

Study on Marketing Strategy for Islamic Banking Industry in Sri Lanka

S. Issath Nimsith¹, MNM. Nusrathullah² & HMM. Haleem³

^{1,2}Department of Arabic Language, Faculty of Islamic Studies and Arabic Language,

³Faculty of Management of Commerce, South Eastern University of Sri Lanka.

sinimsith@gmail.com

Abstract

Islamic banking is a growing industry in Sri Lanka and many other countries as well. The study is to empirically analyze the present situation of Sri Lanka by using the theoretical framework of mainly porter's five competitive forces for Islamic banking industry in Sri Lanka. Marketing strategies must be analyzed and tackled carefully for any newly growing industry in order to get sustainable development. The main purpose of the research work is to explore and pinpoint some marketing strategy issues which can be helpful for new investors and old stakeholders in the sector of Islamic banking in Sri Lanka in order to penetrate in the market successfully. And also the aim of the study is that how Islamic banking can grow in an environment where conventional banking sector has deep roots. The target groups are one Islamic bank and four Islamic banking windows in Sri Lanka. The common marketing strategy is followed by all branches the Islamic bank and Islamic banking windows. This study is based on Qualitative approach. Data was collected from primary and secondary data methods. The study provides useful information for the top management of Islamic banks. Findings indicate that the competition is very high in the industry and Islamic banks could take more market share by introducing the more innovative products with less price as compared to conventional banks and by widening their branch network to all small and big cities of Sri Lanka. The study is important to the banking solidarity in the country as banks may know the marketing strategies which Islamic banks can adopt to attract new customers. The policy makers can obtain knowledge of the marketing strategies that are used to attract and thus use the information in designing appropriate policies that is regulating the industry.

Keywords: Islamic Banking, Strategies, Conventional Banking, Islamic Financial Institutions and Shari'ah.

1. INTRODUCTION

Islamic banking has emerged as one of the fastest growing industries over the past three decades. The ultimate goal of an Islamic bank is making profits while protecting the social and economic welfare of society (Chammas, 2006). Islamic banking is a fastest growing financial sector in Sri Lanka. Sri Lanka is one of the non-Muslim countries to have legislation for the Islamic banking sector. Islamic finance was introduced in 1997 with the establishment of Amana investment in Sri Lanka. Following an amendment to the banking act no 30 of 1988 in March 2005, there is now adequate flexibility for the conventional banks to establish Islamic banking windows and to launch Islamic financial productions. According to the Islamic legitimacy, Islamic banking is growing at a rate and this growth has been facilitated by the sharia scholars and other professionals in Sri Lanka. There is always a suspicion in the growth of Islamic banking because questions are formed in the matter where; Islamic banking is following the Islamic sharia in its entire works. Unlike Islamic banks, conventional banks have the greater support in Sri Lanka; both the Islamic and conventional banks are treated similarly by the central bank of sri lanka (CBSL) (Marikkar, 2009/2010). Most people are interested in dealing with Islamic banks just because of the prohibition of interest in Islam. Yet, there are a great number of customers who choose the banking services on the basis of

services, quality and profitability. The Sri Lankan market, including that for Islamic banking industry, faces several marketing challenges. However, one is the current legal environment, which is deemed unfavorable to Islamic banking operations. Other hurdles are reluctance on the part of regulators to introduce the necessary changes in the law to encourage the development of Islamic banking, a lack of investment opportunities that is sharia compliance and acceptable to the banking regulators, a higher capital requirement, severe competition, consumer resistance to a new form of Islamic banking based on religious principles and the fact that Muslims represent about less than 10 percent of Sri Lanka's population. As only those businesses retain in the long run and get loyal customers who take care of ethical perspectives on the marketing strategies and unethical businesses are less likely to succeed.

2. REVIEW OF LITERATURE

This literature reviews are related to Islamic banking and its marketing strategies based on the previous researcher's study. The results of these previous studies show different conclusion.

