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# Moderation effect on Islamic banking preferences in UAE

## Abstract

**Purpose:** This study examined the direct and indirect moderation effects of demographic and social-economic factors on the adoption of Islamic banking in UAE.

**Design/methodology/approach:** Convenience sampling was done on the residents of Sharjah, Dubai and Abu Dhabi. A closed ended questionnaire with 30 items was designed and pre-tested before the start of the study. Path analysis and moderation testing were the main analytical approach. A total of 320 respondents completed the survey.

**Findings:** The research revealed that demographic and social-economic moderators may have direct and indirect moderation effects on the adoption of the Islamic banking in the UAE, which indicates the importance of these factors in the provision of Islamic banking products and services in the UAE.

**Practical implications:** This study further revealed that these moderators have huge practical implications for Islamic bank managers and marketers as they can exploit these demographics to enhance their market share in the UAE.

**Social implications:** In UAE, minimal attention has been directed toward the role moderators would play in the criterion that individual investors would use in the adoption of Islamic banking products and services in a cosmopolitan environment that is experiencing competition from conventional banks.

**Originality/value:** An extensive review of the existing literature on the adoption of Islamic banking reveals that no empirical research has been undertaken to explore the role played by demographic and social-economic moderators in the adoption of Islamic banking in UAE and internationally. This study attempts to fill this gap.

**Key words:** Adoption of Islamic Banking, Awareness on Islamic Banking, Demographic impact in Islamic Banking, Islamic financial services marketing, Level of Islamic financial literacy, Moderation effect on Islamic Banking

## 1.0 Introduction

The essence of Islamic finance is that it strictly adheres to the rules of Sharia (Islamic law) in its day-to-day operations, and one of the most distinctive features of Islamic finance is the avoidance of interest in all its financial dealings (Khan and Bhatti, 2008, Salman and Ausaf, 2004). According to Chapra (1985), Since Islamic finance is perceived as a value-based system, it should strive to achieve certain Islamic objectives such as social equity, the alleviation of

poverty and human well-being. Other scholars who came to the same conclusion include (Ahmed, 1994, Naqvi, 1982, Saeed, 2012, Siddiqi, 2000, Zarqa, 1983). Consequently, the adoption of the Islamic financing model is supposed to enhance the self-esteem of the faithful investor as he or she has the comfort of complying with the tenets of Sharia (Islamic law) in this respect (Dogawara, 2011, Wilson, 2007). Furthermore, the resilience of Islamic finance during the last financial crisis has attracted attention to its underlying concepts (Hasan and Dridi, 2010). Another important feature of Islamic finance is the role it can play in tackling financial exclusion, as it removes the access barrier for those who are financially excluded on religious grounds. For instance, the authorization of Islamic finance in Turkey in late 1980s encouraged many Muslims of Arab origin to invest in Turkish banks, which has greatly contributed to the country's economic development by adding USD50 (Mehmet, 2013).

Several studies have been published with regard to factors that influence Islamic banking in the Middle East and North Africa (MENA) region. Some of these relevant studies have been summarized on Appendix 1.

<b>Appendix 1: Selected studies from the MENA region that investigated factors influencing Islamic banking</b>		
Author (s)	Country	Factors that influence Islamic banking; Finding(s)
Erol et al. (1990)	Jordan	Availability of parking space, confidence in bank manager, mass media advertising, external appearance of the bank, and recommendations from friends and relatives had insignificant contribution to selection of an Islamic bank. No demographic variables were investigated.
Edris (1997)	Kuwait	Size of bank assets, location, banking experience, Kuwaiti ownership, Islamic banking practices, availability of branches abroad, lending policy, reputation, range of services, innovation, and interests on deposits. No demographics were investigated.
Metawa and Almosawi (1998)	Bahrain	Religiosity was reported as the most important factor in selection of Islamic banks. Awareness and usage patterns of Islamic bank products and services were reported to be below the awareness levels for the majority of the products and services that were investigated. Demographic variables were investigated. A significant relationship was reported between age and usage of ATM's; income and usage of current account; income and usage of investment account; income and usage of money orders/drafts; income and investment accounts; level of education and usage of current account; level of education and ATM cards; the number of years of Islamic banking and the awareness of the availability of various banking services.

Naser et al. (1999)	Jordan	Islamic bank's name, image, confidentiality, reputation, lack of awareness of the meaning of specific Islamic banking terms, religious reasons. Demographics were investigated. Nationality & religion were insignificant factors in regards to satisfaction with Islamic banks. Significant differences were reported between age and efficiency of handling problems on phone; gender and personnel advice and their proficiency.
Almossawi (2001)	Bahrain	The five most influential factors were convenient ATM locations, availability of ATM in several locations, bank's reputation, 24-hours availability of ATM services, and availability of parking space nearby. Demographics were investigated. Significant differences were reported between male and female on convenient ATM locations, availability of ATM in several locations, bank's reputation, and 24-hours availability of ATM services. Availability of parking space nearby was insignificant.
Jamal and Naser (2002)	UAE	Customer service was found to be based on the delivered quality service and customers' experience with the service delivery process. Demographic differences, that is, education levels and income levels, were reported as important factors in determining the way customers expressed their satisfaction with the bank.
Hossain and Leo (2009)	Qatar	The five most important factors that influenced customer perception on quality services were: Infrastructure facilities (parking, ATM), banks network and convenience business hours, reputation of the bank, confidentiality of accounts and transactions, different income earning options and providing prompt information to customers. No demographic variables were investigated.
M. Bizri (2014)	Lebanon	The five most important factors identified were: trust and compliance with Sharia, customers' familiarity with Islamic modes of finance, cost of financing, accessibility of Islamic banks and quality of services offered. Demographic variables were investigated where religion, age and employment status were able to predict group membership for the Islamic bank clients with high significance.
Abou-Youssef et al. (2015)	Egypt	Religiosity had an impact on consumer attitudes towards Islamic banking. Demographic variables were investigated. Significant differences were reported between: age and religiosity, gender and religiosity, and finally between income and religiosity. The younger ages were reported to be average in religiosity while the older ages were more religious. Females were reported to agree and were more neutral

		regarding religiosity.
Souiden and Rani (2015)	Tunisia	Beliefs in Islamic religion and fear of divine punishment were reported to motivate individuals to develop a positive attitude toward Islamic banks. However, upon testing an alternative model, religiosity was reported to have an indirect effect on purchase intentions of Islamic bank services via attitude towards Islamic banks. No demographic variables were investigated.
Al-Tamimi and Al-Amiri (2003)	UAE	The relationship between Service quality and SERVQUAL was positive and significant. Empathy and tangibility were the most important factors. Significant differences were reported on: service quality and age; service quality and education levels; and service quality and number of years as a bank customer.
Al-Tamimi et al. (2009)	UAE	Islamic bank customers were not satisfied with the quality of products and services. Customers had a positive image with Islamic banks. Bank products were the first important factor in selection of an Islamic bank, followed by service quality, then religion. Gender, education, and duration of the relationship had a significance difference on the way customers' perceived Islamic banks.
Hassan Al-Tamimi and Anood Bin Kalli (2009)	UAE	A financial level lower than the needed level was reported. Income, education level, work place activity were reported to affect financial literacy. Gender had a significant difference on financial literacy levels. Religiosity was reported to have an influencing effect on investment decisions.
Kassim and Souiden (2007)	UAE	A significant relationship was reported between: image and quality of services; image and satisfaction; image and retention; quality services and satisfaction; quality and retention; and satisfaction and retention. Satisfaction had a direct effect on retention; image had a positive effect on quality, satisfaction and retention. However, the relationship between service quality and service retention was insignificant.
Sayani and Miniaoui (2013)	UAE	Bank reputation and expectation of profit on deposits had no influence on selection of an Islamic bank. Religiosity had an influence on the selection of Islamic banks.
Abduh and Othman (2014)	UAE	The five most Important factors that influenced Islamic banking were: fast and efficient services, friendly personnel, Sharia compliance banking products, location of ATM's, and variety of banking products and services. No demographic variables were investigated.

## 1.1 Purpose of the study

The objective of the current study is to assess the role played by demographic and social-economic factors on the adoption of Islamic banking products and services in United Arab Emirates (UAE). The effect of moderators such as age, gender, possession of a bank account, the level of education, and employment status is investigated. In addition, the study examines the direct and indirect moderation effect of the factors that affect the adoption of Islamic banking in UAE.

