



الإمارات الإسلامية
EMIRATES ISLAMIC

**ISLAMIC
BANKING
INDEX
BY EMIRATES
ISLAMIC™**

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Introduction



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Islamic banking continues to grow globally, with the UAE at the forefront of a dynamic effort to broaden its appeal. Despite a challenging year in the global economy, the Islamic banking sector has continued to expand, with increasing numbers of consumers seeking out Shari'a-compliant banking solutions.

In line with the vision of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, Dubai has maintained its place as the gateway to the global Islamic economy. There will be even greater focus on Islamic finance, which continues to grow in popularity in the UAE, as global attention is focused on Dubai in the run up to EXPO2020. We, at Emirates Islamic, one of the UAE's leading Islamic financial institutions, are proud to have been at the forefront of the development of Islamic banking both in the UAE and globally. We look forward to maintaining our position as a market leader and to lead the growth of Islamic banking in general.

The ISLAMIC BANKING INDEX by EMIRATES ISLAMIC, now in its third year, is a first-of-its-kind consumer survey created to be the key measure of the progresses and successes of the Islamic banking sector in the UAE. It offers insights into the behaviour and intentions towards Shari'a-compliant banking, by observing the health of the industry in the UAE.

We see that Islamic banking continues to increase in terms of penetration and reputation in the UAE, but, there are still improvements to be made in awareness and understanding of products. While certain Islamic banking products are becoming increasingly popular among Muslim consumers, conventional products continue to dominate for non-Muslim consumers. However, non-Muslims are increasingly open to using Shari'a-compliant banking products.

There has also been much improvement in the way Shari'a-compliant banking is perceived. This year, more respondents said that they believed that Islamic banks were trustworthy, financially sound, supportive of the community in meaningful ways, offer low transaction fees and the best rates for borrowing or financing and profit rates on deposits. Conventional banks are still considered by more people to be innovative and to offer convenient access via mobile apps or the internet, but Islamic banks are closing the perception gap, with Emirates Islamic at the forefront, offering convenient digital solutions to its customers. Recognising the increasing demand for digital banking, the bank has this year continued to invest in its digitalisation drive, with a revamped mobile banking app which will allow customers to access an even greater range of services from their devices.

The INDEX also provides insights into the areas in which Islamic banks are performing better than, or on a par, with conventional banks, and areas in which we can improve. At Emirates Islamic, we are excited about the challenges that lie ahead, as we continue to help Islamic banking take centre stage in global finance in the run up to EXPO2020.

Methodology

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

The third annual ISLAMIC BANKING INDEX by EMIRATES ISLAMIC gives vital insights into the progress and penetration of the Shari'a-compliant banking sector in the UAE. Our methodology, questionnaire and sample size remain consistent with the first INDEX, carried out in 2015, to provide accurate information on this fast-growing sector.

In July 2017, we surveyed 909 people aged 18 and over, both men and women, Muslim and non-Muslim, with a minimum income of AED 5,000 per month, across all seven emirates and all nationality groups. All those who responded are banking customers – using banks for their personal finance needs – and completed the survey online.

The findings show the uptake, perception, attitude and receptiveness of the UAE's consumers towards Shari'a-compliant banking, as well as industry progress, and areas of untapped potential. The survey is based on consumers' personal views and may differ from publicly reported information.

