

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The banking sector serves as the backbone of any economy and can be bifurcated into two broad categories, i.e., conventional banking and Islamic banking (Fadoua & Brahim, 2020). Conventional banking is an established banking system all over the world, while the development of Islamic banking is still in its early years. Conventional banking stands as a strong competitor, and Islamic banking is considered a newcomer (Novikov *et al.*, 2020). Generally, it is believed that the Islamic banking system applies to Muslims only; however, this system works efficiently for both Muslims and non-Muslims. Individuals who intend to switch from conventional banking to Islamic banking find it a difficult decision as a result of a long relationship with the conventional bank service providers and limited information about the Islamic banking service providers. Despite challenges, Islamic banks are attracting considerable attention globally, especially to those customers that are prescribing to shariah-compliant products (Khan, 2019). However, limited research is found on customers' switching decisions from conventional banking to Islamic banking.

This introductory chapter sheds light on the subject and purpose of the study. It introduces, justifies, and positions the research within the existing literature. It begins with the background of the study, followed by the challenges of Islamic banking in Oman, the research problem, the research objectives, the research questions as well as the scope. It articulates the potential contribution of the existing body of knowledge, the practitioners, and regulators. It concludes with the organization of the thesis.

## 1.2 Background of study

The emergence of Islamic finance system has shifted the models of financial services from the setup of conventional banking. Countries that have implemented the Islamic banking system are taking imperative benefits out of it and can capture a significant range of shares in the financial market across the globe. The sources of these Islamic Banks (IBs) are the Holy Quran and Shariah, which prohibit charge or pay interest, and forbid investment in speculation business of any form or prohibited businesses, i.e., alcohol, gambling, and manufacturing weapons. The inclusion of interest in conventional banking has been a barrier for most Muslims from opening a bank account and taking part in economic transactions (Iqbal & Mirakhor, 2007).

The Holy Quran has set a clear jurisdiction on this matter, in which,

As for those who devour interest, they behave as the one Satan has confounded with his touch. Seized in this state, they say: "Buying and selling is but a kind of interest," even though Allah has made buying and selling lawful and interest unlawful. Hence, he who receives this admonition from his Lord and then gives up (dealing in interest) may keep his previous gains, and it will be for Allah to judge him. As for those who revert to it, they are the people of the Fire, and in it shall they abide (al-Baqarah 275-281).

Due to this, Islamic banking is welcomed by the majority of the masses in Muslim countries, which leads to the growth of Islamic finance. Products and services of an Islamic bank are primarily reviewed and approved by a team of highly prestigious and religious experts in the form of a committee comprising of Shariah scholars that discusses, reviews, identifies, and approves the rules and regulations for the whole Islamic banking system. For example, an Islamic Bank may purchase a house and then sell it to the buyer at a fixed price, including a premium over and above the amount the bank has paid, payable by the buyer in the form of installments with a maturity in 15 to

30 years. This is an unlikely setup for the conventional bank that lends a specified amount to the buyer on a certain interest rate and predefined time. Out of these two, the former is permitted in the religion (Mawdudi, 2011).

The Holy Quran also states, “Believers! Be afraid of Allah and give up all outstanding interest if you do truly believe” (al-Baqarah, 278). The purpose of Islamic banks is to establish a system of equitable distribution and circulation of wealth to promote social justice, satisfy customers' needs in line with Shariah rulings, provide investment opportunities, and enable a vast majority of masses to take advantage of banking services. Increased reach to the masses will further enhance the multiplier effect, which will promote wealth creation and justice. Islamic banking allows shared propensity through its products and services, which allowance has a deep impact on economic growth and capital provider for businesses. The nature of the Islamic banking system is normative to comply with the guidelines provided in the Holy Quran and Shariah, and to promote the well-being of all communities. The basis of Islamic banking is laid upon the principle of risk-sharing over risk-transfer through debt, prohibiting social and economic exploitation, emphasizing ethical standards, promoting moral and social values as well as rewarding enterprise (linking risk and reward), which will boost shared-prosperity (Iqbal & Llewellyn, 2013).

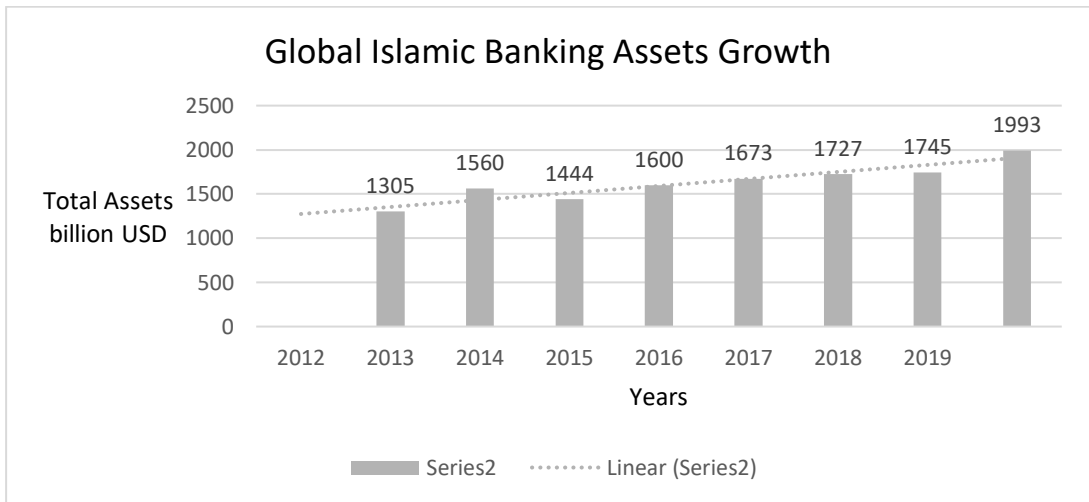
The Organization of Islamic Cooperation (OIC) was established in 1969 and currently has 57 member countries, the majority of which are Muslims. OIC is the second largest inter-government organization after the United Nations, responsible for safeguarding the voice of 1.5 billion Muslims. The members' countries belong to four continents (Al-Qureshi, 2010). The Islamic Banks in OIC witnessed an increase in their market share over the years to about 40 percent in 2014-2015 (Sun *et al.*, 2016). Islamic

banks are contributing to financial inclusion as well as providing avenues for the diversification of banking services.

Currently, Islamic banks have a limited size and representation. However, countries have been experiencing an increasing trend over the years. Experts predict that the Islamic banking system will grow at a rate of 20 percent in the next coming years. The Islamic banks' system was first initiated in the village of Mit Ghamr in Egypt in 1963. It now stands with more than 300 Islamic financial institutions spreading across 50 economies around the globe, including Muslim and non-Muslim countries. The assets base of these Islamic financial institutions is estimated at close to \$1.9 trillion (Novikov *et al.*, 2020).

Over the past decades, the Islamic finance sector has shown significant growth. In 2017, Shariah-compliant assets reached a total value of 2.44 trillion USD from 200 billion USD in 2003. Currently, approximately 1400 Islamic financial institutions are operating across 80 countries. The global assets of Islamic banking reached 1.72 trillion USD till 2017, and there are around 505 Islamic banking operating, including windows, with a 6 percent share in total global banking assets (Salaam Gateway, 2018).

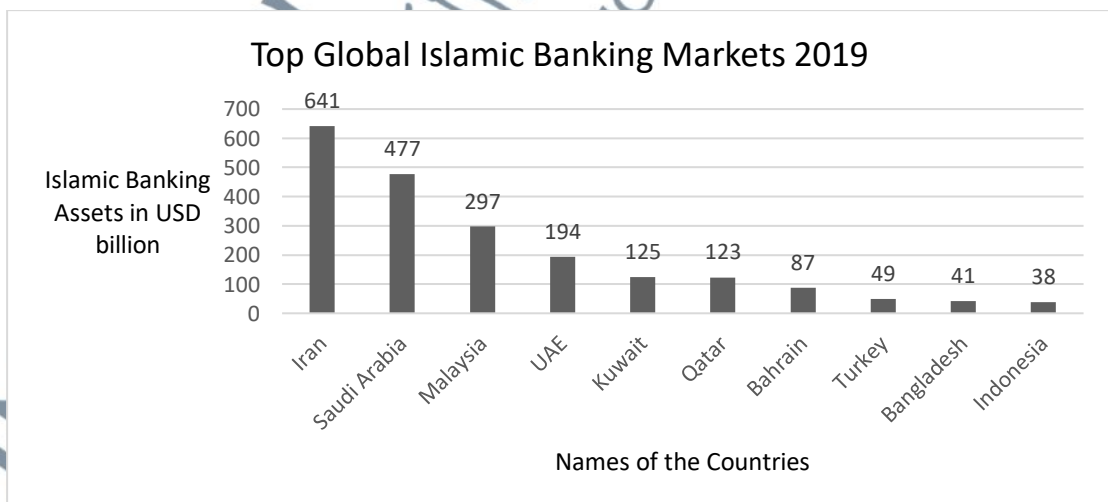
Figure 1.1 describes the global assets of the Islamic finance system trend from the year 2012 to 2019. The analysis shows an upward moment showing the growth of global Islamic banking assets in billion USD over the period.



Source: Mohamed *et al.* (2020)

**Figure 1.1:** Global Islamic Banking Assets Growth 2012-2019

Figure 1.2 illustrates the top global Islamic banking markets, which shows that Iran owns the largest market share of Islamic banking globally, followed by Saudi Arabia, Malaysia, UAE, and Qatar. Islamic banking is the largest sector in the Islamic finance industry; it contributes 71% and 1.72 trillion USD of the industry's assets (Global Newswire, 2019).