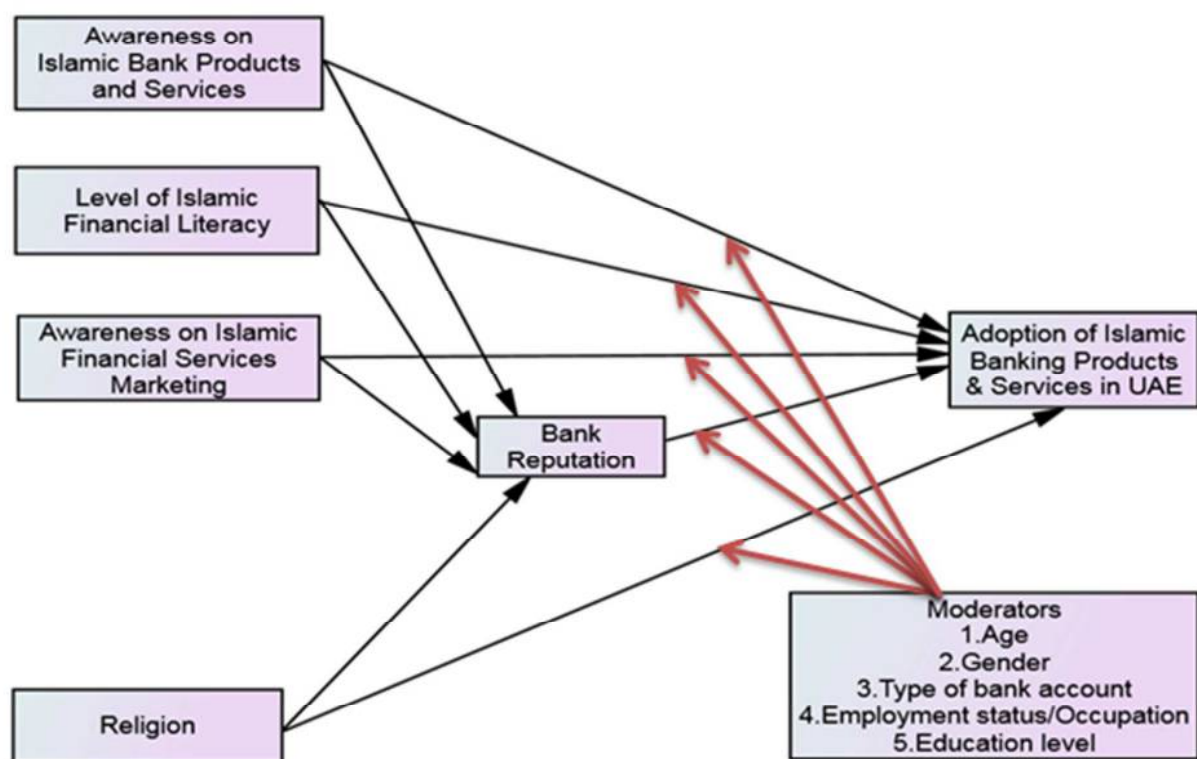
An extensive review of the existing literature on the adoption Islamic banking reveals that no empirical research has been undertaken to explore the role played by demographic and social-economic moderators towards the adoption of Islamic banking in UAE. In UAE, minimal attention has been directed towards the role moderators would play in the criterion that individual investors would use in the adoption of Islamic banking products and services in a cosmopolitan environment that is experiencing competition from conventional banks. In this study, an attempt to fill this gap is made using path regression analysis and moderation testing using AMOS. We will also develop a hypothetical model based on existing literature on factors that influence the adoption of Islamic banking products and services that will help us meet the research objectives of our study.

## 1.2 Hypothetical model

The purpose of conducting the current study is to determine the main moderation factors that contribute to the adoption of Islamic banking model in UAE. The study intends to examine residents in UAE irrespective of their possession of an account in an Islamic bank, a conventional bank, or none. Previous studies have outlined service quality (Jabnoun and Khalifa, 2005, Al-Tamimi et al., 2009, Al-Tamimi and Al-Amiri, 2003, Jabnoun and Hassan Al-Tamimi, 2003), awareness level (Bley and Kuehn, 2004) , religion (Bley and Kuehn, 2004, Hassan Al-Tamimi and Anood Bin Kalli, 2009), trust (Jabnoun and Khalifa, 2005), networking (Al-Tamimi and Hussein, 2010), perception (Bley and Kuehn, 2004, Suliman and Al Obaidli, 2011, Al-Tamimi et al., 2009, Jabnoun and Hassan Al-Tamimi, 2003), marketing (Bley and Kuehn, 2004, Al-Tamimi and Hussein, 2010), customer satisfaction (Jabnoun and Khalifa, 2005, Awamleh and Fernandes, 2005, Masood and Abdul Rehman, 2012, Al-Tamimi et al., 2009), type of products (Mansoor Khan et al., 2008), and knowledge (Bley and Kuehn, 2004, Mansoor Khan et al., 2008, Jabnoun and Khalifa, 2005) as the main factors that would influence the growth of Islamic banks in UAE. In the current study we examine awareness about Islamic banking products and services, level of Islamic financial literacy, Islamic financial services marketing, religion and reputation to see if they have direct and indirect influence on the adoption of Islamic banking model in UAE. We also hypothesize that the direct influences are moderated by age, gender,

possession of a bank account, the level of education and the employment status. The hypothetical model of the current study is shown on Figure 1.

*Figure 1: Hypothetical model used in the study.*



## 2.0 Literature Review: Moderation Testing

In the current study, we explore the interaction of awareness about Islamic banking products and services, level of financial literacy, reputation of Islamic banks and religion as they are moderated by age, gender, education, employment status, and type of bank account held on the adoption of Islamic banking products and services in Sharjah, UAE.

2.1 Interaction of awareness about Islamic bank products and services with age, gender, education, employment status, and type of bank account held.

A study by Erol and El-Bdour (1989) in Jordan found that conventional bank customers and Islamic bank customers didn't have any statistically significant differences with as far as the

rating assigned to the selected bank is concerned. The authors also found that peer group influence had a vital influence in the selection of Islamic banks.

Similarly, a study conducted among the Surakarta Muslim community in Indonesia by Wahyuni (2012), found a positive and significant relationship between knowledge about Islamic bank products and intention to use Islamic banks and thus it was concluded that Muslims with better knowledge on Islamic bank products had greater intention to adopt Islamic banks. Wahyuni (2012) results also opened an avenue for the inclusion of knowledge of Islamic banking products in the future design of models for studying the behavior of selection of the use of Islamic bank products and Islamic banks.

Metawa and Almosawi (1998), investigated the banking behavior of Islamic bank customers in Bahrain and reported a significant relationship between customer age and the usage of current accounts and ATM cards. In fact, they noted that current accounts were more popular among the older customers as opposed to younger generation. Furthermore, the authors reported a significant relationship between the level of education and the usage of current account and ATM cards with the two products being more popular among the well-educated customers.

Khan et al. (2008)'s study on the banking behavior of Islamic bank customers in Bangladesh reported that customers' use of Islamic products and services depend on age, and education level. A study conducted in Pakistan by Khattak (2010), also reported that age, gender, occupation, and academic qualification have significant effects on customer awareness on Islamic bank products and services. In contrary, a study conducted in Pakistan by Tara et al. (2014) showed that awareness on Islamic products and services does not significantly influence adoption of Islamic banks. Thus we state;

*M1: Age, gender, education, employment status, and type of bank account held, moderates the Interaction between awareness on Islamic bank products and services with the adoption of Islamic banking products and services in Sharjah, UAE.*

## 2.2 Interaction of Islamic financial literacy with age, gender, education, employment status, and type of bank account held.

Singh and Kumar (2015) defines financial literacy as “ knowledge of basic economic and financial concepts, as well as the ability to use that knowledge and other financial skills to manage financial resources effectively for a lifetime of financial comfort (p.102)”. In their theory and critical review of literature on financial literacy among investors, the authors noted that the levels of financial literacy of an individual would be influenced greatly by a combination of financial knowledge, attitude and behavior.



Akhter (2016), defines financial literacy as “providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices (p.2)”. The author further explains that “financial literacy primarily relates to personal finance and thus enables individuals to take effective action to improve their overall well-being and avoid distress in matters that are financial”. In her study conducted in India, Akhter (2016), found that gender was a strong determinant of financial knowledge with males performing much better in financial literacy test than females. As part of her recommendations, the author pinpointed promotion of financial literacy through adoption of basic educational programs with respect to financial issues as the core solution to development of financial skills and abilities that would foster independent financial decisions. Tara et al. (2014) found that awareness on Islamic financial literacy had a significant and positive influence on persuading the Pakistanis to adopt Islamic banking.

In a study conducted in Yazd in Iran by Taft et al. (2013) demonstrated positive relationships between age, gender, education level and financial literacy. The authors also found that men were much better than women in financial literacy though no direct relationship was demonstrated between gender and financial literacy. Gender has been demonstrated to influence financial literacy level especially with women scoring lowest compared to men (Almenberg and Säve-Söderbergh, 2011, Bhushan and Medury, 2013b, Lusardi, 2012, Volpe et al., 2002, Worthington, 2006).

