and distribution of a suitable range of tailored 'bankable' protection and long term savings and pension products designed to meet the lifecycle needs of the customer base of a bank or other financial institutions'.¹⁵ Takaful is considered to be the fastest growing sector in the Islamic finance industry. This growth has been propelled by the fact that it presently has little penetration in Muslim countries where Muslims abstain from conventional insurance. The GCC region is no exception, and offers great potential for growth. On the other hand, Bancassurance is the selling of insurance and banking products through the same channel, most commonly through bank branches selling insurance. Bancassurance is a relatively

HOUSING FINANCE

BANKS	NAME OF PRODUCT	UNDERLYING CONTRACT	MAXIMUM TENOR	MINIMUM PROFIT RATE	MINIMUM DOWN PAYMENT	RECONSTRUCTION/ RENOVATION	LAND	MAXIMUM AMOUNT
Bahrain Islamic Bank	Property	Ijara/Musharaka	25 yrs	8.50%	10%	Yes	Yes	BC 0.5 m
Shamil Bank	Shamil Home Finance	Ijara/Murabaha	30 yrs	N/A	10%	Yes	Yes	BC 0.5 m
Kuwait Finance House (Bahrain)	Real Estate Finance	Murabaha/Ijara	25 yrs	N/A	N/A	Yes	Yes	N/A
Al Rajhi Bank	Real Estate Finance	N/A	25 yrs	N/A	Nil	N/A	N/A	N/A
Bank Al Bilad	Real Estate Financing	Murabaha	20 yrs	N/A	Nil	N/A	N/A	N/A
Dubai Islamic Bank	Al Islami Home Finance/ Refinance	Forward Ijara/ Ijara	25 yrs	N/A	5%	N/A	N/A	AED 10 m
Dubai Bank	Mulki	Murabaha/Ijara	20 yrs	N/A	30%	N/A	N/A	N/A
Qatar Islamic Bank	House Financing	Musawama/Istisna'	8 yrs	N/A	Nil	N/A	N/A	Open
Qatar International Bank	Residential Property Financing	N/A	7 yrs	3.99%	N/A	N/A	N/A	QR 2.5 m
Noor Islamic Bank	Noor Home	Ijara	25 yrs	8.25%	20%	N/A	N/A	AED 10 m
Al Hilal Bank	Home Finance	Ijara	25 yrs	N/A	N/A	Yes	N/A	AED 15 m

Figure 9: Housing finance in leading GCC Islamic banks

Source: Bank's website

AUTO FINANCE

Banks	Name of Product	Underlying Contract	Maximum Tenor	Minimum Profit Rate	Minimum Down Payment	Used Car Financing	Grace Period	Special Features	Max Amount
Bahrain Islamic Bank	Auto Financing	Murabaha	6 yrs	3.99%	10%	Yes	N/A	N/A	N/A
Shamil Bank	Shamil Car Financing	N/A	7 yrs	3.99%	5%	Yes	3 months	Available to retirees	N/A
Kuwait Finance House (Bahrain)	Auto Finance	Murabaha/ Musawama	7 yrs	N/A	N/A	Yes	N/A	N/A	N/A
Al Rajhi Bank	Car Installment Plan	N/A	5 yrs	N/A	Nil	N/A	N/A	N/A	N/A
Bank Al Bilad	Auto Financing	Murabaha	5 yrs	N/A	Nil	N/A	N/A	N/A	N/A
Dubai Islamic Bank	Al Islami Auto Finance	N/A	6 yrs	N/A	Nil	N/A	N/A	N/A	N/A
Dubai Bank	Markaba	N/A	6 yrs	N/A	N/A	N/A	N/A	N/A	N/A
Qatar Islamic Bank	Car Financing	N/A	5 yrs	N/A	Nil	N/A	6 months	N/A	Open
Qatar International Islamic Bank	Automobile	N/A	7 yrs	3.99%	Nil	N/A	N/A	N/A	QR 2.5 m
Noor Islamic Bank	Noor Drive	Murabaha	5 yrs	4.99%	Nil	Yes	N/A	N/A	AED 0.4 m
Al Hilal Bank	Al Hilal Auto	Murabaha	6 yrs	N/A	N/A	N/A	Yes	N/A	AED 0.5 m