Source: Mohamed *et al.* (2020)

**Figure 1.2:** Top Global Islamic Banking Market 2019

### 1.2.1 Global Perspectives of Islamic Finance

The growth of Islamic banking is seen in different continents such as Africa. For example, South Africa, Nigeria and Kenya have made considerable progress in Islamic banking and finance growth. There is also a huge opportunity for Islamic banks to set up in the African continent due to the majority of the Muslim population and their growing demands for banking services. In Nigeria, the economy possesses one full-fledged Islamic bank and few Islamic banking windows operating in the country. Kenya, on the other hand, has two full-fledged Shariah-compliant banks in operation. In East Africa, the Government of Uganda approved the Financial Bill in 2015 to pave the way for Islamic banking and finance. Simultaneously, in the Asian continent, Bangladesh and Indonesia have also shown key potential for growth. Bangladesh is the third-largest Muslim country globally, and its industry has doubled in size in the past four years. The country has seven standalone Islamic banks and 16 conventional banks with Islamic banking windows. Indonesia has the world's largest Muslim population, with 12.7 percent of the world's Muslims. The country has a vision for Islamic banks to hold at least 15 percent of the market by 2023. Nonetheless, European countries such as the United Kingdom (UK) and Germany also show heightened activities in the banking industry. There are more than 20 banks currently offering Islamic financial products and services in the UK. Similarly, Germany has also introduced its first full-fledged Islamic bank in Frankfurt under the name KT Bank AG (Islamic Financial Services Board, 2017).

The emergence of Islamic finance has stirred up and created a new dimensional range to economic growth. Iran has the largest global Islamic banking assets with 34.4%, Saudi Arabia with 20.4%, United Arab Emirates with 9.3%, Malaysia with 9.1%, Kuwait with 6%, and Qatar with 6%, while most of the Asian countries reported

a growth rate between 10% to 20%. In contrast, the Gulf Cooperation Council (GCC) economies are feeling the strain from the persistently low oil prices. Islamic banking growth is recorded below 4 percent (Islamic Financial Services Board, 2018).

Regardless of the high growth of Islamic banking over the past few years, the industry still faces considerable challenges, such as lack of human capital, a dearth of products and services, and other significant services like conventional banks. The industry also faces a shortage of qualified bankers and professionals who are well-versed in Islamic banking laws as well as contemporary economics and finance. The standardization and harmonization of Shariah laws are considered as another challenge. There are differences in opinions and interpretations of classical Islamic texts. Due to the lack of standardized laws, policies, and procedures, the customers perceive the Islamic banking system as complex compared to conventional banking. More unification and consolidation are required to strengthen the Islamic banking industry. Another challenge is the lack of public awareness and knowledge of Islamic banking, and people still find difficulty in understanding the terms and procedures used in Islamic banking (Iqbal & Llewellyn, 2013).

### **1.3 Banking Sector in Oman**

The foundation of Islamic banking is based on Shariah, and the basic source of Shariah is the Holy Quran. All the jurists and Islamic law interpreters consensually followed this foundation, of which the Shariah strictly prohibits *riba* and that is the main pillar of Islamic banking (Hassan *et al.*, 2020). The Government of Oman has attempted to diversify its economy from the oil sector to the non-oil sector. In response to Oman's 9<sup>th</sup> (five years) development plan, several industry segments are expected to experience accelerated growth during this period (Al Rahbi, 2017). The imperative industry

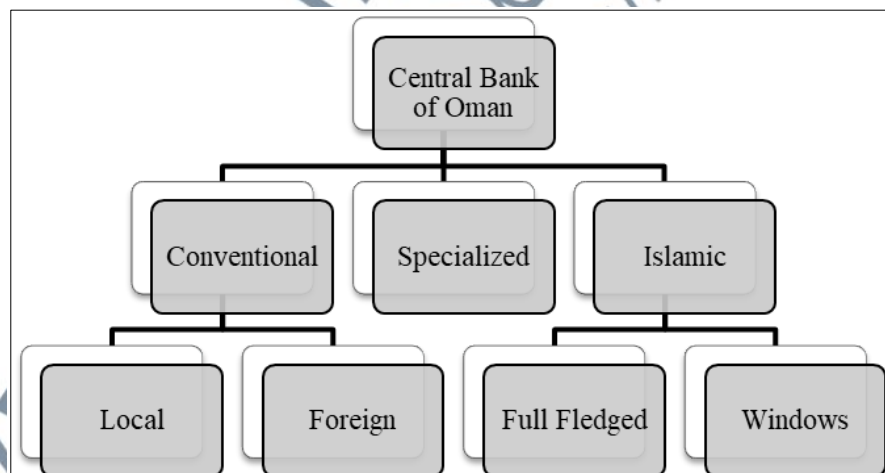
segments include healthcare, education, residential housing, retail, and banking and financial sector. The Sultanate of Oman has successfully implemented various initiatives to enrich Oman with modern infrastructure, diminishing reliance on petroleum revenues, and developing better employment opportunities for its people. This revolutionary framework is known as "Oman Vision 2020," with a detailed road map to achieve the objectives through several programs (Saxena & Al-Tamimi, 2017).

The Omani Cabinet announced the decision of permitting the opening of the Islamic banking local window in Omani banks. In 2012, the Central Bank of Oman (CBO) established the Islamic Banking Regulatory Framework (IBRF) to undertake Islamic banking activities by setting up full-fledged Islamic banks or Islamic banking windows of the conventional banks. The purpose of IBRF is to define the role of financial institutions in the market. IBRF covers almost all areas of the regulatory requirements, from providing licensing to rules and guidelines, which are the application for the full-fledged Islamic banks and the windows. It is supervised by CBO and Shariah governance to ensure that the Islamic banking operations in Oman are Shariah-compliant (Central Bank of Oman, 2019). All the listed banks have announced their involvement and interest in setting up Islamic windows. Further, two full-fledged Islamic banks are established to operate solely.

Oman is also a member of OIC and has witnessed a growth of Islamic Banks (IBs), despite being recent entrants in the banking sector with a substantial amount as a total customer deposit with IBs. A considerable increase was registered and witnessed through IBs' windows, i.e., from 0.4 billion OMR at the end of September 2014 to 1.3 billion OMR in September 2015 (approximately one-year progress). Collectively speaking, the total assets of IBs and their windows amounted to 2 billion OMR at the end of September 2015. Total assets base banking system constituted a 6.5% growth

(Central Bank of Oman, 2017a), followed by 11.6%, and reached the height of 3.6 billion OMR with IBs total asset of 2.7 billion OMR by the end of June 2017 (Central Bank of Oman, 2017b).

The Central Bank of Oman was established in 1974 and started its full operations actively beginning April 1, 1975. The bank initiated its operations with a capital base of 1 million OMR, which reached 500 million OMR in 2014 (The Business Year, 2014). The Central Bank of Oman is responsible for supervising, circulating, issuing, and maintaining the external and internal value of the currency (i.e., Omani Rial or OMR), regulating its banking sector and investment companies. Thus, the role of the Central Bank of Oman is that of a single integrated regulatory authority for aligning the overall financial services of the Oman banking industry, which encompass specialized banks, leasing companies, money exchange houses, and conventional banks (Central Bank of Oman, 2017a). Figure 1.3 describes the advent of the Islamic Banks in Oman.



Source: Bhandari (2014)

**Figure 1.3:** Oman Banking Landscape: Post-Islamic Banks Advent

According to Figure 1.3, the Central Bank of Oman is comprised of three main categories, including conventional, Islamic, and specialized banks, out of which conventional banks are further bifurcated into local and foreign banks, while Islamic banks are divided into full-fledged banks and Islamic bank windows.

#### **1.4 Oman's Islamic Banking Industry**

Oman is the new entrant in the Islamic banking and finance industry, established on December 6, 2012, in which a Royal Decree was issued to amend the former banking law of Oman, which includes 120 articles. In Banking Law 2000, a revision of 1974 under the 'Islamic banking' section, new amendments were included through six additional articles, i.e., 121, 122, and 123. These articles regulate the general provisions related to the legal framework, advisory, and supervision mechanisms of Islamic banking. The Board of Governors of the Central Bank of Oman is required to set the regulations and guidelines for associated actions to be followed by Islamic banks in Oman. The Central Bank of Oman has the authority to issue the license of full-fledged Islamic banks and Islamic windows in the existing conventional banks. Similarly, articles 124 and 125 discuss the type of transactions of Islamic banks, which should not violate the provision of Islamic Shariah rulings. On the other hand, article 26 regulates the basis of Shariah's supervision of Islamic banking (Supreme Council of Planning, 2016).

The Islamic Banking Regulatory Framework issued by the Central Bank of Oman serves as a guide to regulate Oman's emerging Islamic finance and banking industry. The Central Bank of Oman, in December 2012, established 'The High Shariah Supervisory Authority (HSSA)' to provide opinion and advice to the Central Bank of Oman to regulate and legitimate aspects of Islamic banking. The HSSA also expresses

opinions on the transactions conducted between the Central Bank of Oman and other licensed banks operating in Oman. The HSSA is a completely independent authority to issue decisions that fall under its competence and jurisdiction, and all Shariah Supervisory Committees are bound to accept the decision of the HSSA. The HSSA commenced its operation at the beginning of the year 2015. A team of bankers was formed to oversee and monitor Oman's Islamic finance and banking sector. Similar to the arrangements made by other Islamic countries, such as Pakistan, Morocco, Nigeria, and Malaysia, Oman has also established a centralized Shariah board with a total of five members to oversee and monitor Islamic banking institutions directly. The HSSA convened for the first time in the year 2015. Until present, the Central Bank of Oman has issued licenses to two full fledge Islamic banks and an additional six windows of Islamic banks operated through conventional banks (Islamic Financial Services Board, 2018).