Studies done by Volpe et al. (2002); Worthington (2006); Almenberg and Säve-Söderbergh (2011); Lusardi (2012) demonstrated that age had an influence on financial literacy levels whereby older persons tends to score low in terms of financial literacy levels. However, Bhushan and Medury (2013a) demonstrated that age didn't have any influence on financial literacy levels. Studies done by Volpe et al. (2002); Hassan Al-Tamimi and Anood Bin Kalli (2009); Almenberg and Säve-Söderbergh (2011); Lusardi (2012); Bhushan and Medury (2013a) demonstrated that education has an impact in terms of financial literacy level with persons having lower education scoring low levels of financial literacy. A study conducted in UAE by Ibrahim and Alqaydi (2013) on financial literacy, personal finance, and forms of personal debt among residents found that the level of financial literacy was low though no significant differences between males and females. Gupta and Negi (2014), studied the financial literacy Indians based in Himachal Pradesh. Even though the authors didn't specify the religiosity of their sample, gender, occupation and education level showed significant relationships with financial literacy but not age. Thus we state that;

*M2: Age, gender, education, employment status, and type of bank account held, moderates the Interaction between Islamic financial literacy with adoption of Islamic banking products and services in Sharjah, UAE.*

### 2.3 Interaction of Islamic financial services marketing with age, gender, education, employment status, and type of bank account held.

Erol and El-Bdour (1989) study, suggested an increase on promotional activities of the Islamic bank products and services among the peer group in order to increase potential customers' awareness of Islamic banking services. Metawa and Almosawi (1998), noticed a gap in Bahrain between awareness and usage of most Islamic bank products and services and recommended for an effective advertising and promotional strategies to lure more customers and create awareness on existing/new products and services. Tara et al. (2014)'s study in Pakistan showed that awareness in terms of advertisement had no significant influence on the adoption of Islamic banking by the Pakistanis. Rammal and Zurbruegg (2007) in their study on Australian Muslims recommended the need "to develop an effective communication plan that goes beyond just marketing and advertisement to ensure the populace is aware of how Islamic banking products operates (p.74)". A study conducted by Rashid and Hassan (2009) on the determination of customer demographics affecting bank selection criteria, preference, and market segmentation highlighted the lack of marketing among the many attributes that hinder the development of majority domestic Islamic banks in Bangladesh. Marimuthu et al. (2010) reported that mass media advertising was not a significant factor among customers when it comes to the selection of an Islamic bank in Malaysia. Similarly, Loo (2010) reported that the advertising campaigns by Islamic banks in Malaysia were ineffective in changing the attitude of both Muslims and Non-Muslims towards the usage of Islamic banking. Thus we state;

*M3: Age, gender, education, employment status, and the type of bank account held, moderates the Interaction between Islamic financial services marketing with the adoption of Islamic banking products and services in Sharjah, UAE*

### 2.4 Interaction of reputation of a bank with age, gender, education, employment status, and type of bank account held.

According to Erol and El-Bdour (1989), the choice of an Islamic bank is highly dependent on the bank reputation. Customers' opinion on a bank will determine if the customers will opt to quit the bank or remain loyal customers to the bank. Thus we predict that the higher the bank reputation, the more likely the customers will select the bank. A study conducted by Haron et al. (1994) in Malaysia found that Non-Muslims ranked reputation and image of a bank as the third important determinant in selection of a bank, while Muslims ranked reputation as the seventh important determinant. In a study conducted in Australia by Rammal and Zurbruegg (2007) to examine the awareness of Muslim Australians with regards to Islamic banking, implied that purchasing of Islamic financial products was dependent on reputation of the bank 'well known' on the provision of its services. Khattak (2010), reported as significant relationship between different age group and bank reputation.

However, Marimuthu et al. (2010), reported that size and bank reputation were not significant factors when it comes to selection of Islamic banks in Malaysia. The reputation of bank was found to have a significant and positive influence toward the adoption of Islamic banking in Pakistan (Tara et al., 2014). However, Sayani and Miniaoui (2013), in their study in UAE didn't find reputation of a bank to be among the main determinants of bank selection between the Islamic and the conventional banks. Thus we state;

*M4: Age, gender, education, employment status, and type of bank account held, moderates the Interaction between reputations of a bank with the adoption of Islamic banking products and services in Sharjah, UAE*

#### 2.5 Interaction of religion with age, gender, education, employment status, and type of bank account held.

In their study, Erol and El-Bdour (1989) found that religious motivation wasn't the primary criterion in the selection of Islamic banking services even though the authors later clarifies that "the fact that religious motivations did not appear in the analysis as being strong does not deny that they may exist (p.33)". Haron et al. (1994) compared the determinant of bank selection in Malaysia between Muslim and Non-Muslim conventional bank customers and found that only forty percent of the Muslim felt that religion was an important factor in maintaining an account with an Islamic bank. This meant that Islamic banks should not only rely on religion to attract more customers. A study conducted by Metawa and Almossawi (1998) in Bahrain, demonstrated that selection of Islamic banks was predominantly based on religious factors and the adherence to Islamic principles. The authors reported a significant relationship between customer age (especially the younger customers 25-35 years) and the role played by Islamic principles in selection of an Islamic bank. Metawa and Almossawi (1998), reported a significant relationship between education level and Islamic principles in selection of an Islamic with the well-educated customers placing more emphasis in Islamic principles.

Khan et al. (2008), study in Bangladesh noted religious principles as the main factor in the selection of an Islamic bank. Similarly, Ahmad et al. (2008) studied religiosity and the criteria of selecting a bank in Malaysia and found a significant and positive correlation between age, religious education and a higher index of religiosity. In a study conducted in Malaysia by Marimuthu et al. (2010), found religion to be a significant factor when it comes to selection of Islamic banks. Loo (2010), investigated attitude and perceptions towards Islamic banking among Muslims and Non-Muslims in Malaysia and found out that religion was ranked as the most important factor that would attract Muslims to Islamic banking, while religion was ranked as the least factor among the Non-Muslims.

Khattak (2010), investigated the factors that would influence customer satisfaction and awareness of Islamic banking in Pakistan and found out that religion was among the main attribute regarding Islamic banking selection criteria. Studies by Tara et al. (2014); Khan and Khanna (2010) found religion to significantly and positively influence the adoption of Islamic banks. A study conducted in UAE by Sayani and Miniaoui (2013) on the determinants of bank selection, found that religious preferences was the main factor considered by a customer in the choice between an Islamic and a conventional bank. Thus we state;

*M5: Age, gender, education, employment status, and type of bank account held, moderates the Interaction between Islam (religion) with the adoption of Islamic banking products and services in Sharjah, UAE.*

### **3.0 Research methodology**

This study investigates the interaction effect between demographic variables and adoption of Islamic banking model in UAE. Convenience sampling of the participants was done on the residents of Sharjah, Dubai and Abu Dhabi  $N = 320$ . A closed ended questionnaire with 30 items was designed and pre-tested before the start of the study. A total number of 437 self-administered questionnaires were randomly distributed to the residents of these cities above the age of 18 years. At the completion of the survey, the questionnaires that were uncompleted were excluded from the study and hence the completed questionnaires left were 320. Thus the response rate in the study was 73.2 percent. A 5-point Likert scale was adopted with the average response weights being; strongly agree ( $1 \geq 1.8$ ), agree ( $1.9 \geq 2.6$ ), neutral ( $2.7 \geq 3.4$ ), disagree ( $3.5 \geq 4.2$ ), and strongly disagree ( $4.3 \geq 5$ ). Moderation testing was done using AMOS while reliability testing of the data and the interactions were estimated using IBM Corp (2013). The survey instrument used in the study with respective reliability scoring on the responses is attached as Appendix 2.

#### **3.1 Measuring adoption of Islamic banking products and services.**

Adoption of Islamic banks was measured using four items. The overall Cronbach's alpha reliability was 0.748. The alpha values ranged between 0.689 and 0.691. The four items were included in the final model.

#### **3.2 Measuring awareness about Islamic banking products and services.**

Awareness about Islamic banking products and services was measured using four items. The overall alpha reliability value was 0.74. All the four items had alpha values ranging between 0.61 and 0.718. Thus none of the items was removed from the final model.

#### **3.3 Measuring awareness about Islamic financial literacy.**

Awareness about Islamic financial literacy was measured using four items. The overall alpha reliability was 0.682. The individual alpha values ranged between 0.540 and 0.630. All the four items were deemed suitable to be included in the final model.

### **3.4 Measuring Islamic financial services marketing**

Islamic financial services' marketing was measured using four items item. The overall alpha value was 0.777. The values ranged between 0.723 and 0.724. None of the four values were removed from the final model.

### **3.5 Measuring reputation of an Islamic bank.**

Reputation of a bank was measured using five items. Overall, the alpha value was 0.674. The alpha values ranged between 0.611 and 0.638. Therefore, all the five items were retained in the final model.

### **3.6 Measuring religion.**

The influence of religion was measured using three items. Their alpha values were 0.503 and 0.529. One item was removed from the final model because its alpha value was less than 0.50

## **4.0 Data analysis and results**

### **4.1 Sample characteristics**

The sample characteristics are shown on Table 1.

