



الإمارات الإسلامية
EMIRATES ISLAMIC

**ISLAMIC
BANKING
INDEX
BY EMIRATES
ISLAMIC™**



Introduction



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CEO, Emirates Islamic

As one of the leading and fastest-growing Islamic banks in the UAE, Emirates Islamic has taken the lead in furthering Islamic banking. Through product and service innovation, we have both fuelled and fulfilled demand in this critical sector, and over the years contributed significantly to the vision of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai to make the emirate the global capital of the Islamic Economy.

The creation of the ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ signals a new chapter in how we measure the development of Shari'a compliant banking in the UAE. This is a first-of-its kind initiative that will create a benchmark UAE consumer index on the burgeoning Islamic banking industry and fill the information gap on consumer perceptions of the Islamic Banking sector.

Through the Islamic Banking Index, we provide an annual benchmark of shifts in 'penetration', 'perception', 'knowledge' and 'intention' of UAE consumers when it comes to Shari'a compliant banking.

This report reveals more than just the attitudes and opinions of people in the UAE towards Islamic Banking – it also creates a pathway to the solutions that will enable further growth of Islamic banking in the UAE and beyond. What we have provided here are new insights on the challenges facing the sector, as defined by the findings of our survey, as well as some of the answers that will hopefully accelerate Islamic Banking's future growth.

We hope the findings of the first ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ are enlightening, and that our initiative will contribute to enrich the dialogue on realising the true potential of Islamic banking.

Methodology

The ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ survey was conducted in the UAE to establish penetration of Islamic banking in the emirates, as well as current knowledge, perceptions and future intentions of consumers on Islamic Banking

Using the 'YouGov' research panel, responses were gathered online, in September 2015, from over nine hundred panelists aged 18+, with a bank account in the UAE and earning more than AED 5,000 per month. The sample is representative of UAE banking consumers over 18 years, covers all nationality groups living in the UAE, men and women, across all seven emirates.

When analysed, the answers provide a picture of consumers' uptake, attitude and intention towards Islamic banking. As the survey is based on consumers' personal reporting and opinions, the findings may not equate with publicly reported figures.

Top Findings

Four indicators of Islamic Banking in the UAE

**PENETRATION
SCORE**

47%

**PERCEPTION
SCORE**

26%

**KNOWLEDGE
SCORE**

36%

**INTENTION
SCORE**

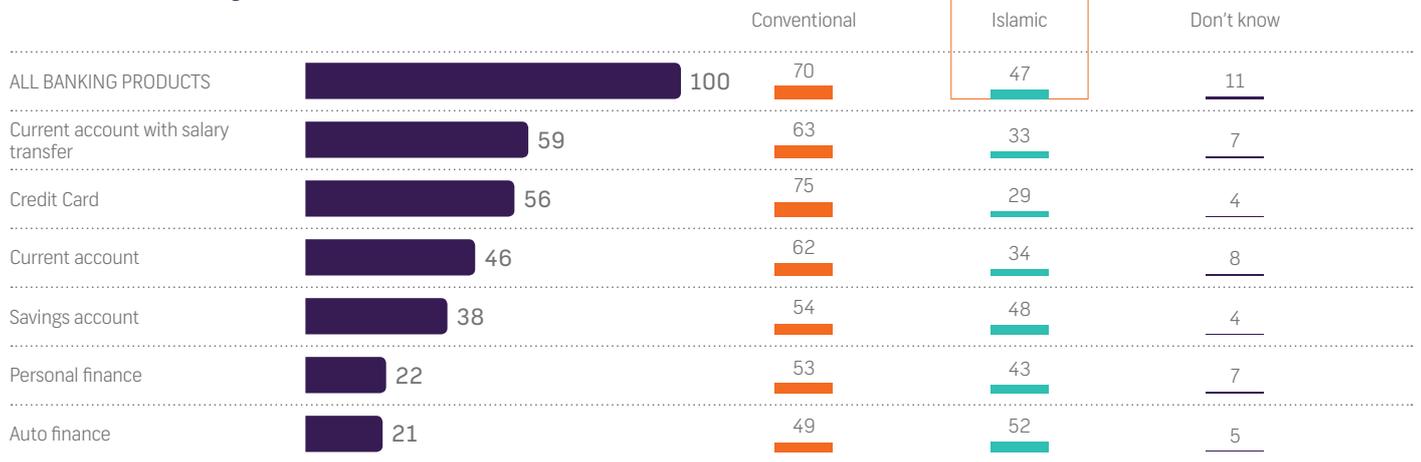
75%

Notes:

- Penetration score is the percentage of consumers who have any Islamic product from an Islamic bank or Islamic offering with in a conventional bank
- Perception score is the average of the ratings of Islamic banks on a range of attributes
- Knowledge score is the percentage of consumers who are able to correctly define Murabahah. This is computed by multiplying the percentage of those aware of any Islamic concept (59%) by the percentage of those selecting the correct definition of the concept (60%)
- Intention score is the percentage of those who would subscribe to any Islamic banking product in the next six months among total intenders (conventional and Islamic)

Penetration

% Penetration score amongst consumers



Base: Total Respondents

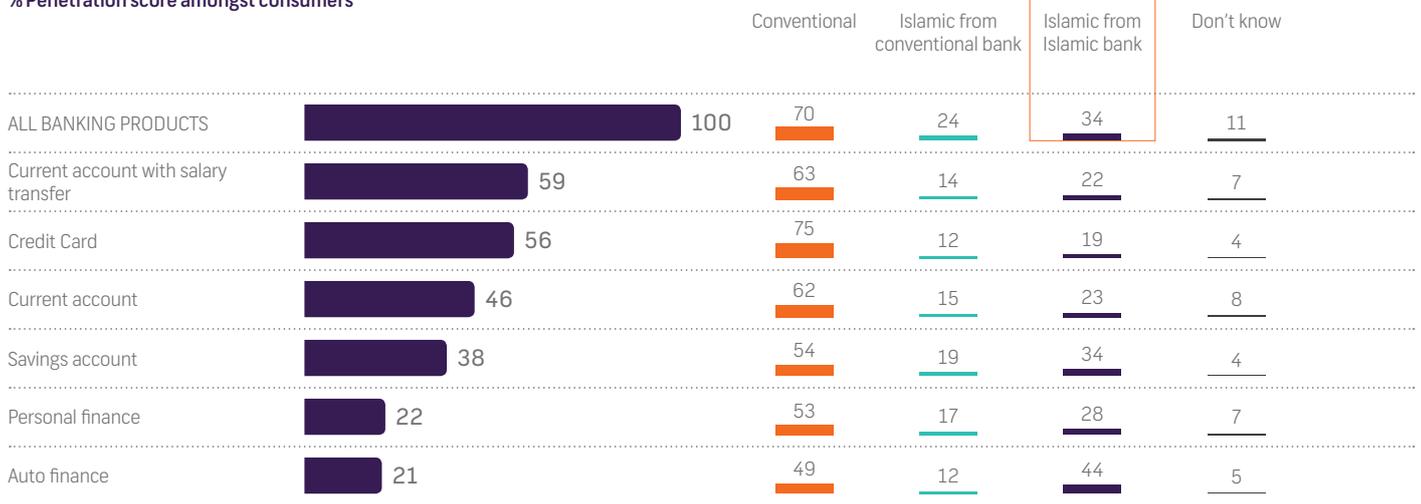
47% of the UAE's banking consumers have at least one Islamic banking product

Almost half of the UAE banked respondents have at least one Islamic product, from either an Islamic bank or from Islamic windows within a conventional bank. Additionally, 34% of people surveyed had an Islamic product from an Islamic bank.

By design, everyone who took the survey owns at least one banking product. Of those, 70% have at least one conventional product, compared to 47% who have at least one Islamic account.

Looking more closely at the split between Muslim and non-Muslim consumers, Muslim consumers have a fairly even number of conventional and Islamic products at 63% and 62% respectively. While conventional products have an edge when it comes to credit card, current account with salary transfer and current account, the incidence of Islamic products is significantly higher in savings account, personal finance and auto finance categories. In the savings account category, for example, 36% of Muslims have a conventional account, while a little over two thirds, 67%, have an Islamic product.