Figure 10: Auto finance in leading GCC Islamic banks

Source: Bank's website

BANCA TAKAFUL

Banks	Product Name	Finance Protection	Family Takaful	Universal Takaful	Savin Plan	Child Education Plan	Investment Plan	Retirement Plan	Medical	Motor	Property
Bahrain Islamic Bank	Product not offered										
Shamil Bank	Product not offered										
Kuwait Finance House	Takaful Baitak		Family Protection								
Al Rajhi Bank	Product not offered										
Bank Al Bilad	Product not offered										
Dubai Islamic Bank	Al Islami Takaful Programe				Al Islami Takaful and Saving Programme		Al Islami Takaful and Investment				
Dubai Bank	Not Available										
Qatar Islamic Bank	Product not offered										
Qatar International Islamic Bank	Product not offered										
Noor Islamic Bank	Salama	Balty	Hemaya	Hyat	Idikahar	Iqra	Salama Istithmar	Maash			Comprehnisve Motor Takaful
Al Hilal Bank*	Takaful								Medical Takaful	Motor Takaful	Property Takaful

Figure 11: Banca takaful in leading GCC Islamic banks

Source: Banks' websites.

*Al Hilal Bank is offering its Takaful product through a fully owned subsidiary

new and successful concept in the domain of conventional banking, and offers an equally good opportunity to the Islamic banking industry.

Despite the potential for growth and profitability, most institutions do not offer bancatakaful products. From figure 11 below, it can be seen that out of three key players, only one is offering a broad suite of takaful products. The remaining two have limited offerings, and their bancatakaful model is not fully integrated. A comprehensive and integrated model can help them in cross selling their products and benefit from their existing relationships, as recruiting new customers has proven to be costly, and time consuming.

Noor Islamic Bank's Salama offering, in its initial two years, has kept its primary focus on consumer and commercial markets. Its takaful products also cater to the needs of these particular groups.

Other Islamic banks have their direct or indirect investments in notable takaful companies but do not offer bancatakaful services. Adopting the bancatakaful model can prove more rewarding as retail banking relationships in most cases cover saving and financing needs of a customer, but leave financial and other relevant risks unattended. Such coverage not only enables the banks to design and offer better financing products, but also offer flexible and tailored investment opportunities to their customers.

3.2.4. Personal finance

Personal finance is another area of growth for the Islamic retail market. Our sample shows better product positioning in this area by several banks, which are using murahaba and ijara for the financing of goods and services. Tawarruq is also being used to meet the financial needs of customers.

Product tenor ranges from 3 to 15 years with very competitive pricing. Banks are innovating new product features to remain competitive in this market such as free cards, free monthly statements, pre-approved limits, free life takaful, and unemployment benefits. Personal finance

also offers a debt transfer facility which is increasingly being used by deal-savvy customers to move their personal debt burden from one bank to another.

In terms of the limit allowed, Islamic banks from Qatar are in the lead. Qatar Islamic Bank (QIB) is open to personal finance amounts which can reach several millions in the case of high net worth individuals. QIB also has an upper limit that is far above the industry average.

The recent financial crisis has particularly impacted personal finance portfolios of Islamic banks in countries like UAE, where a large group of professionals were made redundant and left the country. It is high time for Islamic banks to rethink whether they should mimic the conventional finance in each domain or should come up with new product offerings that focus on bringing new customers in the market by increasing their inherent purchasing power instead of providing them with financial leverage.

3.2.5. Cards

Islamic banks are offering three types of cards to customers in the GCC market: credit cards, charge cards and fixed fee cards. Most banks further differentiate their customers by having classic, gold and platinum card categories.

This is again a very competitive sector and competition comes not only from other Islamic banks but also from conventional banks that constantly launch new promotions. Product differentiation is being made by offering loyalty programmes, discounts and offers by participating merchants.

Islamic cards have been least understood by customers, of all the products in the market. A common complaint is the dubious pricing and billing structure. Another customer complaint is that the service charges on Islamic cards are higher than that on conventional cards. Presently, Islamic banks are doing little to counter such allegations or weed out weaknesses from their products.

Islamic banks in the UAE show more benefits attached to their card offerings than Islamic banks in other GCC

