



**BANK SELECTION CRITERIA FOR MUSLIMS IN
MAURITIUS – AN ANALYSIS OF FUTURE
PROSPECTS FOR THE ISLAMIC BANKING INDUSTRY**

BY

SHAHEEN BIBI RAMJAUN

**A research paper submitted in fulfillment of the requirement
for the degree of Master of Science in Islamic Banking and
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ABSTRACT

Mauritius is a small secular country situated off the south east coast of Africa. The launch of the Islamic banking industry was done in 2007, however being a Muslim minority economy till now the industry has not been able to see proper growth. Based on the literature it can be seen that Islamic bank selection criteria in other countries be it Muslim or Non-Muslim are mainly religion and other factors such as profitability and service quality. Therefore, this study aims at investigating bank selection criterion in Mauritius and attempt to determine whether religion can in fact influence a customer's choice of bank. The findings show that religion is one factor which draws customers towards Islamic banking. However, along with religion, other several factors such as privacy, transparency, facilities offered and service quality also play a big role in attracting a Muslim banking customer. Furthermore, the research also resolves which aspects of service quality are more important based on the results of an importance-performance analysis.

خلاصة البحث

موريشيوس هي دولة علمانية صغيرة تقع قبالة الساحل الجنوبي الشرقي من أفريقيا . قد تم تأسيس الصناعة المصرفية الإسلامية في عام 2007، ولكن نظراً لوجود الأقليات المسلمة لم تتمكن الصناعة حتى الآن قادرة على النمو السليم والتطوير المثالي. بناء على الدراسات السابقة فإنه يلاحظ أن المعايير الرئيسة لاختيار المصرف الإسلامي في الدول الأخرى، سواء كانت دولة إسلامية أو غيرها، هي الدين والعوامل الأخرى مثل الربحية وجودة الخدمة. والتالي، تستهدف هذه الدراسة إلى التعرف على معايير اختيار المصرف في موريشيوس ومحاولة لتحديد ما إذا كان الدين يؤثر فعلا على اختيار العميل لمصرفه أم لا. وتشير النتائج إلى أن الدين هو أحد العوامل التي توجه العملاء نحو المصرفية الإسلامية. ومع ذلك، فضلا عن الدين، هناك عدة عوامل أخرى مثل الخصوصية والشفافية والتسهيلات المقدمة وجودة الخدمات أيضا تلعب دورا كبيرا في جذب العملاء نحو المصرفية الإسلامية. وعلاوة على ذلك، فإن البحث يبين أيضا أي جانب من جوانب جودة الخدمة الأكثر أهمية بناء على نتائج تحليل أهمية الأداء . (IPA)

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality as a research paper for the degree of Master of Science in Islamic Banking and Finance.

.....
Muhamad Abduh
Supervisor

This research paper was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as partial fulfilment of the requirement for the degree of Master of Science for Islamic banking and Finance.

.....
Khaliq Ahmad
Dean, IIUM Institute of
Islamic Banking and
Finance

DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Shaheen Bibi Ramjaun

Signature.....

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– AN ANALYSIS OF FUTURE PROSPECTS FOR THE ISLAMIC
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This research paper is dedicated to my father and mother, Faezal Ramjaun and Shaira Banu Ramjaun for the sacrifices they have made for my education and wellbeing.

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LIST OF STATUTES

Banking Act 2004 (Act No. 35 of 2004)

Finance Act 2007 (Act No. 17 of 2007)

Value Added Tax Act 2008 (Amend 2009)

Public Debt Management Act 2008 (Amend 2009) (Act No. 5 of 2008)

LIST OF ABBREVIATIONS

BOM	Bank of Mauritius
FSC	Financial Services Commission
IFSB	Islamic Financial Services Board
ICT	Information and Communication Technology
SEM	Stock Exchange of Mauritius
DEM	Development and Entreprise Market
BAI	British American Insurance
BIMB	Bank Islamic Malaysia Berhad
WFE	World Federation of Exchanges
SERVQUAL	Service Quality
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
AVE	Average Variance Extracted
CR	Composite Reliability
CFI	Comparative Fit Index
TLI	Tucker-Lewis Index

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

The finance world today incorporates two types of financial system, the Islamic financial system and the conventional system. The conventional financial system is the most widely used over the world especially in the developed western economies. Islamic financial system is mostly used in the Gulf States and countries with Muslim majority population (Sergie, 2014). But is Islamic finance meant only for Muslims?

