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AN ASSESSMENT OF THE STRATEGIC OPTIONS THAT CAN ENHANCE THE GROWTH OF ISLAMIC BANKING IN KENYA

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ABSTRACT

Islamic banking is a form of banking which complies with the principles of Islamic law (Sharia). Sharia prohibits receipt and payment of Riba (usury) on loans. In addition, investing in businesses dealing in goods and services which are prohibited in Islam is prohibited. Shariah also calls for prohibition of Gharar (excessive uncertainty). Shariah encourages the use of asset backed instruments in financing and the application of profit and loss sharing model in financial transactions. This research assessed the strategic options that can enhance the growth of Islamic banking in Kenya. It differentiated Islamic and conventional banking and evaluated strategies currently in use by Islamic banks in and outside Kenya and the extent to which the strategies have succeeded. The research paper guided by the following research questions; - What are the factors which determine customer's choice of Islamic banking Kenya? What are the strategies being employed by Islamic banks in and outside Kenya? To what extent are the strategies working in Kenya? What strategies should banks in Kenya employ in order enhance growth of Islamic Banking? The research design for study is a descriptive approach focusing on five banks in Kenya. These are; First Community Bank, Gulf African Bank, KCB Bank Kenya Ltd, Chase Bank and Barclays Bank of Kenya Ltd. Questionnaires were hand delivered to top senior managers of the banks. The Chief Executive Officers and Heads of Business (Islamic Banking Unit) were targeted. The questionnaire is accompanied by a letter explaining the objective of the study and assuring respondents of the confidentiality of their answers. A total of 12 questionnaires per bank were given out. Mean, Mode, Median and Percentage were used to analyze the responses given by the respondents and were presented in tables and graphs. The study made recommendations as follows; that banks in Kenya should focus on creating awareness about the Islamic banking product through advertisements. Being new in Kenya, the banks also need to foster a close working relationship with the policy makers and regulators in order to have a favorable legal framework to enable them function well. They should concentrate their branches in areas with sizable Muslim population; this will save them costs of creating awareness since most Muslims are familiar with the principles of Islamic banking. The banks should also focus on reduction of bank charges, employment of the best staff and also training of those already on the job in addition to automation of their processes will help in improved turnaround time for loan application and opening of accounts. The banks should get the best staff from the market and also adopt latest technologies. Islamic banks should focus on cross-selling to their existing clientele and increase uptake of product per customer. Research has further confirmed that the aspect of profit and loss sharing and interest free lending is liked by both Muslims and non-Muslims, the banks should thus not only continue with this strategy but also make it known through aggressive publicity. This will increase market outside Muslim population. The banks should provide competitive goods and services, diversify them and also continue reviewing the goods and services proposition. In addition, Islamic banks should increase return on deposits placed by customers with them, this factor has come up as one of the determinants of choice of bank by clients. On the financing front, the banks should find innovative ways of securing the facilities since most people don't have collateral to secure them. The banks should also establish strong Shariah advisory board because this will be the link between the customers and the bank. They not only audit Shariah compliance of the banks activities but also give assurance to customers who have doubt about Shariah compliance of the products being offered by the banks.

Key Words: Islamic banking, Riba, Strategies, Shariah, Growth.

INTRODUCTION

Background of the Study

The fundamental features of Islamic banking are the forbiddances of riba (usury), monopoly, Dhulm (unfairness), deception, dealing in goods or services that are forbidden in Islam and hoarding. In conventional banking, the relationship between the bank and the customer is lender borrower relationship. The return that is obtained from this kind of transaction is interest which is prohibited in Shari'ah Law (Tijara Institute, 2018).

Husain (2010) noted that most Islamic financing are asset backed. Machinery, stock and equipment are among items which are mainly financed in Islamic banks. Because Islamic banks finance on methods such as Musharaka (joint venture), they are forced to take part in management of the business as opposed to just laying back and waiting for positive returns. This is because in Musharaka, the bank is a partner to the customer and is expected to share both risk and return with the customer thus must be watchful on how the customer they financed is operating the business. Other modes of financing include Mudharaba, Murabaha, Ijara and Tawaruq.

Some governments control interest rates charged by financial institutions. However, time payment contracts such as retail installment contracts are not generally treated as loans and the usury laws normally do not apply to them. In addition, banks also treat interest charges for third party credit cards such as Visa, MasterCard and American Express as not being subject to Usury law limitations (Edwardes, 2000).