% Penetration score amongst consumers



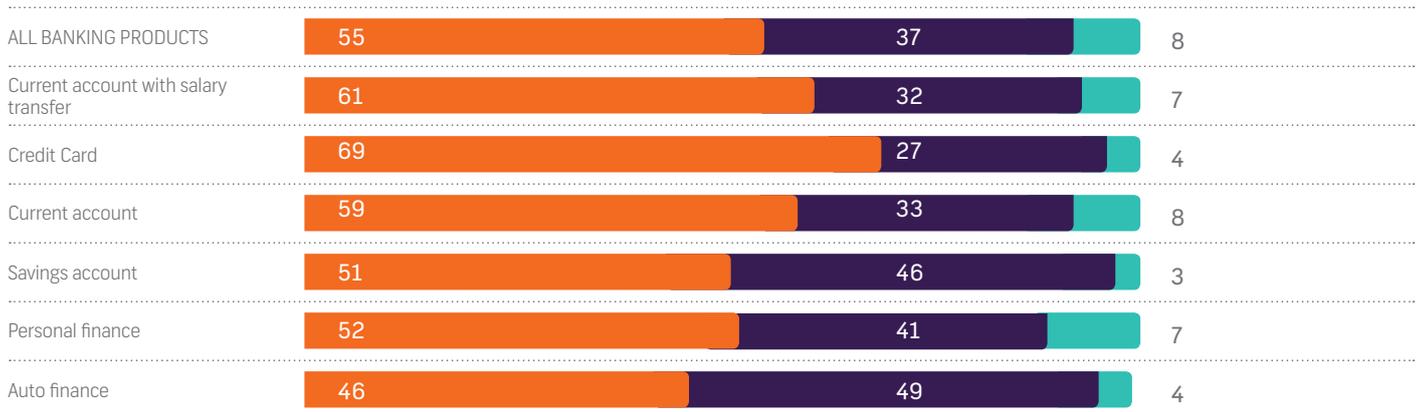
Base: Users of each product category

34% of the UAE's banking consumers have an Islamic product from an Islamic bank

A clear indication of the opportunity for Islamic banking penetration is evident when we look at non-Muslim consumers, who hold a fairly consistent two thirds to

around three quarters, or 65% up to 80%, conventional products and less than a third of Islamic products across all categories.

% Product shares within total products



- Conventional banking products
- Islamic banking products
- Not sure

Islamic banking has higher shares in auto finance and savings account product categories

Perception

%Strongly agree

- Overall perception score
- Conventional banks: 28
- Islamic banks: 26



Base: Total Respondents

Respondents perceive that Islamic banks support the community more and have lower transaction fees as compared to conventional banks

Banks are heavily invested in reputational equity – consumer perceptions on a banking institution’s ‘values’ are as important as their opinions on its ‘value’.

Respondents of this survey have strongly divided opinions on conventional and Islamic banking. While they rate Islamic banks higher than conventional banks on supporting the community in meaningful ways at (29% versus 23%), conventional banks receive significantly higher rating in areas such as outstanding apps for mobile/internet banking (37% versus 28%),

being technologically advanced (40% versus 24%), being innovative (36% versus 28%), providing fast service (29% versus 22%), having easy procedures (29% versus 23%), providing solutions for people’s needs, and to a lesser extent, offering superior customer service.

More people also agree that Islamic banks have lower transaction fees than conventional banks, at 25% versus 21%.

% Strongly agree

- Overall perception score
- Conventional banks: 30
- Islamic banks: 23

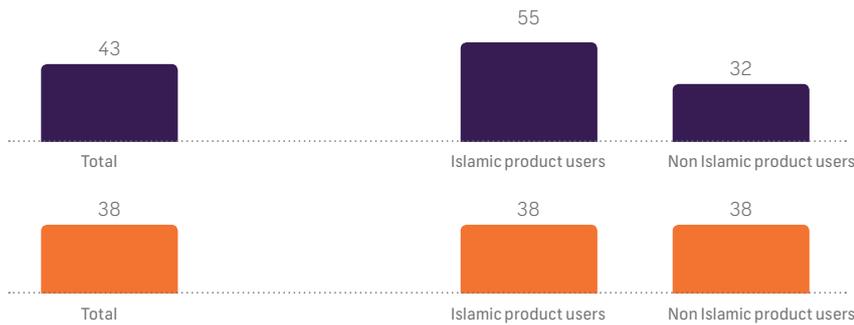


Base: Non-Muslim Respondents

Non-Muslim respondents rate conventional banks higher on technology, innovation and financial soundness

