

## STUDY OF MARKETING STRATEGY FOR ISLAMIC BANKING SECTOR IN SRI LANKA

M.S.M Imthiyas<sup>1</sup>, A.R.M Arshard<sup>2</sup>, F.H.F Nasu Sahana<sup>3</sup>

<sup>1</sup>South Eastern University of Sri Lanka, Oluvil, Sri Lanka

<sup>2</sup>Amana Bank PLC, Sri Lanka

<sup>3</sup>Sabragamuwa University of Sri Lanka, Belihuloya, Sri Lanka

<https://doi.org/10.5281/zenodo.10867837>

**Abstract.** *The global financial landscape has witnessed a remarkable increase in interest and uptake of Islamic banking products and services in recent years. Guided by principles rooted in Shariah law, Islamic banking offers an alternative financial model based on ethical and moral principles, particularly appealing to populations seeking financial services aligned with their religious beliefs. With its diverse and predominantly Muslim population, Sri Lanka presents fertile ground for the growth and expansion of Islamic banking.*

*This research explores the marketing strategies employed by Islamic banks operating within the Sri Lankan financial sector. It delves into the unique challenges and opportunities faced by these banks in effectively reaching and engaging their target market. Operating within a distinct framework governed by Shariah principles, Islamic banks in Sri Lanka must navigate the prohibition of interest, the avoidance of uncertainty, and the promotion of risk-sharing and ethical investment practices while meeting the financial needs of customers. Despite the country's rich Islamic heritage and sizable Muslim population, Islamic banking remains relatively underdeveloped compared to conventional banking in Sri Lanka. This presents both challenges and opportunities for Islamic banks seeking to establish themselves as viable alternatives. Moreover, they must differentiate themselves in a competitive landscape characterized by intense rivalry among Islamic and conventional banks.*

*The study analyzes factors such as product offerings, distribution channels, promotional activities, and customer relationship management to identify the key drivers of success for Islamic banks in Sri Lanka. It adapts the traditional marketing mix, incorporating Islamic principles into the Five Ps - Product (Halal and Ethical), Price (Fairness and Transparency), Place (Accessibility and Convenience), Promotion (Ethical Communication), and People (Ethical Conduct and Relationships) - to align with Shariah principles and ethical considerations. By examining the marketing strategies of Islamic banks in Sri Lanka, the dynamics of the Islamic banking sector and sheds light on potential avenues for further growth and development. It underscores the importance of ethical conduct, transparency, and social responsibility in fostering trust and building long-term relationships with customers and communities.*

**Keywords:** *global financial landscape, banking products, services, traditional marketing mix.*

### Introduction

There is a significant surge in interest and uptake of Islamic banking products and services. Islamic banking, guided by principles rooted in Shariah law, offers an alternative financial model based on ethical and moral principles, which resonate with a growing segment of the population seeking financial services aligned with their religious beliefs. Sri Lanka, with its diverse and

predominantly Muslim population, presents a fertile ground for the growth and expansion of Islamic banking [1].

This research aims to delve into the marketing strategies employed by Islamic banks operating within the Sri Lankan financial sector. The study seeks to explore the unique challenges and opportunities faced by Islamic banks in effectively reaching and engaging their target market in Sri Lanka. By examining the marketing strategies adopted by Islamic banks, this research endeavors to express the dynamics of the Islamic banking sector in Sri Lanka and shed light on potential avenues for further growth and development[2].

Islamic banking, as a niche segment within the broader financial industry, operates within a distinct framework governed by Shariah principles. These principles emphasize the prohibition of interest (riba), the avoidance of uncertainty (gharar), and the promotion of risk-sharing and ethical investment practices. As such, Islamic banks face the dual challenge of meeting the financial needs of customers while adhering to these stringent ethical guidelines.

The Sri Lankan context adds another layer of complexity to the marketing strategies of Islamic banks. Despite the country's rich Islamic heritage and a sizable Muslim population, Islamic banking remains a relatively underdeveloped sector compared to conventional banking. This presents both challenges and opportunities for Islamic banks seeking to carve out a significant market share and establish themselves as viable alternatives to traditional banking institutions [3].

