

**ISLAMIC
BANKING
INDEX**
BY EMIRATES
ISLAMIC™
2020





Introduction



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When we look back on 2020, the defining word will be 'unprecedented', as this is a truly extraordinary time. We are living through a once in a century event, with a resulting economic downturn caused by the requirement to rapidly alter the way we live. It is important to stop, take a step back, and recall just how much has changed since the first cases of COVID-19 emerged at the end of 2019.

But we must also look forward to the global economic recovery, pinned on mass distribution of a COVID-19 vaccine that is safe for widespread use. Although progress has been rapid towards this vital scientific advance, we must find ways to protect our economy and the more vulnerable in society, as not doing so has the potential to negatively impact the lives of millions for many years after the virus is under control.

No industry has been untouched by COVID-19, as consumers have changed the way they live, preferring reduced face to face contact, more time spent in the home, and financially conservative behaviour in a climate of economic uncertainty. As a fallout of 2020's global economic downturn, this year's edition of the ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ demonstrates a small reduction in the overall penetration and intention of both conventional and Islamic products compared with 2019.

As an Islamic bank, supporting the community has always been our key objective; and now, more than ever, we have a moral duty to innovate and find ways to offer financial stability for all our customers whose lives have been impacted by the pandemic.

In 2020, Emirates Islamic has played its part in finding ways to support the community through the crisis. We have offered payment deferrals to around 40,000 customers impacted by the pandemic through job loss, unpaid leave or reduced salary. When schools closed in March as cases of COVID-19 had started to rise in the UAE, we contributed AED 2 million to the Ministry of Education to support online distance learning initiatives. The bank was also among the first financial institutions to contribute to the Community Solidarity Fund against COVID-19, to provide care and support to the most vulnerable.

The shift to digital services to reduce person to person contact has been the most high-profile business trend of the pandemic. E-commerce and digital adoption has boomed, and many companies, including financial institutions, have rapidly increased investment in their online and mobile products.

While 2020 may be remembered primarily for the pandemic, it will also be remembered as the year that technology came to the forefront, facilitating our everyday lives under lockdown. As Islamic financial institutions with a legacy of being community-minded, it is now up to us to champion this new reality, by embracing Fintech solutions and creating digital ecosystems to support our trusted proposition, so we can continue to serve our customers in the best way possible.

Methodology

The ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ is a benchmark survey revealing the progress, penetration and perception of the Shari'a-compliant banking sector in the UAE, as well as the future intentions of the nation's banking customers.

The 2020 ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™ survey was conducted in the UAE to determine the penetration of Islamic banking in the emirates; as well as current knowledge, perceptions and future intentions of consumers on Islamic banking. Our methodology, questionnaire and sample size has remained consistent with the first Index which was carried out in 2015.

Using the YouGov Public Opinion Research Panel, responses were gathered online in August 2020 from more than 900 panellists aged 18+ who have a bank account in the UAE with a minimum income of AED 5,000/- per month. The sample is representative of banking consumers in the UAE who are above 18 years; in terms of gender and nationality and covers all seven emirates.

The findings of the survey show the uptake, perception, attitude and receptiveness of UAE consumers towards Shari'a-compliant banking, as well as industry progress, and areas of untapped potential. As the survey is based on the consumers' personal reporting and opinions, the findings may not equate with publicly reported figures.

Top Findings

Four indicators of Islamic banking in the UAE

	2020	2019	2018	2017	2016	2015
PENETRATION SCORE	58%	60%	55%	52%	51%	47%
PERCEPTION SCORE	38%	38%	35%	31%	29%	26%
KNOWLEDGE SCORE	35%	37%	39%	36%	37%	36%
INTENTION SCORE	77%	80%	80%	74%	79%	75%

Notes:

- Penetration score is the percentage of consumers who have any Islamic product from any financial provider
- Perception score is the average rating of Islamic banks on a range of attributes
- Knowledge score is the percentage of respondents able to correctly define Murabahah. This score is calculated by multiplying the percentage of those aware of any Islamic concept by the percentage of those selecting the correct definition of the concept
- Intention score reflects the percentage of respondents who indicated they would subscribe to an Islamic banking product within six months

Penetration

% Penetration score amongst consumers

	2020			2019		
	Conventional	Islamic	Don't know	Conventional	Islamic	Don't know
ALL BANKING PRODUCTS	64	58	4	65	60	3
Current account with salary transfer	53	44	3	55	41	6
Current account	55	40	5	54	42	4
Savings account	45	51	4	43	48	5
Credit card	63	34	3	53	33	4
Personal finance	47	52	1	18	50	4
Auto finance	45	53	2	15	59	2

Base: Total respondents

The overall penetration of both conventional and Islamic banking in 2020 has seen a small reduction, falling from 65% to 64% for conventional and from 60% to 58% for Islamic banking products as compared to 2019. However, Islamic banking has grown in popularity in the UAE since 2015, while conventional banking is on a downward trend in the same period.

