

ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM



ISLAMIC BANKING SERVICES PRACTICE
IN CASE COMMERCIAL BANK OF ETHIOPIA

By:

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June, 2020
Addis Ababa, Ethiopia

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
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Declaration

I, the under signed, Declare that this thesis is my original work prepared under the guidance of Abraham G. (Asst. Prof). All sources of material used for the thesis have been duly acknowledged. I further conform that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name: Anter Yilma

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Date: _____

Endorsement

I, hereby certify that, Mr. Anter Yilma student of Masters of Accounting and Finance at St. Mary University, Department of Accounting and Finance, School of Graduate Studies, has completed his research project on “Islamic Banking Service Practice In Case Commercial Bank of Ethiopia”, under my advice, guidance and supervision.

Advisor

Signature & Date

Acknowledgments

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List of Acronyms/Abbreviations

OIB.....	Oromia International bank
NBE	National Bank of Ethiopia
CBE.....	Commercial bank of Ethiopia
SERVQUAL.....	Service Quality
SPSS.....	Statically Program for Social Studies
IFB	Interest Free Bank
SQ.....	Service Quality
UB.....	united Bank
NIB.....	Nib International Bank
AB.....	Awash Bank
BOA.....	Bank of Abyssinia
WB.....	Wegagen Bank

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Abstract

Islamic banking is one of the fastest growing segments in the financial industry with a tracking of 10 -15% growth over the past three decade globally, quality service delivery is a mandatory to compete in the bank industry, The purpose of this study is to evaluate Islamic banking service practice in case CBE fully fledged Islamic branches as a case study. The study adopted modified SERVQUAL measurement dimensions such as (Human Skill, tangibility, online banking, empathy, and Bill integrity) based on shariah principles for customer satisfaction. The research design used was descriptive statics (mean and standard deviation)to shows each independent variables practices on customer satisfaction ,among the sample size 194 IFB customers of CBE only 155 respondents were returned the questionnaire, the collected questionnaire were analyzed using SPSS Version 20. The results reflects all the service quality dimensions (Human Skill, tangibility, online banking, empathy, and Bill integrity) as such a good relationship with customer satisfaction. The finding of the analysis showed that, all of service dimensions providing by a fully-fledged Islamic branches are not according to customers expectation and shariah principles thus CBE full-fledged Islamic banks improved in all aspect of SERVQUAL dimensions practices for customer satisfaction and sustain in the rivalry bank industry.

Key words: *fully-fledged, Islamic banking, SERVQUAL, CBE, shariah principles, customer satisfaction,*

CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The Islamic banks have emerged and continued to grow since the 1970s, with the main mission of achieving economic and social development through providing financial products and services in accordance with the principles and teachings of Islam. The spread of these banks is not only confined to the Arab and Muslim-dominated countries. Rather, the Islamic banking system gained momentum in different parts of the world including Europe and the US. Around three hundred Islamic financial institutions provide their operation in some 40 countries with total assets that top \$262 billion. Islamic finance is gaining ground in western economies. For instance, several conventional banks in Great Britain are now offering Islamic products and services. Like other Western banks, Germany's biggest bank, Deutsche bank, which has been active some 100 years in the Middle East, has expanded its Gulf operations to tap a region where petrodollar-rich Investors increasingly demand products compliant with Islamic law this situation has led Islamic banks into direct and stiff competition, not only from other Islamic banks but also from non-Islamic commercial banks. To live up to this challenge and accomplish their mission it is imperative for Islamic banks to assess the quality of services they provide to their customers (Abdullah and Kassim, 2009).

In 2017 international monetary fund reported Islamic finance grown rapidly, even though it is still a small share of the global financial market. The Islamic banking segment has increased its penetration in many international Monetary Fund (IMF) member countries. It has become systematically important in Asia and Middle East .This trend is expected to continue driven in particular by strong economic growth in countries with large and relatively unbanked, Muslim populations.

Islamic banking operation is theoretically centered more on the profit and loss sharing concepts, hence, among its major concerns to be successful and survive is to keep deposits stable and in a large volume. For a country with dual banking system , its Islamic banks are facing withdrawal risk as the return on customer deposits can vary (Ahmed, 2002). The situation is worsened when other banks are offering higher return on deposit. survey result in three countries (Bahrain, Bangladesh and Sudan) found that other triggers which can lead depositors

to withdraw their funds from Islamic banks are mismanagement of depositor's fund, Shari'ah non-compliance issue, and bad reputation on services. This withdrawal risk issue, therefore, should also be given a high attention in order to maintain stability and sustain large volume of deposits. In fact, looking back to its triggers, withdrawal risk is surely highly correlated with customer satisfaction on Islamic banking service quality (Ahmed, 2003).