Top Findings

Four indicators of Islamic banking in the UAE

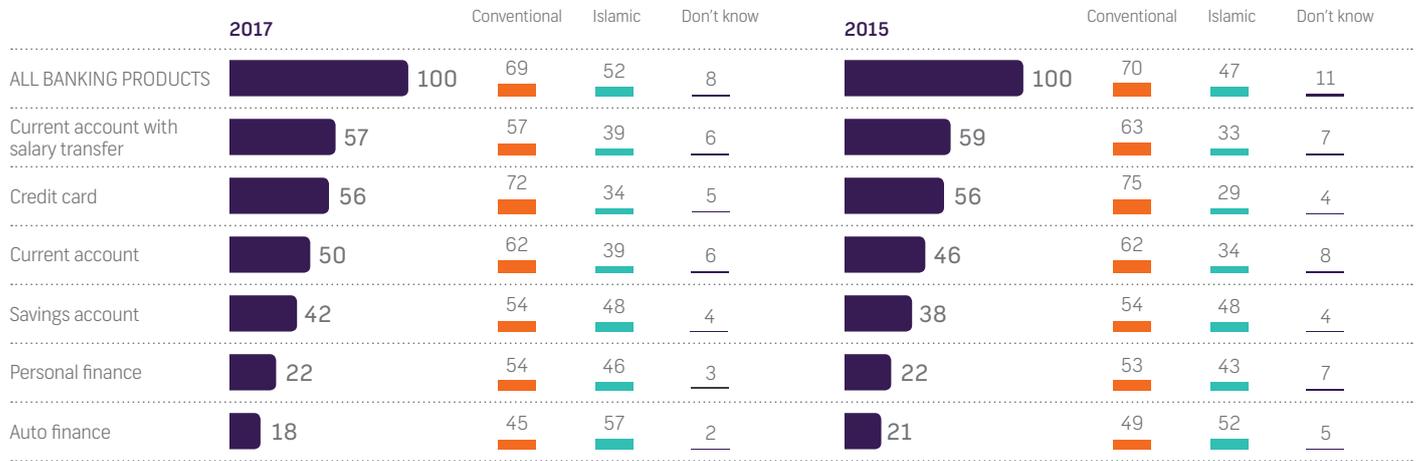
	2017	2016	2015
PENETRATION SCORE	52%	51%	47%
PERCEPTION SCORE	31%	29%	26%
KNOWLEDGE SCORE	36%	37%	36%
INTENTION SCORE	74%	79%	75%

Notes:

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

Penetration

% Penetration score amongst consumers



Base: Total respondents

More than half of UAE consumers - 52% - have at least one Islamic banking product – a 5 point increase since 2015

Use of Islamic banking products is on the increase, while at the same time, the perception of Shari'a-compliant products continues to improve. There has been a 7 point increase in the use of Shari'a-compliant banking products by non-Muslim customers, while use of Islamic banking products by Muslims has remained consistent, with increases seen in some areas.

The Islamic auto finance sector is significant, with 70% of Muslims using an Islamic auto finance. Of non-Muslims, 64% opted for a conventional auto finance, down 6 points since 2015, while 32% opted for an Islamic banking product, an increase of 3 points.

% Penetration score amongst consumers



Base: Total respondents

37% have an Islamic banking product from an Islamic bank – a 3 point increase since 2015

Overall, conventional banking products are still the preference of non-Muslims, but there have been large increases in the use of Islamic banking products since 2015. There has been a 9 point increase in the use of Islamic salary transfer bank accounts and 10 points increase in the use of Shari'a-compliant personal finance since 2015. There is a

significantly higher frequency of Muslims using conventional products in just one area, credit cards, with 69% saying they use conventional cards, and 39% saying they use Islamic cards. In addition to the preference for Islamic auto finance, 63% said they used Shari'a-compliant savings accounts while 44% use conventional products.

% Penetration score amongst Muslims

	2017			2015		
	Conventional	Islamic	Don't know	Conventional	Islamic	Don't know
ALL BANKING PRODUCTS	65	61	4	63	62	9
Current account with salary transfer	51	47	4	55	47	4
Credit card	69	39	2	70	38	2
Current account	57	48	2	54	46	6
Savings account	44	63	3	36	67	3
Personal finance	51	55	1	41	59	5
Auto finance	35	70	0	34	68	3

Base: Muslim respondents

Seven out of ten Muslim consumers now use a Shari'a-compliant auto finance

The use of conventional credit cards by non-Muslim consumers has decreased since 2015 in favour of Islamic cards, from 80% for Islamic cards in 2015 to 76% in 2017. Non-Muslims are increasingly using Shari'a-compliant cards,

with the percentage increasing from 21% to 28%, presenting an opportunity for Islamic banks to continue this upward trend.