% Trust very much

- Trust in Islamic banks
- Trust in conventional banks



Base: Total Respondents

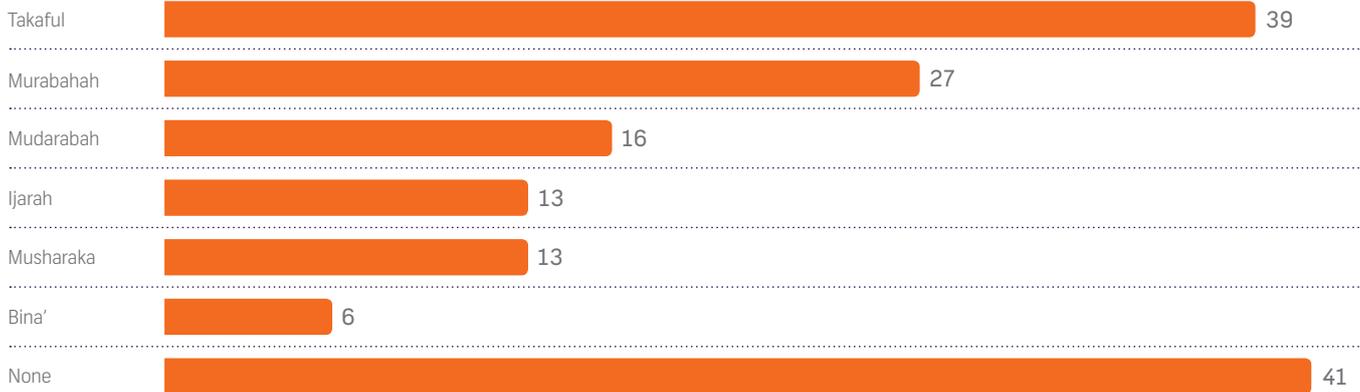
Overall, Islamic banks are more trusted particularly by users of Islamic banking products

If we look closer at the findings, Muslims rate Islamic banks significantly higher on trustworthiness, at 37% versus 25%, financial soundness, at 40% versus 33% and community support at 31% versus 22%. However, non-Muslims rate conventional banks as being more trustworthy than Islamic banks at 33% versus 27%.

Overall, Islamic banks are trusted more by the users of Islamic products, at 55% compared to 32% by non-Islamic bank users. About four in ten are very trusting of conventional banks both amongst users and non-users of Islamic products.

Knowledge

% Islamic banking product



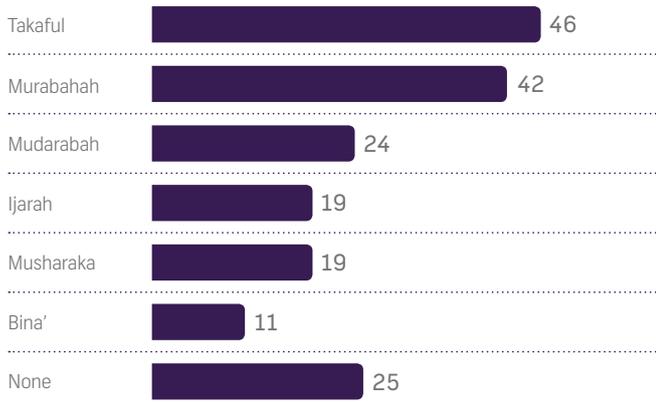
Base: Total Respondents

6 in 10 respondents in the UAE have heard about at least one Islamic product structure

The majority of consumers, six out of 10, have heard of at least one Islamic product, with Takaful (39%) and Murabahah (27%) the most familiar. Perhaps not surprisingly, awareness is higher among users of Islamic

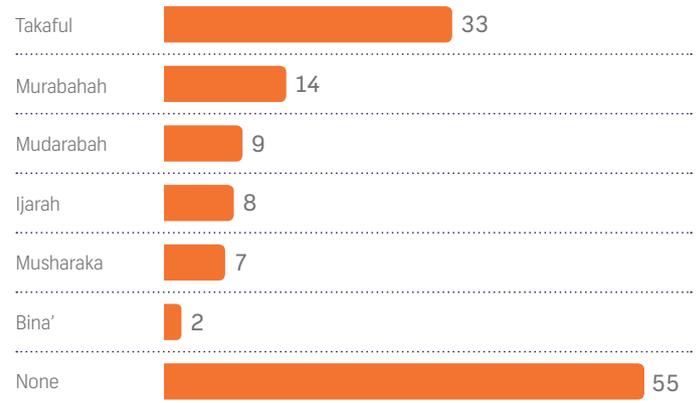
products, with 46% having heard of Takaful. However, a third, 33%, of non-users of Islamic products also have some awareness of the concept.