National Bank of Ethiopia (NBE) in 2008 amended Ethiopian Banking Business Proclamation (592/2008) to include provision of Islamic banking in Ethiopia. However, the declaration was amended by another declaration (SSB/51/2011) which prohibited the establishment of full-fledged Islamic financial institution but give the right to open the door for existing commercial **banks to create an interest-free banking (hereafter, IFB) window. After the issuance of working** directive, SBB/51/2011, different commercial banks granted the license to deliver IFB service to their end customers. OIB is the first bank which granted the license in September 16, 2013 by following CBE in September 17, 2013. UB also start to provide IFB service after granted the license in May 1, 2014 and recently, BOA, CBO, NIB, AB and WB have joined the IFB business by giving depository products for the time Being. Currently, four share companies have passed the pre-application stage and received permissions from the central bank to open full-fledged bank accounts and start selling shares. While Zemzem, Hijira and Nejashi, Zad, are in the process of formation, two others, Kush and Huda, have initiated a process to organize a full-fledged Islamic financial institution (Fasika, 2019).

According to Kerima (2016), IFB products in Ethiopia are being delivered through a window model which has created inconveniency and has affected the customers trust negatively. Majority of the customer would like to obtain IFB service on a branch model.

Abdullah et.al (2009) states that all the four dimensions – human skills, online banking, tangible and empathy – were significant to customer satisfaction. The tangible facets of the service facility, i.e. the man-made physical environment (such as equipment, machinery and employee appearance) strongly influenced both employees and customers in physiological, psychological, emotional, sociological and cognitive ways, particularly as the core service becomes intangible. an organization characterized by such a service orientation is more likely to offer a reliable, responsive, empathetic service to customers and provide them with the assurance in conveying trust and confidence that will result in improved quality in service delivery which, in turn, leads to higher perceived service quality from the customer point of view.

Othman and Owen (2001), suggested that there is a strong link between SERVQUAL (Hereafter SQ) and customer satisfaction. In the Islamic banking industry, customers have put the criteria of customer satisfaction towards service quality provided by their banks. There were no big different between both Muslim and non-Muslim customers in this respect. For example, fast and efficient service; friendliness of bank personnel; confidentiality of bank; speed of transaction are as the key criteria which they has satisfied by their banks.

This Situation had led CBE started a full-fledged Islamic banking services throughout Ethiopian 49 branches opened in advance compare to other national competitors banks. This study aims to investigate Islamic Banking Services practice in commercial bank of Ethiopia in a full-fledged Islamic branch in Addis Ababa.

1.2

STATEMENT OF THE PROBLEMS

Islamic bank can also offer a range of products and services which are similar to those offered by the conventional bank. This situation has led Islamic banks into direct and stiff competition, not only from other Islamic banks but also from non-Islamic commercial banks. To live up to this challenge and accomplish their mission it is imperative for Islamic banks to assess the quality of services they provide to their customers. Service quality (hereafter, SQ) is generally perceived to be a tool that could create a competitive advantage that would assist Islamic banking service providers in dealing with this new environment. Abdullah, et.al.(2009)

Lassar (2000) used two techniques to assess the service quality in private banking. The first technique adopted the SQ instrument and the second technique was a measure of functional/technical quality. Their results provided initial support without excluding the use of both techniques in different settings and contexts. In study, Naceur and Al-Tamimi (2003) used an instrument including 30 items belonging to the five dimensions of SQ in United Arab Emirates (hereafter, UAE) banks. Their results showed three dimensions that influence SQ, namely human skills, tangibles and empathy. Naceur and Azaddin (2005) used the (SQ) dimensions after adding values and image to them to develop measures of SQ in conventional and Islamic banks in the UAE. Their empirical tests resulted in four dimensions – namely personal skills, reliability, values and image – that are pertinent to determining SQ in conventional banking, with values and image being the most important dimensions. On the other hand, only the personal skills and values dimensions were significant in determining SQ in the Islamic banking sector in the UAE.

Zeithaml and Bitner (1996), found that service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel, and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers).