According to Presley (1988) the core tenet of Islamic banking is injunction against the acceptance of usury between lenders and borrowers. Such injunctions are based on sharia extracted from the holy Qur'an and Sunnah (traditions of Prophet Muhammad). The sharia also defines rules that relate to the allocation of resources, property rights, production and consumption, and the distribution of income and wealth. These injunctions are historically and ethically linked, as interest creates social divisions between the rich and the poor and especially causes hardship to borrowers. This is so because the lender is seen to be exploiting other people's needs without actively using to advantage the productive nature of the capital in question. An IMF study by Iqbal et al (l987) found Islamic banking to be a viable proposition that can result in efficient resource allocation.

Ahmad Al-Najjar in 1963 introduced the first Islamic banking activity at a small town called Mit Ghamr in Egypt. Mit Ghamr was a rural town with religious inhabitants who shied away from placing their in any bank, knowing that usury was forbidden in Islam. The banks role was not only to fulfil religious needs but also to educate the people about the use of banking. The bank set up savings accounts, Investment Accounts and Zakat Accounts. Small, short-term, interest-free financing for productive purposes. The Mit Ghamr project was successful, as indicated by the number of customers and default on financing which zero in economically good times. The project was eventually abandoned for political reasons. 1972, the Mit Ghamr Savings project became part of Nasr Social Bank.

The project had proven that commercial banking could be organised on a shariah compliant basis. It is on this successful premise other Islamic financial institutions sprung up. The increase in petro dollars also assisted a great deal for the growth of the Islamic banking and finance sector.

In 1975 the Islamic Development Bank was set up with the mission to provide funding to projects in the member countries. Dubai also established a modern Islamic bank dubbed Dubai Islamic Bank in 1979, later on in Malaysia, Sudan, Pakistan, Europe in UK and America.

Today Islamic banking is practiced either as "Windows", fully fledged Banks, Branches or Subsidiaries in order to meet the increased need of financial services by Muslims who are cautious of Riba in their dealings (Tijara Institute 2018). By the end of 2017, the total volume of Islamic Finance industry is expected to reach $2.7 trillion. The lions share of the volume is attributed to Banking at 80% contribution while Sukuk follows with a 14% contribution to the volumes, Islamic Fund industry 3%, Takaful industry 2% and microfinance only 1%. Indonesia, Malaysia, Turkey, Pakistan, U.A.E, Qatar, Saudi Arabia, Kuwait and Baharain are the leading countries in Islamic finance with their contribution to the aforementioned volume standing at 82%.

In East Africa, Kenya is thought to be first country to begin offering Islamic banking products. It started with Barclays Bank of Kenya launching Islamic banking products in December 2005. KCB Bank followed closely in 2006. The sector later expanded with the introduction of two fully fledged Islamic banks, First Community Bank in 2007 and Gulf African Bank in 2008. The entry of Dubai Islamic Bank into the Kenya Market in 2017 mean there are three fully fledged Islamic banks, five conventional banks with Islamic Windows, one Takaful insurance and a Re-takaful company. In addition there is at least one known Islamic Microfinance bank and dozens of Islamic Saving and Credit Co-Operative Societies (SACCOs). As of end-2013, Islamic banking accounts for two percent of the total banking business in Kenya.

In 2010, through the Finance Act, the Kenyan authorities amended Section 45 of the Central Bank of Kenya Act to allow the Central Bank as the government's fiscal agent to recognize the payment of a return rather than interest on government securities, thereby opening up the spectrum of Shari'ah compliant investments in the country. A big leap was made in March 2017 with publication of The Finance Bill 2017. In this respect, definitions of the following new terms have been introduced in section 2 of the Income Tax Act: "Islamic Finance Arrangement", "Islamic Finance Return" and "Sukuk". Similarly, the issuance of Sukuks is exempt from VAT. The bill is expect to come into law within the year.

The data by CBK shows that Gulf African Bank and First Community Bank had 58,101 deposit accounts and 2,609 loan accounts as at December 2010, two years after their licensing. The banks had gross assets of Kes. 16.5 billion, net loans and advances of Kes.9.2Billion and deposits of Kes. 13.76 Billion. The Governor of CBK reported that uptake of Islamic banking products has led several conventional banks to introduce Sharia-compliant products as part of their product range. Barclays Bank of Kenya, KCB Bank and Chase bank are among the banks which have Sharia compliant products through which they hope to tap into the estimated nine million Muslim populations (Business Daily, 2011). The move to entrench sukuk bonds and bills in the law is seen as a push by CBK to tap the increasing amount of cash flowing into Africa from the Gulf region which is deemed to hold excess capital (Business Daily, 2011).