The concept of strategy has been underscored by various management scholars and practitioners (Kariuki, 2012). Kavale (2013) in his paper "strategy is concerned with the future direction of the firm and the strategic plans it undertakes over the long term in order to achieve organizational objectives in order to achieve stakeholder satisfaction". Strategy can be seen as a way of Building defenses against Competition and Finding Positions in the Industry where Competition is Weak. (Pearce & Robinson, 1997). Porter (1980) argues that the Strategy is about achieving Competitive Edge, about differentiating the Organization Goods and Services from its Rivals, about Increasing Productivity uses a blend of unique Activities. Strategy is therefore a tool that Organization uses to cope with the Turbulent Environment it faces. Marketing is a System of Interrelated Activities Designed to Develop, Price, Promote, and Distribute Goods and Services to Groups of Customers (M. G. Eccles & F. W. Julyan & G. Boot & J. P. Van Belle, 2000). Marketing is a human activity directed at satisfying needs and wants through exchange processes (Kotler, 1976). Ariff (1988) has presented that Muslims revived the interest free concept in 1970, and Islamic bank was established in Pakistan by ash-sheikh Irshad and in 1971, another bank named Nasar social bank" opened in 1975. Islamic marketing is an emerging discipline that can be broadly described as seeking to integrate orthodox marketing theory with Islamic teaching and ethics. Most of the scholarly work has only appeared in mainstream management journals within the last decade, and although now most widely studied in the academic community, a universal definition of Islamic marketing does not yet exist. Academic commentary on the concept appears to draw on, among others, aspects of Muslim consumer behavior, marketing communications by organizations aimed at Muslim populations, and the testing or application of Islamic ideology to broader marketing principles (Alom & Haque, 2011; Wilson, 2012). Different approaches are emerging as bases on which theory-building might conceivably be built: One approach (Allah Pitchay, 2012; Hashim & Hamzah, 2014) for instance, seeks to contextualize the process of 'doing' Islamic marketing within existing marketing principles with a view to distinguishing Islamic marketing practice from conventional marketing strategy development. Another (Borzooei & Asgari, 2013; Roumieh & Garg, 2014) seeks to explore the extent of the relationship between the use of standard business management tools and elements of Islamic marketing strategy development. The roots of the current paper may

be traced to this second approach to the extent that it seeks to address the role of social media in Islamic marketing strategy development. Having said that, a number of Islamic marketing scholars have pointed out the existence of several other potential lines of enquiry useful for exploring the Islamic marketing concept both within the marketing field and in combination with other disciplines (Wilson, 2012; Wilson et al, 2013).

3. STATEMENT OF PROBLEM

Numerous studies on Islamic banking, products, services and financial procedures have been made in Sri Lanka. Very few studies attempted to bring some of the marketing strategies followed by Islamic banking in Sri Lanka. Marketing strategies must be analyzed and tackled carefully for any newly growing industry in order to get sustainable development. Due to increased competition from both Islamic and conventional banks and changes in customer's perception, it is of supreme importance for Islamic banks to assess the effectiveness of their marketing strategy. Islamic banking is a fast growing sector in Sri Lanka. So, the researchers have chosen this sector in the research area. In Sri Lanka, private and government commercial banks are competing each other to attract large number of customers to open their accounts and to offer banking services. At this point in time, Islamic banks are recognized as commercial bank a Sri Lanka for offering financial services to the customers. This makes Islamic banks to be facing competition from private and government conventional banks. Hence, it is essential for Islamic banks to identify the effective marketing strategy for Islamic banking in Sri Lanka. In order to improve performance and ensure sustainable growth of Islamic banks, marketing strategy is one of the most important issues. A quality and suitable marketing strategy can be developed by understanding internal strengths and weaknesses and the external opportunities and threats. The aim of the study is that how Islamic banking can grow in an environment where conventional banking sector has deep roots.

4. OBJECTIVES

4.1 Primary Objective

To identify the present marketing strategies of Islamic banking in Sri Lanka that how the Islamic banking sector can grow and sustain by keeping in view the opportunities and threats in the market.

4.2 Secondary Objectives

- To find out the industry SWOT. Researchers have used porter five forces model to identify the opportunities and threats for Islamic banking in Sri Lanka.
- To suggest the potential strategies for Islamic banking in Sri Lanka.

5. METHODOLOGY

Qualitative information is involved in the study. The researchers have developed a research model for the research question which is based upon the theoretical framework. The researchers have used some concepts as his theoretical reference from “on competition by porter”, “marketing management”, “and principles of marketing” by philip kotler. This research design helped the researchers have a better understanding of the subject matter under study and helped the researcher has a view of areas for further studies. This design helped to answer the question of what are the present and potential marketing strategies are used by Islamic banks in Sri Lanka.