% Users of Islamic products



Base: Users of Islamic products

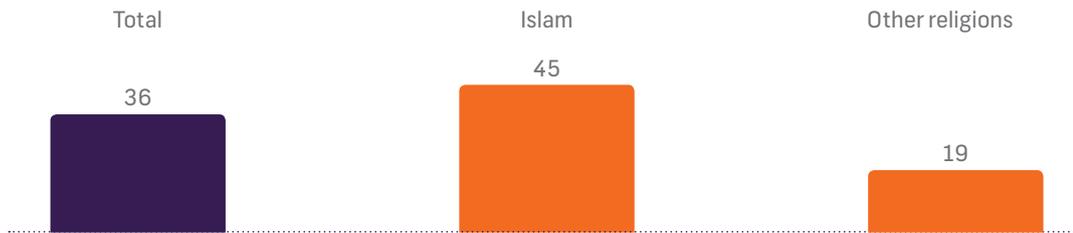
% Non-users of Islamic products



Base: Non-users of Islamic products

Awareness of all Islamic banking product structures is higher amongst users

% Knowledge score



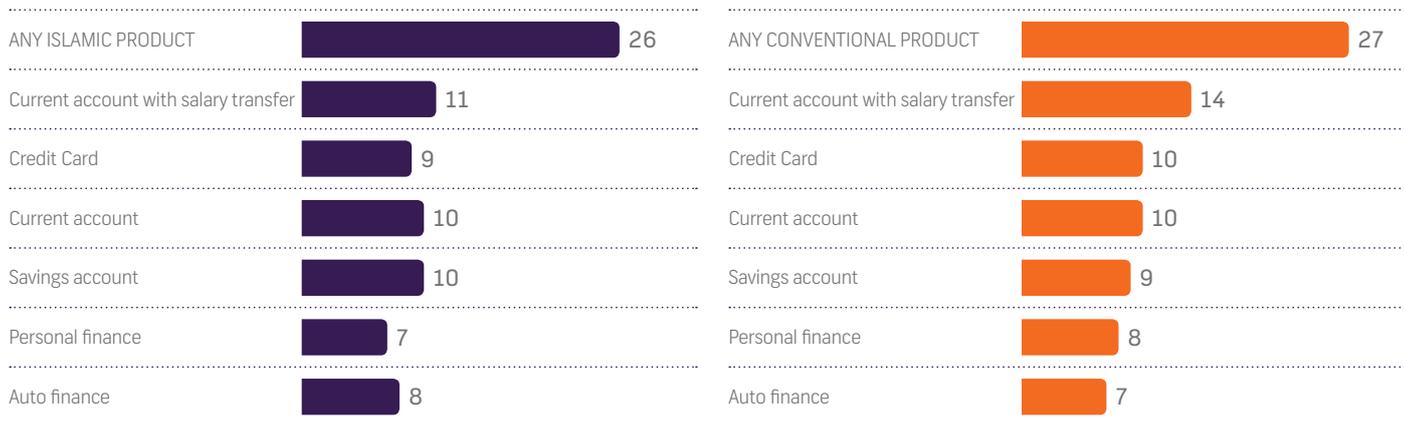
Nearly half of Muslim respondents are aware of Islamic product structures

When we juxtapose this data with the penetration levels, it seems fair to assume that uptake of Islamic banking products does not correlate to a deeper understanding of the underlying structures of these products.

However, understandably Muslims are slightly more likely to be aware of Islamic banking products at 70% versus 46% of non-Muslims. Over one-third, at 36%, are able to identify the correct meaning of Murabahah, with a higher proportion of users of Islamic banking products (46%) having been able to identify the right definition than non-users (27%).

Intention

% Very likely to subscribe



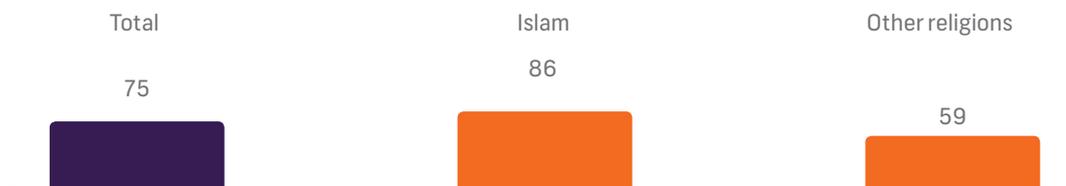
Base: Total Respondents

26% and 27% of the respondents have expressed their intention to acquire an Islamic and conventional banking product respectively in the coming 6 months

Interest in Islamic banking products is widespread among intenders in the UAE, with the majority of those who would subscribe to a banking product in the next 6 months willing to consider them. Three quarters, or 75%, of consumers are open to Islamic banking products, and around a fifth actively seek them. Of the total sample,

19% say they seek Islamic products only if the benefits are at least the same as with conventional. Just over a third, at 35%, say they seek them only if the benefits they offer are better than conventional products, and 21% say they always seek Islamic banking products.