### **4.2 Path analysis**

The composites scores were determined for the items to come up with six observed endogenous variables; awareness about Islamic bank products and services, Islamic financial literacy, Islamic financial services marketing, religion, reputation and adoption of Islamic banking products and services.

#### **4.2.1 Normality test**

Literatures by Mooney and Duval (1993); Nevitt and Hancock (1998); Hancock and Nevitt (1999); Hancock and Nevitt (2001); The University of Texas at Austin (2016) all suggest critical values that exceeds  $\pm 2.00$  exhibits statistically significant degrees of non-normality, with values ranging between two to ten indicating moderate non-normality, while values that exceed ten indicating severe non-normality. Thus a joint Multivariate kurtosis analysis performed indicated that the critical ratio (c.r) value on our dataset had moderate non-normality;  $N = 320$ ; c.r (6.95). Thus we accept the null hypothesis that our final model was correct.

#### 4.2.2 Model fit

Path Regression Analysis was conducted using IBM SPSS AMOS (IBM Corp, 2013). The standardized estimations were obtained using Maximum Likelihood estimates method because the data wasn't suffering from severe non-normality.

The model summary of the initial model was ( $\chi^2 = 7.392$ ;  $df = 1$ );  $p = .007$ . The chi square test assumes multivariate normality and severe deviations leads to rejection of properly specified model (McIntosh, 2006). The chi square test is dependent on the sample size Bentler and Bonnet (1980); Jöreskog and Sörbom (1993), and thus a likelihood of rejecting a better fit model. Thus to account for the likelihood of rejecting a better fit model as a misfit, the model fit metric was checked using Wheaton et al. (1977) relative/normed chi-square method which suggests that the fit metric (CMIN/DF) should not exceed five for models with good fit, while Tabachnick and Fidell (2007) suggested the acceptable ratio should be below 2. The fit metric value for the initial model was 7.39. This value alone would prompt us to declare that the model was unacceptable. However, our sample size was large enough ( $N = 320$ ) and literature has it that CMIN/DF inflates with large sample sizes, and with less constructs and items (Hair et al., 2010). Simpler models and smaller sample sizes (less than 200) should apply stricter model indices cut-offs than larger (greater than 200) and more complex models, with more than 30 items higher than 30 (Hair et al., 2010). Models with large sample sizes can have an acceptable GFI cut-off level of 0.80 (Dawes et al., 1998).

The fit indices of our initial model was; Goodness of Fit Index (GFI = .992), Comparative Fit Index (CFI= .986), Incremental Fit Index (IFI= .987), Normed Fit Index (NFI =.985), which were all above their recommended levels of above 0.90 Wheaton et al. (1977); Bentler and Bonnet (1980), and well above 0.95 as suggested by Hooper et al. (2008). The Root Mean Standard Error Approximation (RMSEA=.142; PCLOSE= .034) was far above the recommended limit of less than .08 MacCallum et al. (1996), and an upper limit of 0.07 as suggested by Steiger (2007). The unconstrained standardized RMR (Standardized Root Mean Residual) value was =.024. Literatures by Diamantopoulos and Sigauw (2000); Byrne (1998) recommends an SRMR value less than .05, while Hu and Bentler (1999 ) suggests that SRMR value less than .08 is acceptable. The final model after removing four insignificant paths, that is, the relationships between awareness of Islamic banking products and services on adoption, levels of Islamic financial literacy on adoption, awareness of Islamic financial services and marketing on adoption, and religion on adoption, the relative fit indices were; ( $\chi^2 = 3.67$ ;  $df = 1$ );  $p = .299$ ; CMIN/DF = 1.22; GFI = .996; AGFI = .973; CFI= .999; IFI= .999; TLI=.993; NFI =.992; RMSEA=.026; PCLOSE= .597, and SRMR =.017. According to Hair et al. (2014, p. 589), "*multiple fit indices should be used to assess a model's goodness-of-fit and should include: the  $\chi^2$  value and its degree of freedom, one absolute fit index (i.e., GFI, RMSEA, or SRMR), one incremental fit index*

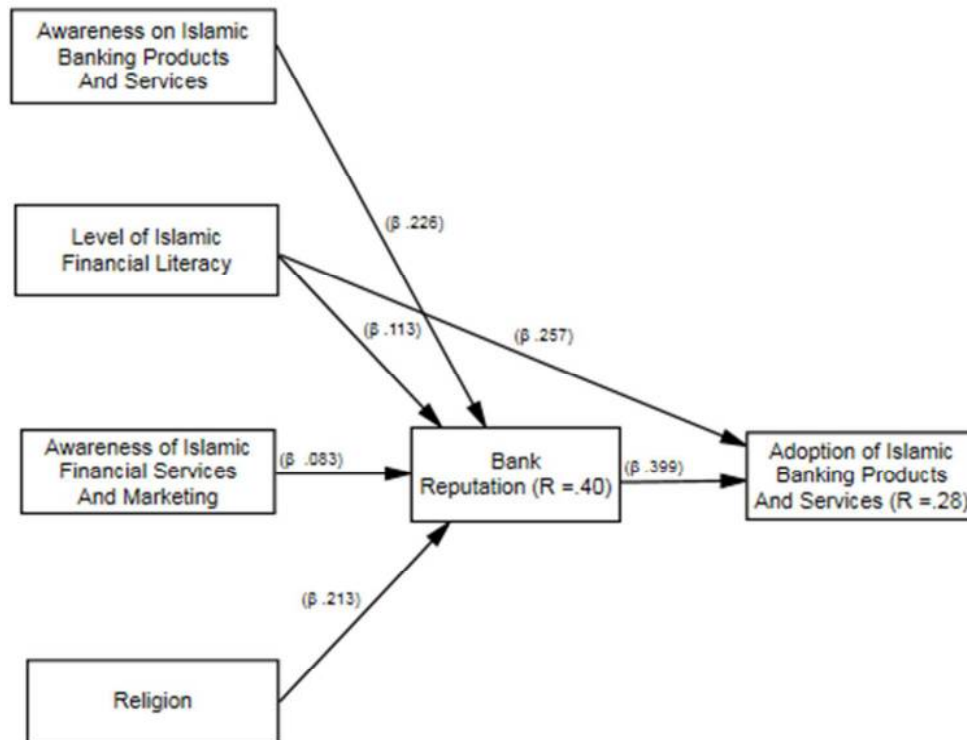
(i.e., CFI or TLI), one goodness-of-fit (GFI, CFI, TLI), and one badness-of-fit index (RMSEA, SRMR)”. Hence, our final model showed an overall acceptable fit that we had an over identified model.

Upon a closer consideration of all our fit indices, we decided to adopt Hu and Bentler (1999 ) two-index presentation strategy to ensure that our moderation analysis were fit, acceptable and able to provide us with credible findings that we were investigating in the study. Thus we concluded that the final used in the current study was fit. See Table 2 two –index strategy.

### 4.2.3 Path regression results

The R squared values estimated on reputation of a bank and adoption of Islamic banks in UAE were .40 and .28 respectively. Table 3 shows that all the interactions were significant. These preliminary results suggest that religion, Islamic financial services marketing, and awareness about Islamic bank products and services have no direct influence on the adoption of Islamic banks in UAE. Reputation of a bank had the highest and significant beta estimate ( $\beta = .399$ ) towards the adoption of Islamic banks in UAE. Therefore Islamic financial literacy and the reputation of the bank were the only two factors that were found to have a direct and significant influence on adoption of Islamic banks in UAE. Similarly, religion, Islamic financial services marketing, and awareness about Islamic bank products and services were found to have an indirect and significant influence on reputation of a bank. Nevertheless, only religion, and awareness about Islamic bank products and services seemed to have a large indirect impact on the adoption of Islamic banks with beta coefficients of  $\beta = .213$ , and  $\beta = .226$  respectively. See Figure two below.

Figure 2: Significant relationships in the proposed model



### 4.3 Moderation Testing

Moderation testing was conducted to establish if the significant interactions had any influence that was being moderated. The fit metric indices using Hu and Bentler (1999) two-index strategy for the moderation effects are attached as part of the notes on the moderation tables. Due to numerous tables that were generated during the analysis, some tables were merged to show only significant interactions. Moderation testing was also achieved by testing the regression weights on an excel macro known as stat tool package developed by Gaskin (2012). The moderated interactions were interpreted according to the significant z-score value and its associated signage. A significant negative z-score indicated a weaker moderation effect, while a significant positive z-score indicated a stronger moderation effect.

#### 4.3.1 Gender

Gender was found to have a weak but direct and significant moderation effect on the interaction between Bank reputation and the awareness of Islamic financial services and marketing. Nevertheless, the other relationships were non-significant. See Table 4. The moderation effect was much stronger and significant for females compared to males. In summary, after using gender as a moderator, we can verify that gender has a significant



moderation Interaction between bank reputation with awareness of Islamic financial services and marketing in UAE.