In Ethiopia few studies are done in Islamic financial system among these Yewbdar (2018) studied prospects and challenges of IFB her findings the utilization of IFB products, double taxation, non-provision of IFB products/services in all branches, the IFB being delivered in a Window model, lack of trust and confidence qualified human resource in Islamic banking are the major challenges. Another study by Mohammed (2012) on the prospects, opportunities and challenges of Islamic Banking in Ethiopia“ and showed the potential challenges to be lack of awareness, regulatory and supervisory challenges, institutional challenges, lack of support and link institutions, gap in research and development in Islamic studies, Debebe (2015) on factors affecting customers to use IFB in Ethiopia and by Akmel (2015) on the challenges and prospects of Islamic banking for resource mobilization in Ethiopian commercial banks showed perceived relative advantage, perceived compatibility, customers and level of awareness and subjective norm have a significant positive impact on the attitude towards IFB in commercial bank of Ethiopia. In addition Kerima (2016) show that utilization of the existing IFB products have been challenged by lack of awareness of customer, inadequate marketing and promotion, double taxation, nature of IFB products, non-provision of IFB products/services in all branches.

This study examine Islamic banking service Practices in a full-fledged Islamic branch of commercial bank of Ethiopia through SERVQUAL dimensions.

1.3. RESEARCH QUESTIONS

Based on the above problem statement, the study will attempt to answer the following questions

RQ1: What SQ dimension attract the customers towards use of Islamic banking

RQ2: How Customer are satisfied the fully-fledged Islamic bank services

RQ3: How full-fledged Islamic financial services easily accessible

1.4. OBJECTIVES OF THE STUDY

1.4.1. GENERAL OBJECTIVE OF THE STUDY

The general objective of study to evaluate Islamic banking service Practices in commercial bank of Ethiopia in a full-fledged Islamic branches.

1.4.2 Specific objectives

This study specifically attempts to achieve the following special objectives

- To assess which SQ dimension attract the customers towards use of Islamic banking
- To examine customer are satisfied the fully-fledged Islamic bank services
- To assess full-fledged Islamic financial services of is easily accessible

1.5 Scope and Delimitation of the study

1.5.1 Scope of the Study

There are a number of bank services in commercial bank of Ethiopia but the study focuses on full-fledged IFB services, Hence, the study is limited to geographically located in Addis Ababa city in six highly account holders(Bilal,Teqwa,Nur,Selam,Fet awrari Amede lema, branches because it is difficult to cover 49 diversified branches throughout Ethiopia due to constraint of time, money, thus the results from this case might not be generalized to other banks outside Addis Ababa

1.5.2 Significance of the Study

The study provide two benefits theoretically and practically .In theoretically aspect the service quality IFB service as International standard like other countries Islamic financial services, to suggest the way of implementation, on the other hand it helps further research in the field of study, Practically clients are benefited from the fully fledged Islamic service provided by the bank according to Islamic financial service and service quality expectation or not these and other concepts consider in the study.

1.6 Organization of the Paper

The rest of the paper organized into four chapter, the second chapter discusses the theoretical and empirical literatures about Islamic financial service Quality theory. The third chapter is about the methodology of the research that is the research design, sampling technique, method of data collection, data collection instruments, method of data analysis and so on. The fourth chapter of the paper presents the findings as well as the quantitative and qualitative data analysis. And finally deals with the conclusion and recommendations of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 What is Islamic Banking?

Islamic banking, like any other banking system, must be viewed as an evolving system. No one disputes that there is a definite desire amongst Muslim savers to invest their savings in ways that are permitted by the Islamic Sharijah. Nevertheless, they must be provided with halal(permit) returns on their investments. Islamic scholars and practical bankers took up that challenge and have made commendable progress in the last 30 years in providing a number of such instruments. However, the concepts of Islamic banking and finance are still in their early stages of development and Islamic banking is an evolving reality for continuous testing and refining of those concepts. Islam fully recognizes the useful role that financial intermediation can play. It was not entirely unknown to Islamic society in its early centuries .Direct finance was no doubt the dominant mode of finance, but the practice of someone obtaining finance on the basis of profit-sharing and then giving it to another person, the actual user of the funds, on the basis of profit-sharing is also recognized. This is known as the principle of al-mudarib udariband it can be expressed as, ‘the one who mobilizes funds, on a profit-sharing basis, extends these funds to the users on the same bases. In the early Islamic period, most caravan trades were financed by mudarabahand suftaja(money transfer).Islamic scholars consider the earning of profits from an intermediary role as a genuine occupation. It is, however, noticeable that this concept of financial intermediation is interwoven with the production and exchange of real goods and services. The functions of Islamic banks and other financial intermediaries are similar to their conventional counterparts. Muslim economists have shown that there are alternative Islamic modes and models through which these functions can be performed. In fact, they have shown that Islamic models can perform these functions in a better way. (Zafran, 2000)

