

Current state and future prospects of Islamic banking in Morocco: An empirical investigation

Hassanuddeen Abd. Aziz^{a,b}, Abdelghani Echchabi^{a*}, Abdullah Mohammed Ayedh^c, Dhekra Azouzi^d, Osman Sayid Hassan Musse^c, Chaabane Oussama Houssein Eddine^b

^a*Effat University, Jeddah 22332, Saudi Arabia*

^b*International Islamic University Malaysia, Jalan Gombak, Kuala Lumpur, 53100, Malaysia*

^c*Islamic Science University of Malaysia, Bandar Baru Nilai, 71800 Nilai, Negeri Sembilan, Malaysia*

^d*El-Manar University, El-Manar 1, Tunisia*

Abstract

The purpose of the study is to review the current state of Islamic banking in Morocco, and to investigate the factors that influence the adoption of Islamic banking services in the country. Accordingly, a survey was conducted covering 400 respondents from most of the Moroccan regions, and data analysis was based on linear regression. The findings revealed that the main factors that influence the decision of the Moroccan customers to adopt Islamic banking services are relative advantage, compatibility and social influence. Furthermore, the findings revealed that the progress of Islamic banking in Morocco is faced by multiple legal and regulatory challenges.

Keywords: Murabahah; Musharakah; Ijarah; Morocco; Islamic Banking;

1. Introduction

Islamic banking refers to “banking in consonance with the ethos and value system of Islam and subjugated, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic law (*shari’ah*). Interest free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in *shari’ah*, but also to avoid unethical practices and to participate actively in achieving the goals and objectives of an Islamic economy” (Said, Ahmad & Javaid, 2009).

* Corresponding author. Tel.: 0544252078
E-mail address: abdelghani.mo@gmail.com

The industry has witnessed a tremendous growth since the early attempt by Ahmad El-Naggar to launch the first Islamic bank in Mit Ghamr in Egypt in 1963. Currently, the Islamic banking assets are estimated at over USD1.7 trillion, with an average annual growth rate of 17.6 per cent. The number of Islamic banks' customers is currently estimated at 38 million globally. Islamic banking is currently being practised in more than 75 countries. The Islamic banking and finance industry is becoming an important component in the economic and social development of these countries, but particularly in the MENA region, whereby it is considered an adequate substitute that caters for the financial needs of the people without conflicting their social and religious values (Ali, 2012).

This argument has been supported by empirical findings across countries. For instance, Echchabi, Olorogun and Azouzi (2014) examined the prospects of Islamic insurance services in Tunisia in light of the Jasmine revolution, and they found that the Tunisian customers are willing to switch to Islamic insurance services, mainly due to the compatibility to their social and religious values as well as to their financial needs and past experiences. Furthermore, many studies revealed the importance of the religious factor in opting for Islamic banking services in the region (Metawa & Al-Mosawi, 1998; Erol & ElBdour, 1989; Naser, Jamal & El-Khatib, 1999; Bley & Kuehn, 2004).

In the specific case of Morocco, Islamic banking has been in practice since 2007. However, it has been progressing at a slow pace over the past few years, mainly due to political and regulatory issues. This situation started to slightly change after the Moroccan Party of Justice and Development (PJD) won the 2011 elections, whereby, many regulatory issues were eased and much effort has been deployed to solve the remaining legal problems. This becomes crucial at this juncture, since the country inspires to become a regional Islamic banking and finance hub.

In line with the above argument, the objective of this study is two-fold, firstly to scrutinise the history and current practice of Islamic banking in Morocco, and secondly to examine the perception of the Moroccan customers about Islamic banking products, and the factors that influence their patronisation behaviour. It is noteworthy that empirical studies on Islamic banking in Morocco are still scarce. One of the few studies in this context is Echchabi and Aziz (2012a) where emphasis was on the religious dimension and its impact on the selection of Islamic banking products. The results revealed that religiosity is a significant factor in customers' selection and adoption of Islamic banking services. Furthermore, the findings showed that the Moroccan customers are generally willing to adopt Islamic banking services. This study has focused only on the religious aspect, while other potential factors were marginalised.

On the other hand, the study by Echchabi and Aziz (2012b) was more comprehensive in terms of theoretical framework as it was based on the decomposed theory of planned behaviour (DTPB). The findings revealed that uncertainty, relative advantage, compatibility, awareness and social influence have significant impact on the adoption of Islamic banking services. Nevertheless, this study focused on a relatively smaller sample size, specifically 200 respondents. Hence, further studies with larger sample size are required. On this basis, and in line with the theory of innovation diffusion (Rogers, 2003), the following model is established to achieve the aforementioned objective.

