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Determinants of Switching Barriers among Oman's Retail Banking Consumers

FAIZA KIRAN[1] (PHD STUDENT),DR. NORHAZLINA BINTI IBRAHIM[2],PROF. MADYA DR. AMIR BIN SHAHARUDDIN[3]

[123]Faculty of Economics and Muamlat,University Sains Islam Malaysia

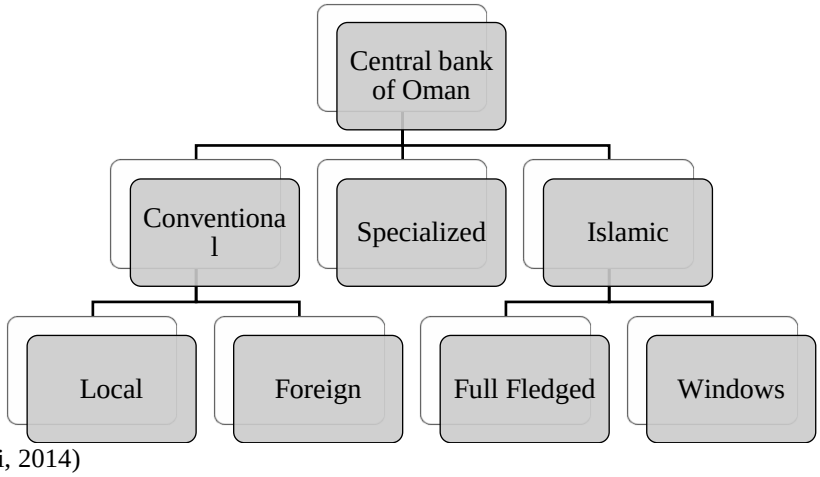
Abstract: This study examines the impact of switching barriers comprises of complexity, switching cost, locked-in, and apathy on the switching decision. The data were collected through a survey questionnaire from three cities (Muscat, Salalah, and Sohar) with a sample of 420 respondents. The participants were Omani nationals only. The data were analyzed using Structural Equation Modelling (SEM) Analysis using SPSS and AMOS software. The data were tested for the normality, descriptive analysis, reliability, correlation, exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA). The result of the switching barriers indicates that apathy fail to influence the negative relationship with switching decision. However, switching cost, complexity and locked in had a negative impact on the decision to switch that creates barriers among the customers while switching from conventional banking to Islamic banking system. The study concludes that the government, management, and Shariah board of the Islamic banks should focus on establishing a robust and dynamic Islamic banking, which caters for customers' needs. Finally, Islamic banking products and service, financial and non-financial strategies should address the customers' financial needs and provide comprehensive banking services.

Keywords: Switching barriers, Islamic Banking, switching cost, apathy, complexity

INTRODUCTION

Oman has been one of the recent entrants into Islamic Banking and Finance scene, in 2011, Islamic Finance Advisory and Assurance Services (IFAA) issued a report titled 'Islamic Finance in Oman-sizing the retail market', this unleashes the potential demand and opportunities that exist within the Islamic finance industry in Oman. The findings of the report reveal that 70% of the customers from the banking service in Oman expected the opening of an Islamic saving account in the next 12 months, while 35% anticipated and showed a willingness to open such a facility of Islamic banking within three months. Besides, the report also detailed that 86% of the Omani consumers are associated with conventional banking products, while 60% of the consumers declared themselves as "bothered" about using the products based on interest (Riba). The results of this report are consistent with the findings of Khalid Ansari, a partner in charge of the Advisory Services of KPMG in Oman. He stated and emphasized upon the secured future of Islamic Finance in Oman (Magd & McCoy, 2014).
As of date, CBO has granted the license for Islamic banking to two full fledge Islamic banks and six windows of commercial banks (Board, 2018).