% Penetration score amongst non-Muslims

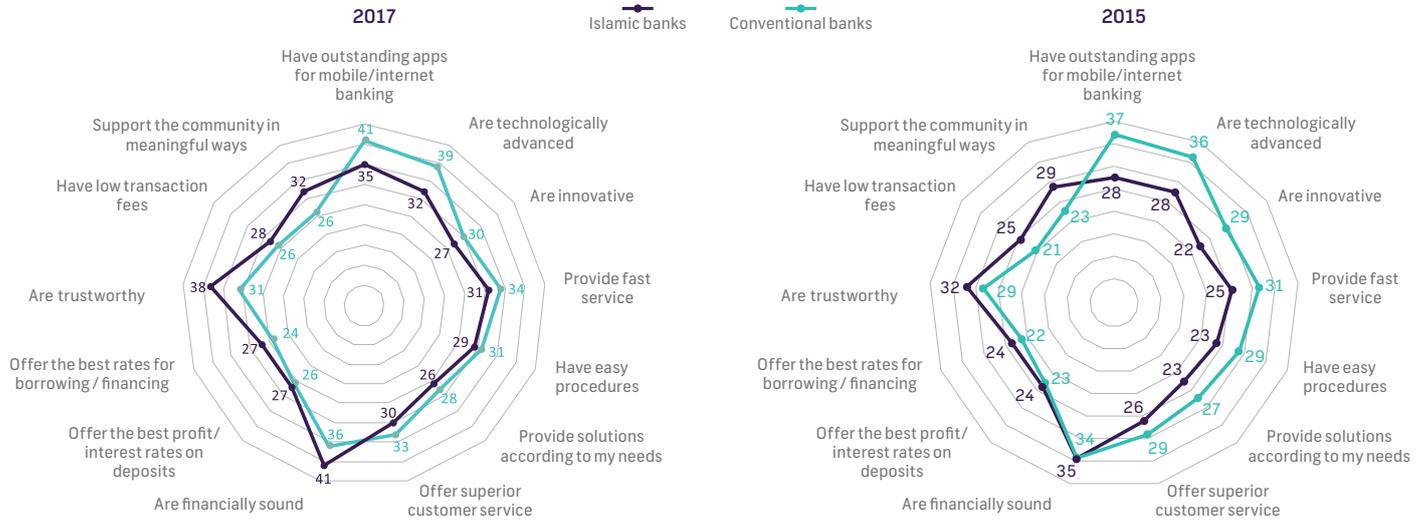
	2017			2015		
	Conventional	Islamic	Don't know	Conventional	Islamic	Don't know
ALL BANKING PRODUCTS	75	38	13	79	31	13
Current account with salary transfer	65	27	9	73	18	10
Credit card	76	28	9	80	21	6
Current account	72	21	11	75	15	12
Savings account	69	27	7	77	22	5
Personal finance	58	37	6	65	27	9
Auto finance	64	32	5	70	29	6

Base: Non-Muslim respondents

The use of Islamic credit cards by non-Muslims has increased by 7 points since 2015