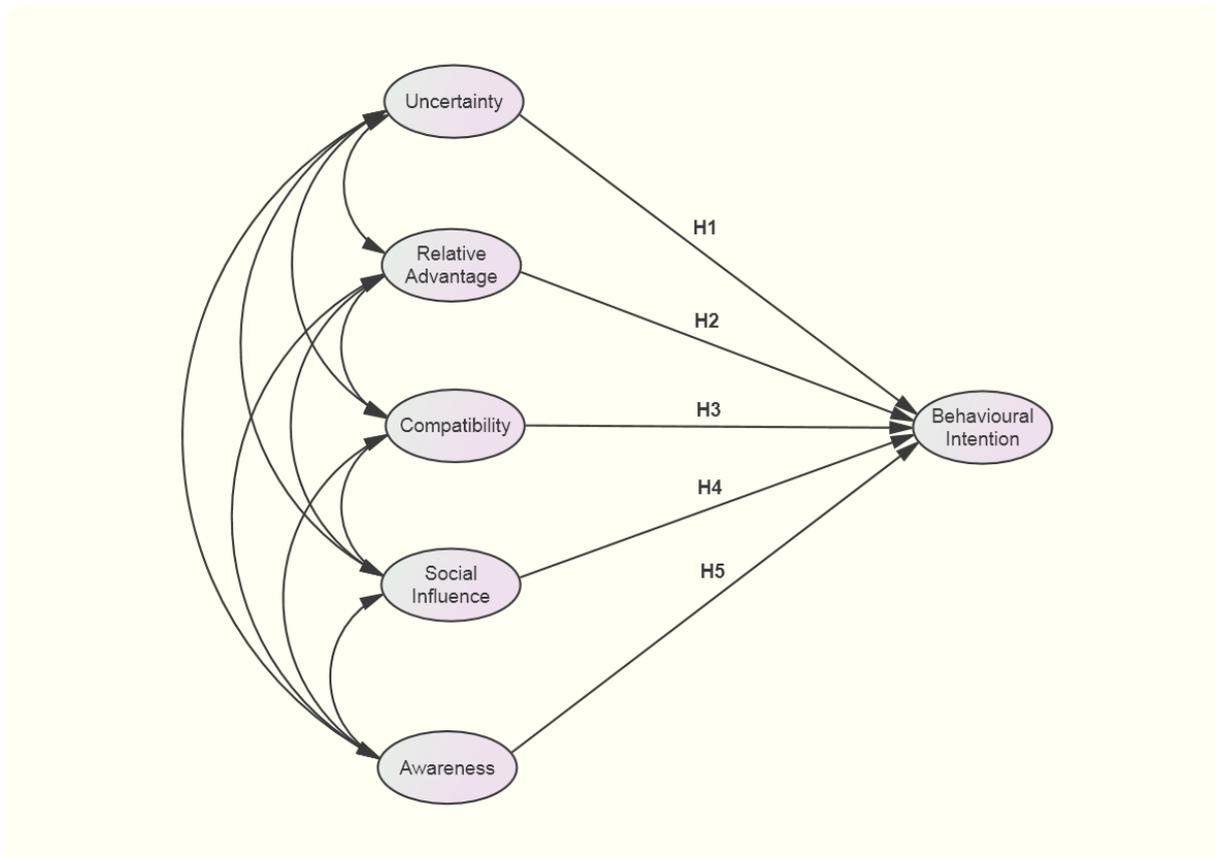


Fig. 1: Theoretical Model

Uncertainty refers to “the degree to which a number of alternatives are perceived with respect to the occurrence of an event and the corresponding probabilities of these events” (Thambiah, Ismail, Ahmed & Khin, 2013; Rogers, 2003). Uncertainty is measured in this study by reference to the Islamic banking services aspect related to the profits and losses uncertainties and the ambiguity in calculating various fees, and dividend payments.

Relative advantage is defined as “the degree to which an innovation is perceived as being better than the idea it supersedes” (Thambiah et al., 2013; Rogers, 2003). In this study, relative advantage is measured in terms of economic benefit, efficiency in service providing, knowledge and timeliness of the banks’ staff and social prestige.