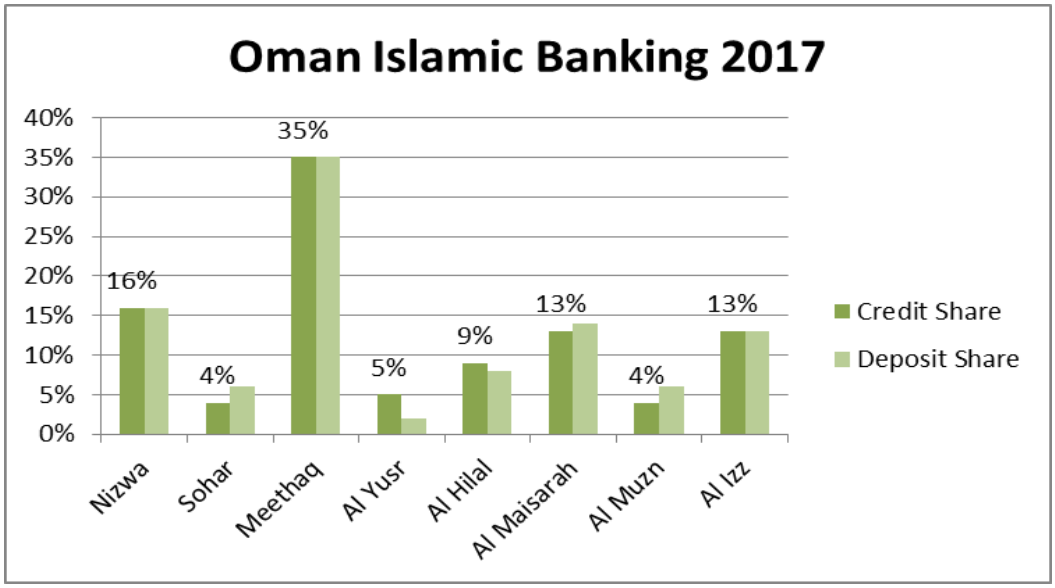
Figure 1: Banking Sector in Oman



Source: (Bhandari, 2014)

Fig.1: Oman Banking Landscape: Post-Islamic Banks Advent

Figure 1.1 describes the advent of the Islamic Banks in Oman. The Central Bank of Oman has three main categories, including conventional, Islamic, and specialized banks; out of which conventional banks are further bifurcated into local and foreign banks, while Islamic banks are divided into full-fledged banks and Islamic bank windows. (Mohammed, Sha, & Uddin, 2017) says that Islamic bank in Oman is in the embryo stage
Figure 2: Oman Islamic Banking



Source: (Capital, 2017)

Fig.2 : Oman Islamic Banking

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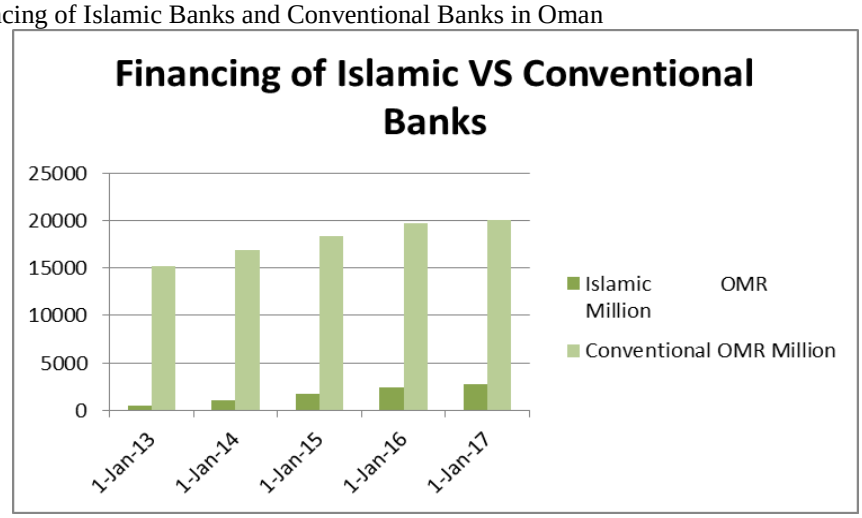
Table 1: Deposits of Islamic Banks in Oman

Date	Islamic OMR Million	Conventional OMR Million
31-Dec-13	435	15196
31-Dec-14	1038	16957
31-Dec-15	1764	18378
31-Dec-16	2398	19727
31-Dec-17	2712	20107
Total	8347	90365

Source: (Capital, 2017)

Figure 3: Financing of Islamic Banks and Conventional Banks in Oman



Source: (Capital, 2017)