Conventional system has shown its limits in recent years with financial crises originating in one country and spreading like wild fire across borders throughout the world. Furthermore, the credit crunch and Murdoch scandal have demonstrated the hollow foundations of interest based finance. On the other hand, Islamic banking has shown its strength with steady growth over the years while the conventional system was going from crisis to crisis. Whether it is Muslim majority countries such as Malaysia, Indonesia, the Middle East countries or Non-Muslim ones such as UK, US, Singapore, Hong-Kong just to name a few today have all embraced this new mode of financing with some countries a lot more advanced than others. Mauritius, a small Island nation, situated some 2000 km off the east coast of South Africa is no exclusion. Islam has the second largest adherents in the country which amounts to around 20% of total population after Hinduism and followed by Christianity. Islamic finance was introduced in Mauritius in 2007 when the Central Bank of Mauritius amended its Banking Act 2004 into the Finance Act 2007 so as to provide proper legislative frameworks for Islamic banking. Further to this, in 2009 the Finance Act

was again amended into the Finance Act 2009 where the Government made certain provisions which included the facilitation for issuing sukuk in the country. Other legal changes comprises of changes in Registration Duty Act and Stamp Duty Act where double duties payable under Islamic modes of financing were removed. The Central Bank has also issued its own set of guidelines to be followed by Islamic banks or windows.

Till now, Mauritius has only one fully fledged Islamic bank which was licensed in 2009 and only offers Islamic finance for corporations. HSBC was the only one bank which offered Islamic products through a window, however, the bank closed down its window in early 2013.

However, Islamic finance in Mauritius has been informally present through a cooperative society named Al-Barakah since 1998. Al-Barakah can therefore be characterized as being the pioneer for Islamic finance in the country. The society has been able to thrive till now on account of the friendly legal framework for cooperative societies in the Island. Nevertheless, till now it has been the sole cooperative society for Islamic finance with no other competitor.

1.2 PURPOSE OF STUDY

The purpose of this study analyzes the progress and potential of Islamic finance in Mauritius. This study will help to understand whether Islamic finance is a proper avenue to satisfy the needs of banking customers in Mauritius since till now there has been very little progress so far with two Islamic windows closing down their activities in the island and the sole Islamic bank of the country unable to generate profits in spite of the country's financial sector growing at a decent rate with banking assets contributing 10.7% of GDP (Lallmahamood, 2013).

1.3 STATEMENT OF THE PROBLEM

Previous studies have discovered that Mauritians were not aware of what Islamic finance is exactly whether they were Muslims or Non-Muslims. Furthermore, the sole Islamic bank of the island has not been able to generate any profit till now in spite of being in operation since 2011. This raises concern with regards to Islamic finance in Mauritius. There have been previous studies conducted on awareness of Islamic finance in the country; however along with creating awareness about Islamic banking and finance products, its characteristics, advantages over the conventional system, secured foundations, easy access to every players in society be it the ordinary man for his day to day needs as well as businessmen, investors and off-shore sectors and how the Islamic banking products can provide solutions to their needs in the country, there is also a need to encourage bankers towards Islamic finance.

1.4 RESEARCH OBJECTIVE

Literature has proven that religion and service quality are the two major bank selection criteria for Islamic banking customers in other countries. However, this research will attempt to find out whether this is the case as well for Muslims in Mauritius. More specifically, this study will try to determine whether Islamic banks can attract customers by relying heavily on the religious aspect only or should there be other factors to consider. Further to this, the research will also investigate which criteria should Islamic banks focus on in order to attract Muslim customers.

1.5 RESEARCH QUESTIONS

- a) Can religion and faith influence a Muslim's choice of bank in Mauritius?
- b) Other than religion, what might be the most common bank selection criteria for Muslims in Mauritius?
- c) Can service quality be a factor in attracting customers to Islamic banks in Mauritius?
- d) Which service quality elements should Islamic banks focus more in order to attract Mauritian Muslim customers?

1.6 SIGNIFICANCE OF STUDY

1.6.1 To the Government

While initiating for Islamic finance in 2007, the objective of the government was to transform Mauritius into an Islamic finance hub (Tegally, 2009); however, this objective of the government could not be achieved until now (Vizcaino, 2014). While attempting to understand consumer attitudes towards Islamic finance in Mauritius, this study might help the government in understanding which step to assume in order to endorse Islamic banking and finance in Mauritius.

1.6.2 To Banks

The primary objective of banking institutions is to maximize profitability. Islamic finance is a relatively new avenue which is proving to be very successful as well in other countries whether it pertains to the Islamic banking industry or the Islamic capital market (Hall, 2012). Identifying the needs of consumers in relation to Islamic finance, bankers can recognize which Islamic product would suit their customers and

which ones can attract new customers. While adopting Islamic finance, banks in Mauritius will find a new area to invest in whereby they can also diversify their portfolios and take advantage of the revenue generated from Islamic finance.

1.6.3 To Consumers

Mauritius is a multi ethnic country with people of several different religious backgrounds, however, Islamic finance is not meant for Muslims solely. Since this research will attempt to the needs of consumers in relation to banking, it will also try to identify which Islamic banking product would suit the consumers in Mauritius. Having recourse to an alternative financial system would help consumers diversify their banking investments. Furthermore, it will also help Muslims to differentiate between shariah compliant and non-shariah compliant products and might as well stimulate the demands for shariah compliant ones.