Statement of the Problem

The Governor of CBK said that Islamic banking in Kenya faces several challenges which include lack of Sharia compliant investment vehicles and lack of awareness of existence of the products (BD Africa 2011). Estimates suggest that 9 million Kenyans are Muslims, standing at 11 percent of the country's population. Islamic banking in started in Kenya in 2005 when Barclays bank offered current account product through its Islamic window, LaRiba (www.eastafricaherald.com).

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Three years later two fully fledged banks were established and as at December 2011, the two Islamic finance banks collectively commanded 0.9 per cent of the banking sector (www.standardmedia.co.ke). In addition to the aforementioned, we also have Dubai Islamic bank which is a fully fledged Islamic bank established in 2017 in addition to number of other windows. Despite the gains in number of Islamic financial institutions, the percentage of its asset is hardly 2% of all the asset in the financial sector. This is a problem because interest is considered a major sin in Islam yet after ten years of operation only 0.9 percent out of the 11 percent Muslim populatiion has joined the Islamic banks. This study focuses on assessment of the strategic options that can enhance the growth of Islamic banking in Kenya.

Objectives of the Study

The objective of the research is to asses the strategic options that can enhance the growth of Islamic banking in Kenya. The specific objectives of the study are: -

i. To establish factors which shape customer's choice of Islamic banking in Kenya.
ii. To establish strategies being employed by Islamic banks in Kenya and around the world.
iii. To establish the extent to which the strategies are working.
iv. To determine strategies that should be employed by Kenyan Banks to enhance growth of Islamic Banking.

Research questions

To achieve the above objectives the study seeks to answer the following questions.

i. What are the factors which shape customer's choice of Islamic banking in Kenya?
ii. What are the strategies being employed by Islamic banks in and outside Kenya?
iii. To what extent are the strategies working in Kenya?
iv. What strategies should Banks in Kenya employ in order to enhance growth of Islamic Banking?

LITERATURE REVIEW

Factors which determine customer's choice of Islamic banking

Amin (2008) carried out a study to investigate criteria used to choose Islamic home financing in Malaysian Islamic banks. The study considered establishing a specific rank of choice criteria for Islamic home financing. The choice criteria were ranked according to the selected demographic elements such as gender, marital status and age range. The study presents primary data collected from 150 Malaysian bank customers in Labuan, Malaysia. Of these, 141 or 94% of them responded. The data was analyzed using frequencies, independent samples t-test and ANOVA. Results show that that Sharia principle, lower facility repayment, transparency practice, riba-free practice and 100 per cent financing are the first five decision criteria considered as being important. The least preferred criteria, among others, are recommendation, longer financing period, product range and branch location. The findings also suggested that a small number of significant differences are apparent in the importance of choice criteria with respect to gender, marital status and age range.

Strategies being employed in market with low penetration

In markets with low penetration of Islamic finance such as Indonesia, North Africa, Turkey, Jordan and the Sultanate of Oman there is still potential for growth and the level of competition is relatively low. Because the level of business is still very low, they are not keen on acquisitions or venturing overseas. Instead, they focus on growing customers and businesses at home. Their major competitors are conventional banks in the same markets and their strategies involve conversion of conventional banking assets into Sharia-compliant assets. Increasing awareness of Islamic banking services is essential at this stage (www.cpifinancial.net).

Strategies being employed in the Kenyan market

In Kenya, different banks have adopted different strategies in order to tap this promising line of business. BBK has for example a current account specifically designed for Sharia compliant customers named LaRiba (non-interest). They have established a Sharia compliance board which advises on the suitability of the product in accordance to teaching of the Qur'an. To ensure that the bank is following the guidelines, the advisory board carries out annual reviews. The BBK utilized its 117 branch network especially in Muslim dominated areas to popularize the account. They have since introduced three Islamic banking suites and plans to expand its footprint (Halal Journal, 2009).

According to executives of Gulf African Bank, the bank will concentrate its business in towns with huge Muslim population before moving to other towns with small or no Muslim population. With an estimated population of nearly 9 million Muslims in Kenya the Bank hopes to do profitable business in the country with hopes being high that most of the religion's faithful will operate account there as opposed to ordinary commercial banks (www.gulfafricanbank.com).