As a fallout of 2020's global economic downturn we have seen a slight reduction in the overall penetration of both conventional and Islamic products this year compared with 2019. However, since the start of the INDEX in 2015, the penetration of Islamic banking products has increased gradually from 47% to 58%, while conventional banking products have seen a reduction from 70% to 64% over the years.

At an overall level, the gap between Islamic banking products and conventional banking products is closing since the launch of the

INDEX in 2015. When it comes to specific Islamic banking products, in 2020, more than half the respondents prefer an Islamic savings account, personal finance or auto finance. Current account with salary transfer, credit cards, savings accounts and personal finance have seen an increase. Similarly, for conventional banking products, current account with salary transfer, current accounts, personal finance and auto finance have seen an increase while credit cards remained the same and savings accounts saw a decrease since 2019.

% Penetration score amongst Muslims

	2020			2019		
	Conventional	Islamic	Don't know	Conventional	Islamic	Don't know
ALL BANKING PRODUCTS	59	69	4	60	70	3
Current account with salary transfer	44	54	2	49	48	3
Current account	47	51	3	49	50	1
Savings account	45	51	4	37	62	1
Credit card	63	34	3	59	39	2
Personal finance	40	59	1	42	54	3
Auto finance	40	58	2	31	68	1

Base: Muslim respondents

% Penetration score amongst non-Muslims

	2020			2019		
	Conventional	Islamic	Don't know	Conventional	Islamic	Don't know
ALL BANKING PRODUCTS	71	40	6	72	45	7
Current account with salary transfer	65	32	3	59	30	11
Current account	71	19	10	65	26	10
Savings account	61	32	7	62	28	10
Credit card	68	28	4	69	24	6
Personal finance	58	42	6	51	43	6
Auto finance	55	43	2	53	42	4

Base: Non-Muslim respondents

Among non-Muslims, overall penetration of Islamic banking products dropped from 45% in 2019 to 40% in 2020, driven mainly by lower penetration of current accounts, as a possible consequence of the current economic environment. However, hearteningly, there was an increase in uptake in Islamic credit cards – 24% to 28%, and Islamic savings accounts – 28% to 32%.

respondents was fairly consistent, 70% in 2019 and 69% in 2020. There was a notable increase in Muslim respondents saying they had a current account with salary transfer, increasing from 48% in 2019 to 54% in 2020 as well as for personal finance increasing from 54% in 2019 to 59% in 2020. However, there was a significant reduction for savings accounts and auto finance – 62% to 51% and 68% to 58% respectively.

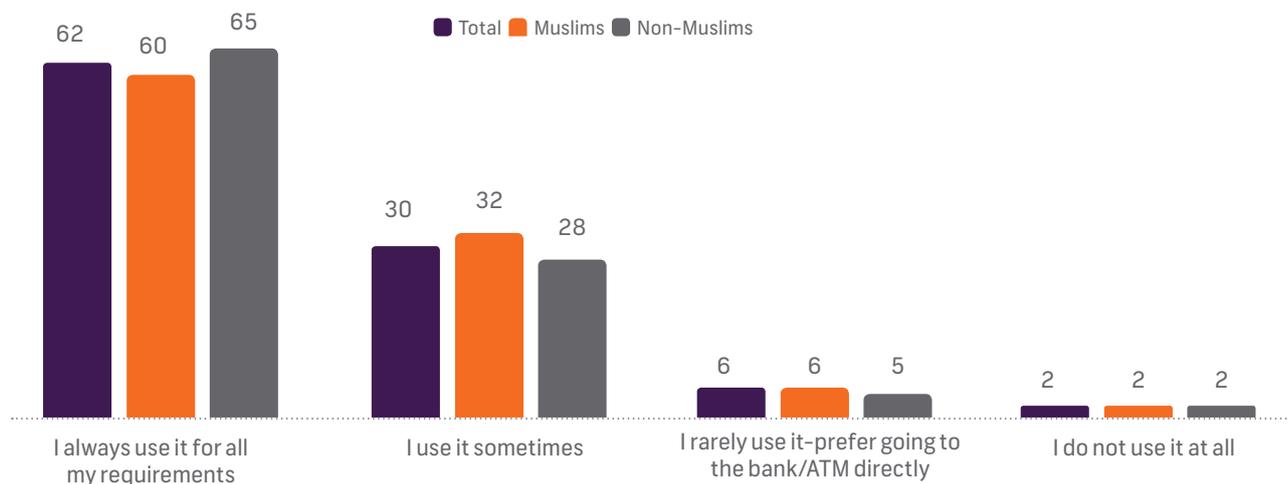
The overall penetration of Islamic finance products among Muslim