Perception

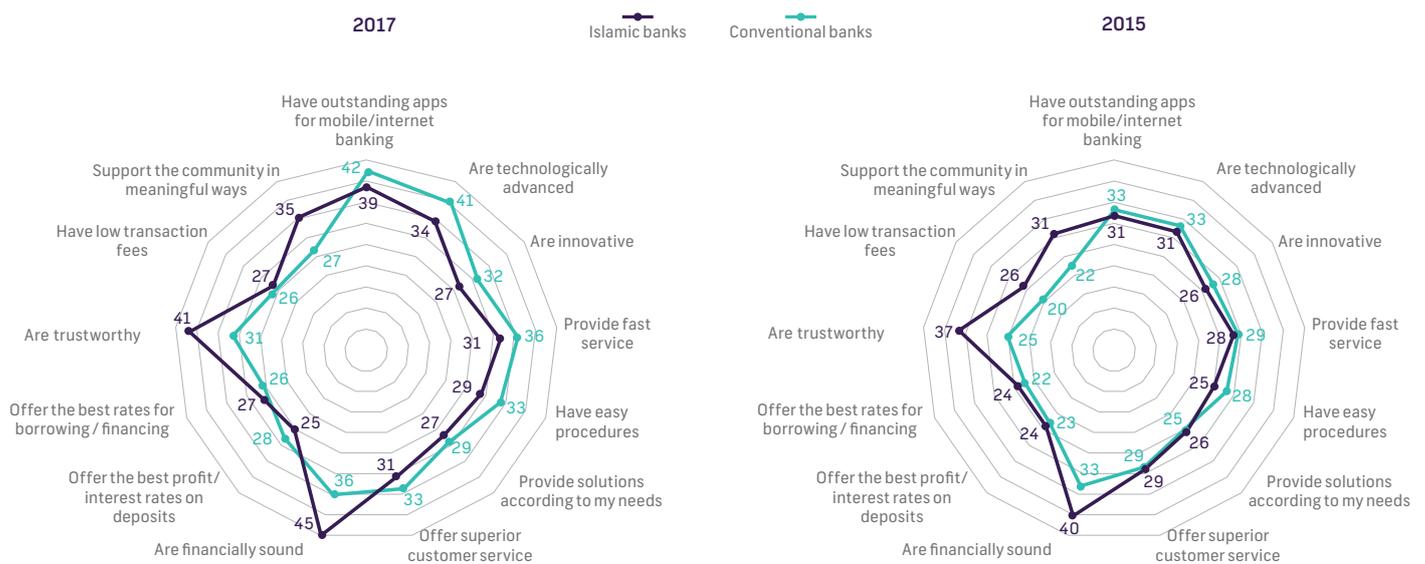
% Strongly agree amongst consumers



Base: Total respondents

The perception of Islamic banks versus conventional banks has begun to shift, with Islamic banks equalling conventional banks for the first time since the INDEX began

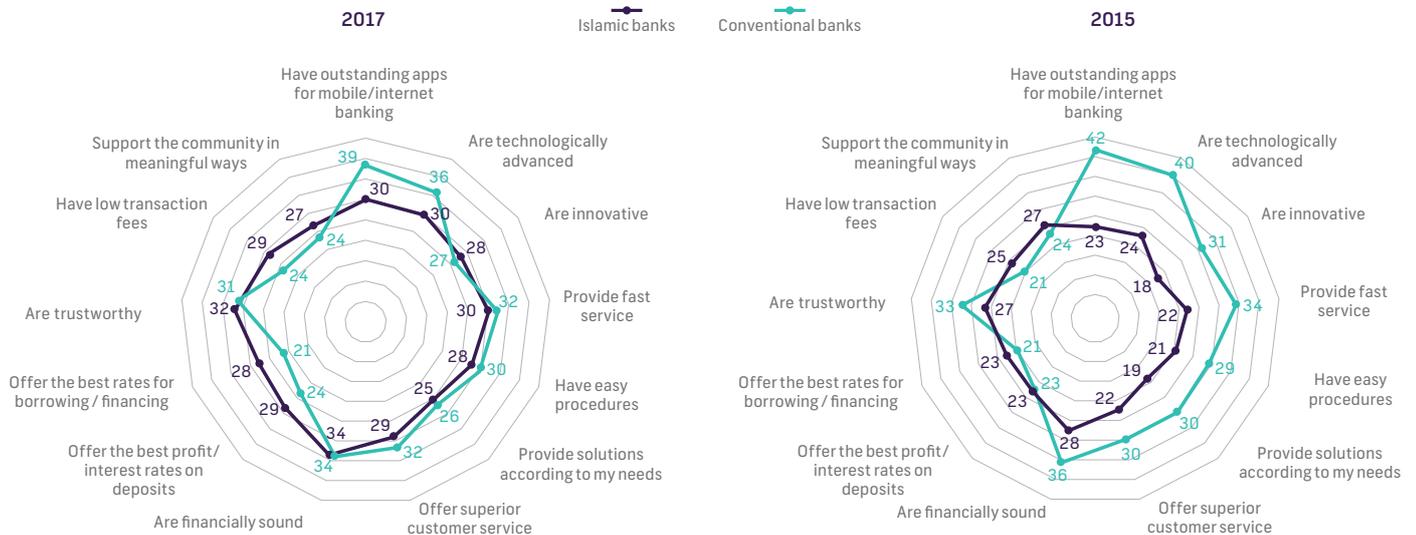
% Strongly agree amongst Muslims



Base: Muslim respondents

41% of Muslim consumers believe Islamic banks are trustworthy while 31% believe conventional banks are trustworthy

% Strongly agree amongst non-Muslims



Base: Non-Muslim respondents

29% of non-Muslim consumers believe Islamic banks offer the best profit rates on deposits, while 24% believe that to be true of conventional banks

Consumers’ perception of reputation is key to the success of any financial provider. The INDEX shows that the perception of Islamic banks versus conventional banks has shifted, as, for the first time, consumers’ overall perception of Islamic banks was nearly equal with that of conventional banks.