Moreover, the competitive landscape within the Sri Lankan financial sector is characterized by intense rivalry among both Islamic and conventional banks. Islamic banks must navigate this competitive environment while also differentiating themselves and effectively communicating their value proposition to potential customers.

Against this backdrop, this research aims to analyze the marketing strategies employed by Islamic banks operating in Sri Lanka. By examining factors such as product offerings, distribution channels, promotional activities, and customer relationship management, this study seeks to identify the key drivers of success for Islamic banks in the Sri Lankan market [4].

### **Results and Discussions**

#### ***Product (Halal and Ethical) -***

In Islamic marketing, products must comply with Shariah law, meaning they should be halal (permissible) and free from haram (forbidden) elements. This includes ensuring that services offered by Islamic banks adhere to Shariah principles, such as the prohibition of interest (riba) and unethical investments. Products should also be designed to fulfill genuine customer needs while promoting social welfare and ethical considerations [5].

#### ***Price (Fairness and Transparency) -***

Pricing in Islamic marketing emphasizes fairness and transparency. Islamic banks should adopt pricing mechanisms that reflect the true value of products and services while ensuring they are affordable and accessible to customers. Pricing structures should avoid exploitation and unjust enrichment, aligning with principles of equity and social justice. Moreover, Islamic banks should be transparent in their pricing practices, providing clear information to customers about the costs and charges associated with their products and services [6].

#### ***Place (Accessibility and Convenience) -***

Place should be a channel to market the products, in Islamic marketing, accessibility and convenience are paramount. Islamic banks should strive to make their services accessible to customers across different regions and demographics, ensuring inclusivity and equal access to

financial services. This may involve establishing physical branches, online banking platforms, and mobile banking services to cater to diverse customer needs and preferences [7].

***Promotion (Ethical Communication) -***

Promotion encompasses the marketing and communication strategies used to raise awareness and generate demand for products and services. In Islamic marketing, promotion should adhere to ethical guidelines and principles. Islamic banks should communicate their offerings in a truthful, transparent, and respectful manner, avoiding deceptive or misleading advertising practices. Promotional efforts should also emphasize the ethical and social benefits of Islamic banking, highlighting its alignment with Islamic values and principles [8].

***People (Ethical Conduct and Relationships) -***

The fifth P, People, underscores the importance of ethical conduct and human relationships in Islamic marketing. Islamic banks should prioritize building trust, fostering long-term relationships, and serving the interests of customers and society at large. This involves treating customers, employees, and stakeholders with fairness, respect, and integrity. Additionally, Islamic banks should engage in corporate social responsibility (CSR) initiatives that contribute to the welfare and development of the communities they serve, reflecting the Islamic values of compassion, generosity, and social responsibility [9]. The marketing strategy for Islamic banking sector in Sri Lanka faces several challenges and opportunities amidst the country's evolving financial landscape and socio-cultural dynamics. Therefore, the research problem encompasses identifying and addressing the following key issues:

***Market Penetration and Awareness -***

Islamic banks often struggle with low market penetration and awareness among the general population. The research problem involves understanding the factors contributing to limited market penetration, such as lack of awareness, misconceptions about Islamic banking, and competition from conventional banks, and devising effective strategies to overcome these barriers and expand the reach of Islamic banking services [10].

***Customer Perception and Preference -***

Customer perception and preference play a critical role in shaping the success of marketing strategies in the Islamic banking sector. The research problem entails exploring the perceptions, attitudes, and preferences of Sri Lankan consumers toward Islamic banking, including factors influencing their decision-making process, such as religious beliefs, trust, service quality, and perceived value. By understanding customer needs and preferences, the research aims to identify opportunities for Islamic banks meet the target market [11].

***Ethical Marketing and Shariah Compliance -***

Ethical marketing practices and Shariah compliance are fundamental principles guiding Islamic banking operations. However, ensuring compliance with Shariah principles while effectively promoting Islamic banking products and services poses a significant challenge. The research problem involves examining the ethical implications of marketing strategies in the Islamic banking sector, including issues related to transparency, honesty, and consumer protection. By addressing these ethical considerations, the research seeks to enhance trust and credibility in the Islamic banking sector and strengthen customer relationships [12].

***Competitive Positioning and Differentiation -***

In a competitive financial market like Sri Lanka, Islamic banks must differentiate themselves from conventional banks and other financial institutions to attract and retain customers.