Adoption of digital banking a key trend this year

The rapid acceleration in the uptake of digital and online services has been a key economic trend of the COVID-19 pandemic, and the same is certainly true for banking. Hence, we asked respondents about their digital banking habits in this year's edition. Our survey shows that more than six out of ten, or 62% of respondents said they

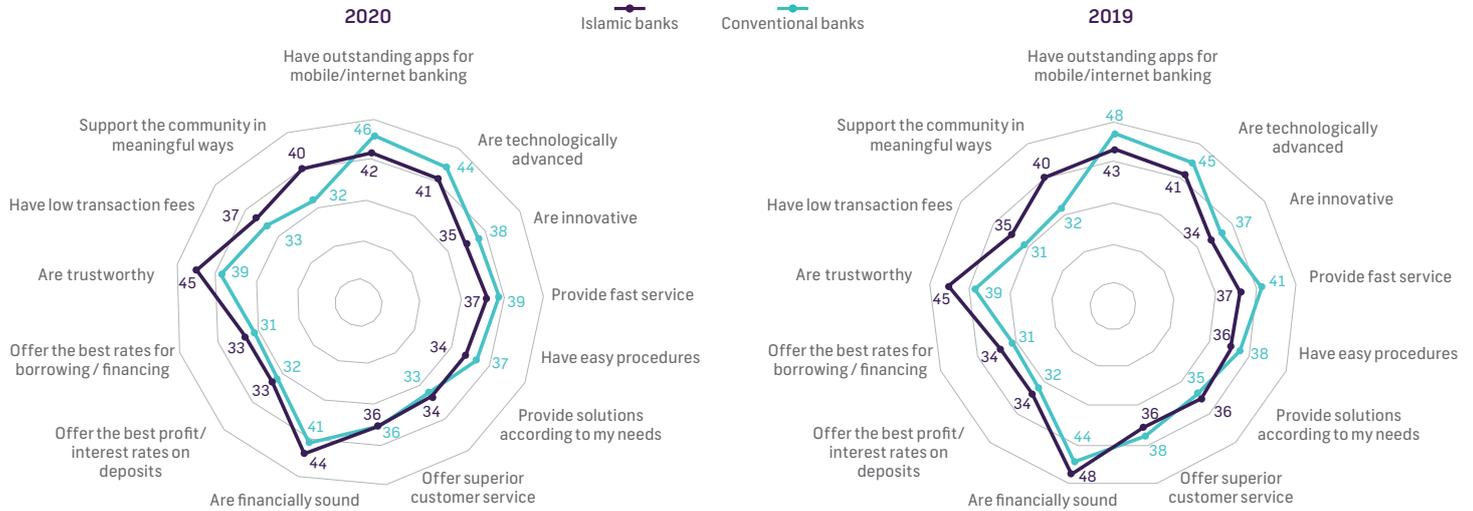
always use online and mobile banking for all their personal banking needs confirming the growing uptake of digital and online services. Not surprisingly, only two percent said they never use digital banking at all for their banking needs.