¹⁵ Sohail Jaffer, FWU Group, Takaful, 15 July 2008

PERSONAL FINANCE

BANKS	PRODUCT NAME	PURPOSE	MAXIMUM TENOR	MINIMUM PROFIT RATE	PROCESSING FEE	GRACE PERIOD	ADDITIONAL BENEFITS	MAX AMOUNT
Bahrain Islamic Bank	Ezy Buy	Acquire Goods	N/A	N/A	N/A	N/A	N/A	BHD 0.100 m
Shamil Bank	Shamil Personal Finance	Acquire Goods/Services	7 Yrs	3,99%	N/A	3 months	N/A	BHD 0.100 m
Kuwait Finance House (Bahrain)	Personal Finance	Acquire Goods/Services	N/A	N/A	N/A	N/A	N/A	N/A
Al Raihi Bank	Watani	Acquire Goods/Services	5 Yrs	N/A	N/A	N/A	N/A	15 times of salary
Bank Al Bilad	Personal Financing	Shares financing	N/A	N/A	N/A	N/A	N/A	N/A
Dubai Islamic Bank	Al Islami Personal Finance - Service	Acquire services	3-7 Yrs	4,55%	N/A	N/A	N/A	AED 0.250 m
	Al Islami Personal Finance - Goods	Acquire goods	7 Yrs	4,55%	N/A	N/A	N/A	AED 0.750 m
Dubai Bank	SAN AD	Acquire Goods/Services	N/A	N/A	N/A	N/A	Free life takaful hospitalization/unemployment benefit, covered card, cheque book and debit card	N/A
	Household Item Financing	Household items	5 Yrs	N/A	N/A	4 months	N/A	Open
Qatar International Bank	Household Goods	Household items	7 Yrs	3,99%	N/A	N/A	N/A	QR 2,5 m
Noor Islamic Bank	Noor Personal	Acquire Goods/Services	5 Yrs	N/A	N/A	1 month	N/A	25 times of salary
	Goods Murabaha	Acquire Goods	15 Yrs	N/A	N/A	N/A	N/A	N/A
Al Hilal Bank	Services Ijara	Acquire Service	15 Yrs	N/A	N/A	N/A	N/A	N/A

Source: Banks' websites.

Figure 12: Personal finance in leading GCC Islamic banks

countries. A unique offering has been made by Noor Islamic bank which has offered three card products (with a further three sub-categories in two and five sub-categories in one product). All categories and sub-categories come with a various mix of rewards. However, such a wide product range can make it cumbersome for bank staff, to market these products on the one hand, and confuse customers in decision making on the other.

During the economic recovery phase, banks should strive to offer simple and economical products that are aligned with current market conditions, instead of products that entice customers to pursue an opulent lifestyle. Sanity must return to all segments of financial markets. Islamic banks presenting innovative solutions to retail customers will not only earn respect but will also mark their place in the emerging financial world.

3.3. Retail products and alternative delivery channels

3.3.1. Tele-banking performance in major Islamic banks in the GCC

Tele-banking has increasingly become an important alternative banking channel. Its effective use can minimize a bank's branch operating costs by less reliance on counter staff for information and generic transactions.

A well managed and efficient tele-banking solution not only builds a new customer base, but also retains existing customers. It can also be used to lower product advertising costs. Intelligently designed audio ads have proven to be effective, if they are not overdone or delivered by delaying the key tele-banking service.

A survey was conducted in September 2009 on the offering of tele-banking by key Islamic financial institutions in the GCC. A mystery shopping technique was used as a method to place a call for gathering product related information. Each call was made to measure a number of variables that would evaluate the tele-banking offering. We observed performances in the following areas: call opening, conversation quality, product information, tele-banking services, call closure, call connectivity, system instruction and audio ads. Each area was separately ranked and then a cumulative score was calculated for each bank in the sample. The survey was conducted in English due to the fact that English is widely spoken in the region by locals, as well as expatriates, who form a major portion of the population in the GCC countries with the exception of Saudi Arabia.

The results of this survey shows the diversity within countries however, in general, banks in the UAE still lead the way in tele-banking offering. Noor Islamic Bank performed best in our survey and acquired a total score of 24 out of 25. Any tele-banking offering relies on technology as well human interface. A recurring pattern in the survey results related to human interface and highlighted the need for enhancing service quality. Islamic banks must select call centre staff with good interpersonal skills, and sound knowledge of the bank's product offering.

Across the board, call connectivity appears to be another issue and points indicates the need to increase the number of dedicated lines. Banks should strengthen the tele-banking architecture and promote the diversion of customer traffic to tele-banking, as well as other alternative banking channels. Tele-banking should not be used as just another offering but an offering that is strategically placed in the overall retail banking suite of services.