Fig.3: Financing of Islamic VS Conventional Banking

Switching Barriers

Jones, Mothersbaugh and Beatty (2000) describe switching barriers as factors, which make it more difficult and costly to change service providers for the consumers. In the context of the current study, the aim was to identify the barriers that slow down the switching decisions of customers from conventional banks to Islamic banks. These variables are the dependent variables of the study. The selection of these variables was based on the findings of previous studies and their recommendations. Following are the barriers considered for this research study:

Switching Cost

The literature suggests that switching costs are a prominent variable that determines the consumer's switching intention (Clemes, Gan & Zhang, 2010; Faghili, 2013; Mustafa, 2011; Ramaiyar & Jayalaksh, 2012). Christoph, Breidbach and Hollebeek (2014) state that switching costs are mainly conceptualized as an additional cost, and these costs serve as a disadvantage to terminate the current relationship. These factors can be technical, financial, or psychological that makes it costly for the customers to switch to another competitor or banking service provider. The costs may encompass monetary and non-monetary (psychological) costs for changing from one service provider to another service provider. The economic part of the switching covers the financial and performance risks associated with trying a new service provider, whereas psychological costs include the uncertainty related to the potential loss in a relationship, social bond and procedural cost, such as time, search, and evaluation (Edward & Sahadey, 2011). This notion is also supported by the study of KA and EM (2017), of which they concluded that the customer's intention to switch their current bank is influenced by many factors, such as the cost of switching, fee, and prior loans.

H1: Switching cost has negative impact on intention to switch decision

Complexity

The complexity involved in the process and features of the product and services of the Islamic Bank is also a significant factor that influences the decision to switch the banking service. Thus, the study of Fazlan and Mohammad (2007) advocates that the higher the complexity, the minimum are the chances to switch. Further, the Islamic banking system is still in its infancy in Oman. Therefore, its products and service are not easy to be understood by the common people, which adds to the complexity, which results in customers' reluctance to switch the banking service. Further, addition and description of Shariah principle itself is a deep subject to understand and require thorough knowledge of the religion and banking system. In the same line, Shariah principles are different for Islamic banking products and service, such as in the case of home finance, car lease, or loan agreement i.e., Murabaha and Musharika. Hence, customer finds these products to be complicated as compared to the conventional bank products. Thus, the literature also suggests that complexity is negatively related to the decision to switch the banking service. Complexity is indicated as the level of difficulty to understand the product and service to learn and understand (Gumel, Othman, & Yousaf, 2015).

In the current study, complexity is considered as another determinant toward the switching decision of the customers to Islamic banks from conventional banks. It shows the level of difficulty in understanding and using Islamic banking products and services. Due to the complexity of products and services, it is not easy for consumers to switch. Therefore, the higher the complexity of a product, the lower the switching decision

Following are the aspects that lead to complexity:

H2: Complexity has negative impact on intention to switch decision

Locked-in

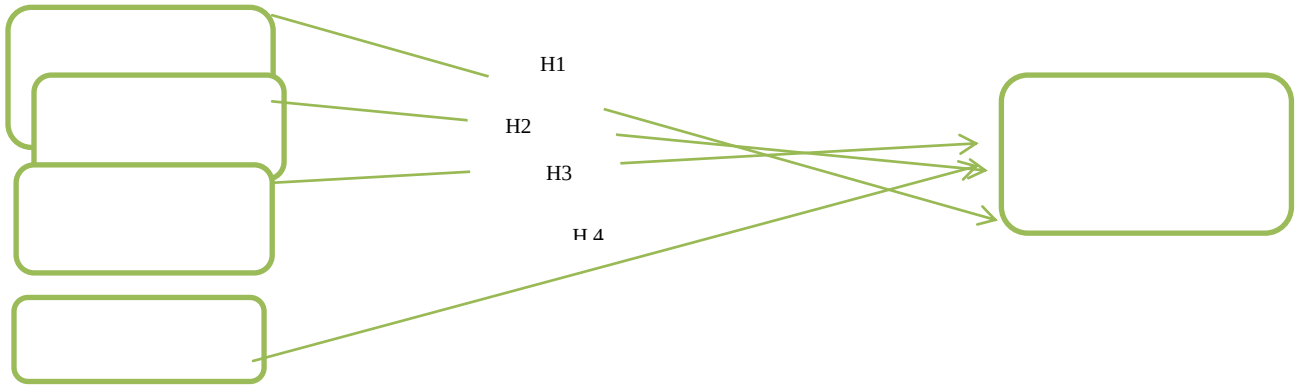
Locked-in is described as an understanding and predicting the desire to stay with the same retail bank, and being locked into the relationship has been found to be significant (Misbah, 2014). Colgate et al. (2003) relate locked-in with the idea that customers may not move or maybe they find it very difficult even if they want to move. Harrison et al. (2012) describe locked-in as a situation where a customer feels bound to their relationship with the service provider and is hesitant to switch the service provider. It has been used as a strategy to prevent customers from switching. Liu (2006) suggests that suppliers attempt to lock in their customers by introducing relationship-oriented activities and practices for a long period of time. This may also work out to be an effective strategy for customer retention.