Performance of the strategies

The effect of Islamic banking is gradually being felt in the nation's monetary framework. It is getting banks in their wake, with GAB, FCB and DIB, a fully-fledged Islamic bank. The three hardly command 1% of all the banking customers in Kenya.

Alternative strategies for Kenyan Banks to enhance Islamic banking

The first approach that should be used is that of Risk positioning. Among the methods that should be used in risk position is creation of profit equalisation reserves which contribute to smooth earnings across the cycle; investment risk reserves which absorb negative shocks on asset values; Mudarib fees which can always be decreased in a discretionary manner to avoid penalizing the depositing Rab al Maal; and shareholders who can always provide qardh hasan to profit-sharing depositors. In a stress situation, those IFIs sufficiently equipped with such mitigating instruments would be considered more resilient to downturns (www.cpifinancial.net). Another approach that banks should take is strategies that improve financial fundamentals which is measured by profitability, liquidity, capital adequacy, efficiency and asset quality. Some financial metrics necessarily reflect a bank's franchise value and risk positioning, but a prudent financial policy also plays an important role in shaping these numbers. Most of the strategies of Islamic banks try to achieve profitable asset growth. The differences in their strategies mainly reflect the state of development of Islamic banking and their positions in their respective home markets, their aspirations for the medium and long term, and the resources they have (www.cpifinancial.net).

Formation of Sharia Advisory Boards is another strategy that the banks must adopt. This Board should consist of trustworthy scholars who are highly qualified to issue fatawa (religious rulings) on financial transactions and must have vast experience in modern business/financial dealings and transactions. Sheikh Nizam Yaquby one of the leading scholars in Bahrain points out that The Articles of Association, prospectuses, or statutes (depending on the type of activity) should provide for the existence of a Sharia advisory board with powers to make recommendations. In addition, the board should be independent and should provide continued supervision and permanent checking of contracts, transactions, and procedures. This should be expressly provided for in the Articles of Association or the prospectus (www.nzibo.com).

METHODOLOGY

Research design

This was a descriptive study that assessed of the strategic options that can enhance the growth of Islamic banking in Kenya. The design was beneficial and advantageous since factual information was obtained with non-biased judgments. It allowed the researcher to be flexible.

Target Population

The population of interest in this study comprised CEOs and Heads of Islamic Units of five banks providing Islamic banking in Kenya. The research focused on five banks namely; FCB, GAB, KCB, BBK and Chase bank. In KCB, BBK and Chase Bank questionnaires were given to the CEOs and Heads of Islamic Unit while in FCB and GAB the respondents were the CEOs, Heads of Business and Sharia Managers. The sample population comprised of the CEOs, Heads of Islamic Unit and Sharia Managers because these are the decision makers in formulation of strategies and implementation of new products.

Sampling design

The sampling frame was obtained from the banks database. All the three conventional banks under study have departments handling Islamic banking while the fully fledged banks have Sharia boards. The questionnaires were sent to CEOs and head of Islamic Banking in the three conventional banks with Islamic window while for the fully fledged Islamic banks the questionnaire were given to the CEO, Head of Business or Deputy CEO and the Sharia manager.

Category	Population	Sample
CEO	5	5
Unit Heads (Islamic Banking)	3	3
Sharia Managers	2	2
Head of Business/Deputy CEO	2	2
	12	12

Sample size

A sample of 12, comprising of 5 CEOs, 3 Islamic Unit Heads, 2 Sharia managers and 2 heads of business or Deputy CEOs was adopted.

Data collection methods and procedure

Close-ended questionnaires were used for Primary data collection. The researcher opted to use questionnaires because the respondents are senior managers who often have a busy schedule, they can do the questionnaires at their own convenient time. In addition, questionnaire facilitated easier coding and analysis of data collected. Each questionnaire had two sections. Section A had close ended questions asking about general information of the respondent while section B had three parts. The first and the second part of the questionnaire had likert scale is used in asking the attitude question while the last part had close ended questions where the respondent was only expected to tick the box against his response. The questionnaires were sent to 5 CEOs, 3 Islamic Unit Heads, 2 Sharia managers and 2 heads of business making in all 12 respondents. The questionnaires together with the letter to the respondent were emailed to the respondents. The respondent then filled the questionnaire by typing in and the researcher collected the questionnaires for analysis.