CARDS

BANKS	PRODUCT NAME	TYME OF CARDS	CARDS CATEGORIES	SERVICE PROVIDER	PROFIT RATE	REPAYMENT PERIOD	MINIMUM PAYMENT REQUIRED	GRACE PERIOD	CASH WITHDRAWAL LIMIT	ADDITIONAL BENEFITS	MONTHLY FEE	ANNUAL FEE	MAXIMUM LIMIT	JOINING FEE
Bahrain Islamic Bank	Credit Card	Credit Card	Classic	VISA	N/A	N/A	5%	25 Days	50% of total limit	Loyalty programme, travel insurance, Pin & Chip, merchant discounts	BD 50	BD 600	BD 5,000	N/A
	As Above	As Above	Gold		N/A	N/A	As Above	As Above	As Above	As Above	BD 100	BD 1,200	BD 10,000	
Shamil Bank	As Above	As Above	Platinum		N/A	N/A	As Above	As Above	As Above	As Above	BD 200	BD 2,400	BD 20,000	
	Al Rubban	Credit Card	Gold	Master Card	6,50%	12 months	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kuwait Finance House (Bahrain)	Islamic Credit Card	N/A	N/A	VISA	N/A	N/A	5% of total outstanding	50 days	N/A	Pin & Chip, tree travel insurance	N/A	N/A	N/A	N/A
Al Rajhi Bank	Al Rajhi Credit Cards	Credit Card	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bank Al Bilad	Al Bilad Credit Card	N/A	N/A	N/A	N/A	N/A	N/A	50 days	N/A	N/A	N/A	N/A	N/A	N/A
Dubai Islamic Bank	Al Islami Cards	Credit Card	N/A	VISA	N/A	N/A	N/A		80% of total limit	Rewards, travel assistance, road side assistance, purchase protection	N/A	N/A	N/A	N/A
	Charge Card		Classic/Gold/Platinum	VISA	N/A	N/A	N/A	40 days	100% of total limit	Travel assistance, road side assistance, purchase protection	N/A	N/A	N/A	N/A
Dubai Bank	covered Cards	N/A	N/A	VISA	N/A	N/A	N/A	N/A	N/A	Merchant discounts, life Takaful, Travel Protection, Purchase Protection	N/A	N/A	N/A	N/A
	Debit Card		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Qatar Islamic Bank	Jana	N/A	Classic/Gold/Platinum	VISA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Qatar International Bank	International Islamic Cards	Credit Card	Classic/Gold/Platinum	N/A	N/A	N/A	N/A	N/A	100% of total limit	Free Supplementary cards	N/A	Nil	N/A	N/A
	Debit Card		Electron	VISA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Noor Islamic Bank	Nujoom	Fixed Fee Card	Classic, Classic+, Gold, Gold+, Platinum, Platinum+	Mastercard	N/A	N/A	N/A	51 days	N/A	Dining discounts, road side assistance, travel desk, valet parking	N/A	N/A	N/A	Nil
	Shams	Credit Card	Classic, Gold, Platinum	Mastercard	N/A	N/A	N/A	51 days	N/A	Dinning discounts, roadside assistance, travel desk, valet parking, fitness	N/A	N/A	N/A	Nil
Al Hilal Bank	Qamar	Charge Card	Classic, Gold, Platinum	Mastercard	N/A	N/A	N/A	51 days	N/A	Dinning discounts, roadside assistance, travel desk	N/A	N/A	N/A	Nil
	Credit Cards	Credit Cards	Classic/Gold	VISA	N/A	N/A	10%	55 days	60% of total limit	Merchant discounts, roadside assistance				

Figure 13: Card product offering in leading GCC Islamic banks

Source: Bank's website

It was observed that the systems side of tele-banking was weak in the case of several banks in our survey. This is directly related to the choice of system and their inherent capabilities. As our survey was conducted with a user experience perspective, we have not investigated the technical capabilities of the system, but generally an impression was captured on the use of the system. In this competitive banking market, a good tele-banking system can certainly improve the competitive position of a bank. The survey result highlights the need to improve the user friendly aspects of the systems.

Finally, it was observed that only two banks are using audio ads embedded in their tele-banking offering. This is an interesting observation, and indicates an overlooked opportunity by banks to market their products to their captive audience.

The overall results of the survey indicate the need to improve human interface, as well as the systems aspect of tele-banking offering. Our selected banks are considered flagship entities in Islamic banking. Several of them however, still need to realize the enormous potential of this important delivery channel.

3.4. Evaluation of Islamic Banks' websites

Islamic banks are presenting themselves as a Shari'a-compliant alternative to conventional banks. This position gives them the opportunity to attract an important market segment, which prefers Shari'a-compliant financial solutions, and also exposes them to the challenge of proving to be more or at least as efficient as conventional financial institutions.

So far Islamic banks were predominantly preoccupied with offering products which fulfil the needs of customers who are served by the conventional financial sector. However, in recent years, there has been an increase in awareness in offering technologically advanced solutions.

