


Deposit Withdrawal Behavior of Islamic Banking Customers in Brunei Darussalam

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ABSTRACT

This article is aimed at investigating the deposit withdrawal behavior of Islamic banking customers in Brunei Darussalam. More specifically, it explores the influence of individual characteristics upon the action of deposit withdrawal when the customers encounter three different situations: (i) non-shariah compliance issues upon products and services; (ii) uncompetitive return; and (iii) low service quality. Data collection is done using self-administered questionnaires with 180 completed questionnaires used for the analysis. The study uses a chi-squared independent test and binary logistic regression as its method of analysis. The findings show that deposit withdrawal is a real future threat for the Islamic banking industry in Brunei Darussalam and it happens when customers with certain characteristics and motivations encounter the three situations mentioned above.

KEYWORDS

Brunei Darussalam, Customer Behavior, Deposit Withdrawal, Islamic Banking, Logistic Regression

INTRODUCTION

Brunei Darussalam is one of the smallest country in the world with total area of 5765-sq KM. The country is directly facing the South China Sea and the rest are bounded by Malaysia. The latest census mentions that the population of Brunei is around 450,000 persons with more than half of the population is Malay and Muslim. The official religion is Islam with His Majesty the Sultan and Yang Di-Pertuan as the head of the Islamic faith in the country. Hence, Islam plays a central role in the life of every Muslim in Brunei Darussalam.

The influence of Islam can also be sensed in the financial sectors of the country. Brunei Darussalam is among the earliest country in the world adopting Islamic banking system after Malaysia, Pakistan, Sudan and Iran. Currently, Bank Islam Brunei Darussalam (BIBD) is the only Islamic commercial bank in Brunei Darussalam that serves all segments within the retail banking market (Abduh, 2018). The bank was started in 1981 as the Island Development Bank and then converted to a full-fledged Islamic bank in January 1993 and changed its name to Islamic Bank of Brunei (IBB). There was a big merger in the history of Brunei financial system in 2005 between IBB and the Islamic Development Bank of Brunei which leads to the inception of BIBD.

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Brunei is running the Islamic and conventional banking system in parallel. Despite its small population and area, there are currently four local banks and five foreign banks provide services here (Table 1). However, only three banks provide Islamic contracts for their saving and financing schemes. Those banks are local and namely BIBD, Perbadanan Tabung Amanah Islam Brunei (TAIB), and recently established Bank Usahawan. Other banks are operated under conventional banking schemes.

Interestingly, despite Islam as the official religion of the country and the religion of majority of the Bruneian, the two biggest local banks, Baiduri as a conventional bank and BIBD as an Islamic bank, are having a strong competition among them and shared almost equal number of customers. According to the findings from Abduh (2016), one of the reasons is because the understanding about riba among the Bruneian is still low. Furthermore, this is also because both Islamic and conventional banks operating in Brunei are offering similar products and following almost similar regulations set by the monetary authority of Brunei Darussalam.

For Islamic banking, keeping deposits stable and large, without any significant fluctuation, is one of its major concerns in achieving successfulness (Abduh, 2011). However, it is not always easy since Brunei is among the countries offering Islamic and conventional banking products and services in parallel. Therefore, as argued by Ahmed (2002), in a country with dual banking system like Brunei Darussalam, the Islamic banks are facing withdrawal risk as the return on customer deposits can vary. Not only that, studies had confirmed that service quality provides high influence upon customers' decision of either remain with current banks or move to other banks which provide better service quality. Moreover, as far as the Islamic banking is concerned, the customers are not only looking for profits but rather the compliance of products and services towards shariah tenets. Therefore, there will be a tendency of withdrawing from the bank when it violates those tenets.

Hence, the objective of this study is to investigate the deposit withdrawal behavior among Islamic banking customers. More specifically, this study tries to identify the individual characteristics which may affect the behavior of Islamic banking customers towards the issues of shariah non-compliance, the fluctuation of returns and service quality provided by Islamic banks in Brunei Darussalam.

The rest of this paper discusses four other parts. Chapter two provides previous literature on the area discussed and chapter three describes the data and methods used for the analysis utilized in this study. Furthermore, the discussion of the findings and conclusions will be discussed in chapter four and five respectively.

Table 1. List of banks in Brunei Darussalam

Name of the Bank	Ownership	Type
Baiduri Bank	Local	Conventional
Bank Islam Brunei Darussalam	Local	Islamic
Perbadanan Tabung Amanah Islam Brunei	Local	Islamic
Bank Usahawan	Local	Islamic
Maybank	Foreign	Conventional
RHB Bank	Foreign	Conventional
Standard Chartered Bank	Foreign	Conventional
Bank of China	Foreign	Conventional
UOB Bank	Foreign	Conventional

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