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Data analysis methods

In regard of the information accumulation utilizing surveys, the Likert scale was utilized. The Likert scale was utilized on the grounds that it is easy to develop, simple to peruse and induce, and created a very dependable scale. Information was realized and analyzed utilizing SPSS version 17, descriptive measurements such as mean, mode and percentage as results were presented graphically utilizing tables, pie charts for clarification.

DATA ANALYSIS, RESULTS AND DISCUSSION

Descriptive Analysis

After presenting the response rate and respondents' demographics the study focused on looking at the strategies applied by Islamic banks to create a bigger market share. The study then looked at the customer service action points that Islamic banking were undertaking to improve customer satisfaction. The research finally checked the effects of these actions on the banks general growth and the growth of returns in the Islamic banking section

Strategy Used by Islamic Banking

The study then looked at the strategy used by banks to grow Islamic banking in Kenya. The respondents were to identify the strategies that were mostly used by their relevant banks to grow Islamic banking.

The Strategy Used by Banks to grow Islamic Banking in Kenya

Strategy in use	Total Respondent	Those in agreement	Percentage of those in agreement
improved external relations	11	11	100%
close relations with regulators	11	11	100%
Branches in Muslim dominated areas	11	11	100%
Quick TAT	11	11	100%
Organic Growth	11	10	91%
Training of Staff	11	10	91%
Marketing Promotion	11	9	82%
Profit and Loss Sharing	11	9	82%
Interest Free lending	11	9	82%
Review of Products	11	9	82%
Diversification of Products	11	9	82%
No Collateral	11	9	82%
Increased Earning on deposit	11	9	82%
Low bank charges	11	9	82%
Strong Shariah board	11	9	82%
Competitive Product & Services	11	9	82%
Increase awareness	11	9	82%
Bonus to Marketing Team	11	8	73%

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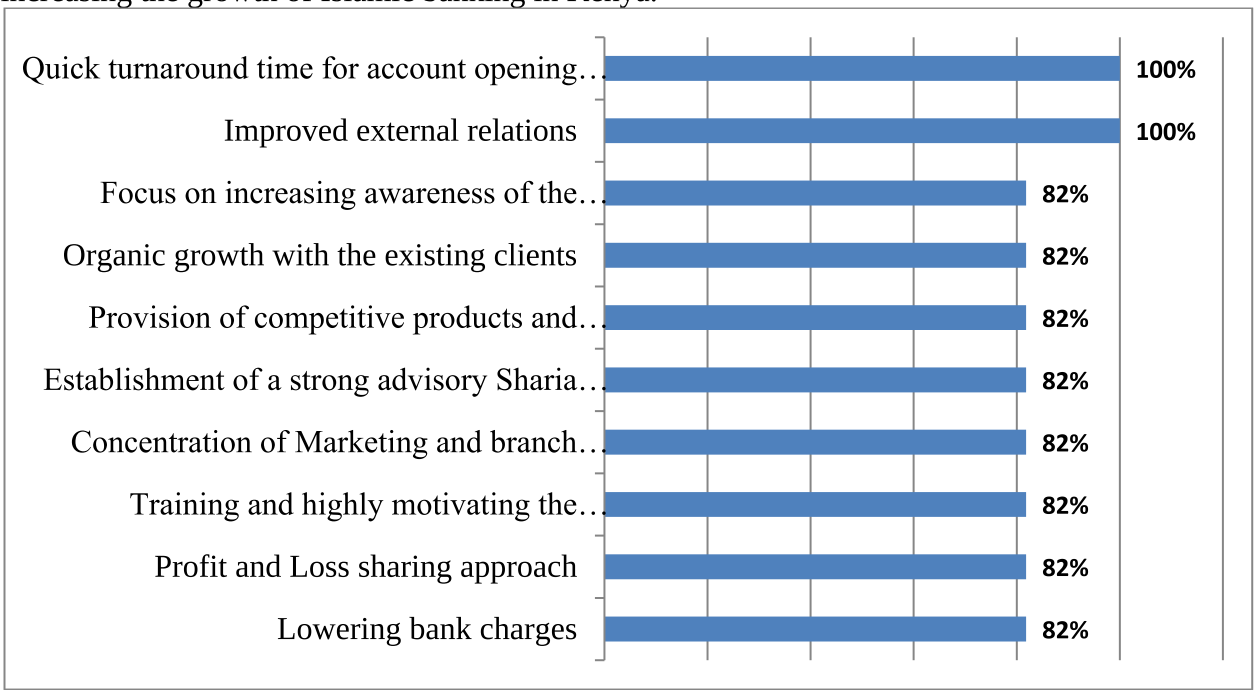
Table above shows that 11(100%) of the respondents felt that strategy mostly used were improved external relations, close relations with regulators such as central bank, concentration of banks in Muslim dominated areas and quick turnaround time for account opening and other banking services; 10(91%) of the respondents felt that the strategy commonly used were organic growth with existing clients and training and highly motivating workforce as key strategies. 9(82%) of the respondents agreed that focus in increasing product awareness, provision of competitive services and products, establishment of strong shariah board, lowering bank charges, increase in earnings on deposits and savings, relaxing collateral requirement, diversify Islamic banking products, continuous review and improvements of shariah compliant products, interest free lending, profit sharing and promotion. 8(73%) of the respondents felt that bonus awarded to marketing staff was highly used strategy.