During the last decade, web presence has emerged as a key channel for service delivery. Websites have provided convenience and flexibility to customers and cost saving and an alternative marketing channel to banks.

Considering the potential and promise of web based service channels, we conducted a survey to evaluate the quality of websites managed by Islamic banks. This survey focused on the layout and content quality of websites and evaluated such features as initial interaction, layout and design, product related information, social responsibility and education of users. This survey does not cover the internet banking offering of banks as that

would have required access to their internet banking portals which are only available to their customers.

The survey has used websites of leading banks as a benchmark to ascertain industry best practices. Websites of Citibank, BNP Paribas, Standard Chartered Bank, and HSBC Bank were observed for this purpose.

The maximum score on this survey was 95, however almost all websites maintained by Islamic banks lags far behind this maximum point. Only one bank; Noor Islamic Bank was able to reach the mark of 60 points, closely followed by Al Rajhi Bank with 59 points. These two banks may be considered industry leaders in the effective use of web based banking among the Islamic banks in GCC covered in this survey.

All three banks (Noor Islamic Bank, DIB and Dubai Bank) from the UAE market in our survey performed better indicating the competitiveness and maturity of the region's banking sector. Banks from Bahrain also exhibited greater sophistication in managing their websites. Banks operating in Qatar are lagging behind in the sample group. Qatar Islamic Bank and Qatar International Islamic Bank both require major initiatives to bring their websites to industry standards.

Almost all the banks in our sample performed well in the areas of basic website functioning like page loading, website purpose, page engagement and identification of required information. This section covers the initial interaction of the visitor with the website. Research has shown that the initial few minutes on the website controls the decision of a visitor to explore the website further or close the window. We observed an across the board good performance by all the websites. However, for a few of the banks there is still room for improvement.

Layout and design of websites are important in capturing perspective client's attention. Interestingly, it is once again the Islamic banks from the UAE who are in the lead and have obtained the highest ratings.

Al Rajhi Bank's website can be categorized best in terms of layout and design and indicates the prowess of the developer and IT team.

The heart of a bank's website is usually the information that covers its products and services. Product related content actually plays instrumental part in customer decision making. The benchmark group in the survey has shown a high level of creativity in the content creation and the level of information being disseminated.

The component of product information on the websites of Islamic banks appears weak as compared to

EVALUATION VARIABLES	MAXIMUM SCORE	BAHRAIN ISLAMIC BANK	KUWAIT FINANCE HOUSE	AL RAJHI BANK	BANK AL BILAD	DUBAI ISLAMIC BANK	DUBAI BANK	NOOR ISLAMIC BANK	AL HILAL BANK	QATAR ISLAMIC BANK	QATAR INTERNATIONAL ISLAMIC BANK
CALL OPENING	4	2	0	3	3	2	3	4	2	4	3
CONVERSATION QUALITY	3	1	1	2	0	2	1	3	2	2	2
PRODUCT INFORMATION	8	7	0	6	0	7	2	8	7	6	7
TELEBANKING SERVICES	3	2	0	2	0	2	1	2	2	2	2
CALL CLOSURE	1	1	0	1	0	1	0	1	1	1	1
CALL CONNECTIVITY	2	0	0	0	0	2	1	2	1	2	1
SYSTEM INSTRUCTIONS	3	1	1	1	1	2	2	3	1	2	1
AUDIO ADS	1	0	0	0	0	1	0	1	0	0	0
	25	14	2	15	4	19	10	24	16	19	17

Figure 14: Tele-banking survey results

other variables. Even the highest ranking that Noor Islamic and Dubai banks were able to secure is not comparable. Islamic banks need to appreciate the power of this alternative delivery channel and learn from their conventional counterparts. Information content should be presented in levels of detail that will assist customers to make their financial decision. Several websites of these banks have given inconsequential information simply introducing customers to products and eventually requiring them to contact them through a call centre or visit the branch for further information. Ideally, a good website should provide a complete solution and minimize utilization of other service channels.

The banks from the UAE and Bahrain stand ahead in terms of product information and design. Saudi Arabian banks appear in the middle whereas banks from Qatar lag behind the other players in the GCC market. Product information on the websites of Qatari banks is very basic limiting users' ability to make financial decisions based on website information. The power of web media has yet to be unleashed and requires a fresh focus. This will not only result in a better image of the banks but would also assist in decreasing operational costs.

All leading conventional banks use their websites to educate their customers. Financial products are complex in nature. Educating customers is in the best interest of banks as better informed customers can easily appreciate the features of new and improved products and can compare these products with other products available in the market. It also strengthens the relationship between banks and customers as customers start to perceive their bank's trusted advisors and source of financial information.