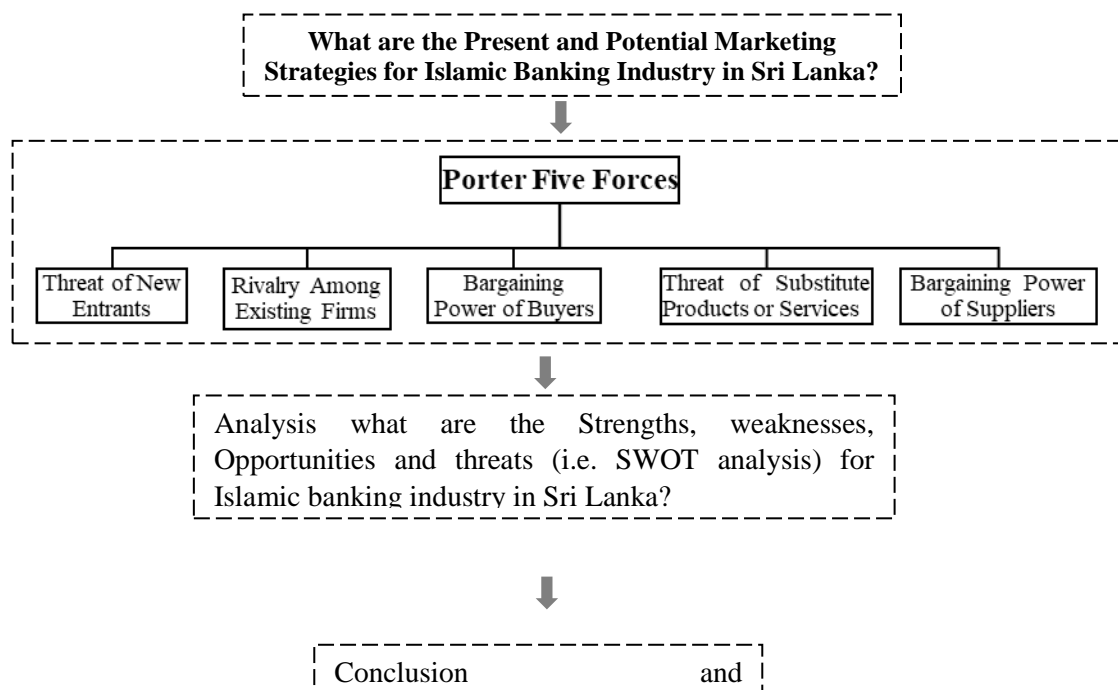


Figure 1. Research Design

5.1 Data Collection

The data collections for this study is secondary sources. The researchers have collected the secondary data mainly from books, annual reports, magazines, research article, published journals, internet, official websites and consider some internal reports.

6. ANALYSIS AND DISCUSSION

6.1 PORTER FIVE FORCES

a. Intensity of Rivalry among Existing Competitors

Islamic finance has been in operation in Sri Lanka for the last 15 years, but the total Islamic finance assets at present stands at paltry Rs.35 billion, whereas the total conventional banking and finance sector assets stood at Rs.7 trillion as of end 2014. Islamic finance therefore accounts for 0.5 percent of the total banking and finance sector assets in Sri Lanka. “with this amount of growth, we are not reaching anywhere. The industry needs to grow two times, three times. We should not be misled by the percentages because we are growing from a very low base” (Thilakaratne, 2014).

A total of 81 financial institutions are operating in Sri Lanka, 27 are licensed commercial banks, 7 are licensed specialized banks and 46 are licensed financial companies. Commercial banks are more interested in doing business in the corporate sector, that’s why consumer banking is mostly undeveloped (Free encyclopedia, 2018). Our system of evaluating customers is more stringent than in conventional banking as we can’t afford to have defaulters, because they will have a direct impact on the depositors (Hisham ally, 2015).

At least Rs.250 billion is still served by the conventional financial sector. Currently, there are 13 Islamic financial institutions in Sri Lanka, of which seven are banking institutions. Lately, even the conventional banks and finance companies opened windows to provide Islamic finance products (Imruz kamil, 2014).