Influence Customer Service

The study then looked at which customer service initiatives were most influential in increasing the growth of Islamic banking in Kenya.



Results showed that 11(100%) of the respondents felt that customer service initiatives that were most influential were improved external relations and quick turnaround time for account opening and other banking services; 9(82%) of the respondents felt that the customer service that influenced growth in Islamic banking were organic growth with existing clients, training and highly motivating workforce as key strategies, establishment of strong shariah board, provision of competitive services and products, Focus on increasing awareness of the products, concentration of branch in Muslim dominated areas, lowering bank charges & profit sharing.

Growth of Bank of Annual Rate of Returns for the Last 3 Years

The study then looked at the effect on the strategy on the annual rate return. The purpose was to look at how the strategy used is affecting the bank's profitability.

Growth in Annual rate of Return for the bank in the last 3 Years

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Growth rate	Respondents	Percentage
10%-15%	2	18%
30%-45%	4	36%
60%-75%	5	45%
	11	**100%**

Results showed that 5(46%) of the respondents felt that their banks had increase their rate of return of about 60% to 75%, while 4(36%) felt that it had increased its returns by about 30% to 45%. 2(18%) felt that their banks had increased its returns by about 10% to 15%.

Growth of Return on Islamic Banking

There was need to evaluate the growth of specific return on Islamic banking products. The purpose was to check whether the customer service initiatives and the strategies applied were able to accelerate the growth of returns in the Islamic banking.

<u>Growth on Annual Return of Islamic Banking</u>

Growth rate of Islamic Bank	Respondents	Percentage
15%-30%	5	45%
30%-45%	3	27%
45%-60%	2	18%
75%-90%	1	9%
	11	100%

Results showed that 5(46%) of the respondents affirmed that Islamic banking had grown by about 15% to 30%, while 3(27%) felt that returns had grown by about 30 to 45%. 2(18%) of the respondents felt that the returns on Islamic banking had grown by about 45% to 60% while 1(9%) of the respondents felt that it had grown by about 75% to 90%.

Pearson Correlation of Banks' Return Growth against Strategies Employed

The research first looked at the strategies employed to enhance Islamic products and how they impacted the general growth of the returns for the bank. A single tailed Pearson correlation test was done and the results tabulated.

What is the average annual rate of growth at your bank over the last 3 Years	Pearson Correlation	Sig. (1- tailed)
Concentration of Marketing and branch networking efforts in Muslim dominated areas	98%	0%
Profit Loss Sharing approach	90%	0%
Training and highly motivating the workforce in the bank	85%	0%
Promotion is the function of informing, persuading and influencing Customers	82%	0%
Diversifying Islamic banking products	80%	0%
Provision of competitive products and services	80%	0%
Bonus to Marketing staff	77%	0%
Interest Free Lending	75%	0%
Lowering Bank Charges	70%	1%
Quick turnaround time for account opening and other banking services	67%	1%
Organic growth with existing clients	64%	2%
Establishment of a strong advisory Sharia Board	64%	2%

Relaxing the collateral requirement during lending	59%	3%
Focus on increasing awareness of the products	55%	4%
Improved external relations	51%	5%
Continuous review and improvement of Sharia compliant products	51%	6%
Increasing earning on deposit and savings	38%	12%
Close relationship with policy makers like Central Bank	-2%	47%

Results shows that growth in returns had significant and strong correlations with; concentration of marketing and branch networking efforts in Muslim dominated areas, profit loss sharing approach, training and highly motivating the workforce in the bank, promotion is the function of informing, persuading and influencing customers, diversifying Islamic banking products, provision of competitive products and services, bonus to marketing staff, interest free lending, lowering bank charges, quick turnaround time for account opening and other banking services, organic growth with existing clients, establishment of a strong advisory Sharia board, relaxing the collateral requirement during lending, focus on increasing awareness of the products, improved external relations, continuous review and improvement of Sharia compliant product at 90% level of confidence. Increasing earning on deposit and savings and close relationship with policy makers like central bank was not correlated to the general growth of the returns.