The banking system of Oman is divided into three main sectors, as indicated in Table 1.1. The first sector is composed of local conventional banks operating in Oman. The second sector consists of the foreign banks operating in Oman, where branches of different foreign banks have opened their offices in Oman. Lastly, the third sector encompasses a specialized sector that contains only two specialized banks. Like all other countries, the banking sector of Oman is controlled by the Central Bank of Oman, which also regulates interest rates, issuance of bonds, and notes in the country. In 2015, the combined total assets of Omani banks reached the amount of 73 billion USD, which is the smallest in the GCCs. The first Islamic bank began its operations in January 2013, and by the end of the year, the assets of Islamic banking reached 3.5% of the total banking assets of the country, which was recorded as remarkable. By the mid of 2014, Shariah-compliant banking assets were estimated at 4.4%, with a total value of \$2.78

billion (1.07 billion OMR). According to ICD-Thomson Reuters Islamic Finance Development Indicator, Oman's Islamic finance industry is ranked third globally, which stands after Malaysia and Bahrain. The Islamic finance industry in Oman shows a growth momentum in terms of an increase in both deposits and finance. Thus, the Islamic banking sector experiences consistency due to the growth of Islamic finance that is supported by Islamic windows operating through a strong conventional bank in the Sultanate. In June 2014, the net revenue generated in the Islamic finance sector realized a remarkable growth, which was 16.6 billion OMR, a growth of 147% Year-Over-Year (YOY) from 6.7 billion OMR in June the previous year.

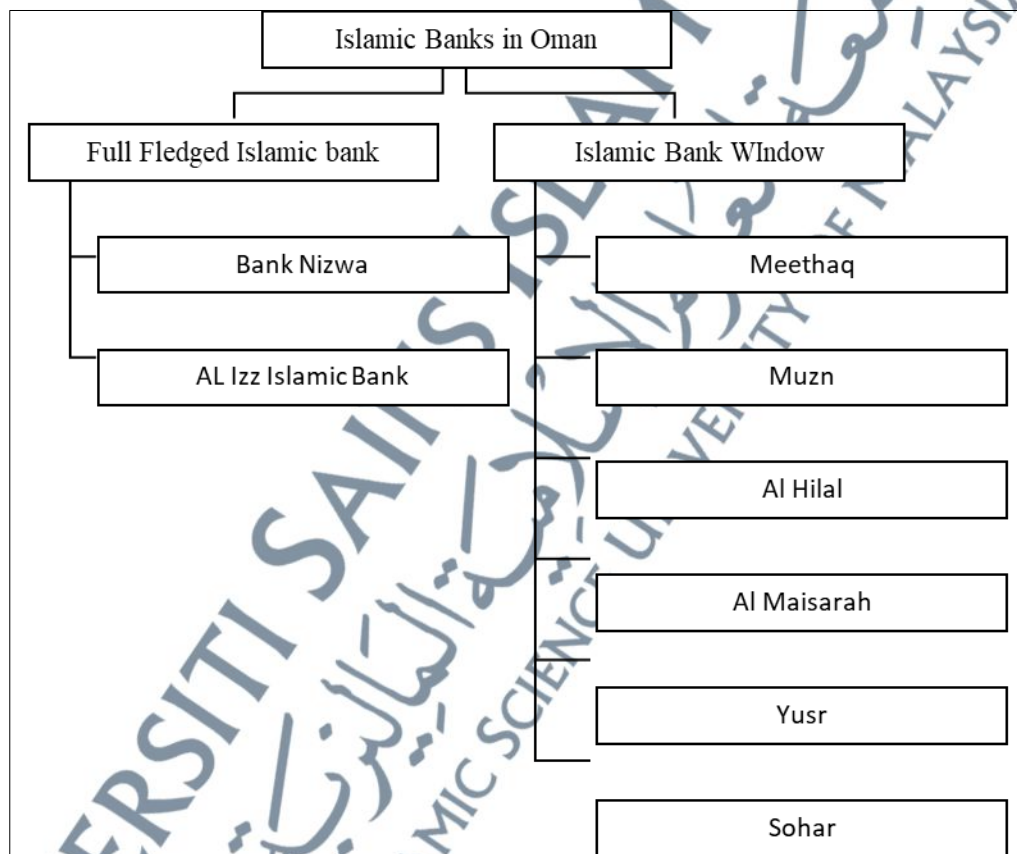
**Table 1.1:** Banking Sector in Oman

| Licensed Banks in Oman |                        |   |                     |                            |                       |
|------------------------|------------------------|---|---------------------|----------------------------|-----------------------|
| S. No.                 | Local Commercial banks | Islamic Banking Windows                         | Local Islamic banks | Foreign banks              | Specialized banks     |
| 1.                     | Bank Muscat            | Meethaq Islamic Banking (Bank Muscat)           | Bank Nizwa          | Bank Melli Iran            | Oman Housing Bank     |
| 2.                     | Bank Dhofar            | Maisarah Islamic Banking Services (Bank Dhofar) | Alizz Islamic Bank  | Bank of Baroda             | Oman Development Bank |
| 3.                     | National Bank of Oman  | Muzn Islamic Banking (National bank of Oman)    |                     | Bank Saderat Iran          |                       |
| 4.                     | Oman Arab Bank         | Al Yusr (Oman Arab Bank)                        |                     | Habib Bank Ltd.            |                       |
| 5.                     | Bank Sohar             | Sohar Islamic (Bank Sohar)                      |                     | National Bank of Abu Dhabi |                       |
| 6.                     | Ahli Bank              | Al Hilal Islamic Banking (Ahli Bank)            |                     | Standard Chartered Bank    |                       |
| 7.                     | HSBC Bank Oman         |   |                     | State Bank of India        |                       |
| 8.                     |                        |   |                     | Bank of Beirut             |                       |
| 9.                     |                        |   |                     | Qatar National Bank        |                       |

Source: Islamic Finance News (2018)

By the end of the year 2013, there were 32 branches of Islamic banks in Oman, with total finance activities used by Islamic banks expanded to 433.9 million OMR and total deposits calculated at 171.9 million OMR. The other capital and reserves increased up to 328.1 million OMR at the year ending (Oxford Business Group, 2015). Lastly, the dual banking system was introduced in Oman in 2011. As such, there are two full fledge Islamic banks and six Islamic banking windows.

Figure 1.4 indicates the bifurcation of Islamic Banks operating in Oman.



**Figure 1.4:** Islamic Banks in Oman

Table 1.2 provides further details of these Islamic banks in terms of their names and dates of establishment.

**Table 1.2:** Names of Banks and Date of Establishment in Oman

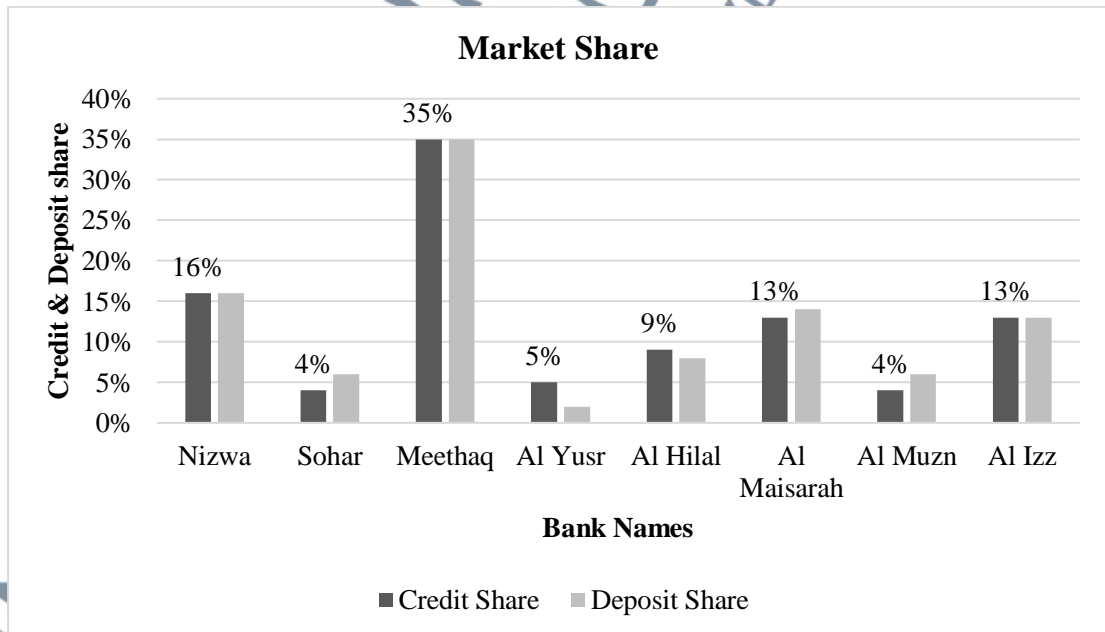
| Names of Banks | Date of Establishment |
|----------------|-----------------------|
| Nizwa          | 2012                  |
| Sohar          | 2013                  |
| Meethaq        | 2013                  |
| Al Yusr        | 2013                  |
| Al Hilal       | 2013                  |
| Al Maisarah    | 2013                  |
| Al Muzn        | 2013                  |
| Alizz          | 2013                  |