The Islamic Finance industry in the country finds itself lagging well behind its conventional banking counterpart with the total if banking assets currently estimated at less than 1% of the total assets in the country’s banking sector, according to the Islamic financial services board (Thilakaratne, 2014). Within a short period of emergence in 2011, Amana bank, the only fully-fledged Islamic bank, has managed to attract more than 100,000 customers (Amana bank, 2015). Similarly, the deposit ratio has also increased dramatically from 54% in 2012 to 83% in 2013 (Tan, 2015).

Sri Lanka’s Muslim population of around 10% controls approximately 30% of businesses in the country. “Although many banks and financial institutions are in existence, my personal guesstimate is that they haven’t even touched 20% of the total market. There is still 80% left, so the pie is pretty big” (Hisham ally, 2015).

b. Threat of New Entrants

Some of the central bank regulations do apply to Islamic financial institutions, but the regulator has allowed some technical report flexibility given the differences between Islamic banking and conventional banking under strict monitoring. Standalone Islamic banks will have to comply with the minimum capital requirement of Rs10 billion by 2018 (Mubarak, 2015).

Sri Lanka is one of the non-Islamic country that is practicing the Islamic banking and finance system on it. All process of Islamic banks should be conducted under the observation of

central bank of Sri Lanka. In the case of introducing or launching the new banking product by Islamic banks may be, there are some pressures or threats which are the banks want to face on its operation by the political groups or conventional banking community (Interview, 2019). As a result of the amendments of 2005 to the banking act no 30 of 1988, all conventional banks are allowed to operate an Islamic banking business. There are 33 conventional banks in Sri Lanka, including 12 foreign banks operating banking business (Central bank, 2011).

When a new institution is commenced to involve in the Islamic banking business, the existing IBIS should also ensure that it complies with the shariah and other regulatory standards. This is because when any institution faces bankruptcy or is liquidated due to the failure of the system, it will prejudice the existing ibis and it may lead into a perception that it is the failure of Islamic banking system itself (Nafees, 2015).

c. Bargaining Power of Buyers

Yet locating unbanked customers and convincing them to put their assets at an accredited institution won't be easy. Sri Lanka's Muslim population is mostly based in rural areas in the east and northwest, but also widely dispersed across the island; many of them are farmers, fishermen, traders, civil servants and other professionals, and some are of malay and indian descent (Hisham ally, 2018).

In the competitive market both state and private banks use different strategies to increase the quality of their services (Anjalika & Priyanth, 2018). If the service process is effective, it is not important for customers to have a quality experience and benefits. (Lovelock, et al., 2016). When considering the Sri Lankan situation in service quality, it is being observed that characteristics of services and price which satisfy the customer, have a big contribution in deciding service quality (Wijethunga & Gunathilaka, 2013). Banks' ability to provide a sustainable service in the market depends on the service quality (Ragavan& Mageh, 2013). Customers of state banks expect a higher level of service quality in relation to customer satisfaction from private banks (Anjalika & Priyanath, 2018).

For investors who want to avoid Riba in their financial dealings, there were not very many options in Sri Lanka prior to the emergence of Islamic banking. For a long time the only available options were either to deposit in a current account with the conventional bank or invest in equity. There was a prevalent view that investing in equity has been always halal. People only recently have begun to understand that the equity must also be shariah compliant. Hence, Islamic banking system is a boon for those who require banking services accepted by the shariah (Nafees, 2015). Despite the substantial growth of Islamic investment funds in recent years, there have not been many such funds in Sri Lanka due to the fact that the investors do not have sufficient confidence in these institutions as they are not like conventional financial institutions. As Sri Lankan Muslims are a business community, they can emerge as potential investors if they are educated properly about Islamic banking (Nafees, 2015).