Online/Mobile Banking



Perception

% Strongly agree amongst consumers



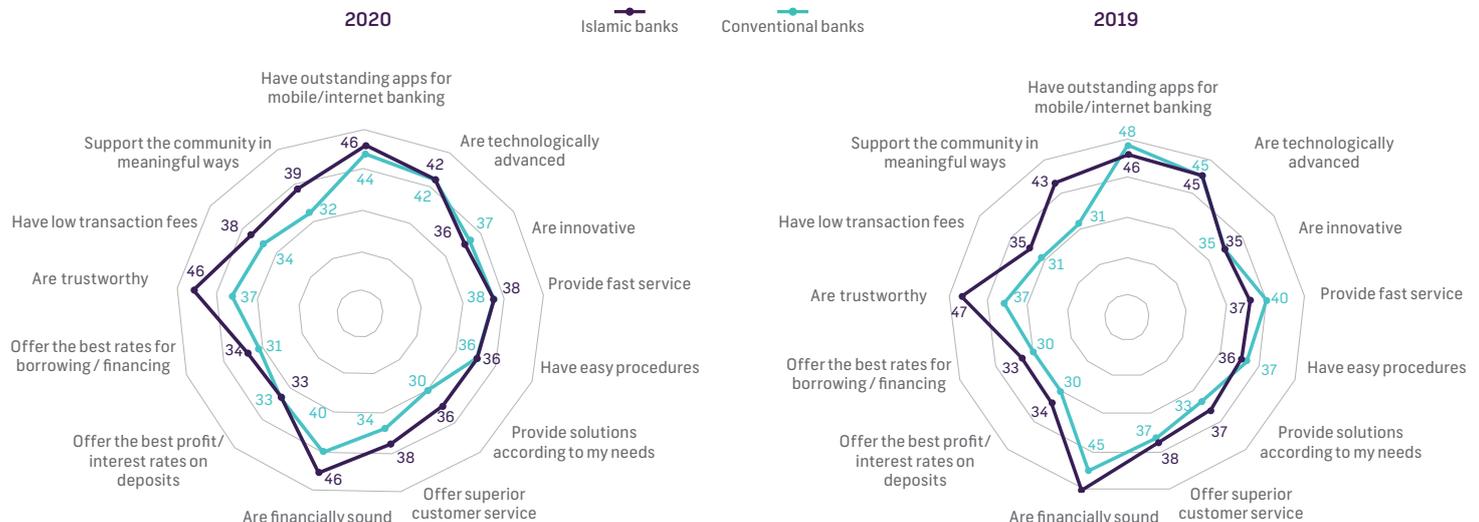
Base: Total respondents

The overall perception of Islamic banks remained stable at 38% in line with 2019, but has improved by 12 percentage points from 26% in 2015, surpassing conventional banking perception and showing significant improvement in areas related to service and technology.

With the onset of the COVID-19 pandemic, people’s perceptions of the way they live, work and do business has changed significantly. However, the perception of Islamic banking remained consistent with 2019. Islamic banking continued to outperform conventional banks on being trustworthy, supporting the community, having lower fees and offering better finance and profit rates on savings. Conventional banking, however, was ahead of Islamic banking on perception

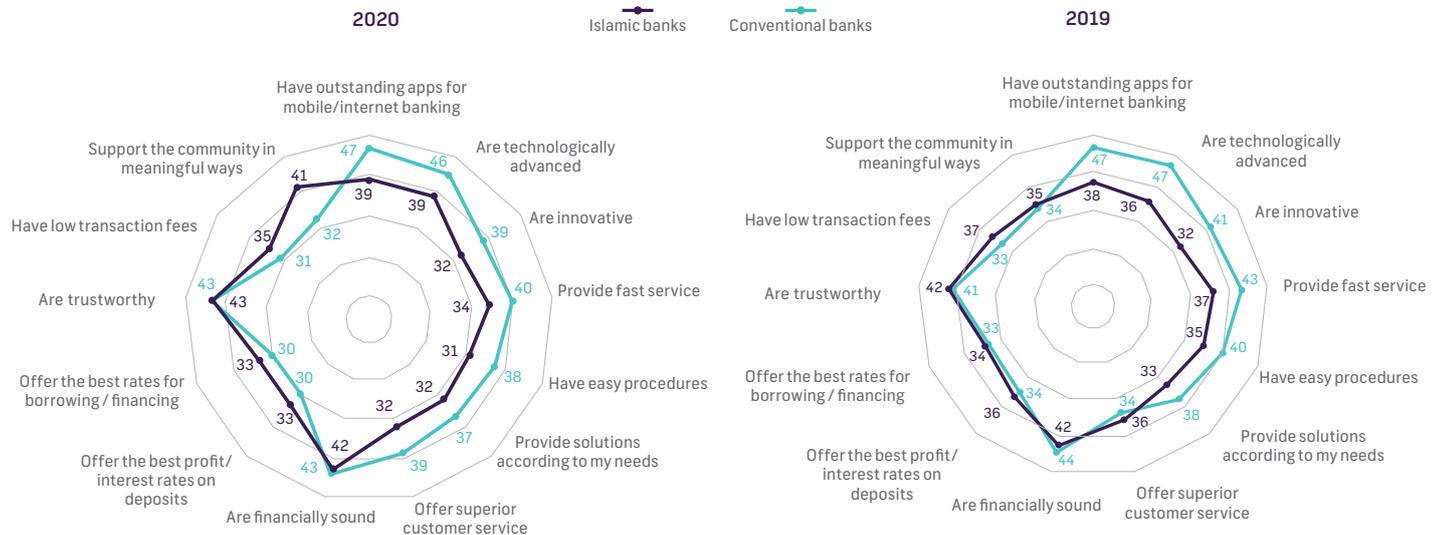
related to innovation, technology, mobile/online banking, and fast service. Given the rapid changes in consumer behaviour triggered by COVID-19, in which digital services have seen huge growth as users turn to contactless or remote access, it is more important than ever that Islamic banks focus on enhancing and educating customers on the digital capabilities.