Source: Central Bank of Oman (CBO)

**Table 1.3:** Banking Indicators in Oman

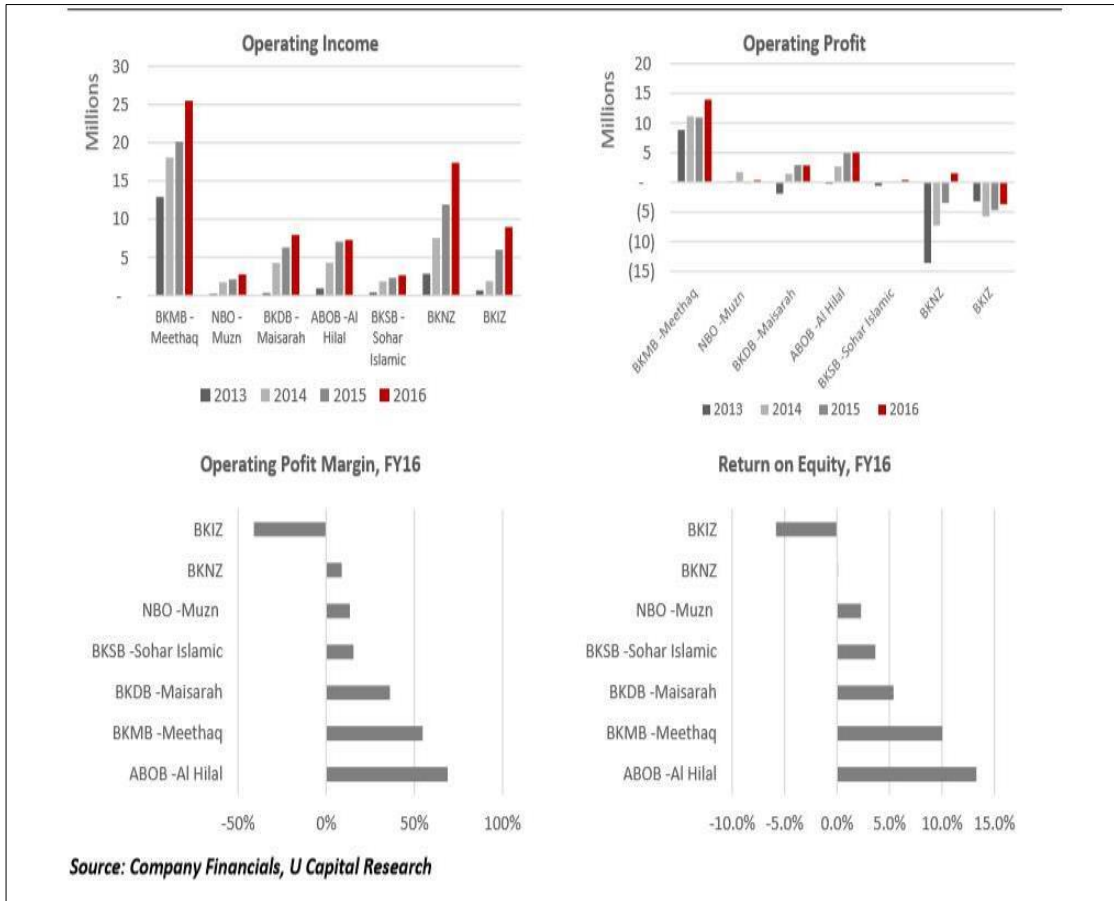
| Year               |                 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------|-----------------|------|------|------|------|------|
| Conventional Banks | No. of Branches | 493  | 469  | 468  | 470  | 436  |
|                    | ATMs            | 1071 | 1053 | 1088 | 1109 | 1288 |
| Islamic Banks      | No. of Branches | 32   | 46   | 60   | 70   | 76   |
|                    | ATMs            | 29   | 43   | 50   | 72   | 79   |

Source: CBO Annual Report (2017)



Source: Karmani & Zia (2017)

**Figure 1.5:** Oman Islamic Banking 2017



Source: Karmani & Zia (2017)

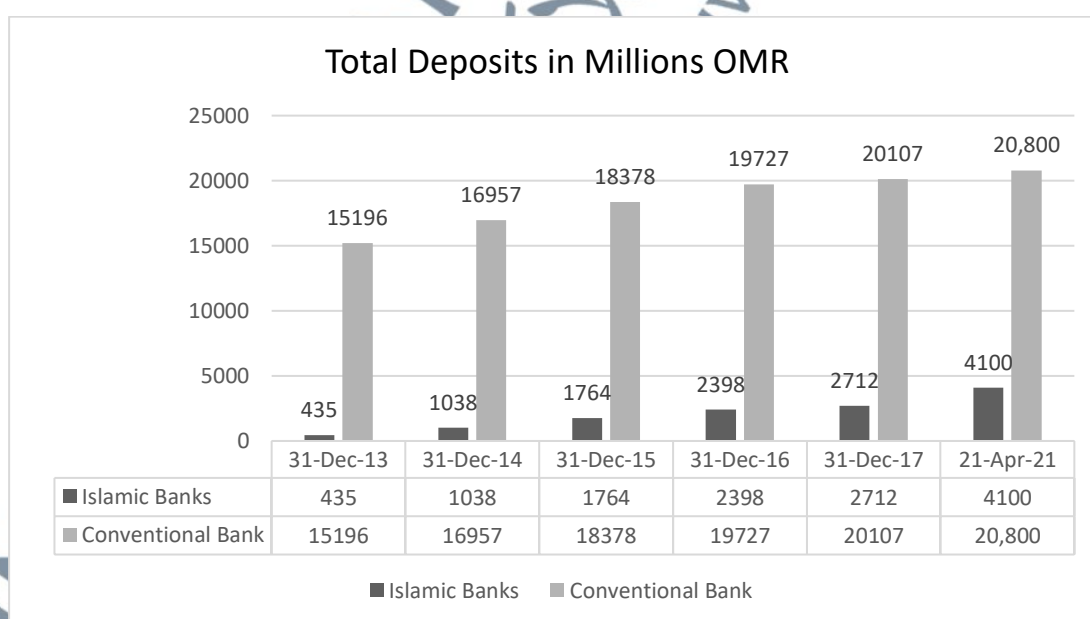
**Figure 1.6: Profitability in Islamic Banks in Oman**

The above indicators of Islamic banks show that Islamic bank windows are more profitable and efficient compared to full-fledged Islamic banks. The Central Bank of Oman has given a mandate to each conventional bank operating in Oman to open exclusive Islamic banking branches. Currently, all the Islamic banks' windows are utilizing the support services to operate from conventional banks. These support services include human resources, workplace, utility services, and IT services. Full-fledged Islamic banks are required to spend a huge amount in the first few years of their operation to develop their infrastructure as well as to train their human resource. Islamic banks' windows operating through conventional banks are taking advantage of various

services of conventional banks such as ATM, CDM, online banking, and mobile banking. For example, a customer of Meethaq Bank can easily avail of the facilities offered by Bank Muscat to its customer. In contrast, Bank Nizwa (an Islamic bank) needs to start from scratch to provide all these services to its customers. Therefore, the services and facilities offered by the conventional bank become an attraction to the customers, and sometimes customers prefer the banks offering extended services or better infrastructure like ATM and CDM (Karmani & Zia, 2017).

**Table 1.4:** Deposits of Islamic Banks and Conventional Banks in Oman

| Date        | Islamic OMR Million | Conventional OMR Million |
|-------------|---------------------|--------------------------|
| 31-Dec-13   | 435                 | 15196                    |
| 31-Dec-14   | 1038                | 16957                    |
| 31-Dec-15   | 1764                | 18378                    |
| 31-Dec-16   | 2398                | 19727                    |
| 31-Dec-17   | 2712                | 20107                    |
| 21-Apr-2021 | 4100                | 20,800                   |



Sources: Mohammed & Alam (2020), Times of Oman (2021)

**Figure 1.7:** Financing of Islamic Banks and Conventional Banks in Oman

#### 1.4.1 Islamic Banking Retail Products in Oman

This section details the Islamic banking products and services offered by the banks in Oman. The Omani market has opened up to Islamic or non-interest Islamic banking. Islamic financial system is concerned with fairness and equity among all parties in agreement (i.e., bank and the employee). Islamic banks fundamentally believe that any transaction based on interest is inherently unfair and guaranteeing the lenders returns without any guarantees for the borrower is not equitable. The Islamic banking principle is based upon the risk-sharing between the bank and the customer with the obligation to profit and loss sharing. Further, there are various Islamic finance concepts such as *Mudarabah* (profit sharing), *Musharakah* (partnership), *Murabaha* (cost plus), and *Ijarah* (leasing), in which Islamic financial institutions have a great deal of creativity, capability, and choice of creating financial products and offer them to the customers of Islamic banking. Additionally, Islamic banking sets a high standard for investment, promotes greater accountability and mitigation of potential risks to strengthen the need for transactions to be supported by true trade or business-related activities.

Table 1.5 shows the retail finance products that Islamic banks in Oman offer.