The people of Sri Lanka, Muslims and non-Muslims, are very much interested to deal with Islamic banking. They know practically about the rigour of the Riba based economic system. It is observed that a considerable number of customers are non-Muslims. Non-Muslims are

also interested studying in this field for job opportunities through which the message of Islam and knowledge of Islamic economics will be dispatched to the people of Sri Lanka (Ahamed, 2018). “Sri Lanka is the best country to invest in the Asian region and doing so is probably a better bet than Pakistan, Bangladesh, India or some of the other countries nearby” (Rogers, 2009).

d. Power of Suppliers

The banking sector of Sri Lanka is functioning on par with those of developed countries. However, seventy percent of the Sri Lankans still lives without direct access to banks or any other financial institutions. The most surprising fact is that there are only 1100 branches belonging to the six leading local banks of which 50% are located in the western province where the capital of Sri Lanka is situated. Due to the technological developments, banks and other financial institutions are able to provide the banking and financial services to people in rural areas (Abeywi, 2009). With regard to Islamic banking products, although there are some legal impediments, they are still sold successfully. However, it is observed that their application is very minimal. Thus, there is an immense need to expand them to a greater extent in order for people to access all kinds of Islamic banking products that are already available globally. In this sense, the expansion is essential so as to sustain the Islamic banking industry in the country as well to compete with conventional banks (Nafees, 2015).

Islamic finance total assets in the Sri Lanka account for 3 % of the total financial assets of the country, which is very small relative to those in neighboring Bangladesh and Pakistan, while total deposits and loans of local Islamic finance accounts for 5 %. Islamic finance could play a key role in the development of infrastructure projects and the capital markets of the post war era of Sri Lanka. Amana bank, Sri Lanka’s only full-fledged Islamic lender, plans to double its branches by expanding in rural areas, forecasting a sixfold growth in demand (Sajna, 2018). Lack of clear explanation and knowledge of Muslim society of Sri Lanka about Islamic financial transactions also leads to create many challenges to introduce and implement a new Islamic banking product among Muslim customers in Sri Lanka (Source: Interview & discussion).

The arrival of the Islamic banking system rendered them an opportunity to meet their banking needs in accordance with the shariah. Indisputably, Sri Lanka has the potential to become an Islamic banking hub in the south Asian region (Farook, 2008).

Islamic finance industry practitioners are very positive and there have been some new investment products introduced to the market by few Islamic financial institutions, for

example, an Islamic money plus saving product, a unit trust investment to attract small-time investors. This investment is free from withholding tax and a unique feature of this product is that the investor can enter into this investment scheme with small units and he/she can exit from the investment at any time. Another unit trust company is working on an Islamic cash fund to attract the big players (IFN Reports, 2015). The total number of players in the Islamic financial industry in Sri Lanka current stands at 44, of which 16 players are in the banking and finance sector, with four in the Takaful sector, nine in the consultancy and advisory sector, four in the education sector, three in the software and it sector, two in the publishing sector and two in the microfinance sector. There are seven registered market intermediaries who act as investment managers for the Islamic capital market in Sri Lanka (IFN Reports, 2015).



Figure 2: Number of Players in the Islamic Financial Market in Sri Lanka
Source: (Imrul kamil, 2015)

e. Threats of Substitutes

They are at the bottom of the pyramid, mostly traders and smallholders. “their biggest need, and our biggest challenge, is to provide them with services that replicate or reflect the products they are accustomed to using outside the traditional banking space. What they want are products that reduce the chaos in their lives, actively help them in the workplace and are acceptable under Islamic law (Siraz refai, 2018).

The Islamic banking business in the country is carried out either by way of fully-fledged Islamic banking system or Islamic windows. At present, there is one fully- fledged Islamic bank and eight Islamic windows in the country. Besides, there are more than nine institutions that carry out Islamic banking business are not regulated by the central bank of the country. They are either investment companies or associations. Although they are not registered as banks, they are still recognized as Islamic banking institutions among public. These may be categorized as potential Islamic banks (Nafees, SMM. Interviewed Habeebullah on 25 January 2015 in colombo, Sri Lanka).

There was a considerable shift in Al-Falah’s leasing business. Eventually Al-Falah founds that non-bank competitors were offering Islamic leasing products, so Al-Falah started testing prototype products. Most of these services, probably around 95% of them, were then entirely new to Al-Falah (Refai, 2018).

Table 1: Summary of Findings

Porter five forces	Findings
Intensity of rivalry among existing competitors	Competition is very high within the Islamic banking industry and it is increasing day by day.
Threat of new entrants	Threat of new entries in the Islamic banking sector is moderate. The barriers are not too high to enter the market.
Bargaining power of buyers	Bargaining power of customers is high in urban areas and institutions have more power than the individuals.
Bargaining power of suppliers	Supplier power is very high in the Islamic banking industry. and “shariah” scholars hold the most of the power because every product has to be approved from the “shariah” scholars.
Threat of substitute	Threats of substitutes are lowest in the industry.