Locked-in is also considered as one of the switching barriers that stops customers from switching. Listyarini (2009) suggests that if service providers wish to retain customers, it is essential that they create barriers to reduce the switching behavior. Locked-in may take the form of high switching cost or create a feeling of apathy - which issue is discussed in the next section. The study of KA and EM (2017) identified some of the major barriers associated with switching the bank. They included clearance of the existing loans, fees and interest, and new life insurance. In Oman, a loan is granted against the main account of the customer, and the customer needs to clear all the loans taken against that main bank account (normally salary account) before switching to another

bank. Thus, due to this, people of Oman feels locked-in and they refrain from switching banking service provider. Hence, the following hypothesis was established:
H3: Locked-in has negative impact on intention to switch decision

Apathy
Apathy is a response by the people where they consider switching decision, but practically refraining from taking this decision. It is a state of uncertainty where people believe that it will not be financially viable to switch to a new banking service (Committee, 2011). This notion is supported by Colgate and Lang (2001) that the majority of the customers believe that services of all the banks are alike and switching decision will not bring any meaningful change. Thus, people appear to be pessimistic and do not consider Islamic banking as promising.
Most commonly, apathy is considered as a lack of emotion, interest, feeling or concern. Apathy is a state of indifference, in which customers who does consider to switch the banking service, but chose not to do it as people do not think that it would be financially worthwhile, or if they would get better service in the new bank (Committee, 2011).
However, it is not common to observe apathy. The symptoms of apathy must be severe or prominent enough to affect people's social life, job, interests, and other parts of life. An apathetic person indicates an absence of interest or concern about social, emotional, spiritual, physical life, and the world. Further, apathetic individuals lack a sense of purpose and meaning of life. Such people also demonstrate insensibility and sluggishness. In the positive sense, an apathetic individual feels that they do not have the required skill set level to confront the challenges of banking service provider, especially Islamic banking. Apathy is something, which people face in some capacity and at some point in time of their life. Apathy turns out to be a natural response to disappointment, dejection, and the feelings of stress. The feelings of apathy can be of short-term or long-term. Long-term feelings of apathy are when deeper social and psychological issues persist over a period of time.
Similarly, when the customers of conventional banks visit or review Islamic banking products and services, they appear to be as a challenge to understand the products and services. Thus, customers feel apathetic and become stressed. However, if Islamic banking products and services are simple in nature and easy to understand, they will tend to switch behavior. Thus, we argue that in the presence of apathy, consumers will not decide to switch their banking service. Therefore, the following hypothesis was established:
H4: Apathy has negative impact on intention to switch decision

Conceptual Framework



Research Methodology:
The present study focuses on understating switching barriers from conventional banking to Islamic banking in Sultanate of Oman. The quantitative research approach is used. This study is based on examining the customers of conventional banking who want to switch their Decision to Islamic banking, but they could not switch due to different barriers. The data was collected from 420 conventional banking customers from Oman. In this research, the G*Power sampling size determinant was used to assess the minimum sample size of the study. As per the software with values of the effect size of (0.15), alpha of (0.05), and a power of (0.8), the minimum sample size was 98 respondents, while for the better generalizability and gaining the massive level response, the 420 respondents approached and gathered data. The data was collected from three big cities of Oman; these are Muscat, Salalah and Sohar.
The structural Equation Modelling (SEM) technique is used for the analysis of the data. For such instance, SPSS 26 and AMOS 24 version used for testing the structure of the model.
The demographic profile of the respondents is presented in Table 1. It expressed as the males were 68.9% of the sample size. Furthermore, it illustrated that most of the sample were married as 53.2%, private sector employees

were 46%, diploma holder qualification 50.7%, and age group 21-30 years were 48.3%. Moreover, respondents' income level was 400-800 OMR of 61% majority of the sample's profile.

