Determinants of Islamic Banking Adoption in Nigeria

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Background

As the number of people adopting Islamic bankingin Nigeria increases, it is important to study the reason whycustomers adopt Islamic bank in the country. This paper was based on theoretical foundation and empirical studies that perceived relative advantage, perceived compatibility and social influence would determine Islamic banking adoption in Nigeria.

Objectives

The study objective was toassess the factors influencing Islamic banking adoption in Nigeria.

Methodology

The study populations were Islamic bank customers in Nigeria. The study coverage was North central region (Abuja, Kwara and Niger state) and Northwestern region (Kaduna, Kano, Katsina, Sokoto and Zamfara States). 370 copies of questionnaire were distributed, 300 usable copies were subsequently collected. The data were then analyzed using multiple regressions.

Results

Multiple correlation co-efficient (r).726 implied that independent variables have positive impact onthe dependent variable.The coefficient of determinant (r^2) .683 implies that 68%changes in the dependent variable can be discussed by the independent variables.

Conclusion

Study concludes thatindependent variables have positive impact on the dependent variable.

Unique contribution

The paper extends the contribution of previous studies on variables such as relative advantage, compatibility, and social influence. The effects of these factors have not been investigated on individual level of Islamic banking adoption. The study also found that Technology acceptance theory cannot be used to discuss the determinant of Islamic bank adoption. Nevertheless, the theory is important in explaining the determinant of mobile banking adoption in Nigeria.

Key recommendation

The study recommends thatmarketing managers should educatethe potential adopter about the benefits of Islamic banking products, and they should also packageit in a way that will be compatible with the customer demand.

Keywords: Islamic Banking, Adoption, Perceived relative advantage, Perceived compatibility, Social influence.

Introduction

Islamic financial institution is any activity that follows Islamic rules and regulations (Shariah). The Quran, (Surah 2, Verse 275) forbid the payment or acceptance of interest fees on any kinds of loans (Riba, usury). During the end of colonial era, some of the Muslim states reassessed their

economic policies in accordance with Islamic rules and regulations (Shariah). This led to the development of Islamic finance. The first successful Islamic finance application was undertaken in 1963 by Egypt's MitGhamr Savings Bank, which earned its income from profit-sharing investments rather than from interest.

Presently, we have over 300 Islamic banks in more than 75 countries in the world withtotal assets of $500 billion. Also, for the past decade, Islamic financial institutions had experienced a growth rate of about 15 to 20% per year (Bose & McGee 2008). Islamic bankswere operating in all countries irrespective of their religious backgrounds.

Statement of the Problem

Theabsence of adequate knowledge of the importance of Islamic banking products in Nigeria has hindered bank customers from adopting and usingthe products of Islamic banks. Furthermore, on the determinants of Islamic banking adoption, financial institutions have often been accused of not efficiently facilitating greater adoption as a result of inadequate awareness about Islamic bank products which causes inefficiency in their intermediation functions (Akosah, 2013).Earlier studies on Islamic banking such as Zaghdoudi and Hakimi (2015), Onour and Abdo (2018) and Abdulganiyu (2017) considers bank`s size, cash adequacy ratio, GDP and money supply. However, no study to the best of the researchersknowledge has measured and incorporated perceived relative advantages, perceived compatibility and social influence in measurement of Islamic banking adoption in Nigeria. The people ignorance and scepticism on the start-up of free interest bank would lead to some little resistance to interest free banking patronage. For prospective customers who are risk-averse or non-Muslim may not easily adopt an Islamic bank. In contrast, a risk-seeking depositor can reap extra return when opening a deposit account at an Islamic bank.

Sijbirg, (2010) found out that a consumer can generate a greater risk-adjusted return when investing in Islamic indexes. These findings suggested that Islamic banking is, above all, interesting for the Muslim and non-Muslim consumers who wishes to bank according to the rules of the Shariah. Islamic Finance Outlook (2008) argues that, Muslim investors are increasingly becoming aware of Shariah complaint nature and profitable investments of Islamic finance. The Islamic banking service is attractive for the risk seeking depositor or for the investor who wishes to earn greater risk-adjusted returns on his investments.