6.2 Opportunities & Threats of Islamic Financial Industry

The researchers present the opportunities and threats for Islamic banks in the market as they are significant in creating a successful marketing strategy.

a. Opportunities

- 1) Nowadays, Islamic banks have more opportunities to undertake business activities in Sri Lanka, the government has reduced tax that are due to the banks. Government has also allowed giving licenses to conventional banks to promote Islamic banking windows in Sri Lanka, which help Islamic banks to gain more market share in the upcoming years.
- 2) Growing gross domestic product (GDP) rate and increase in per capita income reflects that economy of Sri Lanka is slowly improving. As well as FDI (Foreign Direct Investment) is kept on rising in Sri Lankan context and one of the major attractive sectors for foreign investors is seems to be a financial business. As the result of consumer power upturns, the living standards of common population increases as well.
- 3) Although the literacy rate of Sri Lanka seems to be high. There are more educated individuals in the market who have brilliant ideas, but do not have the sufficient investment to start a new business or to go for higher education abroad. Islamic banks are able to enjoy more market shares means of providing more advances and introducing new transactions for these young people. Moreover, it is considered a significant way to reduce unemployment in Sri Lanka. (Source: interview).

- 4) Micro financing is one of the largest sectors in Sri Lanka, as well as it is one of the undertakings in terms of Islamic banking concerned with the potential clients. Therefore, Islamic banks have a great opportunity to invest profoundly in this sector and to earn a higher return.
- 5) Sri Lankan government has provided a framework concerning the legislative, which helped reduce the difficulties and in recovering the overdue loans. Despite the risk involved in carrying out Shari'ah compliant transactions is precisely high. Even though this framework will considerably mitigate the risks.
- 6) There are more possibilities and opportunities available for investors in agriculture, housing, real estate and vehicle sectors in Sri Lanka. Therefore, Islamic banks are able to take out investments in such sectors as there are certain demand for vehicle and housing in urban areas in Sri Lanka, which substantially increases at a rate.
- 7) There is a collectivism culture in Sri Lanka, in which people are more associated with their families and assisting them financially as well. Sri Lankan culture as an uncertainty avoidance culture as the people having strong religious beliefs. Therefore, these factors can lead the Islamic banks to enjoy certain benefits by introducing various financial schemes, which could support local culture.
- 8) It is recognizable that the growth of Islamic banking industry in Sri Lanka is on the rise, whereas the conventional banks have adopted Islamic windows, which will benefit in acquiring a higher return from the particular sector. New branches of Islamic windows are being established in several areas, thus utilizing more capital and besides, they spend a lot of finance on advertising and marketing.
- 9) One third population of Sri Lanka lives in rural areas and most of them are engaged in agriculture and fishing activities anyway. There are a number of financial institutions lacks in order to provide facilities concerning these sectors. Therefore, Islamic banking has an opportunity to take advantage due to lower competition prevailing within these sectors.
- 10) Sri Lanka is a non-Muslim country whereby there are only 10% of its population is Muslims. Most of the Muslims are embracing Shari'ah compliant transactions as the religion of Islam strictly prohibited any contracts that associate interest. It is significant to note that currently there is only one full-fledged Islamic bank operating in Sri Lanka and they are having a large pool of clients interested in dealing with Shar'ah compliant products.

b.Threats

- 1) There is a significant relationship between political insatiability and per capita GDP growth, political instability has adverse effects on economic growth as the long term policies are not implemented effectively. There has been a political instability in Sri Lanka due to frequent changes in governments. Every new government begins with a new set of

policies and old policies are terminated often. This is a major threat to the emerging Islamic banking sector as they have to face certain problems in implementing long term policies.