Table 2:Descriptive Statistics

Description	Frequencies	Percentage
Gender		
Male	275	68.9
Female	125	31.1
Marital Status		
Single	177	44.3
Married	215	53.8
Divorced/Widower/Separated	8	2
Sector		
Govt sector	154	38.5
Private sector	184	46.0
Self-employed	25	6.3
Student	37	9.3
Qualification		
HSSE	20	5.0
Diploma	203	50.7
Bachelor Degree	158	39.5
Masters	19	4.8
Age		
<20	13	3.3
21-30	193	48.3
31-40	139	34.8
41-50	49	12.3
51-60	6	1.5
Income		
400-800	244	61.0
801-1200	98	24.5
1201-1600	18	4.5
1601-2000	17	4.3
2001-2400	8	2.0
>2400	15	3.8

Data Analysis and Results

The data was collected from the survey questionnaire, and owing to this reason, the multivariate normality testing was performed by web software (Cain et al., 2017). The result showed that the Mardia's coefficient of multivariate skewness was 2.86 while kurtosis values were 36.37, which were higher than the standardized values and indicated as non-normality of data. Thus the model was tested on bootstrapping as suggested by Hair et al. (2019) and Ramayah et al. (2018).

The data was gathered from a single source, and a full collinearity assessment test was performed to assess the common method bias test (Kock & Lynn, 2012). For instance, a dummy variable was created using random function in SPSS and regressed all factors (independent variables and depenentvariable) on the common variable. The results showed in Table 2 that no collinearity diagnostic exists as the values of VIFs were below then thresholds 3.3.

Table 3:Collinearity Testing

SWCOST	CMP	APTY	LCKDIN	DTS
1.269	1.376	1.541	1.468	1.893

Measurement Model:

The developed model was tested through two-step approaches (Anderson & Gerbing, 1988). In the first step, the measurement model was examined by testing the instruments' reliability and validity by guidelines of Hair et al. (2019) and Ramayah et al. (2018). After that, the structural model was tested.

For the measurement model assessment, the CFA loadings, Cronbach Alpha, Average Variance Extraction (AVE) and Composite Reliability (CR) assessed, and it deliberated that the certain criterion and threshold met.

All the loadings of the items were above (.700), while only a few loadings were below. However, the overall loadings were high. Moreover, the AVE and CR values are (AVE >.5), (CR>.7), and the Cronbach Alpha of all instruments were higher than (0.700). So, it deliberated from Table 3 that the measurement model valid and reliable.

The discriminant validity was assessed through the HTMT criterion (Henseler et al., 2015). For such instance, discriminant validity threshold values are strict criterion (≤0.85) or lenient criterion (≤0.95). Table 5 described that all the values were below the strict criterion of (≤0.85), which illustrated that the respondents quickly understood that all the five instruments were distinct and responded accordingly. It showed that the measurement model was valid and reliable, and also discriminant validity achieved.

The adequate model fit required to be achieved for the measurement model. The model fit measure cut off criteria for Fit Indexes in Covariance Structure recommended as CMIN/DF between 1 and 3, CFI(>0.95), SRMS (<0.8), RMSEA (<0.06) and PClose (> 0.05) (Hu & Bentler, 1999: Gefen & Straub, 2004). The model fit measures were assessed through "Model Fit Measures" AMOS Plugin Gaskin and Lim (2016). The values indicated in Table 5 expressed that all threshold criteria achieved, and the overall model was fit.