2.2 Islamic Banking Principles

In 2011, Brian Kettell States Islamic banking is the banking system which complies with Shariah principles. We can say Islamic banking serves the purposes of conventional banking, but the main difference is commitment to Shariah principles which prohibit what so called interest. The principles of Islamic banking are explained below.

2.2.1 Principle of profit and loss sharing.

One of the most important principles of Islamic banking is encouraging Muslims to invest their money to become partners by sharing profit and loss in the business, instead of investing where two parties become debtor and creditor. In Islam, profit is considered as the reward of capital. Depositor in Islamic banks can make a profit through profit sharing by contributing his capital to the business partnership and through rental earning on an asset that has been financed by his capital.

2.2.2 Prohibition of riba (Interest)

Another principle of Islamic banking is prohibition of riba (interest). Interest means an effortless profit that increases the principal or wealth without paying any effort. Any payment over and above the actual return is considered as an interest and in Islam is totally prohibited.

2.2.3 Shariah approved activities

All activities which are forbidden in Islam are not allowed in Islamic banking, either by investing or through supporting those activities. Islamic banking must operate in accordance with the rules and shariah principles under Islamic trading transaction.

2.2.4 Money is a potential capital

In Islam, money is considered as medium of exchange. This means that money cannot buy money, except money can only buy goods or services by selling them for profit amount.

2.2.5 Certainty principle

According to this principle, uncertainty, risk or speculation is totally prohibited in Islamic banking. For that reason, options and futures are considered as un-Islamic contracts, since they determine the rates by interest differential. Minor uncertainties are permitted when necessary.

2.2.6 Openness, transparency and disclosure principle

In Islam, openness, transparency and disclosure of information are most important principles in any contractual obligation. The main objective here is to reduce the risk of asymmetric information and moral hazard problems. The contacting party should know each and everything about the product or services in exchange.

2.3 Islamic Bank versus Conventional Bank

2.3.1 Distinct characteristics of Islamic banks

The distinct features of the Islamic banks are as follows:

1. The relationship between Islamic banks and their customers is not that of debtors and creditors, or the other way round, but one of participation in risks and rewards. This basic assumption leads to the following:

- a) There is no previously fixed return on the funds invested with the bank. Similarly, there is no previously fixed return on funds provided by the Islamic banks. The return is decided, for both sides, in the light of the profit realized from the transactions in the ratio of capital participation or agreed ratio of profit-sharing.
- b) There is no liability on the Islamic bank, who is Mudarib (manager of funds) to owners of deposited funds (Rab al-Maal), except in the case of current accounts, to return their funds in full on demand, if the bank has not been negligent in investing funds. These funds share profit or loss resulting from the transactions they are invested in. This is the motivating force which impels the Islamic bank to employ its resources with more prudence and efficiency.

2. Unlike conventional banks, which pool together capital fund and investors' funds, an Islamic bank keeps the two segregated, in order not to mix up the profit earned on its own funds (capital) plus current account balances, repayment of which is guaranteed, with the profit earned on investor's funds, which are accepted on a profit-and-loss-sharing basis. This enables the bank to calculate correctly the profit due to investors.

3. Islamic banks do not provide finance by offering cash loans, as is the case with conventional banks, but through participation (Musharakas) or through some other form of Islamic instrument like Murabaha, Ijara etc. A significant portion of their activities is trading, i.e. they buy goods needed by their customers and sell them at an agreed profit to the customer against ready cash or on deferred payment basis.

4. Islamic banks are multipurpose banks, as they play the role of commercial banks and investment banks, as well as development banks. They operate in the short-term like commercial banks, and in the medium- and long-term investment development banks like non bank financial institutions (NBFIs), depending upon the structure of their resources.