- 2) Data gathered concerning this study show that increase in import goods (oil and food prices) around the world has caused a substantial upturn in inflation rate in Sri Lanka. The Inflation rate rose to 4.85% in 2018. Although the Central Bank of Sri Lanka is adopting several policies in order to control it by tightening its monitoring policy, however, it is a major threat to businesses and investors as if the price of the products increases, the value for money will fall (one us dollar equal to Rs.179.70, Feb 2019).
- 3) The findings show that there is a poor physical infrastructure in Sri Lanka. Therefore, Islamic banks have to face problems in managing their business activities on remote locations which on the other end can be a good market place for Islamic banks.
- 4) Corruption and bribery has its deep roots in Sri Lankan business culture. The findings of this study show that even top officials and bank executives have been found involved in corruption cases (Sri Lanka's ex-central bank Chief Arjun Mahendran held responsible for bond scam). It has been a common practice in Sri Lanka that some of the influential groups and bureaucracy take loans from the banks and failed to repay them.
- 5) General public of Sri Lanka comes in the category of uncertainty avoidance groups. People believe in rumors without any confirmation and justification. A large number of Muslims in Sri Lanka doubted the Islamic banks, whether these banks are actually under the Shari'ah laws or are they just using the name of Islam in order to carry out banking and financial services similar to conventional banks. This seems to be a bigger threat to Islamic Financial Institutions (IFI) in Sri Lanka.

7. CONCLUSION AND RECOMMENDATIONS

7.1 Conclusion

There has become a swift transition in the financial services in the world including Sri Lanka. A new mode of banking i.e. Islamic banking has been introduced and accepted widely in many, Muslim and non-Muslim countries around the world including Sri Lanka. This study has portrayed the current situation for Islamic banking in Sri Lanka by investigating the current competition of the industry using porter five forces model.

Data collected concerning this study clearly show that there are many prospects for the growth of Islamic banking in Sri Lanka and the environment to take out its operations is favorable for the sector. There is much more potential for already operating Islamic banks and for the new investors in this segment as well. As there is a political instability in Sri Lanka, the autonomous position of the Central Bank is providing a shelter to this sector against political instability. The Central bank of Sri Lanka has provided the Islamic banking sector with sufficient legislations and policies, so as to assist this sector in order to increase its efficiency. Although, the economics of Sri Lanka have shown a consistent growth in the

last few of years, however, the rise in the inflation rate (due to multiple factors) can cause problems for investors. Sri Lanka is a non-Muslim democratic country, however, there is plenty of possibilities and opportunities available for Islamic financial service providers including Islamic banks. In addition to that there is one important problem, whereby most of the individuals do not hold enough knowledge about the Islamic banking sector, which makes the people think that Islamic banks are just using the name of the Islam just to offer financial services similar to conventional banks. If taking into account technology, Islamic banks have many opportunities, as there is a boom of the telecom sector and well developed information technology industry in Sri Lanka. Most of the banks are using services such as e-banking, online banking, Automated Teller Machine (ATM) machines and cash deposit machines in order to facilitate their customers.

Competition in the industry seems to be higher. As the Islamic banking is a new industry, it has to compete with the other conventional banks which were established already. However the growth rate of Islamic banks seems better, but they are still far behind from the conventional banks in terms of market share. There are a lot of obstacles to the progress of the Islamic banking in Sri Lanka such as separate ‘Shari’ah’ boards for each bank and shortage of educated human resource. Conventional banks relate to this issue whereby opening standalone windows of Islamic banking have also increased the competition. What are the present and potential marketing strategies for Islamic banking industry in Sri Lanka? On the basis of the previous discussion of this study, the marketing strategy for Islamic banking is in below. The marketing strategy makers of Islamic banking should take care of the 4p’s of marketing i.e. Product, Price, Place and Promotion. Best marketing strategy for Islamic banking will be the one in which these four components are dealt carefully (Kotler, 2000).

a) Product

Islamic banks are using four main products, i.e. Mudarabah, Musharakah, Murabahah and Ijara in order to carry out their businesses. The banks provide unique products, which have attracted the customers. The banks create a unique position through having products that are more competitive in terms of value as compared to what is available in the conventional market and ensuring that the banks become a one stop shop for all the needs of the customers. The bank advertises their products through the press, tents, brochures and specifically seminars which are used to create awareness among the customers. They should bring more innovative products in the market. They have several other products such as Salam, Istisna, Sukuk etc., however are reluctant to use those products. Product expansion and dispute resolution mechanism play a major role to sustain the Islamic banking industry in Sri Lanka. Innovation is the main thing which will distinguish them from the conventional banking.