% Strongly agree amongst Muslims



Base: Muslim respondents

% Strongly agree amongst non-Muslims



Base: Non-Muslim respondents

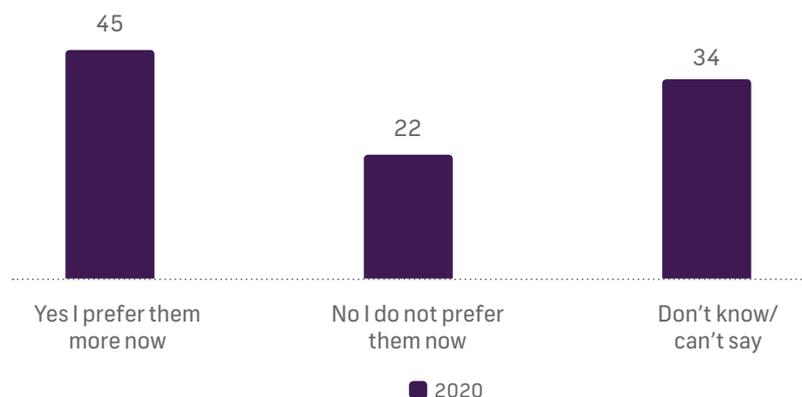
Uncertainty among consumers during the pandemic have resulted in both Islamic and conventional banking showing a decrease from 2019 on being financially sound and on service-related factors including easy procedures. However, Islamic banking perception continues to be better on emotive factors as customers seek support and stability. Compared to conventional banks, Islamic banks are observed by respondents to be more supportive of the community, with 40% strongly agreeing that they support the community in meaningful ways, compared with 32% for conventional banks. Respondents also consider Islamic banks more trustworthy, with 45% strongly agreeing that Islamic banks are trustworthy, compared with 39% for conventional banks. There was also positive news in terms of the perception of Islamic banks offering value for money. More respondents thought that Islamic banks offer low transaction fees, offer the best rates for borrowing and financing and the best rates on deposits.

The perception of Islamic banks versus conventional banks on nearly all factors was higher among Muslim respondents, clearly highlighting the growing preference for Islamic banking among Muslims in the UAE, the primary customer base for Islamic products.

When we look at non-Muslim respondents, we see a remarkable increase in their perception of Islamic banks providing support to the community, up from 35% in 2019 to 41% in 2020. Even though most non-Muslims still rate Islamic banks lower on service-related factors, their perception has improved on technology factors and see them as offering better value (lower transaction fees and better profit rates).

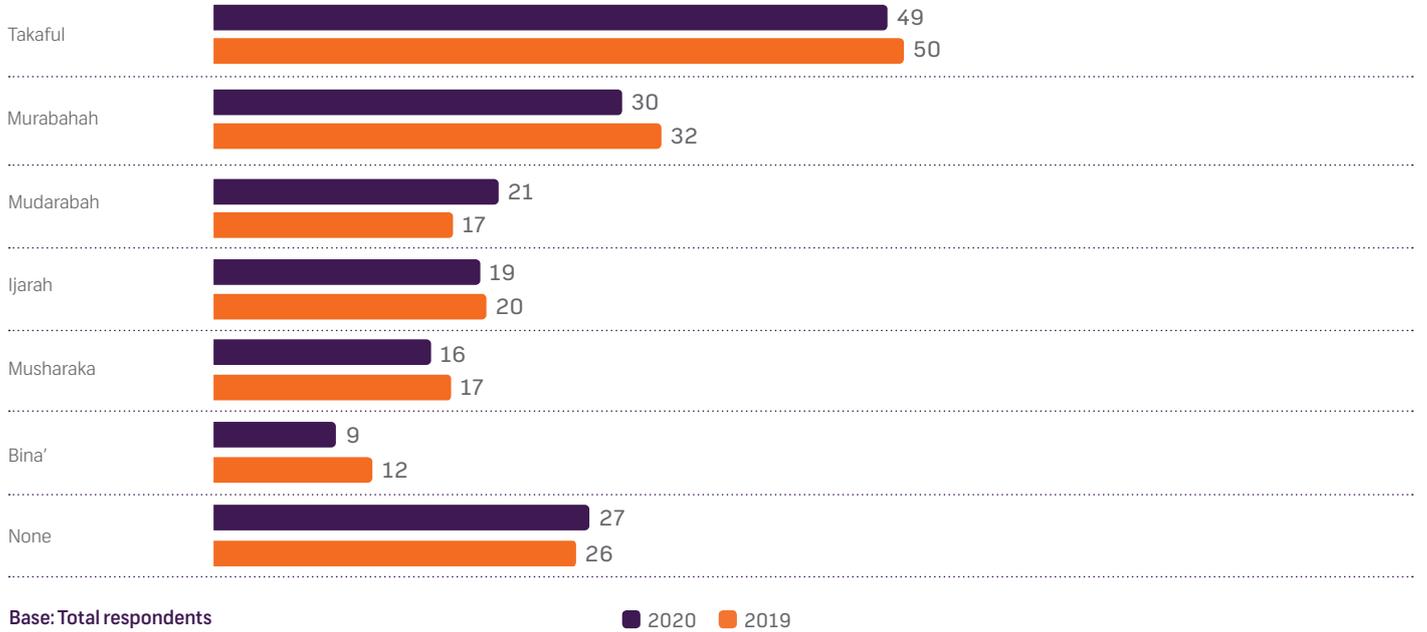
This year, we asked our respondents if the pandemic had changed their perceptions about Islamic banking. Almost half of all respondents, 45%, both Muslim and non-Muslim, said they preferred Islamic finance products more since COVID-19, compared to only 22% who said they did not prefer them, and 34% who did not know or could not say.