5. While the role of the conventional banks is to attract financial resources and to lend them on interest, so as to make a profit, the emphasis of Islamic banks is on using their financial resources to develop the society as a whole. Profit is, no doubt, kept in sight, but that is not the main objective

of their financing. The emphasis is on achieving the socio-economic objectives of the society without transgressing the injunctions of the Sharia

6. Islamic banking is primarily equity-based.
7. Whereas the Islamic system is value-oriented, the conventional system is value-neutral.
8. While conventional banks are satisfied with the traditional review by certified auditors. Islamic banks are subjected to additional reviews by the religious supervisory boards to ensure that funds are being raised and invested in ways that conform to Islamic principles.

2.3.2 Common Features of the Two Systems

The distinct characteristics of Islamic banks have been briefly described above. This does not, however, mean that the Islamic banks are oblivious of their obligations as financial institutions and invest funds indiscriminately. As a matter of fact, being trustees of Ummah funds, they have to be even more careful. The standards of capital adequacy, liquidity ratio, diversification of risk etc., are at least as high as those of the conventional banks. Likewise, there are several activities of the Islamic banks (not involving interest) which are similar, or almost similar, to those of conventional banks, such as handling of current accounts, opening of Letters of Credit, collections, remittances, safe deposits etc., on which the bank earns fees, commission and exchange. There is still some scepticism among the conventional banks about Islamic banking. Which could be substantially removed if Islamic banks, being newcomers in the field, made more efforts to explain their working to the conventional banks. Faysal Islamic Bank of Bahrain has played a significant role in removing the misunderstandings about Islamic banking. Islamic syndicated financings, pioneered by them, in which both Islamic and conventional banks participate, is one such example. The two can further benefit by exchange of information—Islamic banks about the Islamic countries, and conventional banks about the non-Islamic world. There could also be more training programs for bank personnel on subjects of mutual interest (Zafran, 2000)

2.4 Interest-Free Banking in Ethiopia

National Bank of Ethiopia (NBE) in 2008 amended Ethiopian Banking Business Proclamation (592/2008) to include provision of Islamic banking in Ethiopia. However, the declaration was amended by another declaration (SSB/51/2011) which prohibited the establishment of full-Fledged Islamic financial institution but give the right to open the door for existing commercial banks to create an interest-free banking (hereafter, IFB) window. As (Senait,2015) explanation Zemzem bank which was expected to join

The banking industry as a full-fledged IFB, was unable to start operation as the supervisory directive requires that IFB be given alongside conventional banking service. After the issuance of working directive, SBB/51/2011, different commercial banks granted the license to deliver IFB service to their end customers. OIB is the first bank which granted the license in September 16, 2013 by following CBE in September 17, 2013. UB also start to provide IFB service after granted the license in May 1, 2014 and recently, BOA, CBO, NIB, AB and WB have joined the IFB business by giving depository products for the time being. Currently, four share companies have passed the pre-application stage and received permissions from the central bank to open a full-fledged bank accounts and start selling shares. While Zad, Zemzem, Hijira and Nejashi are in the process of formation, two others, Kush and Huda, have initiated a process to organize a full-fledged Islamic financial Institution. Fasika.T (July, 2019)

2.4.1 Interest free banking Products and services

2.4.1.1. Trade partnership financing

1. Murabah: – This service involves a request from a customer to the Bank or by the initiative of the Bank to purchase and then on sell to the customer certain goods and/or assets not banned by sharia. The sale by the Bank to the customer is at cost plus on an agreed margin. Payment by the customer is in one or more pre-determined installments at agreed points in time. Ownership of the goods passes to the customer upon delivery by the Bank. Such a sale contract is valid on condition that the price, other cost and the profit margins of the seller are stated at the time of the agreement of sale. The asset/good remains as a mortgage with the Bank until the default is settled. The Bank may ask for collateral, if necessary, for this financial service

Among the services included in Murabaha are the following:

- **Murabaha fixed-time financing** — For production inputs, purchase of machinery or short-term project;
- **Murabaha revolving financing** — For purchase of production inputs;
- **Murabaha LC financing** — For purchase of production inputs from abroad or for buying machinery;
- **Murabaha pre-shipment and Murabaha post-shipment financing** for purchase of goods to be exported. Installments at agreed points in time. Ownership of the goods
- passes to the customer upon delivery by the Bank. Such a sale contract is valid on condition that the price, other cost and the profit margins of the seller are stated at the time of the agreement of

sale. The asset/good remains as a mortgage with the Bank until the default is settled. The Bank may ask for collateral, if necessary.(CBE, awareness creation 2011 E.C)