**Table 1.5: Retail Banking Products in Oman**

| <b>Retail Finance Products Islamic banks offering in Oman</b> |   |  |  |   |                     |
|---|---|--|--|---|---------------------|
| <b>Names of Banks</b>   | <b>Products</b>                             |  |  |   |                     |
|   | <b>Accounts</b>                             | <b>Car Finance</b>                       | <b>Home Finance</b>                              | <b>Personal Financing</b>               | <b>Credit Cards</b> |
| <b>Nizwa</b>  | Current, saving, <i>Modaraba</i> investment | <i>Murabaha</i>                          | <i>Ijarah</i> /<br><i>Murabaha</i>               | <i>Ijarah</i> /<br><i>Murabaha</i>      | DM                  |
| <b>Sohar</b>  | Current, saving, term deposit account       | ND                                       | ND   | ND                                      | NO                  |
| <b>Meethaq</b>  | Current, saving, fixed deposit account      | <i>Murabaha</i>                          | DM   | NWA                                     | <i>Ujrah</i>        |
| <b>Al Yusr</b>  | Current, saving, fixed deposit account      | <i>Murabaha</i> / <i>Ijarah</i>          | DM   | NWA                                     | NO                  |
| <b>Al Hilal</b>   | Current, saving, term deposit account       | <i>Murabaha</i> / <i>IBM</i> / <i>DM</i> | ND   | ND                                      | ND                  |
| <b>Al Maisarah</b>  | current, saving, Ameen investment Account   | <i>Murabaha</i>                          | <i>Ijarah</i>                                    | ND                                      | ND                  |
| <b>Al Muzn</b>  |   | <i>Murabaha</i>                          | IMB / sale and Lease Forward Back for Conversion | NO                                      | NO                  |
| <b>Alizz</b>  | Current, saving                             | <i>Murabaha</i>                          | <i>Ijarah</i>                                    | Service <i>Ijarah</i> / <i>Murabaha</i> | <i>Murabaha</i>     |

\*NO - Product Not Offered

\*\* ND - Product offered on the Bank's Website/press, but underlying Shariah contract Not Disclosed

\*\*\* NWA - No website available

DM - Diminishing *Musharaka*

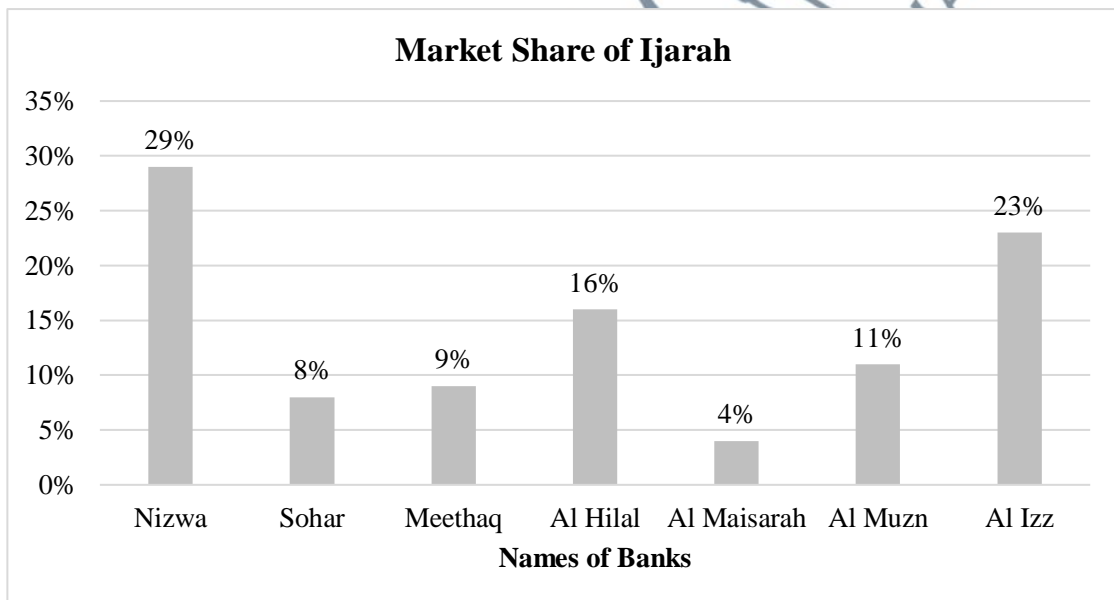
IMB - *Ijarah Muntahia Bi Tamlik*

Source: Karmani & Zia (2017)

#### 1.4.1.1 Ijarah

An *Ijarah* is a lease contract in which an object or service is leased by transferring the usufruct (*manfaa*) for the use of the object or the service to a person (customer) for rent consideration. The rental consideration amount must be a fixed value, either paid by lump sum or through installments. It is also essential that the term

of the lease must be clearly determined and mutually agreed upon by both parties. The rent may increase or decrease during the lease period as far as parties are aware, while the amount is specified and contractually fixed at the start of the agreement. The lessor is entitled to collect its rent as long as the lease agreement is enjoying the usufruct of the leased asset as specified in the agreement, but not after the lease has been terminated. However, the structural maintenance of the asset and correlative obligations remain the responsibility of the lessor as specified in the lease agreement, but not after the termination of the lease. The *Ijarah* process, such as for vehicles, is used both for the property and the equipment.



Source: Karmani & Zia (2017)

**Figure 1.8:** *Ijarah* Share FY 2016

Figure 1.8 indicates the *Ijarah* product share owned by the different Islamic Banks in Oman.

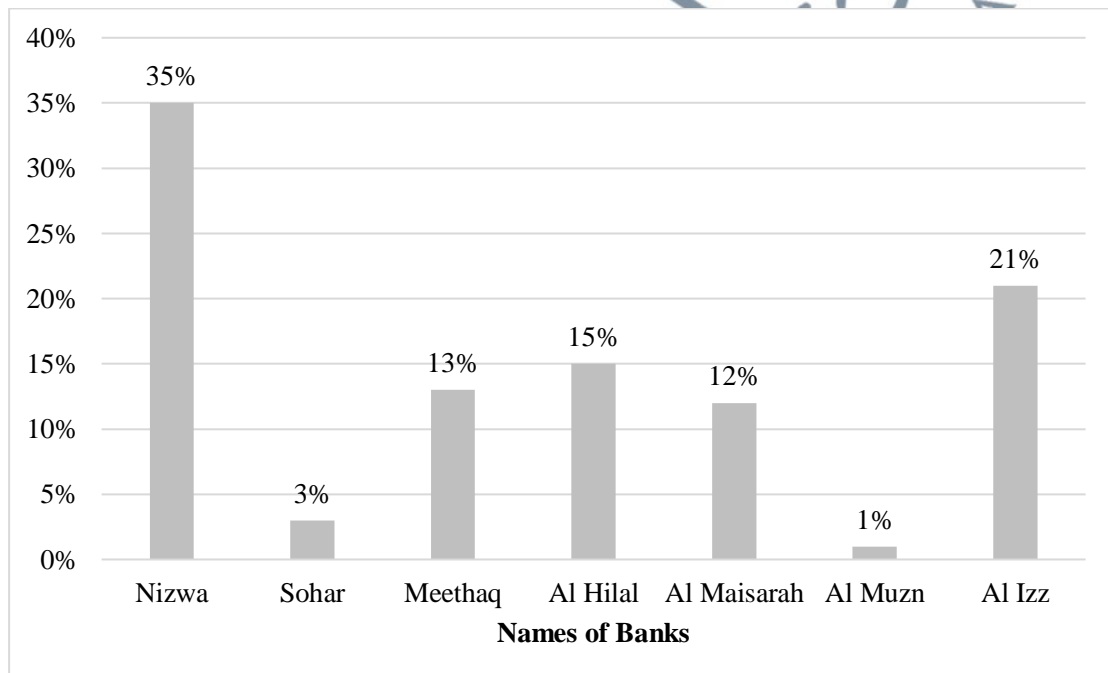
#### 1.4.1.2 Murabaha

*Murabaha* financing is the most popular Islamic finance concept used by the majority of Islamic banks in Oman. *Murabaha* is an Islamic finance mode where a bank institution funds the needed purchase, then buys it before selling it at a profit to a third party. *Murabaha* is also termed as corporate asset support or cost-plus financing. *Murabaha* Islamic finance does not include a profit. The guiding philosophy of the concept is to offer the needed service, good, or commercial right (Khan, 2019, p.5). Under this arrangement, the Islamic bank buys goods from the manufacturer and sells them to the client on an installment basis at a price that covers their cost and the mark-up. Early Islamic jurists such as Imam Malik (796) and Imam Shafi (820) approved *Murabaha* sales. Later on, Sarakhsi (1091) and Mrghinani (1197) permitted higher prices of *Murabaha* sale as a normal practice in trade (Saadullah, 1994; Vogel & Hayes, 1998).

As a mode of interest-free financing, *Murabaha* has been adopted by almost all the Islamic banks in Oman and other Islamic countries. Usually, *Murabaha* is used to finance the purchase of the real estate, consumer goods, raw materials, and machinery. The mechanism behind the process is when someone buys something or owns it and then re-sell it for a higher price, out of which he/she may collect the payment by installment or through a lump sum (Moisseron *et al.*, 2015).

In *Murabaha*, the bank must possess full ownership of the property or object. At the time of sale, the object must be in constructive possession, which means the seller has assumed all liabilities and obligations of the ownership and the possession (McMillen, 2012). In the case of *Murabaha*, the property or object is registered under the customer's name at the beginning of the contract. The title and ownership of the property are in the purchaser's name from the time of the initial transfer of possession

to pursue the *Murabaha* agreement. This transaction usually includes the buyer, seller, and bank. The buyer identifies the property and negotiates the contract with the seller but does not execute the contract. Rather, he goes to the bank for financing. Upon the bank's approval of the property purchase contract or any other object, the bank executes the contract and purchase the pursuant to that contract for the purchase price. Subsequently, the bank sells the property back to the purchaser per the *Murabaha* agreement initiated between the two. The purchaser pays the finance amount in installment as outlined in the *Murabaha* agreement (Hassan *et al.*, 2020).