Compatibility refers to “the degree to which an innovation is perceived as being coherent with the current values, past experiences, and the needs of potential adopters” (Thambiah et al., 2013; Rogers, 2003). Compatibility in this study is measured by the compatibility of the banking services to the social and religious values, lifestyle, financial needs and the previous banking services used.

Social influence is defined by Sayid, Echchabi and Aziz (2012) as the degree to which the individuals' decision is influenced by their social environment. It generally refers to a number of referent groups such as family, work colleagues, media, just naming a few.

Awareness refers to the extent to which the individual is aware of the existence of the innovation (product or service) and at the same time the extent of his/her knowledge of its preliminary features. The combination of these two dimensions is necessary in the study of Islamic banking in Morocco due to the restricted commercialisation and marketing approach authorised by the government.

Based on the model in Figure 1, uncertainty is assumed to have a negative influence on the behavioural intention, while relative advantage, compatibility, social influence and awareness have positive influence on the behavioural intention. In line with the above model, the following hypotheses are posited and are tested in the following sections:

- H1:** Uncertainty has a negative influence on the usage of Islamic banking services in Morocco.
- H2:** Relative advantage has a positive influence on the usage of Islamic banking services in Morocco.
- H3:** Compatibility has a positive influence on the usage of Islamic banking services in Morocco.
- H4:** Social influence has a positive influence on the usage of Islamic banking services in Morocco.
- H5:** Awareness has a positive influence on the usage of Islamic banking services in Morocco.

The remaining part of the paper is organised as follows: Section two highlights the history of the Islamic banking industry in Morocco, its current stage as well as some of the issues faced by the industry players. Section three presents the methodology applied and the profile of the respondents. Section four presents the main results of the survey conducted. Finally, section five provides the main implications of the findings, the limitations as well as the recommendations for future studies.

2. Islamic banking in Morocco

Islamic banking in Morocco is a result of repetitive trials and persistent efforts by many parties, including potential customers, finance and economic associations, financial institutions, political parties, naming some. These attempts have started since mid-1980s; however, the first concrete and significant step towards the introduction of Islamic banking in Morocco was in 2007, by issuing recommendation number 33/G/2007 (applicable since October 1st, 2007) approving the commercialisation of three main Islamic banking instruments, namely, *murabahah*, *musharakah* and *ijarah*, while *salam* and *istisnaa* are still in the process of a study by Bank Al Maghrib (BAM thereafter). These products are assumed to be marketed only by certified financial institutions, and through specialised subsidiaries. It is noteworthy that the terms definition, standards and other features of these instruments were established in collaboration with GPBM (Professional Group of the Moroccan Banks) and by referring to the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards.

In this regard, *Ijarah* is defined by BAM as “any contract, under which a financial institution shall put a movable or immovable determined, identified and owned asset in the disposition of a customer on rental basis for a purpose authorized by law”. According to BAM, *Ijarah* cannot be used for intangible assets as well as rights of natural resources exploitation. In this context, *ijarah* as stipulated by BAM include both operating *ijarah* as well as *ijarah wa iqtinaa*.

On the other hand, *musharakah* is defined by BAM as “any contract for the acquisition of holdings by a financial institution in the capital of an existing company or a company in the process of creation, in order to make a profit”. This includes both fixed (standard) *musharakah* and *musharakah mutanaqisah*

(diminishing partnership). The loss sharing ratio is based on the capital contribution of each party, while the profit sharing ratio is agreed upon by the *musharakah* parties (partners).

Finally, *murabahah* refers to “any contract whereby a financial institution acquires a movable or immovable asset, at the request of a client, to sell it to him/her at a cost plus an agreed fee in advance”. It is worth noting that the payment by the client can be made either in one or multiple annuities depending on the agreement with the bank.

Currently, there are four main banks offering these services, namely, AttijariWafa Bank, Banque Populaire, BMCE and BNCI (Cherkaoui, 2014). These banks have merely offered financing services based on *murabahah*, while *ijarah* has been less prioritised, and none has offered services based on *musharakah*. Nevertheless, the group AttijariWafa Bank took a step forward by creating a subsidiary specialised in Islamic banking services, by the name Dar Assafaa in 2010. It is noteworthy that the BAM resolution does not allow the usage of any religious associations (Islamic, *shari'ah* and related others) in the commercialisation and marketing of these services. Hence, presently, Dar Assafaa is said to be specialised in “alternative financial services”.