The most significant finding was a narrowing of the perception gap between Islamic and conventional banks when it comes to ‘fast service’, ‘easy procedures’, ‘providing solutions according to need’ and ‘offering superior service’. In particular, Islamic banks demonstrated a dramatic improvement in customers’ perception of providing superior service, especially among non-Muslim customers.

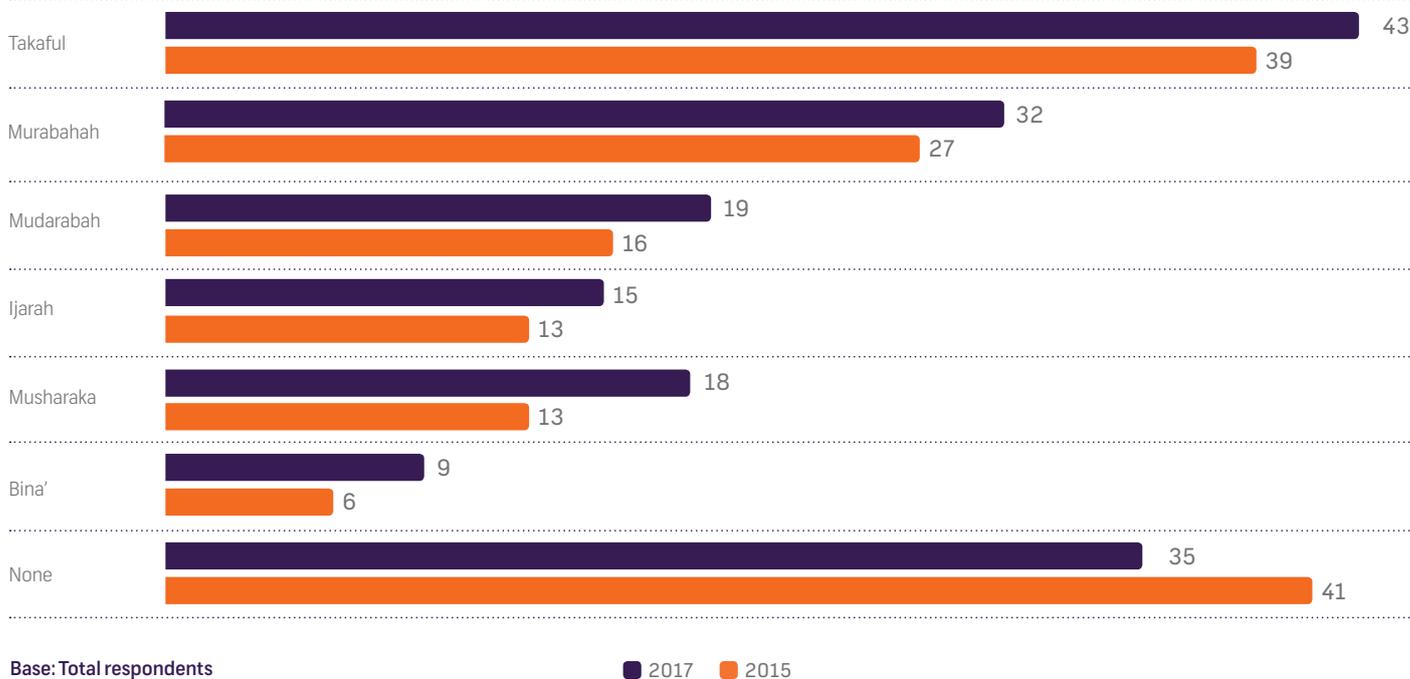
Previously, more people considered conventional banks to be financially sound, but in 2017, 41% strongly agreed that Islamic banks were financially sound, while 36% thought that applied to conventional banks. Islamic banks also returned to

scoring higher for being perceived as having low transaction fees, with 28% strongly agreeing that Islamic banks have low transaction fees, and 26% believing the same about conventional banks.

This year, in common with 2016, Islamic banks were considered more trustworthy than conventional banks, scoring 38% - 7 points higher than conventional banks. The gap between the perception of conventional and Islamic banks’ use of mobile apps, technological advancement and innovation has continued to decrease. For example, in 2015, 42% of respondents thought that conventional banks have outstanding apps for mobile or internet banking and 23% thought the statement applied to Islamic banks, while the figure was 41% for conventional banks and 35% for Islamic banks in 2017.