Pearson Correlation of Growth Returns on Islamic Banking Products against Strategies Employed

What is the average annual rate of growth of Islamic banking over the last 3 Years	Pearson Correlation	Sig. (1-tailed)
Increasing earning on deposit and savings	55%	4%
Focus on increasing awareness of the products	46%	8%
Quick turnaround time for account opening and other banking services	-46%	8%
Lowering Bank Charges	43%	9%
Profit Loss Sharing approach	41%	11%
Improved external relations	40%	11%
Provision of competitive products and services	39%	12%
Diversifying Islamic banking products	35%	15%
Bonus to Marketing staff	34%	15%
Training and highly motivating the workforce in the bank	29%	19%
Interest Free Lending	27%	21%
Organic growth with existing clients	-22%	26%
Concentration of Marketing and branch networking efforts in Muslim dominated areas	21%	27%
Establishment of a strong advisory Sharia Board	20%	27%
Close relationship with policy makers like Central Bank	16%	32%
Continuous review and improvement of Sharia compliant products	-15%	33%
Promotion is the function of informing, persuading and influencing Customers	5%	44%
Relaxing the collateral requirement during lending	0%	50%

Results shows that the strategies employed that significantly impacted on growth in Islamic banking products had been increased earning on deposits, focus on increasing awareness of the products, quick turnaround time of account opening and other banking services and lowering of bank charges or the rest of the strategies did not impact the growth significantly.

Summary

The study had four key objectives which were; the need to understand what were the factors which shaped customer's choice of Islamic banking in Kenya, the strategies being employed by Islamic banks in and outside Kenya, the extent the strategies employed by banks offering Islamic banking products were working in Kenya and the strategies that Banks in Kenya should be employed in order to enhance growth of Islamic Banking.

The study found out that quicker turnaround times influenced the choice of banks by the modern Kenya and therefore it was crucial for Islamic banks to provide the front office with efficient human and non-human resources to make the flow of work in the bank robust in order to be competitive. It also found out that organic growth and market penetration within Muslim dominated areas were the most utilized strategies as they created success. There was also confirmation that organic growth and market penetration had the greatest impact on the returns for the Islamic banking and that the need to increase revenues from their existing business was paramount for their future success.

Conclusions

In the summary the study indicated that the main objectives of the research were the need to understand what were the factors which shaped customer's choice of Islamic banking in Kenya, the strategies being employed by Islamic banks in and outside Kenya, the extent the strategies employed by banks offering Islamic banking products were working in Kenya and the strategies that Banks in Kenya should be employed in order to enhance growth of Islamic Banking.

The study found out that improved external relations & quick turnaround time for account opening and other banking services influenced their choice of Islamic banking. It further established that a huge majority, 82% felt that focused increased awareness of the products, organic growth with the existing clients, provision of competitive product and services, establishment of strong Sharia board, concentration of marketing and branch networking effort in Muslim dominated areas, training and motivation of the workforce, profit and loss sharing together with lower bank charges guided the customer choice of Islamic banks. The research found that strategy mostly used for growing the Islamic banks were improved external relations, close relations with regulators such as central bank, concentration of banks in Muslim dominated areas and quick turnaround time for account opening and other banking services. Other strategies which are being used by banks include organic growth with existing clients and training and highly motivating workforce as key strategies.

Focus in increasing product awareness, provision of competitive services and products, establishment of strong shariah board, lowering bank charges, increase in earnings on deposits and savings, relaxing collateral requirement, diversified Islamic banking products, continuous review and improvements of shariah compliant products, interest free lending, profit sharing together with awarding of bonus to marketing staff were also being used in number of banks.

To what extent are the strategies working in Kenya?

From the study, we can clearly see that Islamic banks grew by a rate of between 10 % to 75%. 46% of the respond confirm that their banks grew by between 60% to 75% while another 36% of respondents confirm that their bank grew by between 30% and 45%.