#### **4.3.2 Age**

Age demonstrated some significant moderated interactions. See Table 5. There was significant negative moderation effect between those persons who belong to the 26-35 years and 36-45 years age categories. Those respondents who belonged to the 26-35 years age bracket had a stronger and significant influence on the interaction between Islamic financial literacy and bank reputation compared to those who belonged to the 36-45 years age bracket. Awareness about Islamic bank products and services also had a weak, significant moderation effect between the respondents who belonged to the 36-45 years and 46-55 years age bracket. As age increases from 46-55 years to 56-65 years, the effect of awareness on Islamic banking products and services on bank reputation becomes stronger and the moderation effect significantly increases. Similarly, the moderation effect of age on the level of Islamic financial services on bank reputation becomes weaker between the 36-45 years and 46-55 years age categories. The effect becomes significantly stronger for those in the 36-45 years age bracket compared to those in the 46-55 years age bracket.

#### **4.3.3 Type of a Bank Account held**

The type of a bank account held in an Islamic bank, a conventional bank or possession of no bank account had some significant moderation effect between the levels of Islamic financial literacy on reputation of Islamic banking in UAE. See Table 6. There was a significant moderation effect by the type of account held between the Islamic account holders and those who had accounts in both Islamic and commercial banks. The effect was significantly stronger for who had accounts in both Islamic and commercial banks compared to the Islamic account holders. Similarly, there was a significant moderation effect by the type of account held between the Islamic account holders and those who had accounts no banks accounts. The effect was much stronger for those who had no bank accounts though none of the categories were significant at 95 confidence level. In summary, the type of a bank account held has a significant moderation Interaction between the levels of Islamic financial literacy on reputation of Islamic banking in UAE.

#### **4.3.4 Education level**

Education demonstrated a strong moderation effect between awareness of Islamic financial services and marketing on reputation of Islamic baking in UAE. The effect was much stronger for those who had a high school level of education compared to those who had less than a high school level of education. However, none of the two groups were significant. Similarly, a strong moderation effect between awareness of Islamic financial services and marketing on reputation

of Islamic banking in UAE was observed between those who had a bachelor's degree and those who were graduates. The effect was much stronger and significant for the graduates compared to those who held bachelor's degrees. This meant that as the level of education increase, the moderation effect of education increases.

There was a weaker moderation effect between the levels of Islamic financial services on bank reputation on persons with a high school level of education compared with persons who had less than a high school level of education. The effect was significantly stronger for those with less than a high school level of education compared to those with a high school level of education. However, the moderation effect of education was stronger between bank reputation on adoption of Islamic banking products and services. The effect was highly significant on those who had a high school level of education compared to those who had less than a high school level of education.

There was a weak moderation effect between the level of Islamic financial literacy on adoption of Islamic banking products and services. Persons with a high school level of education demonstrated a much stronger but significant effect compared with those who had a high school level of education. See Table 7.

#### **4.3.5 Employment status**

Employment status was also tested as a moderator. Employment status demonstrated a weak moderation effect between awareness of Islamic financial services and marketing on reputation of Islamic banking in UAE. The effect was much stronger and significant for those who were unemployed compared to the unskilled labourers. Similarly, a weaker moderation effect between awareness of Islamic financial services and marketing on reputation of Islamic banking in UAE was observed between those who were self-employed and those who were technically skilled. The effect was much weaker and significant for the technically skilled compared to those who were self-employed. This meant that as the effect was much stronger for the self-employed compared to the unemployed.

Employment status was found to have a direct, weaker but significant moderation effect between religion and bank reputation in UAE. The effect was significantly stronger for the unemployed compared to the unskilled labourers. Nevertheless, religion had a highly significant moderation effect between the technically skilled and those who held managerial positions with the effect being significantly stronger for the technically skilled. This meant that as the employment status increases, its moderation effect on religion and bank reputation increases.

Education also had a significant moderation effect between the levels of Islamic financial literacy and bank reputation. The effect was significantly stronger for the unskilled labourers

compared to the unemployed. Nevertheless, a weaker moderation effect was reported between the technically skilled and those who held managerial positions. The effect was much stronger and significant for those who held managerial positions compared to those who were technically skilled. This meant that the moderation effect of employment status on the relationship between the levels of Islamic financial literacy on bank reputation decreases with increase in employment position status.

Education status also moderated negatively the influence of bank reputation on adoption of Islamic banking products and services. The effect was significantly stronger among the unemployed compared to the unskilled labourers. Similarly, the effect was significantly stronger among those who held managerial positions compared to those who were technically skilled. Nevertheless, a positive significant moderation effect between the unemployed and the self-employed was reported with the effect being stronger among the unemployed compared to the self-employed. See Table 8.

## 5.0 Discussion

In the current study, we used path regression analysis to investigate the moderation effect of age, gender, possession of bank account, the level of education, and the status of employment towards the adoption of Islamic banking in UAE. The preliminary analysis shows that awareness about Islamic bank products and services, awareness of Islamic financial services marketing, and religion have only an indirect (via Bank reputation) relationship with adoption of Islamic banking products and services in UAE. However, these three factors don't have any direct significant relationship with the adoption of Islamic banking products and services in UAE. Nevertheless, the level of Islamic financial literacy has an indirect effect via bank reputation and a direct effect on adoption of Islamic banking products and services. This study thus confirms that the level of Islamic financial literacy and reputation of a bank has a direct and significant relationship with adoption of Islamic banking products and services in UAE. See Figure 2.

### ***Moderation Interaction between awareness about Islamic banking products and services with the adoption of Islamic banking model in UAE***

The study didn't find any direct significant relationship between awareness about Islamic banking products and services and adoption of Islamic banking products and services model in UAE. This finding supports Tara et al. (2014)'s study in Pakistan that demonstrated no significant relationship between awareness about Islamic banking products and the adoption of Islamic banking products and services. However, an indirect significant relationship was demonstrated via reputation of the bank. In this study, level of Islamic financial literacy ( $\beta = .226$ ) ranked the first most important determinant of bank reputation though it no direct significant effect on adoption of Islamic banking products and services. See Figure 2.

Gender had no moderation effect on the Interaction between awareness of Islamic banking products and services and the reputation of a bank with the adoption of Islamic banking model in UAE. This finding contradicts the study done by Khattak (2010) that gender has a significant effect on customer awareness on Islamic bank products and services.

Although we were not testing indirect moderation effect, it is worthy to note that the interaction between awareness of Islamic banking products and services on bank reputation was significantly moderated by employment status.

Age reported significant moderation effects between among those who belong to the 36-45 years and 46-55 years age categories; and those who belonged to the 46-55 years and 56-65 years age brackets. These findings support studies by Erol and El-Bdour (1989); Metawa and Almossawi (1998); Khan et al. (2008); Khattak (2010) that age influence selection of Islamic banking. The moderation testing in this study confirmed these findings.

Similarly, employment status revealed a weaker and indirect moderation effect when comparing the unskilled labourers with the unemployed persons; the self-employed and the technically skilled. These finding supports Khattak (2010) that occupation/ employment status has significant effects on customer awareness on Islamic bank products and services.

#### ***Moderation Interaction between Islamic financial literacy level with the adoption of Islamic banking model in UAE***

The study revealed a direct and significant relationship between awareness about Islamic financial literacy with the adoption of Islamic banking products and services in UAE. This finding supports Tara et al. (2014)'s study that revealed awareness about Islamic financial literacy had a significant and positive influence on persuading the Pakistanis to adopt Islamic banking model. Thus we concluded that the level of Islamic financial literacy is among the main determinants that have a direct influence on the adoption of Islamic banking products and services in UAE. In this study, level of Islamic financial literacy ( $\beta = .257$ ) ranked the third most important determinant on bank reputation ( $\beta = .399$ ). However, it ranked second in terms of the significant direct effect on adoption of Islamic banking products and services. See Figure 2.

Neither did gender had an indirect significant moderation effect on the level of Islamic financial literacy on bank reputation nor a direct significant moderation effect on adoption of Islamic banking products and services. Though no significant differences, women were found to have higher beta coefficients for Islamic financial literacy on bank reputation; and Islamic financial literacy on adoption of Islamic banking compared with their male counter parts. This finding contradicts Taft et al. (2013)'s study that demonstrated men were much better than women in financial literacy though no direct relationship was demonstrated between gender and financial

literacy. Similarly, our finding supports Ibrahim and Alqaydi (2013)'s study in UAE on financial literacy among residents that found no significant differences between males and females.

Age was found to have a weaker direct significant moderation effect on the relationship between the level of Islamic financial literacy and bank reputation model in UAE. Persons belonging to 26-35 years age group were found to have a higher beta coefficient on Islamic financial literacy compared with persons under the 36-45 years age bracket. The same finding was observed on persons between 36-45 years and the 46-55 years age bracket on the relationship between the levels of Islamic financial literacy and adoption of Islamic banking products and services. These finding supports Studies done by Volpe et al. (2002); Worthington (2006); Almenberg and Säve-Söderbergh (2011); Lusardi (2012) which demonstrated that age influences financial literacy levels whereby older persons tends to score low in terms of financial literacy levels.