b) Price

researchers have explained in the previous topics that the majority of people in Sri Lanka belong to middle class and are very price sensitive. And as the competition is getting intense day by day with more banks coming into the Islamic banking industry and bargaining power

of the people is also higher, therefore people have now more choices and they choose the particular service on the basis of price. Price of Islamic banking products/services should be lower than the conventional banks or at least in line with the conventional banks. The Islamic banks should ensure that before pricing its products, they should study what the market charges so that they set at a price which is acceptable to the current and potential customers.

c) Place

Most banks are situated in the urban areas. Researchers pointed out earlier that there is a great potential available for Islamic banks in the rural areas and small towns as well. Islamic bank and Islamic windows have far less branches as compared to conventional banks. There is only one full-fledged Islamic bank in Sri Lanka with 29 branches, and the rest of the Islamic banking windows have separate units less than 10. Islamic banks should increase their branches and they should pay special attention to small towns and urban areas, as there lies much more possibilities.

d) Promotion

Promotion is a very important aspect as far as Islamic banks are concerned. Islamic banking services are not reserved for Muslims only, however there is potential for them to be used by all the people irrespective of religion, language or ethnicity based on an ethical basis, which strives to establish justice, fairness, benevolence and good values. So far, the main promotion of Islamic banking is based on the alternative and religion. In Sri Lanka, 90% population is non-Muslim. However, during the investigation researcher has found that 15-20 percent of people are consuming Islamic banking and financial services (the Amana bank reaches over 250000 customers) due to the alternative system and its Shari'ah compliant nature of the contracts. Their promotional strategies should be very aggressive and in line with those of conventional banks as well as Shariah. They should create awareness about the Islamic banking products, how these are distinguished from conventional banks and how it is in line with the Shariah. "Winning companies are those that meet customer needs economically and conveniently and with effective communication" (Kotler, 2000).

7.2 Recommendations

- 1) The researcher recommends to those who planning to start new Islamic banks or those who are already running Islamic banks that they should run a proper media campaign, seminars, events and media, talks so as to bring awareness to the consumers about their services and products on the basis of competitiveness.
- 2) In this research analysis that Islamic banking sector is offering somewhat same services and products with a little change (as per Shri'ah laws) as compared to conventional banks' products. The researcher recommends to the Islamic banking that the banks should bring innovation in their products and services which could be achieved through more research on Islamic banking and consumer behavior. Muslim politicians and other relevant authorities such as: Jamm'iyathul 'Ulama, should provide their full support to the particular institutions in order to implement Islamic banking and financial services effectively in the country.

- 3) The Islamic banking industry in Sri Lanka has separate Shari'ah boards. Conflicts have been observed among the opinions of different Shari'ah boards for the same products. Islamic banks must introduce a standard Shari'ah board, which could bring standardization in the industry. Additionally, Islamic banks should establish a national SSB (Shari'ah Supervisory Board) in Sri Lanka for all IFIs such as sections 51-58 of the Central Bank of Malaysia act 2009, in order to avoid the confusion of the public on different fatwa by different SSB.
- 4) The study further recommends that the bank management should ensure that they put in place policies and strategies which ensure that they maintain the costs at a minimum level as they can still make profits despite the low income. The bank should continue training their employees on how to maintain the low cost strategy.
- 5) One third population is living in rural areas and there is also a lack of financial services. The Population has also been ignored to target by other financial institutions. The recommendation is that Islamic banks should widen their activities to these areas in order to capture and involve the female segment of the population as it constitutes a big set of consumers.
- 6) Primarily, the staffs of Islamic banks do not have adequate knowledge about Islamic banking as most of them have their educational and training background in conventional banking sector. Scholars of Shari'ah boards have good knowledge of Islamic laws, however some are lacking behind in the field of banking knowledge. The researchers recommend that there must continue training sessions and workshop to be conducted to overcome this problem.
- 7) Main and crucial drawback in the development of Islamic banking in Sri Lanka is lack of good customer service in terms of branches. They have less staff and some of them are not active and smart enough in this field. Therefore, there is a need to train the Islamic financial institutions' workforce and to improve customer services in all sectors on the same lines of conventional services that will indeed helpful to develop new products and sustainable growth of the Islamic banking industry in Sri Lanka.

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