The research problem entails identifying unique value propositions and competitive advantages of Islamic banking services, such as Shariah-compliant financing options, ethical investment practices, and personalized customer service, and devising strategies to effectively communicate these advantages to target customers. By strengthening their competitive positioning, Islamic banks can gain a stronger foothold in the market and increase their market share [13-14].

#### ***Regulatory Environment and Compliance -***

The regulatory environment in Sri Lanka plays a big role. The research problem involves examining the regulatory framework governing Islamic banking in Sri Lanka, including licensing requirements, Shariah compliance standards, and consumer protection regulations, and assessing the implications of regulatory compliance on marketing practices. By navigating regulatory challenges and ensuring compliance with legal and ethical standards, Islamic banks can build trust and confidence among customers and regulators alike [15-16].

Possible Direct Effects on Customer Satisfaction, Trust and Loyalty to Islamic Banks

#### ***The Customer Satisfaction -***

Tailored Product Offerings: Islamic banks in Sri Lanka can enhance customer satisfaction by offering tailored. This customization can include Shariah-compliant financing options, investment products, and savings accounts designed to address the financial goals and values of customers [17].

#### ***Service Quality –***

Providing excellent customer service is crucial for fostering satisfaction. Islamic banks can ensure prompt and efficient service delivery through various channels, including physical branches, online banking platforms, and mobile applications. Additionally, offering personalized assistance and support to customers can contribute to higher levels of satisfaction.

#### ***Transparency and Ethical Conduct –***

Transparency in pricing, terms, and conditions, as well as adherence to ethical principles, are essential for building trust and satisfaction among customers. Islamic banks should ensure clarity in their communication and transactions, demonstrating a commitment to integrity and ethical conduct [18].

#### ***Shariah Compliance –***

Demonstrating a strong commitment to Shariah compliance instills trust among customers who seek financial services aligned with Islamic principles. Islamic banks in Sri Lanka should adhere strictly to Shariah guidelines in their operations, products, and investments, reassuring customers of the ethical integrity of their services.

#### ***Consistency and Reliability –***

Consistent and reliable service delivery builds trust over time. Islamic banks should strive to maintain high standards of quality, reliability, and professionalism in all aspects of their operations, from customer interactions to financial transactions [19].

#### ***Transparency and Accountability –***

Transparency in communication and decision-making processes fosters trust by giving customers visibility into how their funds are managed and invested. Islamic banks should be transparent about their practices, performance, and financial health, promoting accountability and trustworthiness.

#### **Loyalty**

The benefits can enhance customer loyalty. Islamic banks can provide incentives such as competitive profit rates, loyalty rewards, and exclusive privileges to encourage customers to continue using their services.

**Relationship Building:** Building strong relationships with customers is essential for fostering loyalty. Islamic banks can invest in personalized relationship management strategies, including regular communication, feedback mechanisms, and personalized financial advice, to strengthen connections and loyalty [20].

**Community Engagement:** Engaging with the local community and supporting social causes can foster loyalty among customers who value corporate social responsibility. Islamic banks can sponsor community events, participate in charitable initiatives, and support educational programs to demonstrate their commitment to social welfare and community development.

### **Conclusions**

Determining the appropriate level of popularity for their products might be challenging for an Islamic bank that strives for moral responsibility when implementing Islamic marketing practices. The fact that producing safe products has financial expenses adds to the issue. The cost of a product must take these expenses into account. As a result, an Islamic bank that wants to create products that are significantly more popular than those of its rivals will need to offer them at a relatively low price or risk being at a competitive disadvantage. In order to preserve their position in a cutthroat market and adhere to socially conscious Islamic marketing principles, the sales behavior pertinent to Islamic banking is examined in this study. With an emphasis on the Sri Lankan context, this study aims to add to the body of knowledge already available on Islamic banking and marketing strategy. This study intends to offer important insights that help guide strategic decision-making and support the long-term growth and development of Sri Lanka's Islamic banking industry by illuminating the particular possibilities and problems that Islamic banks face there.