Dar Assafaa offers four main alternative financial services, based on *murabahah*, namely, Safaa Immo for housing financing, Safaa Auto for vehicle financing, Safaa Conso for the purchase of various products and services, and Safaa Tadjiz for home equipment and furniture. Dar Assafaa is operating in eight cities namely Agadir, Casablanca, Fes, Marrakech, Meknes, Oujda, Rabat and Tangier.

Though Islamic banking has been authorised and has been operating in Morocco since 2007, it is considered as operating under-potential as it failed to attract the Moroccan customers, that are obviously majority Muslims. This might be due to several reasons. Firstly, the relatively higher price of these services and the over-taxation (double taxation), which the government still attempts to solve. Secondly, the restrictions by BAM prohibiting the use of any religious associations to these products, and also disallowing the *shari'ah* scholars to be involved in the process of verifying the conformity of these products to *shari'ah* rules. This may have made the Moroccan customers unable to appreciate the difference between these alternative services and the conventional banking services. Thirdly, the absence of specialised training programmes for banks' personnel, especially the banks offering these services, resulting in their inability to efficiently promote these services to the customers. Lastly, it is the sluggishness and complexity of the commercial codes and laws establishment or reform. This is caused by the slowness of the system itself, as well as the in-depth involvement of the dominating financial institutions and business players and their influence in the decision making process. It is needless to mention that the regulatory framework of Islamic banking practice and related legal aspects are necessary for the development of the industry in any context. Thus, the authorities are highly required to take a step forward to develop the regulatory process of the Islamic banking practice in the country.

However, since the Moroccan Party of Justice and Development (PJD) won the 2011 election, many measures (banking operations, securitisation, Islamic insurance) have been scrutinised to ensure a better progress of the Islamic banking industry in Morocco (Cherkaoui, 2014) using a pragmatic approach coherent with the sociocultural context of the country and the international experiences. It is expected that in the next few years, a number of local and foreign banks will be granted the authorisation to operate as full-fledged Islamic banks, especially at this stage where the country aspires to become a regional hub for Islamic banking.

3. Methodology

The study focuses on the Moroccan context. The target sample size was 400 respondents from most of the Moroccan regions. Out of the distributed questionnaires only 348 were properly and completely filled and returned. Thus, a response rate of over 87 per cent was achieved, which is an acceptable rate (Dusuki & Abdullah, 2007).

The survey questionnaire was designed to collect information about the perception of the customers towards the attributes of the Islamic banking services as well as their intention to adopt them in their future transactions. For measuring this information, Likert type scaling was used (1 = Strongly Disagree and 7 = Strongly Agree). A total of 34 items was listed in this section and most of them were derived from the previous cross-country studies (Thambiah et al., 2013; Sayid, Echchabi & Aziz, 2012; Echchabi, Olorogun & Azouzi, 2014; Sarea & Hanefah, 2013), as well as from current Islamic banking and finance literature with necessary adaptations made for the specific context of the study. The second section of the questionnaire explored information about respondents' profile, including gender, age, marital status, employment status, just to name a few. The questionnaire was initially prepared in English and was subsequently translated into French and distributed as such. The corresponding pilot test was also conducted prior to the final data collection.

The data were subsequently analysed using linear regression. The choice of this technique was inspired by Hair, Black, Babin and Anderson (2010) as well as from similar studies conducted in this area. It is worth mentioning that the analysis was done through SPSS version 18.

The respondents' profile shows that about 69 per cent of the respondents are male while 31 per cent of them are female. Furthermore, about 44 per cent of the respondents are between 31 and 40 years old, 28 per cent are between 20 and 30 years old, 16 per cent are between 41 and 50 years old, and 12 per cent are above 50 years old. In addition, about 43 per cent of the respondents are holding Bachelor's degree, 37 per cent are holding a Certificate/Diploma, and 20 per cent are holding Master's degree. Similarly, 55 per cent of the respondents are holding positions in the private sector, 20 per cent are students, 15 per cent are holding positions in the public sector and about 10 per cent are self-employed.

4. Results

4.1. Reliability

Prior to the hypotheses' testing, it is important to address the reliability of the constructs. There are usually multiple measures of reliability used in the previous studies. However, the most common measure is the Cronbach Alpha. The value of the latter should be at least 0.6 to be acceptable (Juil, Van Rensburg, & Steyn, 2012; Yee, San & Khoon, 2011; Nordin, Abu Talib, Yaacob & Sabran, 2010). The reliability values in Table 1 are largely above 0.6. Hence, the survey constructs are reliable and further analyses can be conducted.