Stemming from problem statement established above, the following research hypotheses were raised in null form:

H_{01}: Perceived relative advantage do not have significant relationship with Islamic banking adoption in Nigeria.

H_{02}: perceived compatibilityhas no significant relationship with Islamic banking   adoptionin Nigeria.

H_{03}: Social influence does not significantly affectIslamic banking adoption in Nigeria.

Literature Review
Conceptual Review

The termadoption can be defined as the process of making a decision to start using a particular idea or technology. Tara (2017) defined Islamic banking as the conduct of banking activity which is adherence to Islamic shariah.

Compatibility can be defined as the extent to which an idea is viewed as compatible with the existing cultures,previous knowledge, and needs of futureusers (Ganiyu&Adeosun, 2018). According to Ajzen (2017) social influence isthe process by which an individual`s attitudes, beliefs or behavior are modified by the presence or action of others.
Relative advantage can be defined as the degree to which an idea is greater than the one it replaces.

The study is anchored on two theories which are Theory of Reasoned ActionandInnovation Diffusion Theories**.** Theory of Reasoned Action was propounded by Ajzen and Fishbein (1980). The theory was based on three constructs, that is, behavioral intention, attitude and subjective norms. The theory also concerned with individual behavior and motivation to perform a certain action. It concludes that it is the intention of the people that leads to a certain behavior and this intention is called behavioral intention.

InnovationDiffusionTheory was developed by Roger (1983). Diffusion is defined as the process by which an ideais communicatedover time among the members of a social system. Diffusion also concerned with sharingmessages that are viewed as new ideas. An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption. The features of an innovation, as presumed by the members of a social system, determine its adoption. It is believed that; an innovation with those characteristics will be adopted easily and faster by an individual

Conceptual framework
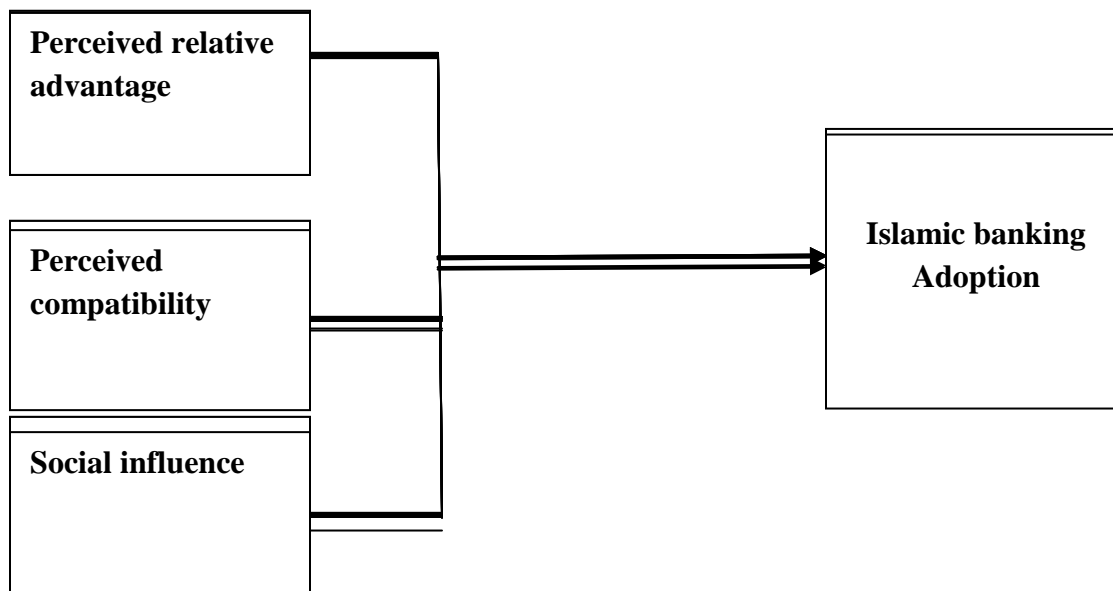
Source;. Author Conceptualization, (2020)