Table 4:Measurement Model

Constructs	**Items**	**Loadings**	**Cronbach Alpha**	**AVE**	**CR**
Switching Cost	**SWCST1**	**.843**	**.843**	**0.662**	**0.853**
	SWCST2	.909			
	SWCST3	.671			
Complexity	**CMP1**	**.665**	**.900**	**0.636**	**0.896**
	CMP2	.886			
	CMP3	.874			
	CMP4	.839			
	CMP5	.698			
Locked In	**LCKD1**	**.868**	**.856**	**0.671**	**0.859**
	LCKD2	.826			
	LCKD3	.760			
Apathy	**APT1**	**.706**	**.777**	**0.557**	**0.789**
	APT2	.846			
	APT3	.678			
Decision to Switch	**DTS1**	**.921**	**.975**	**0.828**	**0.975**
	DTS2	.955			
	DTS3	.914			
	DTS4	.912			
	DTS5	.902			
	DTS6	.813			
	DTS7	.922			
	DTS8	.935			

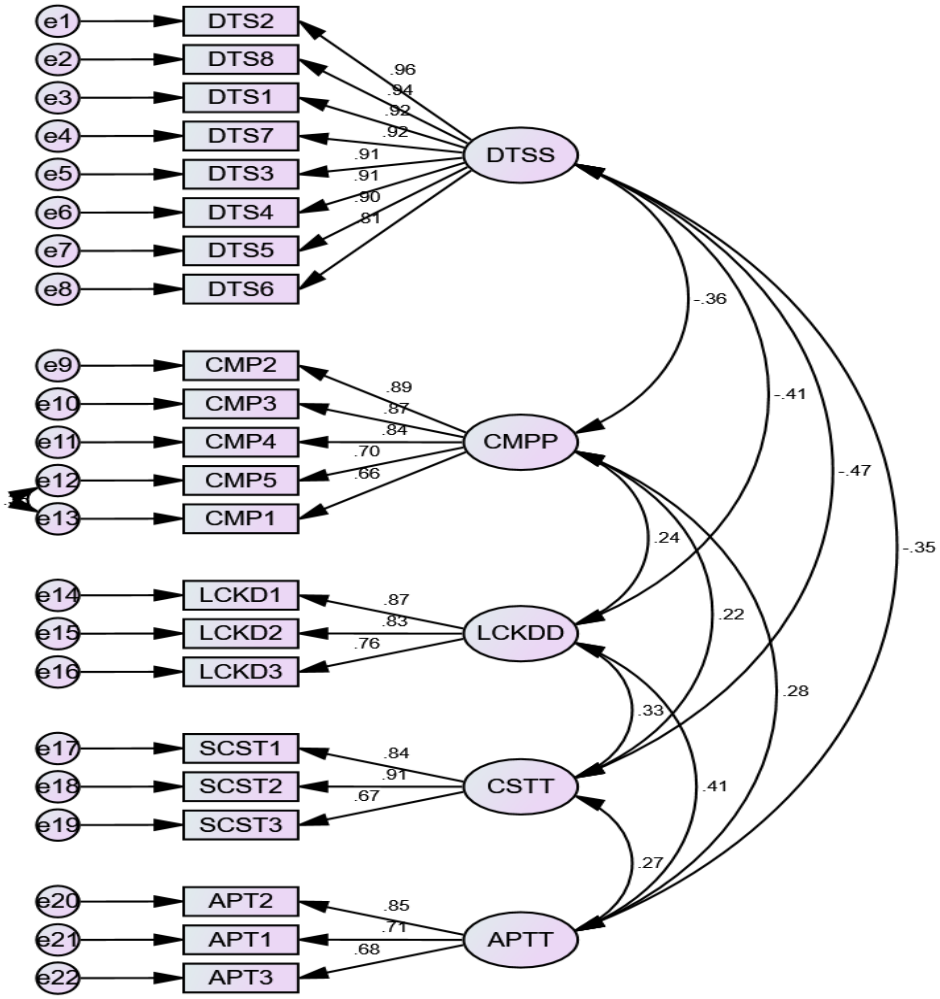


Fig.1: CFA Model

Table 5:Discriminant Validity (HTMT Ratios)

	DTSS	CMPP	LCKDD	CSTT	APTT
DTSS					
CMPP	0.388				
LCKDD	0.429	0.253			
CSTT	0.470	0.254	0.336		
APTT	0.355	0.286	0.424	0.308	

Table 6

Measure	Estimate	Threshold	Interpretation
CMIN	448.574	--	--
DF	198	--	--

CMIN/DF	2.266	Between 1 and 3	**Excellent**
CFI	0.967	>0.95	**Excellent**
SRMR	0.043	<0.08	**Excellent**
RMSEA	0.056	<0.06	**Excellent**
P.Close	0.066	>0.05	**Excellent**

Structural Model:

The structural model path coefficients are used for hypothesis testing in the research model. Hair et al. (2019) suggested that path coefficient, t-values, p-values, and standard errors were reported to the structural model using a sample of 5000 bootstrapping procedure. Apart from it, Hahn and Ang (2017) described that the p-value is not a good criterion for hypothesis testing significance level. For such instance and testing the hypothesis significant, a combination of p-values, confidence intervals, and effect size should be used. Table 6 described the hypothesis testing along with the defined criterion for Decision.