Table 1: Reliability Measures

Constructs	Cronbach Alpha
Uncertainty	.866
Relative advantage	.754
Compatibility	.784
Social influence	.903

Constructs	Cronbach Alpha
Uncertainty	.866
Awareness	.828
Behavioural intention	.689

1.2. Linear Regression

The linear regression results in Table 2 indicate that uncertainty does not have a significant influence on the intention to adopt Islamic banking services in Morocco. Hence, Hypothesis 1 is not supported. This contradicts the findings of Echchabi and Aziz (2012b). This could be mainly due to the unawareness and/or misconception about Islamic banking services and which is caused mainly by the restrictions applied by the government regarding the marketing of the Islamic banking services in Morocco since their introduction.

On the other hand, relative advantage has a significant positive influence on the intention to adopt Islamic banking services in Morocco. Hence, Hypothesis 2 is supported. This is in line with the findings of Echchabi and Aziz (2012b). The relative advantage of Islamic banks is perceived and measured via the economic benefit, banks' staff knowledge and efficiency in providing services, and the social prestige offered by these services. Thus, these dimensions have to be emphasised by the Moroccan financial institutions offering Islamic financial services.

Similarly, compatibility has a significant positive influence on the intention to adopt Islamic banking services in Morocco. Hence, Hypothesis 3 is supported. This is in line with the findings of Echchabi and Aziz (2012b). Thus, much emphasis on the marketing and management strategies should be on the social and religious values, the specific financial needs of the customers and their past experience in terms of banking services, and the traditional aspects of the Moroccan culture.

In addition, social influence was found to have a positive significant influence on the intention to adopt Islamic banking services in Morocco. Hence, Hypothesis 4 is supported. This is in line with the findings of Echchabi and Aziz (2012b). In this regard, the institutions offering Islamic banking services in Morocco should be using group/collective marketing, focusing on spouse, parents, peers and siblings as well as the media influence.

Table 2: Linear Regression

Model	Standardized Coefficients
(Constant)	
Uncertainty	-.026
Relative Advantage	.142*
Compatibility	.409**
Social influence	.150*
Awareness	.092

Note: *, **, *** refer to significance at 10%, 5%, and 1% respectively

Finally, awareness was found to have no significant effect on the intention to adopt Islamic banking services. Hence, Hypothesis 5 is not supported. This contradicts the findings of Echchabi and Aziz (2012b). This might be mainly due to the restrictions applied by the government authorities, and which

does not permit the market players to provide full information about these services to the Moroccan customers and the international investors.

Thus, among the five factors initially included in the model, only three factors were found to be significantly influencing the adoption of Islamic banking services in Morocco, namely, relative advantage, compatibility and social influence. These three factors explain over 42 per cent of the variation in the adoption behaviour.

5. Discussions and conclusion

The main purpose of the study was to review the current state of Islamic banking practice and current issues in Morocco, and to examine the factors that influence the Moroccan customers to adopt Islamic banking services. The results indicated that the relative advantage, compatibility, and social influence are the main factors that influence the adoption of Islamic banking services in Morocco. Furthermore, it is revealed that the government ambitions to become a regional Islamic banking and finance hub is faced by legal and regulatory issues that are still persistent after six years of implementation.

These findings have significant implications for the theory, for the policy makers and regulators as well as for the practitioners. Particularly, the study is an extension of the theory of innovations diffusion to a different setting and to a different area that has been empirically under-researched. Hence the study proves the applicability of this theory in this new context. Similarly, the current study provides insights to the practitioners and policymakers on the important dimensions to be emphasised to promote the Islamic banking industry in Morocco and similar countries. Particularly, much emphasis should be on the relative advantage of Islamic banking compared to the conventional banking system. Moreover, emphasis should be on the compatibility of the Islamic banking services with the religious and cultural values, as well as compatibility with the past banking instruments used by the customers. Furthermore, the marketing strategy of the banks should focus on group strategies, focusing on parents influence, peers and siblings, as well as social and classic media.

On the other hand, the policy makers and regulators are highly required to promote Islamic banking services in Morocco through various means. Firstly, they are required to permit *shari'ah* scholars and *shari'ah* supervisory boards to be involved in the process of certification and compliance aspects. Secondly, they are recommended to permit the Islamic banks to operate independently, without an association to the long existing conventional banks, in order for the potential customers to appreciate the distinct features of Islamic banking and its superiority to the conventional banking system especially in terms of religious compliance. Thirdly, the corresponding authorities are required to efficiently establish a number of regulatory and fiscal policies and regulations to ensure competitiveness and smoothness of the Islamic banking system in a potential dual banking system, eventually dominated by the long existing conventional banking system.