Empirical Review
Rugimbana and Iverson (2016) examined the usage of Islamic banking product by banking customers in Australia. The study carried out survey ofsamplebank customers in two different banks .The study concludes that bank marketersabilityto increase the usage of automated teller machines depends on the on the relative advantage of the ATM. Respondents presumed ATMs to

be simple, secure, and less risky. Brown (2018) assessed the effect of Islamic banking products on customer Satisfaction in Brunei Darussalam. The study concludes that perceived relative advantage and social influence have significant effect on customer`s attitudes in adopting Islamic banking in Brunei Darussalam.Study by Al-Jabri and Sohail (2016) suggested thatcompatibility is an importantfactor to determine Islamic banking adoption in Saudi Arabia, followed byrelative advantage and social influence. Gerard and Cunningham (2019) identified eight factors influencing Islamic banking adoption in Malaysia. Results from multiple regressionsrevealed that adopters of Islamicbanking products perceived it to be simple, convenient, and compatible to Muslims than non-Muslim.

Shaikh (2015) empirically investigated the causes of liquidity risk among Islamic banks in Pakistan. The study employed sample of 5 Islamic banks, from 2009 to 2014. Liquidity risk measured by total deposit to cash, while determinants factors include deposits to capital, capital to total financing, efficiency (gross return to administrative expense), non-performing loan and size of bank. The study indicated that deposits-to-total capital increases the liquidity risk and greater deposit mobilization implies greater liabilities of banks. In contrasts, the increase in capital to financing decreases the liquidity risk. The study highlighted that improvement in efficiency reduces the liquidity risk. Zaghdoudi andHakimi (2017) tested 10 banks Tunisia from 1980 to 2015 based on panel data analysis to identify key factors of liquidity risk determinants. The liquidity risk measured by loans to total deposits, while the independent variables are credit risk, size of bank, capital adequacy, market share, economic growth and inflation rate. The findingsrevealed that the key determinants of risk are bank's internal factors and it conclude that economic growth has a positive and significant effect to liquidity risk while inflation impacts negatively but not significant.

OnourandAbdo (2018) assessed the liquidity risk with a sample of 25 full-fledged Sudanese Islamic banks during the period of 2012 to 2017. The study employed panel regression model for the analysis. The liquidity risk measured by the extreme excess of liquidity in the bank, while the independent variables comprised of bank`s specific macroeconomic factors. The findings indicated that bank's size, and investment, are positively and statistically significant, whereas the net profit is insignificant and positively associated to liquidity risk. The study also revealed that the budget deficit variable is negatively related with liquidity risk, but insignificant. The study argued that the insignificance of the budget deficit is as a result of the government reliance in its deficit on debt financing. Moreover, they indicated that the investment portfolios in Islamic banks dominated by short term investments, and banks with larger deposits are more likely to hold more liquid assets to meet their frequent demand for cash. Another study carried out by

Abdulganiyu (2017) examined the causes of liquidity risk among Islamic banks in Sudan and Malaysia banks. The studyemployed secondary data for the three banks from each country from 2004 and 2015. The study concluded that there is inconsistent impact of bank's specific factors of bank's size, CAR as well the GDP and Money Supply in Islamic banks liquidity. It also concludes that management efficiency is a significant determinant of liquidity risk in both banking systems.Lin (2016) used ordinary lease square method to analyze macroeconomic factors affecting credit management among conventional banks in Indonesia. It shows sharia banks are more stable during financial crisis in Indonesia and only two variables significantly affect credit risk that is, exchange rate and money supply.Shrestha and Chowdhury (2018)

assessed the determinants of deposits mobilization in Sudan. The study usedautoregressive distributed Lag (ARDL) model, to analyze the effect of real GDP and average population density on bank deposit. The study revealed that real GDP and average population density have significant effect on bank deposits in Sudan.