2. **Salam:** – This is a financing service that would be made available in cash for operating costs to customers engaged in agriculture as per the agreement to be reached between the Bank and the customer. It is an arrangement whereby the customer delivers the type of product s/he produces in accordance with the type, quality, quantity, price and time agreed upon with the Bank or to the agent/body the Bank has entered salam finance agreement. The Bank may ask for collateral, if necessary. .(CBE, awareness creation 2011 E.C)

2 **Istisna:** is a contract of sales and purchase of assets by specification or order where the price is paid in advance but the assets are manufactured or produced and delivered at a later date. In line with this, the Bank will deliver industrially produced goods or assembled and constructed items as per the orders/specifications of the customers when they are finalized by the producers. The Bank, based on the job order/specifications of the customer and making a separate agreement with the builders/producers, may make payments to the institutions at once or in installments by assessing the progress of the work. The Bank may ask for guarantee from the customer and producer/builder. .(CBE, awareness creation 2011 E.C)

3 **Ijara:-** This is a leasing agreement where the Bank buys agricultural vehicles or industrial machinery for lease/rent in its own initiative or by the order of a customer/client and then leases it back over to him/her/it for a fixed period. Depending on the promise given earlier, the Bank can sell the asset or transfer it freely to the lessee customer on or before the last day of the lease agreement. The Bank may ask guarantee to provide this service. By making use of these a customer can obtain money for:

- Running costs;
- Purchase of goods/assets;
- Export and import trade;
- Project finance;
- Lease; and
- Operating cost for agricultural works/activities

4 **Guarantee:** – The Bank makes available guarantees such as advance payment guarantee, bid bond and performance bond; and it may request collateral for the services.

5 **International trade support financing:** – The service is provided for customers engaged in export and import trade, and it is an arrangement where customers delegate the Bank or collaborate with it. This service is similar to the international trade support service given regularly interest free.

6 **Hawallah:** – Local beneficiaries of hawallah can collect money sent to them through branches of the Bank from any part of the country from the closest branch that has interest free banking window and could similarly send money using this service. Besides, customers can similarly utilize the service to receive money sent to them from any corner of the world.

8. Foreign Exchange: – Customers of international trade support service can trade/exchange foreign currencies according to the spot rate of the day. . (CBE, awareness creation 2011 E.C)

2.4.2.2. Deposit and Investment

Under this category, there are four kinds of accounts: Wadiah, Qard, mudarabah saving and mudarabah fixed time deposit

a) **Wadiah** :this type of account is opened by customers for unspecified period of time for the purpose of safekeeping. Depositors give their consent to the bank to deal with the whole or any part of their money in the manner that deems fit ,so long as it is not against sharia .the bank will guarantee payments of the principal as demanded by the customer.

b) **Qard** : this account is opened for unspecified period and operated by checks like the conventional current account. The bank shall guarantee paymentof the principal immediately upon the request of the customer. . (CBE, awareness creation 2011 E.C)

c) **Mudarabah Saving:** this is investement account in which a customer deposite money for unspecified period of time she/he will share the profit based on the pre-agreed ratio after deploying the fund in any permissible activities chosen by the bank if the customer withdraws the investment amount, she/he loss full or part of the profit declared in the respective period.

d) **Mudarabah Fixed Time:** this is the investment deposit where customers place money for a fixed period of time she/he will share the profit based on the pre-agreed ratio after deploying the fund in any permissible activities chosen by the bank. The bank shall impose restrictions on

withdrawal during contract period. Otherwise the customer shall lose full or part of the profit declared in the respective period. . (CBE, awareness creation 2011 E.C)

2.5 Service Quality Measurement

SERVQUAL developed by Parasuraman (1985) for an Islamic bank comprises five dimensions to measure Service Quality including

- **Tangibility**; the physical appearance and condition of branch facilities and personnel
- **Reliability**; refers to the services provided by Islamic banks that are accurate and dependable
- **Responsiveness**; the ability of Islamic bank to render swift services to its customers
- **Assurance**; verbal and non-verbal communication with trust and confidence between Islamic bank and its customers
- **Empathy**; providing individualized services by an Islamic bank and taking care of every customer.