Knowledge

% Islamic banking product

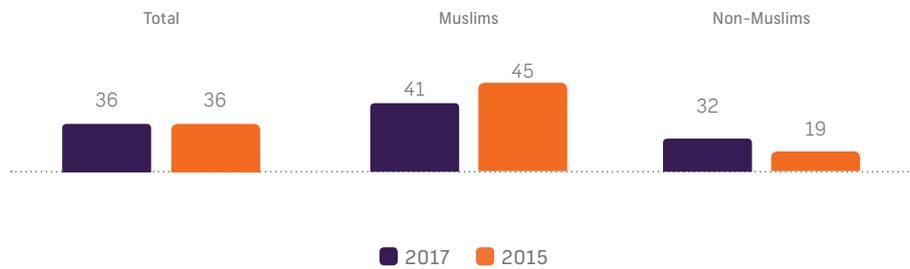


Knowledge of Islamic finance continues to grow with 65% of consumers familiar with at least one Islamic banking product

There has been an encouraging increase in awareness of Islamic banking products with approximately 65% of respondents aware of at least one - an increase of 6 points since 2015. Awareness of the names of Islamic banking products, Takaful, Murabahah, Mudarabah, Ijarah, Musharaka and Bina' has increased across the board, among both users and non-users, with Takaful and Murabahah being

the best-known. More non-Muslims said they were aware of Takaful than Muslims, showing growing awareness of Shari'a-compliant insurance products. The increase in the number of respondents able to correctly identify the definition of Murabahah also continued, with 60% choosing the correct option.

% Knowledge score



Base: Total respondents

Knowledge of Shari'a-compliant products is increasing faster among non-Muslims

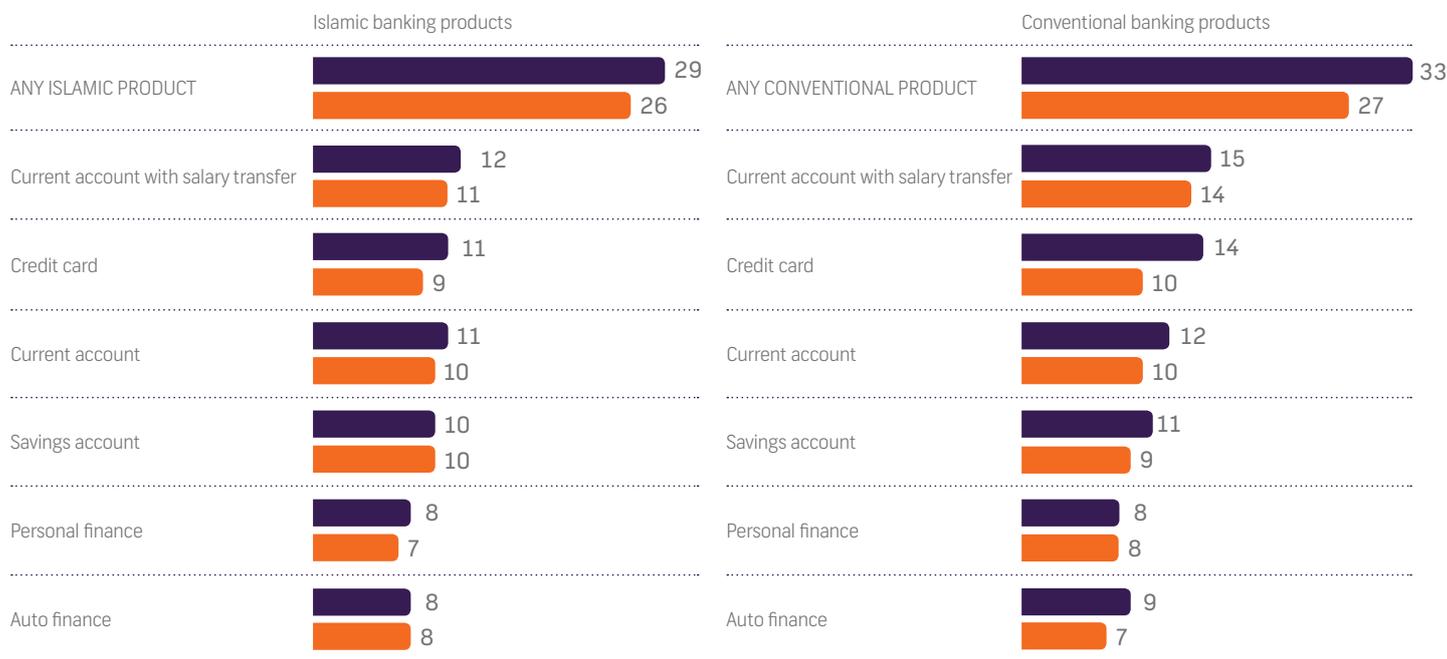
Users of Islamic banking products were more successful at correctly defining of Murabahah than non-users, with 55% selecting the correct definition, a 4 point decrease since 2015, while 33% of non-users selected correctly, a 11 point decline since 2016. This shows a need to educate existing users and non-users about Islamic finance.