Methodology
The study intended to provide evidence on determinants of Islamic bank adoption in Nigeria. The research coverage were North central states (Kwara, Niger, Abuja) and Northwestern region states (Kaduna, Kano, Katsina, Sokoto and Zamfara) these states were selected because Islamic banks were currently in operations in those states. Because of the confidentiality nature of the banks operations, convenient sample was used to determine the required respondents from thestates mentioned above. This decision was in line with Thambiah and Ahmad (2016).

Table 1: Population of the Study

State Selected	Kwara State	Niger State	Abuja	Kaduna State	Zamfara State	Sokoto State	Katsina State	Total
Bank Customers	1,090	1,208	1,756	2,678	1,176	1,345	1,098	10,351

Source: Human Resources Department of the selected Banks Main Branch office in each state (2020).

Out of this population of 10,351 bank customers, 370bank customers were selected as sample size as determined byKrejcie and Morgan (1970).

Model Specification
This section gave an insight about the behaviours of bank customers towards independent variables as a function of dependent. The functional relationship is shown in equation (1).

IBA= *F(PRA, PC, SI)*……………. (1)

Whereperceived relative advantage, perceived compatibility and social influence are used as function of Islamic bank adoption in Nigeria.

Islamic bank adoption can further be expressed in a multiple regression form as follows:

$IBA_i = \beta_0 + \beta_1 PRA_i + \beta_2 PC_i + \beta_3 SI_i + \varepsilon_i$ ……………. (2)

Where; PRA = Perceived relative advantage

PC = Perceived compatibility

SI = Social influence

IBA = Islamic bank adoption

ε = error term

$\beta_1 - \beta_3$ = Parameters of the regression

4. Table 2: Regression Results and Test of Hypotheses

Variables	Range	Mean	Standard Deviation
Perceived relative advantage	1-5	4.5216	1.1562
Perceived compatibility	1-5	3.4184	1.8296
Social influence	1-6	3.5218	1.7978
Islamic banking adoption	1-5	3.2957	1.1309

Source: Author`s Computation, 2020.

Table 2 indicated that more than average respondents strongly agreed that perceived relative advantage, perceived compatibility and social influence have positive effect on Islamic banking adoption in Nigeria. 4.5216 respondents strongly agreed that the benefit to be derived from Islamic banking product significant influence it adoption in Nigeria. More than average respondent (3.4184) agreed that Islamic banking product that is compatibility with the customers demand significantly affect its adoption in Nigeria.3.5218 respondents strongly agreed thatreferent group or individuals can significantly influence Islamic banking adoption.More than average respondents (3.2957) agreed that perceived relative advantage, compatibility and social influence have significant effect on Islamic banking adoption in Nigeria.

Table 3:Cronbrach's Alpha

Variable	Cronbach's alpha	N
Perceived Relative Advantage	0.92	5
Perceived Compatibility	0.78	5
Social Influence	0.80	6
Islamic banking Adoption	0.74	5
Overall	0.81	21

Source: Author`s Survey, 2020.

Table 3 showed that the Cronbach Alpha coefficient for each of the above variables is relatively high at 0.92%, 0.78% 0.80%, and 0.74% for perceived relative advantage, perceived compatibility, social influence, and Islamic banking adoption respectively. The overall Cronbach`s alpha coefficient is 0.81. This value is above 0.70, which implied that the items is not measuring something different from the scale, Hence, the scale can be considered reliable with the sample (Pallant, 2007)..

Table 4:Multicollinearity Test

Variable	PRA	PC	SI
PRA	1	0.393	0.453
PC	0.393	1	0.402
SI	0.453	0.402	1

Source: Author`s Survey, 2020.

Above tableexplained the multicollinearity concern of the explanatory variables. Thetable revealed that none of the regressors have a correlation coefficient above .7 with Perceived relative advantage, perceived compatibility and social influence having correlation coefficients of .393, .402, and .453. Hence, results suggested that no strong relationship exist among all the variables used in the model with coefficients of allregressors less than .7 (Pallant, 2007).

Normality Test

Table 5: Normality Test

Test of Normality						
Komogorov-smimov[a]Shapiro-wilk						
Statistic	df	sig	Statistic	df	sig	
Islamic Banking	.132	300	0.02 .953	300	0.04	
a.Lilliefor significance correction						

Table 5revealed thatnormality test carried out for the Kolmogorov-Smirnov and Shapiro-wilkis Significant at 0.05 which implies that the data is normally distributed (Pallant, 2007).