The websites of the Islamic banks in our sample are poor performers in this important feature. Either they do not educate at all or do it inadequately. The situation becomes more severe due to the fact that Islamic products are relatively new and complex in their structures. Al Rajhi and Noor Islamic Bank have received the highest points in the group but even these higher points are low compared to the overall score in this category.

During the last two decades corporate social responsibility has emerged as a key factor in determining the overall performance of organizations. Banks and other financial institutions are no exception. Almost all the leading conventional banks show their understanding and commitment to the idea of corporate social responsibility. Banks in the conventional finance sec-

tor have chosen social causes to support, and run well structured programs for fulfilling their corporate social responsibility agendas.

In recent years, several conventional financial institutions have endorsed and adopted "Equator Principles, a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally". It is worth noting that none of the Islamic banks from GCC have adopted these principles.

Green banking is also an emerging trend and several banks have shown their commitment in supporting business initiatives that deal in sustainable technologies and solutions. Moreover, these institutions also adopt an organizational structure which makes them an environment friendly place to work. Unfortunately, so far no Islamic bank has shown commitment to any such cause.

Not surprisingly, Islamic banks were unable to achieve significant rankings on this feature of their websites. Almost all of them fail to provide any information related to their commitment to social causes or their stand on corporate social responsibility. They have received an average ranking on the feature of their ability to develop a 'sense of community' in the visitors. In fact these websites in their appearance and structure closely resemble websites of conventional banks. A key factor is the background of top management which has come from conventional banks and misses the potential of creating a strongly differentiated image.

Other factors in the survey focus on tools such as Search, Careers, Site Map, News and Terms & Condition for the use of site. Banks have generally covered these features on their websites and hence have received better points.

The results strongly indicate that Islamic banks are not fully benefiting from the potential of web based delivery channel. Their websites requires improvement, particularly, in the areas of product related information, effort to educate their customers and information related to their commitment of social reasonability. A renewed focus and strategy to offer excellent alternative delivery channels can also enable Islamic banks to reap the benefits of technology revolution in the banking industry.

BANKS	INITIAL INTERACTION (Max=20)	LAYOUT & DESIGN (Max=20)	PRODUCT INFO (Max=25)	EDUCATE (Max=15)	COMMUNITY (Max=10)	OTHER FEATURES (Max=5)	TOTAL (Max=95)
Noor Islamic Bank	18	18	11	6	3	5	61
Dubai Islamic Bank	18	14	10	2	4	4	52
Dubai Bank	18	18	11	0	3	5	55
Bank Al Bilad	18	13	6	3	3	5	48
Al Rajhi Bank	18	19	7	6	6	3	59
Bahrain Islamic Bank	18	16	10	4	3	5	56
Kuwait Finance House	17	14	7	4	3	2	47
Shamil Bank	18	17	11	0	3	4	53
Qatar International Islamic Bank	16	10	3	3	3	5	40
Qatar Islamic Bank	16	14	5	4	3	5	47

Figure 15: Information on the website of Islamic banks in the GCC

INITIAL INTERACTION

BANKS	PAGE LOAD	SITES PURPOSE	PAGE ENGAGEMENT	IDENTIFICATION OF INFO	TOTAL (MAX 20)
Noor Islamic Bank	5	5	4	4	18
Dubai Islamic Bank	5	5	4	4	18
Dubai Bank	5	5	4	4	18
Bank Al Bilad	5	5	4	4	18
Al Rajhi Bank	5	5	4	4	18
Bahrain Islamic Bank	5	5	4	4	18
Kuwait Finance House	5	5	4	3	17
Shamil Bank	5	5	4	4	18
Qatar International Islamic Bank	5	5	3	3	16
Qatar Islamic Bank	5	5	3	3	16

Figure 16: Information on the website of Islamic banks in the GCC

LAYOUT AND DESIGN

BANKS	TEXT READABILITY	USE OF FRAMES / ANIMATION	ENCOURAGE FOR NEXT STEP	PROJECTION OF IMAGE	TOTAL (MAX 20)
Noor Islamic Bank	5	5	4	4	18
Dubai Islamic Bank	3	4	3	4	14
Dubai Bank	5	5	4	4	18
Bank Al Bilad	3	3	3	4	13
Al Rajhi Bank	5	5	4	5	19
Bahrain Islamic Bank	4	4	4	4	16
Kuwait Finance House	4	3	3	4	14
Shamil Bank	4	4	5	4	17
Qatar International Islamic Bank	3	4	0	3	10
Qatar Islamic Bank	4	3	3	4	14