The current study has a number of limitations that should be taken into account in the future studies in this area. The current study as well as the past studies have analysed the Moroccan context of Islamic banking merely from the customers' perspective. In this regard, a clearer view of the Islamic banking industry in Morocco should be researched, by examining the position of BAM, local and foreign banks, *shari'ah* scholars and related others on the aforementioned issues. Furthermore, the future studies are also recommended to extend these findings to other contexts and preferably using other models as well, and applying mixed methods.

References

- Ali, S. S. (2012). *Islamic banking in the MENA region*. Jeddah, Saudi Arabia: Islamic Research and Training Institute.
- Bley, J., & Kuehn, K. (2004). Conventional versus Islamic finance: Student knowledge and perception in the United Arab Emirates. *International Journal of Islamic Financial Services*, 5(4), 1-13.
- Cherkaoui, A. (2014). L'expérience marocaine en matière de la commercialisation des produits bancaires alternatifs. *Seminar on Islamic Banking: Between the Current Challenges and Future Prospects* (pp. 813-839). Fes: Islamic International Foundation for Economics and Finance.
- Dusuki, A. W., & Abdullah, N. I. (2007). Why do Malaysian customers patronise Islamic banks? *International Journal of Bank Marketing*, 25(3), 142-160.
- Echchabi, A., & Abd. Aziz, H. (2012b). Empirical investigation of customers' perception and adoption towards Islamic banking services in Morocco. *Middle-East Journal of Scientific Research*, 12(6), 849-858.
- Echchabi, A., & Aziz, H. A. (2012a). The relationship between religiosity and customers' adoption of Islamic banking services in Morocco. *International Journal of Contemporary Business Studies*, 3(5), 25-31.
- Echchabi, A., Olorogun, L. A., & Azouzi, D. (2014). Islamic insurance prospects in Tunisia in the wake of the Jasmine revolution: A survey from customers' perspective. *Journal of Islamic Accounting and Business Research*, 5(1), 15-28.
- Erol, C., & El-Bdour, R. (1989). Attitude, behaviour and patronage factors of bank customers towards Islamic banks. *International Journal of Bank Marketing*, 7(6), 31-37.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis (7th Edition)*. Upper Saddle River: Prentice Hall.
- Juul, L., Van Rensburg, J., & Steyn, P. (2012). Validation of the King's Health questionnaire for South Africa in English, Afrikaans and IsiXhosa. *South African Journal of Obstetrics and Gynaecology*, 18(3), 82-84.
- Metawa, A., & Al-Mossawi, M. (1998). Banking behaviour of Islamic bank customers: Perspectives and implications. *International Journal of Bank Marketing*, 16(7), 299-313.
- Naser, K., Jamal, A., & Al-Khatib, K. (1999). Islamic banking: A study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing*, 17(3), 135-151.
- Nordin, N. M., Abu Talib, M., Yaacob, S. N., & Sabran, M. S. (2010). A study on selected demographic characteristics and mental health of young adults in public higher learning institutions in Malaysia. *Global Journal of Health Science*, 2(2), 104-110.
- Rogers, E. M. (2003). *Diffusion of Innovations, 5th Edition*. New York: Free Press.
- Said, P., Ahmad, I., & Javaid, F. (2009). *Handbook of Islamic banking products and services*. Karachi, Pakistan: State Bank of Pakistan.

- Sarea, A. M., & Hanefah, M. M. (2013). Adoption of AAOIFI accounting standards by Islamic banks of Bahrain. *Journal of Financial Reporting and Accounting*, 11(2), 131-142.
- Sayid, O., Echchabi, A., & Aziz, H. A. (2012). Investigating mobile money acceptance in Somalia: An empirical study. *Pakistan Journal of Commerce and Social Sciences*, 6(2), 269-281.
- Thambiah, S., Ismail, H., Ahmed, E. M., & Khin, A. A. (2013). Islamic retail banking adoption in Malaysia: The moderating effect of religion and region. *The International Journal of Applied Economics and Finance*, 7(1), 37-48.
- Yee, C. J., San, N. C., & Khoon, C. H. (2011). Consumers' perceived quality, perceived value and perceived risk towards purchase decision on automobile. *American Journal of Economics and Business Administration*, 3(1), 47-57.