Attitude towards Islamic Banks due to COVID 19



Knowledge

% Islamic banking product



More than 70% of respondents have heard about at least one Islamic product while only 27% are not aware of any Islamic banking product.

Knowledge Score pertains to customers' ability to identify Islamic banking product structures and not just familiarity or awareness of Islamic product terms.

Knowledge Score shows slight drop by 2 percentage points to 35% but remains consistent since 2015.

% Knowledge score

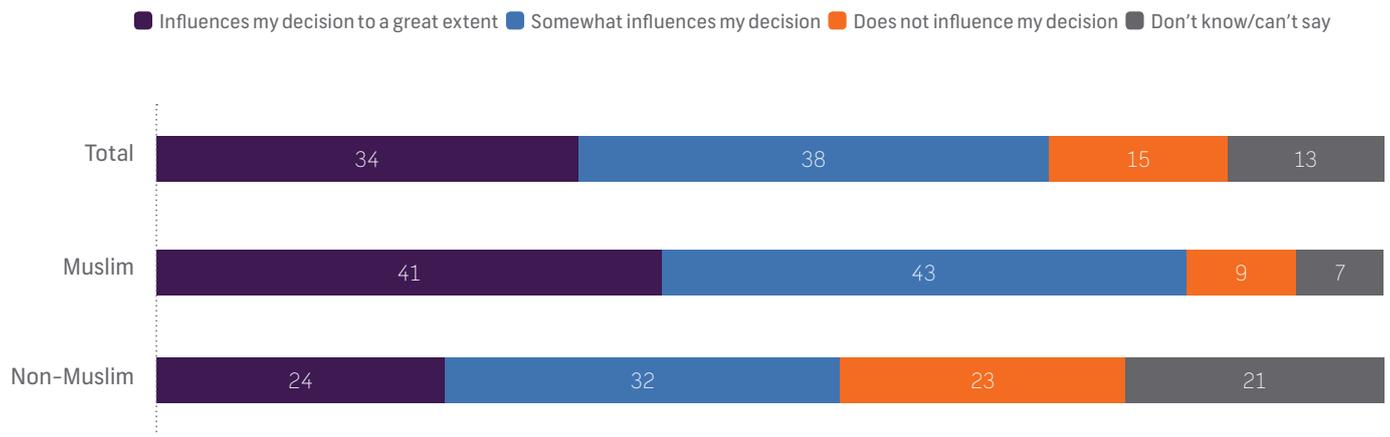


As the Knowledge Score pertains to technical definitions as opposed to familiarity or general awareness of Islamic product terms, we believe the lower scoring may refer to the complexity of certain definitions. More than 70% of respondents have heard about at least one Islamic product while only 27% are not aware of any Islamic banking product, reflecting the increasing familiarity with Islamic finance terms as Islamic banks continue to gain a broader market share.