The type of a bank account held had a moderation effect on the direct relationship between the level of Islamic financial literacy and bank reputation in UAE. This meant that persons who held both Islamic and commercial bank account in UAE are significantly influenced by the reputation of bank. The most notable finding on the moderation testing on bank account was that with regard to the relationship between the level of Islamic financial literacy and bank reputation in UAE, those who only held Islamic bank accounts had negative beta coefficients meaning that the account holders had a negative perception on the reputation of Islamic banks in UAE.

The level of education was also found to have a weaker direct significant moderation effect on the relationship between the level of Islamic financial literacy and the adoption of Islamic banking model in UAE. The moderation was much weaker for persons with a diploma/ higher diploma or a bachelor degree compared with persons having a high school level of education. Similarly, the effect was much weaker for those with a high school level of education compared to those with less than a high school level of education. These finding supports studies done by Volpe et al. (2002); Hassan Al-Tamimi and Anood Bin Kalli (2009); Almenberg and Säve-Söderbergh (2011); Lusardi (2012); Bhushan and Medury (2013a); Gupta and Negi (2014) which demonstrated that education has an impact in terms of financial literacy level. These literatures state that persons with lower educational levels were bound to score low levels of financial literacy. Although we had not framed the questions that were measuring the levels of financial literacy to measure directly Islamic financial literacy, we chose to use the most basic concepts to access personal understanding with regard to the Islamic principles of Islamic finance. To our surprise, the four questions posed were so direct in relation to Islam, but majority of the respondents disagreed with them, the second most response was neutral, while the third most response was strongly disagreed. This clearly demonstrated the low levels of Islamic financial

literacy among the residents in UAE and especially persons with a lower level of education which support the study done in UAE by Hassan Al-Tamimi and Anood Bin Kalli (2009).

The employment status demonstrated a strong direct significant moderation effect on the relationship between the level of Islamic financial literacy and bank reputation among the unskilled labourers and the unemployed; and a weaker moderation effect among those with technical skills and those who held managerial positions in UAE. The moderation was much weaker for persons with technical skills compared to those who held managerial positions. Though we didn't access the difference in terms of the educational level between the two groups, in our own opinion, we tend to believe that persons who held managerial positions had a higher level of education compared to majority of persons who had technical skills. This finding supports Gupta and Negi (2014) that employment status or rather occupation has a significant influence on the level of financial literacy.

#### ***Moderation Interaction between Islamic financial services marketing with the adoption of Islamic banking model in UAE***

The research revealed that Islamic financial services marketing had no direct significant relationship with the adoption of Islamic banking model in UAE. The factor ranked last with the least beta coefficient as the determinant of bank reputation and neither did it have any significant direct effect on adoption of Islamic banking products and services. This finding supports Tara et al. (2014); Marimuthu et al. (2010) that Islamic financial services marketing had no direct significant influence on the adoption of Islamic banking products and services. Nevertheless, we cannot completely rule out the indirect influence ( $\beta = .082$ ;  $p = .023$ ) of Islamic financial services marketing (via Bank reputation) with regard to adoption of Islamic banking products and services in UAE.

In moderation testing, gender had a strong indirect moderation effect on the interaction between Islamic financial services marketing (via Bank reputation) with the adoption of Islamic banking model in UAE. The effect was significantly stronger for females compared to males. Gender was reported to have a moderation effect only on the relationship between the awareness of Islamic financial services and bank reputation. See Table 4. Age, employment status, and the type of account held had no moderation effect on the relationship between awareness of Islamic financial services and marketing on bank reputation. Nevertheless, education had a moderation effect where the effect increased with increase in education level.

Though no studies have been published on the moderation effect of demographic and social-economic variables with regards to the adoption of Islamic banking products and services in UAE, this study demonstrated that gender and employment status have a direct effect on the relationship between the awareness of Islamic financial services and bank reputation in UAE.

This is the field that marketers and bank managers can further exploit in order to increase the level of awareness of customers in relation to Islamic banking products and services. Thus we agree with studies by Erol and El-Bdour (1989); Metawa and Almosawi (1998); Rammal and Zurbruegg (2007); Rashid and Hassan (2009) that lack of marketing would hinder the development of majority of domestic Islamic banks.

### ***Moderation Interaction between reputations of a bank with the adoption of Islamic banking model in UAE***

Reputation of a bank was found to have a significant relationship with the adoption of Islamic banking model in UAE. In this study, bank reputation ( $\beta = .399$ ) ranked the most important determinant on adoption of Islamic banking products and services followed by the level of Islamic financial literacy ( $\beta = .257$ ). See Figure 2. This finding contradicts Sayani and Miniaoui (2013)'s study in UAE which found that reputation of a bank wasn't among the main determinants of bank selection between the Islamic and the conventional banks. In our study, we used random selection sampling and investigated persons who had accounts in an Islamic bank ( $N = 110$ ; 49.1 percent) and conventional bank ( $N = 114$ ; 50.9 percent), while Sayani and Miniaoui (2013) used convenience sampling and investigated persons who had accounts in an Islamic bank ( $N = 111$ ; 45.1 percent) and conventional bank ( $N = 135$ ; 54.9 percent). Similarly, the current study contradicts Marimuthu et al. (2010) study that reported bank reputation was not a significant determinant in the adoption of Islamic banking products and services in Malaysia. Therefore our finding is in support of studies by Erol and El-Bdour (1989); Haron et al. (1994); Tara et al. (2014) that reputation of a bank has a significant influence on the adoption of Islamic banking model.

With regard to moderation testing, this study demonstrated that Gender, age and type of bank account held had no moderation effect in Islamic banking In UAE. However, education level and employment status had moderation effect. The effect was much stronger for those with a high school level of education compared to those with less than a high school level of education. However, as the level of education increases, the moderation effect attenuates probably because through increased academic exposure, customers start focusing on other factors that they feel suits their changing lifestyles. The same is reported for employment status as a moderator. As the one advances in a job position, the moderation effect becomes slightly stronger.

### ***Moderation Interaction between Islam (religion) with the adoption of Islamic banking model in UAE***

Religion didn't have any direct significant relationship with the adoption of Islamic banking products and services in UAE. This finding supports studies by Erol and El-Bdour (1989) and

Haron et al. (1994) that religiosity alone wasn't the main determinant in the adoption of Islamic banking products and services by potential customers. In this study, religion ( $\beta = .213$ ) ranked as the second most important determinant on bank reputation though it had no direct significant effect on the adoption of Islamic banking products and services. See Figure 2. Even though religiosity did not have a significant direct effect in the adoption of Islamic banking model in the UAE sample, we cannot rule out the fact religion plays some role in the adoption of Islamic banking products and services in UAE. In the current study, religion was ranked second out of four in terms of the beta coefficients on bank reputation. These findings support studies done by Metawa and Almosawi (1998); Al-Tamimi et al. (2009); Hassan Al-Tamimi and Anood Bin Kalli (2009); Sayani and Miniaoui (2013); Abou-Youssef et al. (2015); and Souiden and Rani (2015) that reported religiosity to have an effect in selection of a bank.

Moderation testing between religion and the adoption of Islamic banking in UAE was also investigated. In the current study, age, gender, possession of bank account, and the level of education didn't have any direct or indirect moderation effect on the interaction between religion and the adoption of Islamic banking model in UAE. Nevertheless, employment status had a weaker moderation effect on the unskilled labourers and the unemployed. However, a strong moderation effect was reported between the technically skilled and those who held managerial positions. This means that religiosity has stronger effect among those at a lower job position compared to those holding higher positions. In reality, technically skilled persons form the largest category of persons in the job sector compared to those holding higher job positions. Therefore, bank managers' needs to consider religiosity in terms of the Islamic banking products and services they plan to offer or they are currently offering.

In summary, with regard to the studies from UAE that have been reviewed in this paper, our current finding confirms that religion plays a significant role in selection of Islamic banking and the finding was similar to the studies conducted by Al-Tamimi et al. (2009); Hassan Al-Tamimi and Anood Bin Kalli (2009); and Sayani and Miniaoui (2013) in UAE. The current study was able to demonstrate the role of socio-demographics in selection of Islamic banks similar to studies conducted in UAE by Jamal and Naser (2002); Al-Tamimi and Al-Amiri (2003); Al-Tamimi et al. (2009); and Hassan Al-Tamimi and Anood Bin Kalli (2009). However, the current study was unique in that it was able to explore further the role played by socio-demographics as moderators in Islamic banking preferences in UAE. Similarly, a majority of the studies reviewed from UAE investigated the influence of Islamic services and products, which was supported by the strongest significant effect ( $\beta = .226$ ) in the current study with respect to awareness of Islamic banking products and services. In addition, the current study was able to investigate the direct effect of the level of Islamic financial literacy and awareness of Islamic financial services and marketing with respect to reputation of an Islamic bank. Similarly, the level of financial literacy had the strongest effect on adoption of Islamic banking products and services thus



confirming the role of financial literacy as reported by Hassan Al-Tamimi and Anood Bin Kalli (2009).