Source: Karmani & Zia (2017)

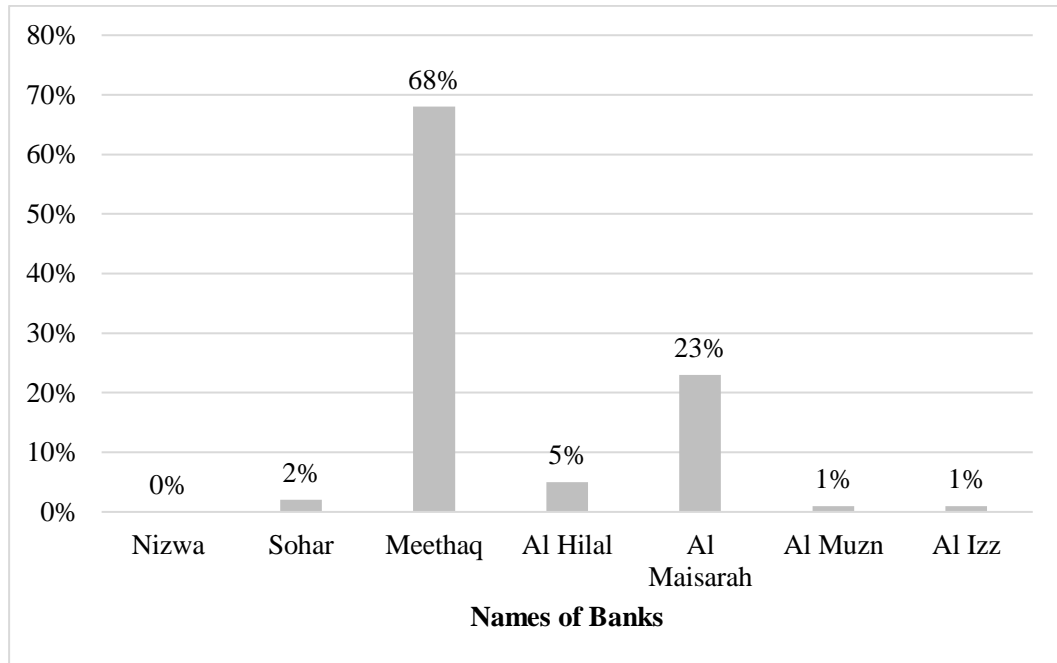
**Figure 1.9:** Murabaha Market Share by Islamic Banks of Oman FY 2016

#### 1.4.1.3 Musharakah

Language-wise, *Musharakah* means sharing, which connotation is different in the business context, as *Musharakah* refers to a joint enterprise where parties involved in an agreement share both loss and profit of the enterprise (Iqbal & Khan, 2005). The

financial instrument of *Musharakah* plays a very important role in the Islamic banking and finance industry in contemporary society since it offers a significant alternative to the industry. The principle of *Musharakah* states that the parties involved in investing capital in a business enterprise share the profits as well as loss proportionately with respect to the invested capital (El-Gamal, 2006). In Oman, Meethaq (Bank) offers diminishing *Musharakah* on house financing. Practically, the process of *Musharakah* works, as explained here.

In the diminishing *Musharakah* structure, the homebuyer identifies a property to be purchased followed by the negotiations for the purchase of home agreement with the seller, i.e., the third party. Then, the homebuyer will return to the bank for financing, and the bank must accept the home purchase agreement. Upon acceptance of the agreement by the bank, the bank and the homebuyer will enter into a *Musharakah* agreement and form a partnership to acquire the property. This *Musharakah* property covers various aspects of property purchase, such as property acquisitions, use, and financing. It provides for the purchase of the bank's interest in the *Musharakah* by the homebuyer over time. The capital contribution of the homebuyer to the *Musharakah* will be considered as the down payment, and it receives its equity interest in the *Musharakah* (*hissas*). The bank then contributes the remaining amount of the purchase price of the property as financing. Thus, the bank leases the property right, title, and interest on the property to the home buyer. Figure 1.10 exhibits the Islamic bank-wise *Musharakah* share in the banking industry of Oman for the year 2016.



Source: Karmani & Zia (2017)

**Figure 1.10:** Musharakah Market Share FY 2016

### 1.5 Sultanate Business Environment and Islamic Banking Opportunities

Oman's economic growth prospects are promising to take into account the pace of economic diversification, sustained domestic demand, the increasing role of the private sector, and the government's large, planned expenditure as well as accommodative monetary policy. Omani banks are known to operate in one of the best-regulated frameworks among the Gulf Cooperation Council (GCC) countries. As a result of comprehensive and adequate regulations, Omani banks are significantly contributing to the quality of assets and capital adequacy as compared to other GCC countries. In addition to that, the geographical location of Oman also supports and encourages the trade and commerce activities at the western shore of the Gulf of Oman, which links to the Arabian Sea to the Strait Hormuz (Salim & Al Ani, 2015). Therefore, Oman stands as a crucial and significant transit point of crude oil globally. Due to its significant position, Oman is successful in attracting foreign expatriates from across the

globe, resulting in a population of foreign workers as high as 44%. The native population of Oman is composed of relatively young people in the age range of 20 - 34 years, constituting 42% of the total population. This young generation contributes considerably to the growth of the Islamic finance system. Speaking about the trade of Oman, the exchange rate of Omani Rial is very strong, which is more than double that of USD: 1 OMR is about 2.6 USD (Islamic Financial Services Board, 2018). This indicates the stability of the Omani economy.

Oman stands as one of the high-income countries, having a GDP of 79,279 million USD in 2018, which is ranked 4<sup>th</sup> after UAE, Kuwait, and Saudi Arabia among the GCC countries. Further, according to the 2017-2018 World Economic Forums, Oman has experienced a moderate inflation rate of 2.6% since 2000. The Government of Oman has announced various incentive schemes for the private sector organization in Oman to enhance the growth and diversification of the country's economy, and this stands out to be a key to Islamic finance development in the Omani Sultanate (Manzoor, 2013). For example, to encourage and boost foreign direct investment in the country, the government has offered foreign capital incentives. In addition to the above, the Omani Government also offered other incentives to promote investment and development in the private sector organizations, which included tax incentives, subsidized loans, administrative benefits, and land in industrial and free-trade zones. Further, to promote industrial diversification other than its oil industry, the Omani Government offers administrative benefits to support the development of the industrial sector. As a result of all this and special policies to address the private sector business needs, it is considered easy to start a business in Oman as compared to in other GCC countries. Thus, Oman has been ranked 4<sup>th</sup> in terms of starting a business after Bahrain, Saudi Arabia, and UAE. Besides, Oman stands 5<sup>th</sup> among the top ten most developed

Islamic countries, with Malaysia ranked on the top position, though Oman experiences a marginal decrease in employment which is 58 percent of employment to population ratio. In Oman, the majority of the employment population is male dominant, comprising 82 percent of the adult male population (Salim & Al Ani, 2015).

From an economic perspective, the Sultanate of Oman witnessed considerable growth in the field of economic diversification, a large expenditure of governmental plan, the increased role of the private sector in the process of development, accommodative monetary policy, and demand for a sustained domestic market. The World Bank has reviewed the performance of Oman and projected that Oman had shown a real GDP growth at 4.9% in the year 2014, which reached 5% in the year 2015. Further, among the GCC countries, Omani Islamic banks are considered the best-regulated framework in the Islamic banks that have prudently managed the quality of assets and maintained high capital adequacy compared to other GCC peer countries (Al Maha Financial Services, 2014).

Oman is gradually pursuing its economic goals by taking different initiatives to attract foreign capital incentives. For example, Oman is offering subsidized loans, declaring itself as a free trade zone, promoting land initiatives in the industrial area, giving incentives, and providing other benefits in the form of devising a supporting administrative strategy. These types of actions taken by the Omani Government support different industry segments, which include industrial sector organizations having high economic contributions belonging to the oil and gas sector and joint ventures by bounding them to hire Omani labor who will support organizations to have better deals.

All these initiatives are conducive to start a business and provide an opportunity for the locals as well as foreigners to take advantage of this supportive business environment.

Simultaneously, the initiatives have also helped in decreasing the unemployment rate from 8.7% in 2000 to 8.1% in 2012 (World Bank, 2013).

Ernst and Young (2014) acknowledge the underlying opportunity in Oman that is supported by the government in the form of incentives, attitudes, and tax system. Financial reports, requirements in audits, regulatory constraints, and reliefs help in establishing the Islamic banking system in Oman. This is due to the correct monetary policy, rules, and regulations devised by the Central Bank of Oman, which is passed to conventional, Islamic, and foreign banks and their branches. CBO oversees the overall banks and financial institutions where specialized Omani banks control the Oman development bank and the other two housing banks. The Central Bank of Oman permitted Islamic Bank services in the year 2011 in Oman, and this turned into a mega-success by the Oman business environment. Considering the success rate of Islamic banks in Oman, conventional banks also opened Islamic finance by opening an Islamic window. The central market authority is the main processor of Islamic insurance Takaful. Once the regulation gets in place, all Takaful companies will be operated under Oman with an Islamic banking system support (Saxena & Al-Tamimi, 2017).

### **1.6 Research Problem**

The majority of the Omani population is youthful Muslims who are strongly rooted in faith (World Bank, 2011), while Oman remains the last country among GCC that introduces Islamic banking. Neighboring Gulf states ramped up Islamic finance services and by the year 2007, GCC had more than 20 Islamic banks. Oman stood out by refusing to participate in the industry. The then-executive president of Central Bank of Oman, Mr. Hamood Sangour Al-Zadjali (2007) stated that “banks should be universal. We will not allow specific banks”. Sultanate of Oman was the only state in

GCC countries that did not permit Shariah-compliant banking activities at that time (Meed, 2007, p.1).