Table 6: Regression Result

Predictors	Coefficient	Std Error	t-statistics	prob
PRA	0.163	0.027	6.074***	0.006
PC	0.811	0.046	17.652***	0.037
SI	0.674	0.039	17.307***	0.021
Constant	0.283	0.048	5.916	0.031
R		.726		
R^2		.683		
Adjusted R^2		.682		
Std. Error of the Estimate		.467		

Source: Author`s Computation, 2020

Asshown in the above table multiple correlation co-efficient (R) of .726 revealed a strong relationship between dependent variable and independent variables.The coefficient of determinant (R^2) is .683 which implies that 68%changes in the dependent variable can be explained by the independent variables.

Discussion of Findings

First objective investigated the effect of relative advantage on Islamic bank adoption in Nigeria. Result from the multiple regression analysis (t =6.074, p-value< 0.006) revealed positive effect of relative advantage on Islamic banking adoption in Nigeria at 0.05% level of significant. The finding is in line withThambiah(2012), Echchabi andAbd.Aziz (2015), Amin (2016), as well as Abd. Aziz (2017).This contradicts the results of Hussein (2016) and Ezekweze (2018) which concludes that relative advantage significantlyaffectIslamic banking adoption in Tunisia. The result is also in line with the assumption of innovation and diffusion theory which suggests that

innovation with some advantages and ease of use will be easily adopted by an individual. Result also concurs with the *a-priori* expectation that, perceived relative advantage would extremely increase Islamic banking adoption in Nigeria. Furthermore, to a large extent, innovation diffusion Theory assumptions lend credence to these findings because diffusion is perceived as innovation that will benefits the new users if effectively implemented.

Second objective assessed the effect of compatibility on Islamic banking adoption in Nigeria. Result from table 6 showedthatperceived compatibility and Islamic banking adoption have significant and positive relationshipwith (t = 17.652, p < 0.037). Compatibility is the second variable that determined Islamic bankadoption in Nigeria. The finding is consistence with Thambiah(2012),Ayinde andEchchabi (2014),Echchabi and Abdulaziz (2015) as well as Abdulaziz (2017) which concludes that some customersprefer to adopt Islamic bank products if it is in line with Islamic shariah.

Third objective examined the impact of social influence on Islamic banking adoption in Nigeria. The result from table 6impliedpositive impact of social influence on Islamic bank adoption in Nigeria with (t = 17.307, p < 0.021). The findings is similar to the studies carried out by Lada (2014), Amin (2015), Md-Taib (2018) and Ulamak (2019) which concludes that subjective norm or social influence motivates the use of Islamic banking products. However, Venkatesh (2017) and Davis (2019) found that Shariah board committee, other members and peer group have no significant impact on Islamic banking adoption in Ghana. Theory reasoned actionpostulates that customers adopted Islamic banking because of their expectation about the anticipated performance of the product, and quality service is achieved when a service provider offering a service that exceeds their customers expectation. The theory further supports that Social influence is one of the determinant of Islamic banking adoption.

Conclusion and Recommendations

The study concludes that relative advantage,compatibility, and social influence have positiveeffecton Islamic banking adoption in Nigeria.Thus, the residence of Kwara, Niger, Abuja, Kaduna, Zamfara, Sokoto and Katsina wish to adopt Islamic bank in Nigeria.

The study, therefore recommends that Islamic financial institution should create awareness about Islamic bankproducts among non-users.Also, Islamic bank should package it products in such a way that will be compatible with the needs of non-Muslims customers.

Study extends contribution of previous studies on determinants of Islamic banking adoption on variables such as relative advantage, compatibility, and social effect. The impacts of the three factors have not been investigated on individual level. Study also found that Technology acceptance theory cannot be used to assess the determinant of Islamic banking adoption. Nevertheless, the theory is important in explaining the determinant of mobile banking adoption in Nigeria.

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