% Islamic Potential Score



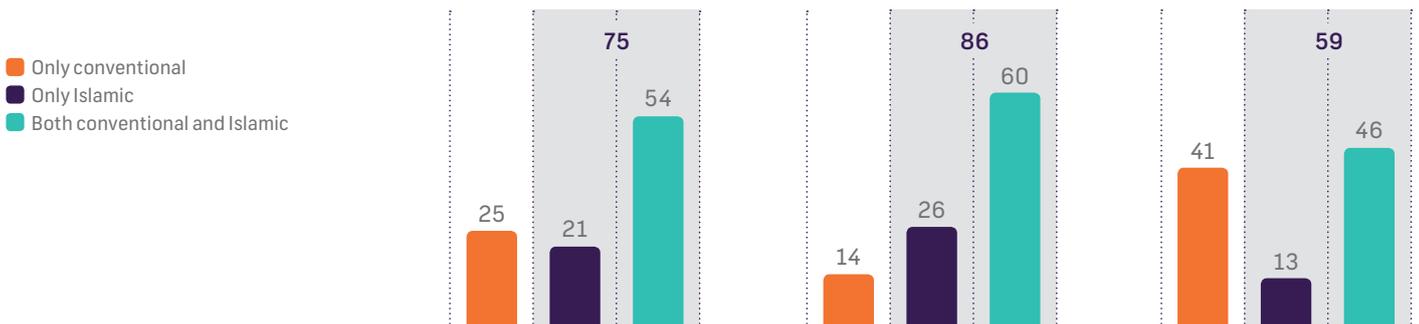
Base: Total Intenders

75% of intenders are likely to consider Islamic banking products

Pragmatically, potential core Islamic banking consumers are more likely to be Muslim, with 26% of Muslims saying they always seek Islamic products versus just 13% of people of other religions. Overall, consumers are equally likely to subscribe to a conventional or Islamic product in the next six months, with 27% saying they are very likely to subscribe to a conventional product versus

26% for an Islamic product. There is a marginally higher probability of consumers subscribing to a conventional current account with salary transfer at 14% versus 11% for Islamic. For credit card, current account, savings account, personal finance and auto finance, people are equally likely to subscribe to a conventional account or an Islamic account.

How the % Islamic Potential Score was computed



21% of the intenders say they only seek Islamic banking products, while 54% say they are open to both

A key highlight in this section is that the majority of consumers in the UAE choose their banking products through a pragmatic lens of cost vs benefit. All things being equal, over half of the consumers will veer

towards products that provide them value, irrespective of their (conventional or Islamic) structure, especially when it comes to competitive offerings such as credit cards and personal and auto finance.

Penetration vs perception gap

Defining the growth opportunity in Islamic Banking - time to move from education to excellence

A key finding of the first ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ is that three out of four people in the UAE would consider an Islamic banking product to fulfil their financial needs. A hugely encouraging statistic for anyone associated with the industry, but one that needs to be tempered with a note of caution.

Read further into the research and it becomes clear that fully capturing this opportunity hinges on boosting the perception of consumers on the competitiveness of Islamic Banks' offering. While Islamic banks are rated highly for fairness, trust and their contribution to the community, they fare less well in areas such as technology, innovation and service. To capture the '75% opportunity' and beyond, Islamic banks need to continue investing in their general banking capabilities and focus on increasing consumers' perceptions on competitiveness in product and service.

Driven predominantly by the widespread popularity of Shari'a compliant auto finance and savings products, approximately half of UAE residents report they currently have an Islamic banking product, while a third of non-users say they are familiar with the concepts involved. Factor in the positive sentiment end users have around key aspects of Islamic banking such as trust and ethics and it could be argued that the industry's role as an educator is now largely achieved. The focus must now be on excellence.

As the market for financial services in the UAE matures, Islamic banks need to compete more aggressively with their conventional peers in the areas that customers value most, like service speed or digital innovation, while never losing sight of the importance of the industry's core values, such as integrity and fairness.

Islamic banks have a unique opportunity in the UAE, but only by evolving the focus from education to excellence can we fully realise our potential.

A white paper on the Findings of the
"ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™" 2015

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