The survey shows a 13 percentage point rise since 2015 in the number of non-Muslim respondents able to

correctly define Murabahah, however this is tempered by a 4 percentage points decline in the score for Muslims (45% versus 41% in 2015 and 43% in 2016). When knowledge scores are compared with penetration levels - which show 52% of UAE consumers have at least one Islamic banking product - it is clear that a limited understanding of the structure of Islamic banking products is no deterrent to their uptake. It is also likely that improved awareness of Islamic banking products and services could spur broader demand.

Intention

% Very likely to subscribe



Base: Total respondents

■ 2017 ■ 2015

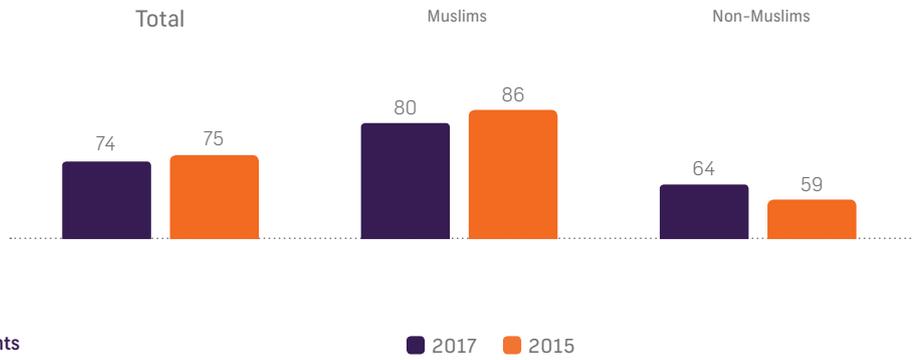
Consumers are only slightly more likely to apply for a conventional banking product in the next six months

There is high interest in Islamic banking products among intenders in the UAE, with the majority of those who would subscribe to a banking product in the next 6 months willing to consider them. More than three quarters - 78% of respondents - are open to using Islamic banking products in 2017, an overall increase of 2 points since 2015. The percentage of Islamic banking core users has increased steadily since 2015, by 3 points per year, to 28%. In addition, the percentage of consumers who have never sought to use Shari'a-compliant products has reduced from 22% to 19%. For individual products, there was equality between conventional and Islamic, with no variance or differences of between 1% and 3%. Respondents are equally as likely

to apply for an Islamic personal finance as they are for a conventional personal finance.