Figure 17: Layout and design of website of Islamic banks in the GCC

PRODUCT RELATED INFORMATION

BANKS	PRODUCT FEATURES	RATES & TARIFFS	PRODUCT RELATED TERMS	FINANCIAL DECISION	TIMELY / UPDATED INFO	TOTAL (MAX 25)
Noor Islamic Bank	4	3	0	0	4	11
Dubai Islamic Bank	4	2	0	0	4	10
Dubai Bank	3	4	0	0	4	11
Bank Al Bilad	2	0	0	0	4	6
Al Rajhi Bank	3	0	0	0	4	7
Bahrain Islamic Bank	4	2	0	0	4	10
Kuwait Finance House	3	0	0	0	4	7
Shamil Bank	3	4	0	0	4	11
Qatar International Islamic Bank	1	0	0	0	2	3
Qatar Islamic Bank	2	0	0	0	3	5

Figure 18: Information on prices of Islamic retail banking products in the GCC

EDUCATION

BANKS	SECURITY/FRAUD PREVENTION GUIDANCE	ISLAMIC FINANCE CONCEPTS	INDUSTRY REPORTS/ RESEARCH	TOTAL (MAX 15)
Noor Islamic Bank	3	3	0	6
Dubai Islamic Bank	0	2	0	2
Dubai Bank	0	0	0	0
Bank Al Bilad	3	0	0	3
Al Rajhi Bank	3	0	3	6
Bahrain Islamic Bank	0	4	0	4
Kuwait Finance House	3	1	0	4
Shamil Bank	0	0	0	0
Qatar International Islamic Bank	0	3	0	3
Qatar Islamic Bank	0	4	0	4

Figure 19: Literature and educational information on Islamic banks in the GCC

SOCIAL RESPONSIBILITY

BANKS	SOCIAL RESPONSIBILITY	SENSE OF COMMUNITY	TOTAL (MAX 10)
Noor Islamic Bank	0	3	3
Dubai Islamic Bank	1	3	4
Dubai Bank	0	3	3
Bank Al Bilad	0	3	3
Al Rajhi Bank	3	3	6
Bahrain Islamic Bank	0	3	3
Kuwait Finance House	0	3	3
Shamil Bank	0	3	3
Qatar International Islamic Bank	0	3	3
Qatar Islamic Bank	0	3	3

Figure 20: Information on corporate social responsibility on Islamic banks in the GCC

BANK	BAHRAIN ISLAMIC BANK	KUWAIT FINANCE HOUSE	AL RAJHI BANK	BANK AL BILAD	DUBAI ISLAMIC BANK
Did Staff Mention Name?	Not Mentioned	Not Mentioned	Abdullah	Not Mentioned	Not Mentioned
Greeted?	Polite	Rude	Polite	Welcoming	Polite
English Ability	Average	Average	Good	Bad	Good
Product Inquiry	Mortgage	Credit Card	Mortgage	Car Financing	Credit Card
Profit Rates	Aware	Not Aware	Aware	Not Aware	Aware
Eligibility Criteria	Aware	Not Aware	Aware	Not Aware	Aware
Maximum Amount Availed?	Aware	Not Aware	Aware	Not Aware	Aware
Processing Time?	Aware	Not Aware	Aware	Not Aware	Aware
How To Apply	Aware	Not Aware	Aware	Not Aware	Aware
Tele - Banking Services?	Good	Not Aware	Good	Not Aware	Good
Answers Clear?	Good	Bad	Good	Bad	Good
Call Closed Properly?	Yes	No	Yes	No	Yes
Did System Keep Waiting?	Yes	Yes	Yes	Yes	No
For How Long?	3 Min	Over 5 Mn	2 Min	3 Min	Immediate
System Connection Easy?	No	No	No	No	Yes
System Instructions Clear?	No	No	No	No	Yes
Audio Advertisements While Waiting?	No	No	No	No	Yes
Additional Information?	None	Kept transferring calls to the other agents. Got transfered over 6 times.	None	Had no idea kept saying to call Finance Department	Staff had in-depth knowledge