In the path model, the predictors have R^2 (R^2=.472) that deliberated as the overall variance explained is 47.2% towards DTS. Furthermore, it described as SWCST (β= -.204, p<0.01), Complexity (β= -.286, p<0.01), Apathy (β= -.238, p<0.01), and Locked In (β= -.231, p<0.01) negatively related to Decision to Switch. It expressed as the H1, H2, H3 and H4 supported here. It showed that SWCST has 20.4%, Complexity 28.6%, Apathy 23.8%, and Locked In has a 23.1% negative impact on Decision to switch.

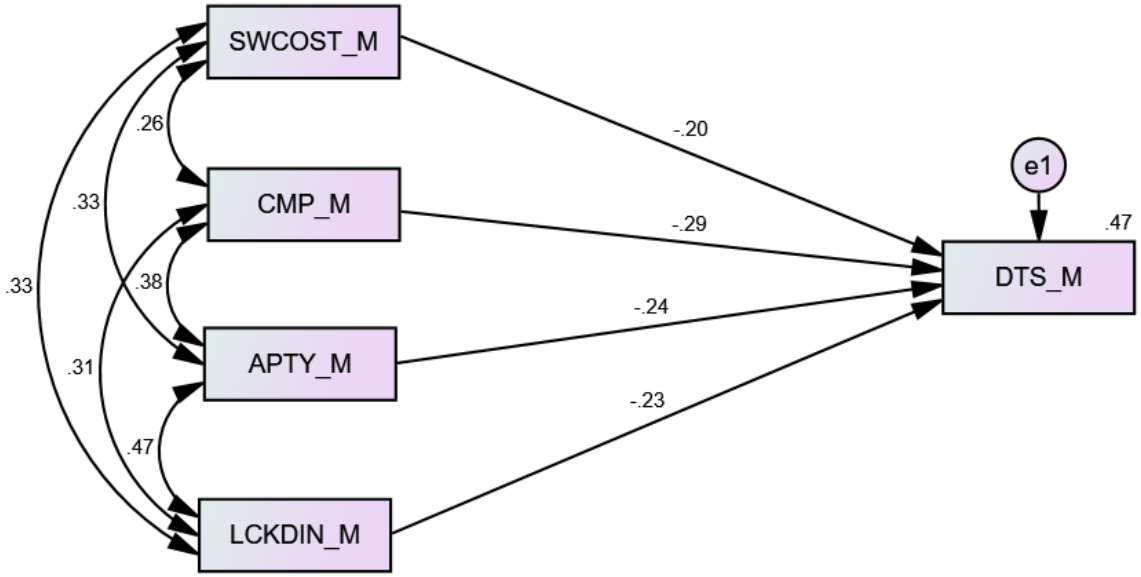


Fig.2: Path Model

Table 6:Hypothesis Testing

Hypothesis	Path	Estimates	S.E.	C.R.	P	95%BCI LL	95%BCI LL	f^2 (Effect Size)	Decision
H1	SWCOST → DTS	-.204	.023	-5.148	***	-.285	-.116	Large	Supported
H2	COMP → DTS	-.286	.022	-7.119	***	-.365	-.204	Large	Supported
H3	APTHY → DTS	-.238	.023	-5.453	***	-.326	-.150	Large	Supported
H4	LCKDIN → DTS	-.231	.021	-5.435	***	-.321	-.139	Large	Supported

CONCLUSION

In nutshell, this study has implications for the corporate professionals, executives, and government for them to take necessary actions to successfully establish the Islamic banking sector in Oman. It is the responsibility of the Islamic banking experts to devise products and services in a way, which are easily understood by the common public. Further, to make these products and services of the Islamic banks available for the common public, Islamic banks should define simple procedures and steps enabling the people to take maximum advantage of the Islamic system and to switch from conventional banks due to the elimination of the barrier of locked-in.

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