According to Stephen de Stadler, the director of Middle East, Sub-Saharan Africa business management for an American credit rating company named Fitch Rating, “obviously, entities looking in Islamic investment will not look at Islamic banks.” He further said that the total regional demand for Islamic banking is still quite small compared to conventional banks. Furthermore, he stated that there is no pressure from retail banking customers in the Sultanate of Oman for Islamic banking (Meed, 2007, p.1).

Hamood Al Zadjali said to the Times of Oman that until 2011, none of the existing Omani banks had applied for a license to offer Islamic banking products to the customers (Reuters, 2011). Later in 2011, Islamic Finance Advisory and Assurance Services (IFAA) issued a report titled *Islamic Finance in Oman - Sizing the Retail Market*, and this unleashed the potential demand and opportunities that existed within the Islamic finance industry in Oman. The findings of the report revealed that 70% of the customers from the banking service in Oman expected the opening of an Islamic saving account in the next 12 months, while 35% anticipated and showed a willingness to open such a facility of Islamic banking within three months. Besides, the report also detailed that 86% of the Omani consumers were associated with conventional banking products, while 60% of the consumers declared themselves as “bothered” about using the products based on interest (*riba*). The results of this report are consistent with the findings of Khalid Ansari, a partner in charge of the Advisory Services of KPMG in Oman. He stated and emphasized the secured future of Islamic Finance in Oman (Magd & McCoy, 2014).

Similarly, the study of Mubeen *et al.* (2014) indicates that Islamic banks cater to the needs of customers who avoid interest-based transactions. This study further discusses that these customers strongly believe that interest is against Islam, and they would donate the amount of interest received from the conventional banks. This study also significantly suggests that such customers show a positive attitude towards the establishment of Islamic banks. Hence, the Omani people have warmly welcomed Islamic banks, and this acceptance will subsequently promise a bright future of Islamic banking in Oman.

The President of Central Bank of Oman states that the Government of Oman is spending a lot of money on infrastructure projects, of which the banking sector will be the main beneficiary. The number of Omani labor force will grow, and demand for personal finance will increase. He further states that Islamic banks will complement conventional banks in promoting the growth of the Omani economy with the help of diversifying banking services, thus promising a more optimistic future of banking in Oman (Al Maha Financial Services, 2014). He also mentions that the Central Bank of Oman promotes Islamic banking by talking to the press, organizing talks at conferences, seminars, and training sessions to understand the new banking system. CBO is the regulator, but when it comes to marketing, it is up to the banks themselves to sell their products. When customers visit the banks and the windows, they will learn about the products the banks are offering (The Business Year, 2014).

Oman has a thriving, stable, efficient financial intermediation system with a high advance deposit ratio and is also deeply rooted in the private retail and corporate sector.

Table 1.6 highlights on the profitability and deposits of Islamic retail banking in Oman.

**Table 1.6:** Details of Profitability and Deposit (2013-2014)

| <b>The Details of Profitability and Deposit</b>                |                           |       |                     |       |      |         |         |             |       |
|--|---------------------------|-------|---------------------|-------|------|---------|---------|-------------|-------|
|  | Nizwa                     | Alizz | Meethaq             | Sohar | Muzn | Hilal   | Al Yusr | Maisarah    | Total |
| <b>Nature</b>  | Full Pledge Islamic Banks |       | Islamic Bank Window |       |      |         |         |             |       |
| <b>Bank</b>  |                           |       | Bank Muscat         | Sohar | NBO  | Al Ahli | OAB     | Bank Dhofar |       |
| <b>Profits (OMR in Mn) rounded to one decimal place</b>        |                           |       |                     |       |      |         |         |             |       |
|  | -0.245                    | -     | 6.2                 | -0.65 | -0.6 | -0.3    | -0.5    | -1.3        | -     |
|  |                           | 3.232 |                     |       |      |         |         |             | 2.787 |
| <b>Deposit Base (OMR in Million) rounded for whole numbers</b> |                           |       |                     |       |      |         |         |             |       |
| <b>Savings</b>   | 6.9                       | 0.6   | 10.4                | 15.6  | 15.1 | 4       | N/A     | NIL         | 52.6  |

Source: Aqeeq (2014)

Table 1.6 shows that Bank Nizwa and Alizz Islamic banks are operating as full-fledged Islamic banks. However, in terms of profitability, they are both showing losses and a limited deposit base compared to conventional banks. Similarly, all other Islamic banking windows are showing losses, while the window of Bank Muscat, which is known as Meethaq, is the only Islamic banking window that is making a profit. The table also indicates that Meethaq is the only Islamic window with the highest amount of term deposits.

A study conducted by Rehman and Masood (2012) finds that location plays an important role in business prosperity. Further, the research indicates that religion turns out to be a significant motivator for individuals. On the contrary, Amin *et al.* (2011) state that religious obligations and government support are insignificant predictors, where they identified three determinants, namely, attitude, social influence, and pricing of personal financing to significantly influence the intention to use Islamic personal financing.

Another research study conducted by Usman (2015) found that religious norms influence the choice of Islamic banks. However, the effect is not absolute because some

traditional customers do not choose Islamic banks. They do not rely on their religious norms but instead on various other considerations. Dusuki and Abdullah (2007) state that even though the submission to Shariah has been known widely by the Muslim customers, there are some empirical studies which found that religion is not the only reason to choose Islamic banks. Erol and El-Bdour (1989) concluded that religion was not the primary motivation for customers dealing with Islamic banks. More important factors were a fast and efficient service, the bank's reputation and image, and confidentiality. In addition, relatives and neighbors play a significant role in the awareness of respondents with knowledge of Islamic banking (Gait & Worthington, 2008, p.7).

Awan *et al.* (2011) emphasize the quality of service provided to the customers. Based on the finding of this study, service quality works as a key strategy. However, this may vary as per the circumstances. For example, the situation in Oman may differ slightly as customers have limited information about the products and services to be offered by Islamic banks. Therefore, Islamic banks need to develop their staff because human resource plays a significant role to pass sufficient knowledge of their products and services to the customers (Salim & Al Ani, 2015). This view is in alignment with the statement by Mr. Azmat Rafique, Head of Islamic Bank at Oman Arab Bank, that "there is an expectation mismatch. Ground matters have not been finalized, and the banks are still gathering the teams and systems" (Reuters, 2012).

Consistent with this, Ernst and Young reported in the Arab Times that the banking industry in Oman requires almost 500 professional individuals to cater to the demand of Islamic finance (Fuchs & Pasha, 2011). The initial demand is likely to be met by the foreign experts with an ultimate aim to replace these expatriates with the Omani workforce. Similarly, another leading business magazine of Oman, Business

Today, reported that the Omani banking industry has no prior experience in Islamic finance. Therefore, the banking industry will face several challenges in attracting and recruiting experienced experts in the Islamic finance profession (Jose, 2011). Thus, a steady supply of graduates with ample banking knowledge to the local providers of Shariah-compliant services is required. This will ensure a meaningful and successful career of these graduates in the banking industry. Until 2013, there was no academic degree offered in Oman in the Islamic finance discipline (Magd & McCoy, 2014). Two key challenges that require focus and attention are, firstly, to develop human resources with the essential skills and knowledge of Shariah compliant and banks, and secondly, there is a need for meaningful innovation in Islamic banking products and services (Islamic Finance News, 2018).

Other than religion, several other factors influence consumers' decisions to switch banking services from conventional banking to Islamic banking. These factors include perceived quality of service and convenient location of the branch, of which institutional branding stands as a key factor to move to Islamic banks (Magd & McCoy, 2014).

Mubeen *et al.* (2014) conducted a research study on the future of Islamic banking in Oman based on a phenomenon related to Omani Islamic banking, which is the attitude of customers about Islamic banking, and the effects of Islamic banking on the economy of Oman. The study concludes that the customers have a positive attitude towards dealing with Islamic banks. Further, it reveals that Islamic banks contribute to the prosperity of the Omani economy as well as stability of the monetary and financial system. As such, the future of Islamic banking in Oman will achieve great success.

Similarly, Riyas *et al.* (2015) studied the potential effect of the Islamic banking system in Oman by conducting a SWOT analysis. From the analysis, the findings

showed that the new Islamic banks set in Oman were struggling to compete with established conventional banks. Basically, there was a wrong understanding and misconception about Islamic Banking, and the great challenge was the lack of deep awareness among the public about Islamic banking.

Islamic banking in Oman possesses accounts of huge investors, a healthy depositor's base, and these accounts are mostly held by both Muslims and non-Muslims. The private sector banking accounts use internet banking services, which are usually not offered by the public sector banks operating in Oman. A high customer base contributes positively towards the stability of macroeconomic outcomes in the country. Despite these facts, Oman is the last country in the GCC to start the Islamic banking system. According to a study by Mihajat (2021), Islamic banking has gained approximately 14 percent market share through the Islamic banking window and became full-fledged Islamic banks in a short period. The findings of the study also indicate that the total assets of 4.3 billion OMR with more than 76 branches operating across the country. Nonetheless, the study also highlights that some areas are still underserved and need attention to earn additional market share.