## **6.0 Conclusion**

The objective of this research was to assess the role played by demographic and social-economic factors on the adoption of Islamic banking products and services in UAE. To achieve the same, path regression analysis was employed and moderation testing using AMOS was carried out on the randomly selected sample data collected to investigate the interaction effect between demographic variables and adoption of the Islamic banking model in UAE.

In summary, the current study has demonstrated the importance of socio-demographics in adoption of Islamic banking products and services and similarly bank reputation. The most important factors in terms of bank reputation in UAE were: awareness of Islamic banking products and services, followed by religion, then the level of Islamic financial literacy and lastly awareness of Islamic financial services and marketing. With regard to adoption of Islamic banking products and services, bank reputation is the most important determinant, followed by the level of Islamic financial literacy. Thus, marketers and bank managers can further exploit these demographic and social-economic avenues through targeted marketing campaigns in order to increase the level of market share for Islamic banks not only in UAE but in the MENA region.

## **7.0 Practical implications for UAE Islamic banking sector.**

Firstly, this study demonstrates that Islamic bank managers in UAE need to improve the awareness about Islamic bank products and services by considering the demographic characteristics of their potential customers. Secondly, effective marketing campaigns of Islamic financial literacy need to be increased in order to attract more customers. Thirdly, Islamic banks in UAE should not only rely on religion to attract more customers but should bear in mind the other important moderators explained in this study. This study had proved that religion does not have any direct or indirect effect towards the adoption of Islamic banking products and services as this finding has been supported by moderation testing. Fourthly, Islamic bank managers should not ignore the direct and significant relationship between the reputation of their banks and adoption of Islamic banking model. Islamic banks with good reputations will always attract and maintain more customers and vice versa. Lastly, Islamic bank managers should take advantage of the role played by the demographic and social-economic moderators to design and develop new marketing strategies to enhance their market share.

## **8.0 Theoretical implications**

The finding of this study has theoretical implications for both researchers and practitioners. Researchers can further refine and test the proposed model with regard to Islamic banking, whereas practitioners can refine the key constructs proposed in the research model and implement the effects of moderations on the factors influencing bank patronage in UAE. Awareness of Islamic banking products and services, the level of Islamic financial literacy, awareness of financial services and marketing, and religion were able to explain 40 percent of the variance on reputation of the bank. Reputation of the bank had the strongest effect on adoption of Islamic banking products and services in UAE. Thus, the first theoretical contribution in this study was to demonstrate the validity of our proposed model in the context of Islamic banking in UAE. Familiarity with the socio-demographic factors affecting Islamic banking in UAE, considering both Islamic and conventional banks, will be helpful when designing products and services that address the right customers' needs. This will improve on marketing and advertising strategies in regard to Islamic banking services and products. Thus, the second theoretical contribution is that this study enriches the current theory-based Islamic banking adoption studies and demonstrate the moderation effect of age, gender, employment status, education level, and possession of a bank account on adoption of Islamic banking.

### **9.0 Limitation of the study.**

Each study has its own limitations and this study is not exceptional. The majority of the reliability scores were below .70. Nunnally (1978), recommends a minimum Cronbach's alpha reliability value of .70. This might have been caused by the use of the 5-point Likert scale which might have limited the selection of the responses by the respondent. We probably would suggest the use of a 7-point Likert's scale in similar future studies. In the current study, we employed only quantitative analysis. We suggest that future studies adopt the use of a mixed approach method in their data collection processes. The use of a mixed approach method combines the elements of both the questionnaires and the interviews. The interviews are used to cross-validate the findings of the quantitative analysis while the interviews also provide an in-depth understanding of the findings and reveal meaningful insights regarding possible solutions. The current study only investigated the basic moderation testing. We recommend that future studies investigate moderation interactions, such as the two-way and three-way interactions, to further probe the significant effects on the relationships hypothesized and tested in this study. Lastly, only two items were used to investigate religion construct. This was done in this paper because we felt that the two questions were best suited to investigate the basic view on Islamic banking. However, in case one prefers to conduct structural equation modeling (SEM) on the topic as a future research area, then we suggest that one use a minimum of three items per construct per the basic requirement of performing SEM.

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### Biographies

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Table 1: Sample characteristics  $N = 320$

<b>Age</b>	Frequency	Percent	<b>Employment status</b>	Frequency	Percent
18-25	83	25.9	Managerial	86	26.9
26- 35	87	27.2	Self-employed	60	18.8
36-45	87	27.2	Technical-skilled	89	27.8
46-55	55	17.2	Unemployed	75	23.4
56-65	7	2.2	Unskilled labourer	10	3.1
Over 66 years	1	0.3			
<b>Gender</b>			<b>Education Level</b>		
Male	209	65.3	Less than high school	10	3.1
Female	111	34.7	High school or equivalent	59	18.4
			Diploma/High Diploma	59	18.4
<b>Bank Account with</b>			College/Bachelor	111	34.7
Islamic bank	110	34.4	Graduate degree (Master's or Ph.D)	81	25.3
Conventional bank	114	35.6			
Both Islamic and conventional	50	15.6			
None	46	14.4			

Table 2: Comparison of Hu and Bentler (1999 ) strategy with the final model indices.

Fit Index combination	Combinational Rules	UAE Model Indices
TLI & SRMR	$TLI \geq .96, SRMR \leq .09$	TLI = .993, SRMR = .017
RMSEA & SRMR	$RMSEA \leq .06, SRMR \leq .09$	RMSEA = .026, SRMR = .017
CFI & SRMR	$CFI \geq .96, SRMR \leq .09$	CFI = .999, SRMR = .017

Notes: Tucker Lewis Index (TLI), The Root Mean Standard Error Approximation (RMSEA), Comparative Fit Index (CFI) and the SRMR (Standardized Root Mean Residual).

Table 3: Standardized regression weights

Relationships	Estimate	S.E.	C.R.	p
Reputation<---AIBPS	0.226	0.038	5.901	<.001
Reputation<--- AIFSM	0.083	0.037	2.271	0.023
Reputation<---Religion	0.213	0.038	5.642	<.001
Reputation<---LIFL	0.133	0.049	2.735	0.006
Adoption<---LIFL	0.257	0.053	4.868	<.001
Adoption<---Reputation	0.399	0.053	7.537	<.001

Notes: AIBPS = Awareness on Islamic Banking Products and Services, AIFSM =Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy.

Table 4: Moderation testing using gender.

Relationships	Male		Female		z-stat
	<i>Estimate</i>	<i>p</i>	<i>Estimate</i>	<i>p</i>	
Reputation<---AIBPS	0.266	<.001	0.141	0.034	-1.539
Reputation<--- AIFSM	0.037	0.398	0.189	0.005	1.913*
Reputation<---Religion	0.222	<.001	0.209	0.001	-0.164
Reputation<---LIFL	0.131	0.032	0.142	0.077	0.104
Adoption<---LIFL	0.241	<.001	0.286	<.001	0.408
Adoption<---Reputation	0.405	<.001	0.381	<.001	-0.211

Notes: \*\*\* *p*-value < 0.01; \*\* *p*-value < 0.05; \* *p*-value < 0.10. AIBPS = Awareness on Islamic Banking Products and Services, AIFSM =Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy.

Table 5: Moderation testing using age.

Relationships	26-35 years		36-45 years		z-stat
	<i>Estimate</i>	<i>p</i>	<i>Estimate</i>	<i>p</i>	
Reputation<---AIBPS	0.201	0.004	0.333	<.001	1.243
Reputation<--- AIFSM	0.15	0.038	-0.012	0.858	-1.621
Reputation<---Religion	0.142	0.04	0.313	<.001	1.629
Reputation<---LIFL	0.295	0.003	0.037	0.653	-1.997**
Adoption<---LIFL	0.363	0.001	0.319	<.001	-0.303
Adoption<---Reputation	0.344	0.001	0.467	<.001	0.829
	36-45 years		46-55 years		
Reputation<---AIBPS	0.333	<.001	0.111	0.13	-2.037**
Reputation<--- AIFSM	-0.012	0.858	0.044	0.527	0.573
Reputation<---Religion	0.313	<.001	0.225	0.002	-0.823
Reputation<---LIFL	0.037	0.653	0.006	0.95	-0.243
Adoption<---LIFL	0.319	<.001	0.069	0.486	-1.807*
Adoption<---Reputation	0.467	<.001	0.365	<.001	-0.677
	46-55 years		56-65 years		
Reputation<---AIBPS	0.111	0.13	0.299	<.001	1.681*
Reputation<--- AIFSM	0.044	0.527	0.102	0.214	0.539
Reputation<---Religion	0.225	0.002	0.241	0.005	0.138
Reputation<---LIFL	0.006	0.95	0.139	0.294	0.813
Adoption<---LIFL	0.069	0.486	0.263	0.054	1.152
Adoption<---Reputation	0.365	<.001	0.336	0.002	-0.191

Notes: \*\*\* *p*-value < 0.01; \*\* *p*-value < 0.05; \* *p*-value < 0.10. AIBPS = Awareness on Islamic Banking Products and Services, AIFSM =Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy.