1.6.4 To Academicians

While having a look at the preliminary literature in Islamic banking and finance in Mauritius, it is seen that there is lack of literature with regards to the sphere in question. It is therefore hoped that this research would actually contribute to the literature.

1.7 ORGANISATION OF THE STUDY

This research will comprise of five chapters. The introduction consists of a background of on Islamic finance in Mauritius; also underlines the statement of the problem, provides research objectives, questions, purpose and significance of the

research. The following chapter which is the literature review gives a review of literature on the conventional and Islamic banking sector in Mauritius. The literature review also looks into studies other countries while providing a comparison with Mauritius.

The third chapter which is the methodology chapter explains about the design and methods chosen for this study. It also highlights the data collection technique and develops the hypotheses. Chapter four is the analysis chapter which explains and interprets the findings. Finally the research ends at chapter five which includes the conclusion and suggestion for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Islamic banking in Mauritius is a relatively new endeavour. In order to cater for Islamic financial services in the island, the government of Mauritius amended its Banking Act 2004 in 2007. The country also became a member of the IFSB in the same year and a member of International Islamic Liquidity Management Corporation in 2010 (Bheenick, 2011). Since 2009, the country has already altered many of its legislations and regulations in order to fully incorporate Islamic finance in its system. Tegally (2009) gives a list of these changes such as any the application for a banking licence includes both for conventional and Islamic banking. The Central Bank has also issued a set of guidelines for those institutions which plan to carry Islamic finance. Those guidelines include the setting up of a shariah board or the appointment of a shariah advisor who needs not necessarily be local. Furthermore, consumer tax has been lifted off on murabaha contracts which comprises of two sales transactions. In 2011, the Central Bank of Mauritius issued its first Islamic finance licence to a fully fledged Islamic bank named Century Banking Corporation Ltd which offers Islamic products to corporates solely but offer no retail banking. In addition to that there are also a few organisations offering products like Ijarah and Takaful to the public. These organisations are private non-deposit taking institutions but do not operate on the basis of any Islamic window so far (Lallmahamood, 2013).

2.2 ANATOMY OF COUNTRY BACKGROUND

Before, going to the banking and financial sector of Mauritius, it is important to understand a bit on the country's demography and economy. Mauritius gained its independence from the British in 1968. The country's population density is 1.3 million and the main religions prevalent are Hinduism which consists of 49% of the total population, Roman Catholic are 23% and Islam consists of 17% of total population. Further to this other minority religions include Christianity, Buddhism among others.

With regards to the country's economy, Mauritius has been a mono-crop economy since independence till late 1970s. However, things started to change during the 1980s where the country started diversifying its economy by including other sectors such as international trade and tourism (Zafar, 2011). As of today the economy of Mauritius constitute of six main pillars which are agriculture, manufacturing, tourism, financial services, ICT and the Seafood Hub with the tertiary sector (tourism and financial services) taking the lead.

In the South African region, Mauritius is known as being one of the strongest economies. Ranked 28th in World Bank Doing Business Report 2014 over a total of 189 countries, the country boasts of an average economic growth rate of 3.5% over the past decade (World Bank, 2015).

2.2.1 Structure of the Financial System of Mauritius

The financial sector of the country makes up for a big percentage of the country's GDP. The system comprises of both a domestic market and an offshore sector. In spite of being a developing country, Mauritius financial sector is quite developed in terms of payments settlement, credit accessibility and other financial services in both urban

and rural areas. The different parts of the system consists of the banking system regulated by the Bank of Mauritius (BOM) which is the central bank of the island, equities market and non-bank financial institutions such as insurance, mutual funds, trusts among others which are regulated by the Financial Services Commission (FSC). The country's sovereign debt rating by moody is Baa1.

The banking sector consists of a total of 21 banks with 6 being domestic, 14 foreign and 1 joint venture which are all. The banking system has shown resilience with no bankruptcy during the recent turmoil since the system relies more on domestic deposits than foreign borrowings. In fact, Mauritius has the highest density of accounts in Africa (Making Finance Work for Africa, 2015). According to the Bank of Mauritius Stability Report 2014, the Mauritian Rupee as well as the domestic stock market has performed well during the crisis periods. Non- bank financial institutions and the insurance sector have also fared well in spite of international financial instability with total assets within non-bank financial sector recording a growth rate of 10% end of March 2014 and growth rate of 13% within the insurance sector solely during the same period. The only problem within the banking system according to the BOM is excess liquidity.

On the other hand, the Stock Exchange of Mauritius Ltd (SEM) which started in 1989 is the official stock exchange of the country and is a member of the World Federation of Exchanges (WFE). The SEM constitutes of two segments the Official Market and Development and Enterprise Market (DEM). The Official Market has 42 companies listed currently and the DEM 47 with a total market capitalisation of USD 7.2 billion and 1.5 billion respectively as at December 2014. Initially the SEM was meant for domestic investors only but was opened for foreign investors in 1994 (Stock