Islamic banks in Kenya grew by a rate of between 15% to 30% while 27% of responding felt that the banks grew by a rate of between 30% and 45%. This clearly indicates that the strategies were working albeit with varying success.

The research concludes that growth in returns had significant and strong correlations with; concentration of marketing and branch networking efforts in Muslim dominated areas, profit loss sharing approach, training and highly motivating the workforce in the bank, promotion is the function of informing, persuading and influencing customers, diversifying Islamic banking products, provision of competitive products and services, bonus to marketing staff, interest free lending, lowering bank charges, quick turnaround time for account opening and other banking services, organic growth with existing clients, establishment of a strong advisory Sharia board, relaxing the collateral requirement during lending, focus on increasing awareness of the products, improved external relations, continuous review and improvement of Sharia compliant product at 90% level of confidence. Increasing earning on deposit and savings and close relationship with policy makers like central bank was not correlated to the general growth of the returns.

The research further concludes that the strategies employed that significantly impacted on growth in Islamic banking products had been increased earning on deposits, focus on increasing awareness of the products, quick turnaround time of account opening and other banking services and lowering of bank charges or the rest of the strategies did not impact the growth significantly.

Recommendations

There is need for Islamic banks to enhance relationship with external actors such as CMA, CBK and peers. The banks should improve on turnaround time for all the banking services, this can easily be done by employing the best staff and also adopting the latest technology which will contribute towards improvement of TAT. Proper awareness should be created and brand visibility enhanced for the Islamic bank to continue reaping from their customer base and also increase their market share and in addition, banks should enhance organic growth through cross selling of bank product to existing clients.

There is need to continue having a strong and independent shariah board for the banks which already have one. But for the banks without a shariah board, they is need to urgently establish a reliable board. Banks should focus on towns which are dominated mainly by Muslims as their primary market before venturing into other towns with minimal Muslim population. Banks should carry out training for its staff members with aim of improving product knowledge among their staff and also enhance customer services. There is need to lower charges on banking services in order to attract even those at the lowest level of income.

Islamic banks should continue fostering excellent relations with external parties and regulators. Organic growth is another area which they should focus on in a bid to continue growing in a risk free manner. They should also continue focusing on towns whose majority of the population are Muslims until they reach maturity stage. It's easier to market the products to Muslims than those who are yet to understand the Islamic importance of Islamic banking. Islamic banks should also continue with their shariah compliance culture since this forms the basis for its existence in the first place. Training of members of staff and motivating them is another area which should be focused on. The trainings will also help in improvement of turnaround time for loan application and account opening as discussed earlier.

Kenya being market whose Islamic banking is still at initial stages, banks should focus on provision of variety of banking and loan products. They should also put a lot of effort in creation of awareness since most people still don't know much about Islamic banking. Promotion and creation of awareness will also help in improving visibility of the Islamic banks.

Banks in Kenya should focus on creating awareness about the Islamic banking product through advertisements. Being new in Kenya, the banks also need a close working relationship with the policy makers and regulators in order to have a favorable legal framework to enable them function well. Islamic Banks should concentrate their branches in areas with sizable Muslim population; this will save them costs of creating awareness since most Muslims are familiar with the principles of Islamic banking. Kenya being country where majority of the people are low income earners, the banks should also focus on reduction of bank charges. This will attract more clientele to them. Employment of the best staff and also training of those already on the job in addition to automation of their processes will help in improved turnaround time for loan application and opening of accounts. The banks should thus get the best staff from the market and also adopt latest technologies.

Researchers have confirmed that organic growth albeit being slow is the most risk free and sure way of growing Islamic banks. Islamic banks should thus focus on cross-selling to their existing clientele and increase uptake of product per customer. Research has further confirmed that the aspect of profit and loss sharing and interest free lending is embraced by both Muslims and non-Muslims, the banks should thus not only continue with this strategy but make it known through aggressive publicity. This will increase market outside Muslim population.

The banks should provide competitive goods and services, diversify them and also continue reviewing the goods and services. This will help them keep up with the competition. In addition, Islamic banks should increase return on deposits placed by customers with them, this factor has come up as one of the determinants of choice of bank by clients. And in loans, the banks should find innovative ways of securing loans since most people cannot avail collateral to cover the borrowing. The banks should also establish strong Shariah advisory board because this will be the link between the customers and the bank. They not only audit Shariah compliance of the banks activities but also give assurance to customers who have doubt about Shariah compliance of the products being offered by the banks. This will go a long way in increasing market share of the bank.

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