Table 6: Moderation testing using type of a bank account held.

Relationships	Islamic Bank Account		Islamic & Commercial Bank Accounts		
	Estimate	p	Estimate	p	z-stat
Reputation<---AIBPS	0.196	0.004	0.273	0.003	0.667
Reputation<--- AIFSM	0.091	0.126	0.036	0.69	-0.515
Reputation<---Religion	0.244	<.001	0.086	0.392	-1.294
Reputation<---LIFL	-0.002	0.978	0.231	0.037	1.713*
Adoption<---LIFL	0.303	0.001	0.283	0.05	-0.117
Adoption<---Reputation	0.415	<.001	0.304	0.063	-0.578
	Islamic Bank Account		No Bank Account		
Reputation<---AIBPS	0.196	0.004	0.146	0.192	-0.376
Reputation<--- AIFSM	0.091	0.126	0.193	0.068	0.836
Reputation<---Religion	0.244	<.001	0.24	0.006	-0.036
Reputation<---LIFL	-0.002	0.978	0.298	0.057	1.709*
Adoption<---LIFL	0.303	0.001	0.207	0.178	-0.534
Adoption<---Reputation	0.415	<.001	0.468	<.001	0.325

Notes: \*\*\*  $p$ -value < 0.01; \*\*  $p$ -value < 0.05; \*  $p$ -value < 0.10. AIBPS = Awareness on Islamic Banking Products and Services, AIFSM = Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy. The moderation testing between Islamic bank accounts and Commercial bank accounts, and the other moderations not reported in the table were insignificant.

Table 7: Moderation testing using the level of education.

Relationships	< High school		High school		z-stat
	<i>Estimate</i>	<i>p</i>	<i>Estimate</i>	<i>p</i>	
Reputation<---AIBPS	0.386	0.004	0.328	0.001	-0.346
Reputation<--- AIFSM	-0.179	0.095	0.052	0.562	1.652*
Reputation<---Religion	0.405	0.002	0.2	0.088	-1.184
Reputation<---LIFL	0.953	<.001	0.248	0.063	-2.27**
Adoption<---LIFL	0.738	<.001	0.444	<.001	-1.314
Adoption<---Reputation	-0.254	0.128	0.294	0.005	2.774***
	High school		Diploma		
Reputation<---AIBPS	0.328	0.001	0.208	0.01	-0.936
Reputation<--- AIFSM	0.052	0.562	0.04	0.533	-0.109
Reputation<---Religion	0.2	0.088	0.143	0.078	-0.4
Reputation<---LIFL	0.248	0.063	0.155	0.064	-0.595
Adoption<---LIFL	0.444	<.001	0.17	0.124	-1.671*
Adoption<---Reputation	0.294	0.005	0.259	0.058	-0.199
	Bachelor		Graduate		
Reputation<---AIBPS	0.182	0.009	0.289	<.001	1.074
Reputation<--- AIFSM	0.025	0.685	0.255	0.001	2.295**
Reputation<---Religion	0.251	<.001	0.101	0.199	-1.529
Reputation<---LIFL	0.015	0.864	0.184	0.063	1.298
Adoption<---LIFL	0.17	0.059	0.33	0.002	1.133
Adoption<---Reputation	0.527	<.001	0.361	<.001	-1.154

Notes: \*\*\* p-value < 0.01; \*\* p-value < 0.05; \* p-value < 0.10. AIBPS = Awareness on Islamic Banking Products and Services, AIFSM =Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy. The moderation testing between diploma holders and bachelors holders, were not reported in the table because they all had insignificant moderation effects.

Table 8: Moderation testing using employment status.

Relationships	Unskilled labourer		Unemployed		z-stat
	Estimate	p	Estimate	p	
Reputation<---AIBPS	-0.191	0.275	0.249	<.001	-2.338**
Reputation<--- AIFSM	0.013	0.901	0.113	0.098	-0.82
Reputation<---Religion	-0.009	0.937	0.25	<.001	-1.929*
Reputation<---LIFL	0.931	0.002	0.158	0.101	2.399**
Adoption<---LIFL	0.395	0.158	0.188	0.088	0.686
Adoption<---Reputation	-0.356	0.256	0.515	<.001	-2.632***
	Unemployed		Self-employed		
Reputation<---AIBPS	0.249	<.001	0.436	<.001	-1.541
Reputation<--- AIFSM	0.113	0.098	-0.032	0.727	1.268
Reputation<---Religion	0.25	<.001	0.178	0.076	0.593
Reputation<---LIFL	0.158	0.101	0.057	0.632	0.663
Adoption<---LIFL	0.188	0.088	0.378	<.001	-1.191
Adoption<---Reputation	0.515	<.001	0.252	0.014	1.775*
	Self-employed		Technical skilled		
Reputation<---AIBPS	0.436	<.001	0.159	0.023	-2.288**
Reputation<--- AIFSM	-0.032	0.727	0.097	0.146	1.137
Reputation<---Religion	0.178	0.076	0.346	<.001	1.394
Reputation<---LIFL	0.057	0.632	-0.104	0.248	-1.08
Adoption<---LIFL	0.378	<.001	0.204	0.046	-1.137
Adoption<---Reputation	0.252	0.014	0.286	0.003	0.236
	Technical skilled		Managerial		
Reputation<---AIBPS	0.159	0.023	0.142	0.06	0.164
Reputation<--- AIFSM	0.097	0.146	0.042	0.568	0.548
Reputation<---Religion	0.346	<.001	0.068	0.372	2.725***
Reputation<---LIFL	-0.104	0.248	0.354	<.001	-3.584***
Adoption<---LIFL	0.204	0.046	0.193	0.081	0.07
Adoption<---Reputation	0.286	0.003	0.602	<.001	-2.002**

Notes: \*\*\* p-value < 0.01; \*\* p-value < 0.05; \* p-value < 0.10. AIBPS = Awareness on Islamic Banking Products and Services, AIFSM =Awareness on Islamic Financial Services Marketing, LIFL = Level of Islamic Financial Literacy.



Appendix 2: Measurement constructs and their Cronbach's alpha reliability scores.

Construct	Attributes	Reliability score
<i>Awareness on Islamic bank products and services (AIBPS)</i>	(AIBPS1) Islamic banks have not done enough marketing of their products and services.	0.61
	(AIBPS2) I have not yet heard about Islamic banks in the UAE.	0.708
	(AIBPS3) I do not know about the difference between Islamic and Conventional banks.	0.718
	(AIBPS4) I have limited knowledge about Islamic banks' products and services.	0.679
<i>Level of Islamic financial literacy (LIFL)</i>	(LIFL1) Islamic finance does not involve in speculation and uncertain transactions.	0.658
	(LIFL2) Islamic banks invest in ethical industries and promote social harmony.	0.54
	(LIFL3) Islamic banks engage in economically and socially beneficial projects.	0.628
	(LIFL4) Islamic banks use fairer financing modes that enhance investment and risk sharing.	0.63
<i>Awareness on Islamic financial services marketing (AIFSM)</i>	(AIFSM1) People believe Islamic banks are more expensive than conventional banks.	0.723
	(AIFSM2) People believe that Islamic banks in the UAE suffer from poor service quality.	0.724
	(AIFSM3) Islamic banks do not explain enough about their distinctive features	0.723
	(AIFSM4) People are not convinced about the authenticity of the products of Islamic banks	0.724
<i>Reputation of Islamic banks (Reputation)</i>	(Reputation1) I believe that most of the staff in Islamic banks are trained for conventional banks.	0.635
	(Reputation2) Staff in Islamic banks cannot fully explain their products to the customer.	0.611
	(Reputation3) There are no enough credible institutions offering Islamic finance courses in UAE.	0.621
	(Reputation4) The lack of well trained staff in Islamic banks has a negative impact on their service.	0.638
	(Reputation5) The availability of qualified staff in Islamic finance would greatly enhance performance.	0.612
<i>Adoption of Islamic banking products and services (Adoption)</i>	(Adoption1) There is a high potential for Islamic finance in the UAE given its Religion and Economy.	0.691
	(Adoption2) Some customers of conventional banks would switch their accounts if Islamic banks in the UAE would offer	0.689

	similar services.	
	(Adoption3) I would not use conventional banks if there were no Islamic banks in UAE	0.691
	(Adoption4) I believe if Islamic banks improved their services they would dominate the market in UAE	0.689
<i>Religion</i>	(Religion1) The biggest motive for me choosing an Islamic bank is religion.	0.503
	(Religion2) As a Muslim I prefer an Islamic bank to conventional bank everything else being equal.	0.529

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Notes: AIBPS = Awareness on Islamic banks products and services, LIFL= Level of Islamic financial literacy, AIFSM = Awareness on Islamic financial services marketing, Adoption = Adoption of Islamic banking products and services, Religion = Islam