For the first time in this year's survey, we asked respondents if understanding the structure of Islamic finance products influenced their decision to use them. Only 34% respondents stated that understanding the structure of Islamic Banking does influence their

decision to use a Shari'a compliant product to a large extent – this figure being higher amongst Muslims than non-Muslims (41% vs. 24%), highlighting a marked difference in approach between Muslim and non-Muslim consumers.

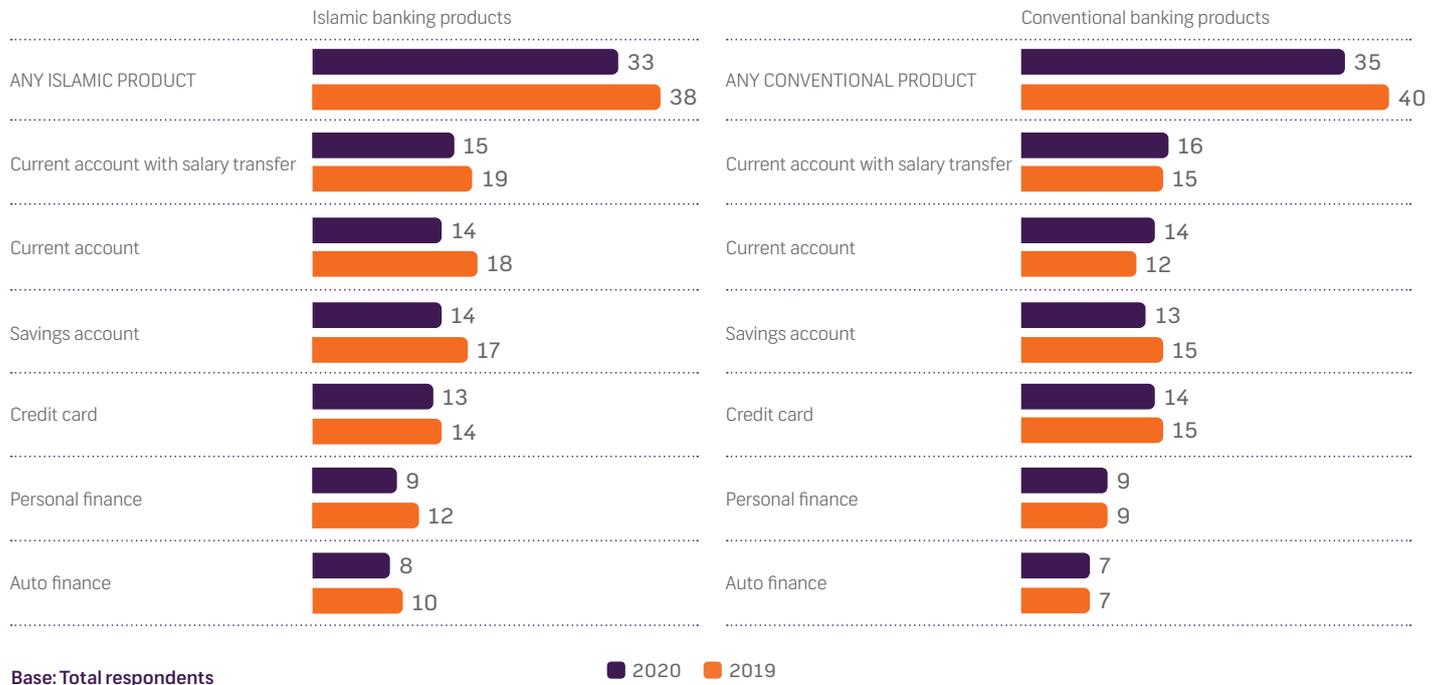
Perhaps influenced by the uncertain economic climate, knowledge of Islamic banking has not been a primary factor in uptake decisions by both Muslims and non-Muslims while rates and pricing were shown to be the most important factor when considering a shift to Islamic banking products, as detailed in the Intention section.



Base: Total respondents

Intention

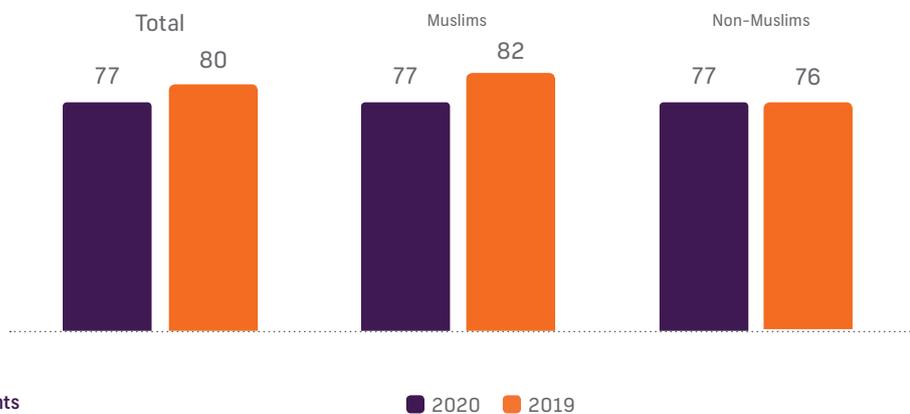
% Very likely to subscribe



Drop in purchase intention reflects a more conservative approach from customers, due to the current situation, observed both in Islamic and in conventional banking products.