Additionally, another study conducted by Busaidy *et al.* (2013) focuses on establishing Omani banks by the developers due to the tremendous growth of the bank with its own set of rules. Steps were taken by the Omani Government by establishing full-fledged Islamic banks, Islamic bank windows operating in conventional banks, and the role of the Central Bank of Oman for the purpose of defining Islamic banking regulations, which emerged as a turning point in the financial industry of Oman. The challenges which Islamic banking faces are the complexity involved in Islamic banking, the required structural expenses, and the legal formalities to satisfy the Shariah law requirements. In contrast, an Islamic finance arrangement is used as part of the

international requirement backed by the conventional structure for the project financed on past projects.

According to the study of Mohammed *et al.* (2017), Islamic banking in Oman is still in its embryonic stage. Although Islamic banking started in Oman only a few years back, the scope of studies and research is high in the Oman Islamic banking system.

In another study by Fitch Rating (2021), Islamic banking has gained approximately 14.3 percent market share with total assets of 5.1 billion OMR, and this is high considering that Oman was the last GCC country to introduce Islamic banking. In contrast, Indonesia and Turkey have been offering Islamic banking for more than two decades, but the market share is still below eight percent. Till 2016, only 56 percent of the adult population had a bank account, and 14 percent of adults citing religious reasons not for having an account.

Belwal and Al Maqbali (2019) share the findings that Omani customers have mixed feelings about Islamic banks. Some of them are not sure if the Islamic banks in Oman follow Islamic principles. The study reveals some vulnerabilities in the area of Islamic banking's operations, marketing practices, staff knowledge of products, dealings with the customers and customers' understanding of Islamic banks, their principles and practices. The challenges which Islamic banking faces are the complexity involved in Islamic banking, the required structural expenses, and the legal formalities to satisfy the Shariah law requirements. In contrast, an Islamic finance arrangement is used as part of the international requirement backed by the conventional structure for the project financed on past projects.

Although previous studies and observations indicate that after the introduction of Islamic banking services, it is assumed that a vast majority of masses will transfer to

Islamic bank accounts from conventional bank accounts, this area is identified as a research gap that requires further exploration. Even though there are existing studies that examined the concept of Islamic finance and Islamic banking, only a few of them shed light on the antecedents of consumer switching behavior from conventional banking to Islamic banking. Therefore, to fill this gap, the current study aims to explore the factors that influence the decision of individuals to switch banking services from conventional to Islamic banking. Thus, this study intends to examine the push-pull-mooring factors that impact customers' switching decisions in Oman and explore the switching process barriers empirically.

### **1.7 Research Objectives**

- 1) To examine the impact of push factors (service quality, customer satisfaction, and trust) on the decision to switch to the Islamic banks.
- 2) To examine the impact of pull factors (perceived relative advantages) on the decision to switch to the Islamic banks.
- 3) To examine the impact of mooring factors (complexity, apathy, switching cost, and locked-in) on the decision to switch to the Islamic banks.

### **1.8 Research Questions**

In relation to the research objectives, this research seeks to answer the following questions:

- 1) To what extent do push factors (service quality, customer satisfaction, and trust) affect the customers' decision to switch to the Islamic bank?
- 2) To what extent do pull factors (perceived relative advantages) affect the decision to switch to the Islamic bank?

- 3) To what extent do mooring factors (complexity, apathy, switching cost, and locked-in) affect the customer's decision to switch to Islamic bank?

### **1.9 Limitations Of the Study**

The limitations of the study are as follows:

- 1) The findings of the study are only applicable to the conventional and Islamic retail banking systems. The push, pull, and mooring factors may influence service switching decisions differently in other industry segments.
- 2) The findings of the study are restricted to Oman alone, and the results of the study may not be applicable to other cultural contexts.
- 3) The study only concentrated on the determinant variables and how these selected antecedents influence the decision to switch to a particular banking system in Oman. Other factors apart from the variables investigated in the current study may also influence customers' decisions to switch services.
- 4) The data collected in the present study was derived only from the banking industry of Oman, which was acquired through a survey questionnaire. Other data collection methods such as interviews, time-lagged, and longitudinal style may bring forth a deeper analysis of the study.

### **1.10 Significance Of Study**

This study is significant as it empirically examines the observed gap in the current literature. Although earlier studies conducted in Oman discuss Islamic banking, yet, no study has empirically examined Islamic banking in the Omani context. This study attempts to gauge the views of the Omani people on Islamic banking and their switching intentions towards it. We anticipate that the findings of the study will provide

useful insight and relevant information, which will be helpful to academics and financial institutions. Further, the results of this study will help these two sectors to formulate their business and marketing strategy. Thus, this study contributes to the body of knowledge and the best practices in the area of Islamic banking in Oman.

### **1.10.1 Contribution to the Body of Knowledge**

This research study is unique in the following ways:

- 1) The first significant contribution of this study to the body of knowledge is the analysis of the Push, Pull, and Mooring Model explained through the migration theory to examine the impact of these factors in affecting customers' decisions to switch from one banking system to another banking system. Previous studies have examined the switching intentions of customers in different service sectors, including banking. However, this study is unique as it examines the push, pull, and mooring model, which has not been used in analyzing the switching intent of customers from the conventional banking system to the Islamic banking system, especially within the Omani banking sector. Different variables are used as of push, pull, and mooring factors to find out factors that have the most significant relation with switching decision.
- 2) The second significant contribution of this study to the body of knowledge is the addition of the new variables to test the barriers customers face during the switching from one banking system to another banking system. Further, this study identifies the influence of these variables on customers' decision to migrate.

3) Another significant contribution of this study is the application of structural equation modelling (SEM) as a method of analyzing the data. Human behavioral issues are quite complex in nature. For example, mooring factors serve as the dependent variable in one relationship, and the same mooring factors serve as an independent variable in another dependent relationship. This study examines human behaviors with various latent variables. Further, the statistical method of SEM is considered to be one of the powerful methods for analyses, which is more effective than other multivariate techniques. In this study, SEM is used to examine the effects of the independent variable on the dependent variables. Hence, this study contributes to the existing knowledge by using AMOS for the push-pull and mooring model.

#### **1.10.2 Practical Contribution**

In addition to the above, this study also contributes to the desired banking practices as identified by the Omani population. It provides important information about the banking practices of Omani banks with reference to the current status of Islamic banking. Further, this study also focuses on the essential factors to enhance and improve existing Islamic banking practices, especially information that can help the sector develop its market strategies to promote Islamic banks. Currently, to our knowledge, there is no such study available related to this area specifically. Therefore, this study fills this gap by identifying the fundamental factors for Islamic bankers to formulate appropriate strategies to attract Omani customers to opt for Islamic banking irrespective of their religious affiliation. In addition, the study supports the existing efforts to reduce the hurdles in customers' decisions to opt for Islamic banking.

Additionally, this study provides insightful information to the regulators while indicating the reasons as to why they need to change outdated financial legislation to promote and flourish Islamic banks in Oman. This research shows the importance of supporting customers in the area of Islamic retail banking. The lesser the barriers, the higher the demand is for Islamic banks.

## **1.11 Organization Of the Thesis**

### **Chapter 1: Introduction**

This introductory chapter provides an overview of the research study, the background of the study, and research motivation. This chapter also discusses the research problem, research objectives, research questions, limitations, and the significance of the research study.

### **Chapter 2: Literature Review**

The literature review chapter provides existing research studies conducted and related to the research topic. It reviews the relevant literature on the concept of Islamic banking, Islamic finance, the history of Islamic banking, and its emergence. Further, this chapter discusses and compares the different theories and the use of the migration theory in different research fields concerning the customers' decisions. The next section focuses on the switching factors, i.e., push, pull, and mooring. This chapter also discusses the switching decision taken by the customers in the service sector and the underlying switching process in retail banking. In this research study, help and support are enlisted from numerous existing research studies and other supporting materials, i.e., journals, company websites, magazines, books, articles, and other relevant sources.

### **Chapter 3: Conceptual Framework**

In this conceptual framework, the research model is developed and hypothesized as per the literature and existing studies. Based on the literature, the hypothesis is developed, which contains the direct relationship and mooring factors' influence among the pull, push, and mooring factors or variables.

### **Chapter 4: Research Methodology**

The research methodology describes the research paradigm, research approach, and the research design. This chapter discusses the research instrument used, method of data collection, and the data analysis instruments. This chapter sheds light on the process of data analysis adopted in this study, which is described in detail. Besides, this chapter presents the research framework and the hypothesis developed for the subsequent investigation after data collection.

### **Chapter 5: Data Analysis**

This chapter details the analysis method adopted for analyzing the data according to the process identified in Chapter 3. Data analysis starts with the validity and reliability of the data collected, including EFA, CFA of the data, and analysis of the hypothesis tested by using the research method, i.e., SEM using AMOS. In this chapter, the analysis discusses the primary data that was collected by the investigator based on the research topic.

### **Chapter 6: Findings and Discussion**

This chapter includes the discussion section, which concentrates on identifying the research findings in the light of earlier studies and the cultural context of Oman.

## **Chapter 7: Summary of Findings and Conclusion**

This chapter includes the conclusion section that explains on the major findings and summary that were obtained from the discussion section. This section also explains the findings of the study with an overall conclusion of the research study. Further, this study also provides useful insight and recommendations for future researchers, academicians, and investigators having an interest in Islamic banking research. This chapter also states the limitations of the study and offers suggestions for future research.

Apart from all these chapters, this thesis includes a list of references that presents all the works of interest, including those mentioned in the text. Further, the appendices include all relevant data that support the study encompassing the graphs, tables, figures, and the data collection survey questionnaire used in this research, which was adapted for the purpose of gathering the primary data used for the study.