### **REFERENCES**

1. Spillan, J. E., & Rahman, M. (2023). *Doing Business in Bangladesh and Sri Lanka: Challenges and Opportunities*.
2. Ahamed, G. T., & Ahammed, T. M. I. (2023). Exploring Islamic Entrepreneurship: Perceptions, Challenges, and Economic Contributions among Muslims in India. *Management*, 11(3), 01-16.
3. Iqbal, M., Ahmad, A., & Khan, T. (1998). *Challenges facing Islamic banking (Vol. 1)*. Jeddah: Islamic Research and Training Institute.
4. Swartz, N. P. (2009). The Prohibition of Usury (Riba) a Moral-Ethical Perspective of Islamic Financial and Banking Law: A Comparative Study Between the Islamic and the Conventional Model. *Jurnal Syariah*, 17(2), 409-430.
5. Gilani, H. (2015). Exploring the ethical aspects of Islamic banking. *International journal of Islamic and Middle Eastern finance and management*, 8(1), 85-98.
6. Nienhaus, V. (2011). Islamic finance ethics and Shari'ah law in the aftermath of the crisis: Concept and practice of Shari'ah compliant finance. *Ethical Perspectives*, 18(4), 591-623.
7. Ofori-Okyere, I., Edghiem, F., & Kumah, S. P. (2023). Marketing inclusive banking services to financially vulnerable consumers: a service design approach. *Journal of Services Marketing*, 37(2), 232-247.

8. Shaikh, A. A., Glavee-Geo, R., Karjaluoto, H., & Hinson, E. R. (2018). *Marketing and Mobile Financial Services*. Routledge.
9. Riaz, M. (2022). Role-related Tensions in The Lived Experiences of Managers with a Marketing Function (MMFs) in Islamic Banks in the UK: An Interpretative Phenomenological Analysis.
10. Haddad, A., & Souissi, M. N. (2022). The impact of Shariah Advisory Board characteristics on the financial performance of Islamic banks. *Cogent Economics & Finance*, 10(1), 2062911.
11. Kumar, M., Tat Kee, F., & Taap Manshor, A. (2009). Determining the relative importance of critical factors in delivering service quality of banks: an application of dominance analysis in SERVQUAL model. *Managing Service Quality: An International Journal*, 19(2), 211-228.
12. Abbas, A., Nisar, Q. A., Mahmood, M. A. H., Chenini, A., & Zubair, A. (2020). The role of Islamic marketing ethics towards customer satisfaction. *Journal of Islamic Marketing*, 11(4), 1001-1018.
13. Ahamed, S. T., Niyas, P. M., & Rifky, A. L. M. (2018). Identify the significance of performance appraisals on employee work improvement in software development organizations. *Int. J. Sci. Res. Publ*, 8(4), 399-404.
14. Haridan, N. M., Hassan, A. F., & Karbhari, Y. (2018). Governance, religious assurance and Islamic banks: Do Shariah boards effectively serve?. *Journal of Management and Governance*, 22, 1015-1043.
15. Ullah, S., Harwood, I. A., & Jamali, D. (2018). 'Fatwa repositioning': the hidden struggle for Shari'a compliance within Islamic financial institutions. *Journal of Business Ethics*, 149, 895-917.
16. MAM, M. S., Rifky, A. L. M., Marsook, M. F. M., & Assam, S. M. B. M. (2020). The Impact of Information Systems on Organizational Performance In Sri Lanka. *International Journal of Academic and Applied Research (IJAAR)*, 4(11), 107-109.
17. Mas'ud, R. (2021). Digital Marketing Communication Patterns for Islamic Microfinance Institutions in the Industrial Era 4.0. *Khazanah Sosial*, 3(3), 160-176.
18. Nugraheni, P., & Fauziah, L. (2019). The impact of corporate governance on customer satisfaction and loyalty of Islamic insurance company in Indonesia. *Journal of Accounting and Investment*, 20(2), 114-128.
19. Haron, R., Abdul Subar, N., & Ibrahim, K. (2020). Service quality of Islamic banks: satisfaction, loyalty and the mediating role of trust. *Islamic Economic Studies*, 28(1), 3-23.
20. Alduwailah, F. Y. (2018). *Impact of CRM resources and capabilities on business performance in the mobile telecommunications industry: A resource-based view* (Doctoral dissertation, Brunel University London).