Current intention score is still in line with the average of the previous 5 years and above 2015 level.

% Islamic potential score



Overall, the intention of UAE consumers to subscribe to any Islamic banking product has dropped in 2020, down from 38% in 2019 to 33% in 2020, whereas for conventional products, the decrease was from 40% to 35%.

While calculating the Islamic Potential Score, which is the percentage of those who would subscribe to any Islamic product in the next 6 months among total intenders, the survey showed a decrease by 3 percentage points in 2020, from 80% in 2019 to 77% in 2020, with Muslims showing a decrease from 82% to 77%, and non-Muslims showing a slight increase, up from 76% in 2019 to 77% in 2020.

This anomaly could be explained by the current unprecedented economic climate caused by COVID-19. The UAE economy, in line with economies globally, has been impacted by the pandemic and the return of expatriate workers is affecting current consumption across industries, including banking, despite a marked economic recovery compared to earlier months.

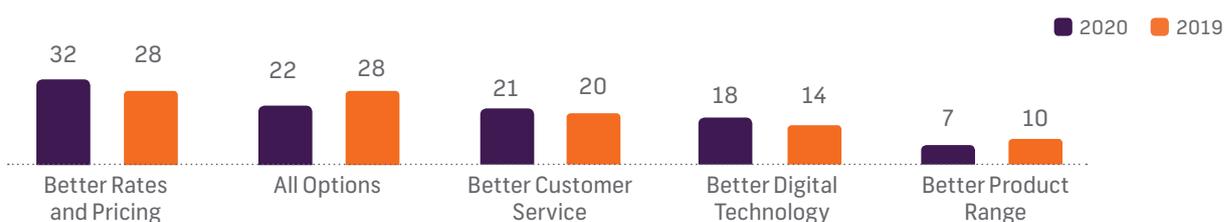
As a result, we are still witnessing a more conservative approach for both conventional and Islamic banking products as consumers are acting with caution while the market recovers, steered by significant initiatives undertaken by the nation's leaders. In the immediate-term, however, it is to be expected that existing and potential customers delay some of their decisions in acquiring new banking products.

Additionally, the results of our survey clearly indicate paths to encouraging customers towards using Islamic banking products. The INDEX shows that value for money in financial products has grown in importance, with 36% of respondents citing better rates and pricing as a factor influencing a potential shift to Islamic financial products, compared with 33% last year, ahead of better customer service, better technology and better product range.

Factors influencing shift to Islamic Banking by All respondents



Factors influencing shift to Islamic Banking by Muslim Respondents



Factors influencing shift to Islamic Banking by Non-Muslim Respondents



Conclusion

Financial services globally have seen rapid change in the wake of COVID-19, as the way consumers live and do business has been vastly altered by the pandemic. The uncertainties about the future have made many consumers reluctant to acquire new financial products, whether they are conventional or Islamic.

However, the solution is to find certainties in an uncertain world and begin to build on them. One certainty which is the recurring theme of the pandemic for the world of business and finance - across all industries, has been the shift to digital - a shift that was occurring in any case, but has rapidly accelerated with demand soaring as consumers were unable to leave their homes for long periods, and unable to meet service providers face to face.

For the banking industry, digital technology plays a larger role in addition to seamless, instant access from the safety of consumers' homes. It helps reassure consumers on the safety of their finances, enables them continue their day-to-day financial requirements.

Banks that recognise and cater to these fundamental needs have an opportunity to not just retain consumer trust, but to potentially shape how we conduct our lives and business in the new normal. The real test for banks going forward, including Emirates Islamic, is to continue to innovate and strengthen their digital ecosystems, to listen, learn and create deeper trust among consumers.

With a deep-rooted legacy in the Shari'a values of supporting the community, risk-sharing and nurturing trust, we believe this brings a unique window of opportunity for Islamic banks to capitalise on. As the world turns a new page and consumers explore new ways of doing things, we look ahead to the future with optimism and confidence.



A white paper on the Findings of the
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