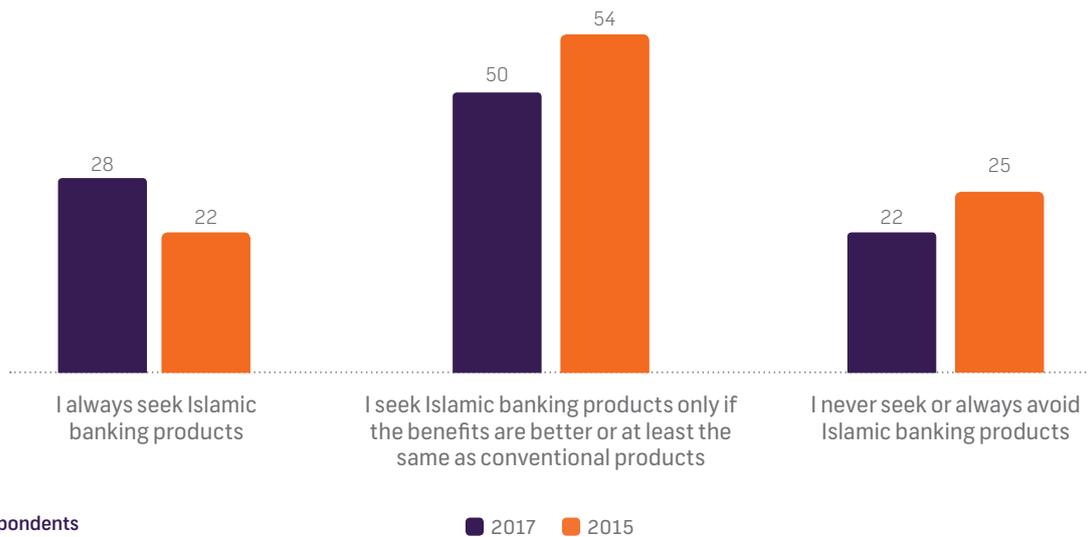
Of Muslim consumers, 35% said they are very likely to apply for a conventional banking product within the next six months, with 33% saying they are very likely to apply for an Islamic banking product. They are equally likely to apply for an Islamic current account as they are a conventional current account. As expected, overall, the number of intenders (those very likely to subscribe to an Islamic banking product in the next six months) is higher among Muslims than non-Muslims - 80% of Muslims versus 64% of non-Muslims - a total score of 74%.

% Islamic potential score



Muslims intenders are more likely to subscribe to an Islamic banking product in the next 6 months than non-Muslim intenders

% Islamic banking potential



28% of the market are core Islamic users but over three fourths are open to Islamic banking products

Opportunity for growth

Advancing the growth of Islamic finance: Raising consumer awareness of Shari'a-compliant finance is the key to future success

The 2017 ISLAMIC BANKING INDEX by EMIRATES ISLAMIC shows that the opportunity to widen Islamic banking's overall market share continues to improve, with three quarters of those surveyed saying they were open to using Shari'a-compliant financial products. While levels of the use of Islamic banking products among Muslims remained consistent, their use by non-Muslims increased, suggesting market potential among those of other religions. There is untapped potential among Muslim consumers when it comes to credit cards, with 69% saying they have a conventional product versus 39% who said they have an Islamic card, with Islamic cards decreasing 3 points on last year. Conversely, while non-Muslims continue to show a preference for conventional credit cards over Islamic cards - 76% versus 28% - Islamic cards saw 11 points increase on last year. There is also an increased willingness among non-Muslims to use Islamic banking products, with fewer than ever before saying they have never sought them out, just 19%. Overall, the level of "intenders", those saying they are very likely to use an Islamic banking product within the next six months, has remained flat while the percentage of people unwilling to try Islamic banking products at all stays consistently low at 3%.

Additionally, there have been significant steps forward in the perception of Shari'a-compliant banking. The perception gap between Islamic and conventional banks when it comes to 'fast service', 'easy procedures', 'providing solutions according to need' and 'offering superior service' has narrowed considerably. In particular, Islamic banks demonstrated a dramatic improvement in customers' perception of providing superior service, especially among non-Muslim customers.

Consistent with previous years, more respondents thought 'financially sound' applied to Islamic banks than conventional banks.

When it comes to technological advancement, conventional banks remain ahead of Islamic banks, with more respondents believing that conventional banks are technologically advanced and have outstanding apps for mobile banking or convenient online banking. However, the gap between conventional banks and Islamic banks in this respect has continued to close, indicating that Islamic banks have an opportunity to improve their status by investing in technological advancement. Among non-Muslims, Islamic banks are more at par with conventional banks regarding innovation, with 28% believing Islamic banks are innovative, compared with 27% believing the same applies to conventional banks, representing a shift from 2015 when 18% believed Islamic banks were innovative compared to 31% thinking the same about conventional banks.

Additionally, knowledge of Islamic banking has grown in some respects, with 65% now saying they were aware of at least one Islamic banking product, a 6 points increase since the INDEX began in 2015.

In summary, Islamic banks can expand their reach with a continued drive towards innovation and digitalisation, complemented with efforts to increase awareness levels of the benefits of Shari'a compliant banking and its superior service approach.



A white paper on the Findings of the
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