Figure 21: Survey on Islamic banks in the GCC

BANK	BAHRAIN ISLAMIC BANK	KUWAIT FINANCE HOUSE	AL RAJHI BANK	BANK AL BILAD	DUBAI ISLAMIC BANK	DUBAI BANK	QATAR ISLAMIC BANK	QATAR INTERNATIONAL BANK	NOOR ISLAMIC BANK	AL HILAL BANK		
Call Opening	Did Staff Mention Name?	0	1	0	0	1	1	1	1	0	0-1	
	Greeted?	2	0	2	3	2	2	3	2	2	0-3	
	Subtotal	2										
Conversation	Conversation Quality	1	2	0	2	1	2	2	3	2	0-3	
	Subtotal	1	1	2	0	2	1	2	3	2		
Product Information	PRODUCT INQUIRY	MORTGAGE	CREDIT CARD	MORTGAGE	CREDIT CARD	MORTGAGE	CREDIT CARD	INVESTMENT ACCOUNT	CREDIT CARD	INVESTMENT ACCOUNT		
	Profit Rates	1	0	1	0	1	0	1	1	1	0-1	
	Eligibility Criteria	1	0	1	0	1	0	1	1	1	0-1	
	Maximum Amount Availed	1	0	1	0	1	0	1	1	1	0-1	
	Processing Time?	1	0	1	0	1	0	1	1	1	0-1	
	How to Apply?	1	0	1	0	1	0	1	1	1	0-1	
	Answers Clear?	2	0	1	0	2	1	2	3	2	0-3	
	Subtotal	7	0	6	0	7	2	6	7	8	7	
	Information on telebanking services	Tele - Banking Services?	2	0	2	0	2	1	2	2	2	0-3
		Subtotal	2	0	2	0	2	1	2	2	2	
Call Closure	Call Closed Properly?	1	0	1	0	1	0	1	1	1	0-1	
	Subtotal	1	0	1	0	1	0	1	1	1		
Connectivity	Did System Keep Waiting?	0	0	0	0	1	0	1	0	0	0-1	
	For How Long	3 Min	Over 5 Min	2 Min	3 Min	Immediate	1 Min	30 Seconds	1 Min	30 Seconds	1 Min	
	System Connection Easy?	0	0	0	0	1	1	1	1	1	0-1	
	Subtotal	0	0	0	0	2	1	2	1	2	1	
System Instructions	System Instructions Clear?	1	1	1	1	2	2	2	1	2	0-3	
	Subtotal	1	1	1	1	2	2	2	1	2	1	
Audio Ads	Audio Ads While Waiting?	0	0	0	0	1	0	0	0	1	0	
	Subtotal	0	0	0	0	1	0	0	0	1	0	

*waiting up to 30 seconds was considered as "no waiting"

Yes=1; No=0
Welcoming=3; Polite=2; Plain=1; Rude=0
Excellent=3; Good=2; Average=1; Bad=0

Figure 22: Results of survey on Islamic banks in the GCC

Evaluation of Islamic Banks' Websites

Firm _____ Al Rajhi Bank (example) _____

URL _____ www.alrajhibank.com.sa _____

Date visited _____ 9 November 2009 _____

Points 1 = poor 2 = below average 3 = average 4 = above average 5 = very good

1 Does the home page load quickly?
Yes No Explain _____
_____ 1 2 3 4 5

2 Is the site's purpose immediately obvious?
Yes No Explain _____
_____ 1 2 3 4 5

3 Does the home page immediately engage you?
Yes No Explain _____
_____ 1 2 3 4 5

4 Can you easily identify and locate desired information?
Yes No Explain _____
_____ 1 2 3 4 5

5 Does the site provide sufficient and useful information on product features which can help in decision making?
Yes No Explain _____
_____ 1 2 3 4 5

6 Is text easy to read? Are subheads and bulleted lists used to chunk content?
Yes No Explain _____
_____ 1 2 3 4 5

7 Does the site offer timely, frequently updated information?
Yes No Explain _____
_____ 1 2 3 4 5

- 8 Does the site project an appropriate image?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 9 Does the site use features like frames and animation appropriately and with restraint?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 10 Does the site encourage you to buy or take the next step?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 11 Does the site encourage a sense of community?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 12 Does the site educate on the concepts of Islamic finance or provide a glossary of terms?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 13 Does the site help in financial decision making by providing planning tips, product comparisons etc.?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 14 Does the site provide information on rates & tariffs?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 15 Does the site inform on bank's position on issues relating to corporate social responsibility, sustainability or commitment to a cause?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 16 Does the site provide additional information, i.e. research reports, how to avoid online frauds etc.?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 17 Does the site provide information on product related terms and conditions?
 Yes No Explain _____
 _____ 1 2 3 4 5
- 18 Does the site provide the following information: Terms & Condition for the use of site; Site Map; Careers; News; Search.
 Yes No Explain _____
 _____ 1 2 3 4 5

Total: _____