CARTER model developed by Othman and Owen (2001) includes an addition of 'Compliance' in the dimensions of SERVQUAL model. Compliance illustrates the Conformity of an organization with rules, regulations, policy, procedures and established conventions. Similarly Compliance in respect of Islamic bank is to comply with guiding principles of Islamic Sharia and Fiqh. (Lutfullah saqib Muhammad Aitisam Farooq Aliya Mueen Zafar, 2016)

According to Parasuraman, Berryand Zeithaml (1985), service quality is the global assessment or attitude of complete excellence of services. The difference between the perceptions of services provided by service firms and the customers' expectations is what constitutes service quality. Service quality as defined by Nitecki and Hernon (2000) is meeting or exceeding a client's expectations or the difference in a client's perceptions and service expectations. Banking industry are the one of services studies by Parasuraman, Berryand Zeithaml (1985). The results indicated that service quality had the following dimensions responsiveness, reliability tangibility, knowing/understanding the customer, security, communication, credibility, access, courtesy and competence. In 1988, the ten dimensions were reduced to five which are reliability, assurance, responsiveness, empathy and tangibility. In addition, Sureshchandar, Rajendran and Anantharaman (2001) identified the following five aspects of service quality, human element or service provision,

tangibles of service, service product or core service, social responsibility and systemization of service delivery. Muhidin Mallaha, (2015)

2.6 Measuring service quality in banking

According to Howcroft, service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers. Unlike manufacturing firms that are able to appraise the quality of their product objectively by the degree to which output meets a technical specification, for the service firm (e.g. banks) excellent service quality is present only if the customer perceives and values it. LeBlanc and Nguyen(1988), stated in this connection: ‘The problem of evaluating service quality is more difficult and complex than product quality due to the intangible nature of service Current levels of service quality a key existing problem facing the banking industry is the determination of a clear and precise definition of quality. Generally speaking, service quality in banking plays a significant role since it is directly linked to profitability. The relationship between service quality and profitability has been examined in some empirical studies. The results of all these studies indicate the existence of a positive relationship between service quality and profitability

Duncan and Elliott examined empirically the relationship between service quality and financial performance among a representative cross-section of Australian banks and credit unions. They found that all financial performance measures are positively correlated with service quality scores. There have been a number of empirical studies that dealt with service quality in the banking industry in general and the application of the SERVQUAL instrument in commercial banks. Following is a brief review of some of these studies. Kangis and Voukelatos conducted a comparative study of Greek private and public banks. They found that expectations and perceptions of services received were marginally higher in the private than in the public sector banks in most of the dimensions measured.

Anguret al. investigated the applicability of alternative measures of service quality in two major Indian banks. They concluded that overall results support a multidimensional construct of service and suggest that the SERVQUAL scale provides greater diagnostic information than the SERVPERF scale. Jun et al. studied the service quality of delivering loan products. They found that substantial differences existed between bankers and customer groups in the perceived importance of service quality dimensions.

2.7 Review of Empirical Studies

Masood and Bora (2009), have conducted study in Jordan to investigate the customer satisfaction and preferences in Islamic banking. Their findings reveals that most of the respondents have showed the high level of satisfaction towards different factors and aspects of Islamic banking, for example, Islamic bank's name and image, customer confidentiality, customer-client interaction, and physical aspects like the internal layout, suitability of furniture, the architectural design of the bank.

(Asma Abdul Rehman, 2015) finding study in the three countries (Pakistan, UK and UAE) of service quality dimensions has appropriate reliability. According to the Pakistani and UK customers; compliance, tangible, and assurance is most important service quality dimensions, whereas UAE customers reveals that compliance, tangible, and empathy are important service quality dimensions. According to Pakistani customers assurance, reliability, tangible, and empathy has significant relationship with customer satisfaction whereas UK customers reveals that assurance, reliability, and empathy have significant relationship with customer satisfaction and UAE customer consider assurance, and tangible have significant relationship with customer satisfaction. Results indicate that most of the respondents of Pakistan, UK, and UAE are satisfied with the banking services provided to them. Hence, SERVQUAL model is a vital instrument for Islamic bank managers in UK, UAE, and Pakistan to measure their service quality and improve it if there is any gap between qualities of services that is being delivered to customers.

Abdullah et.al (2009) found that all the four dimensions – human skills, online banking, tangible and empathy – were significant to customer satisfaction. The tangible facets of the service facility, i.e. the man-made physical environment (such as equipment, machinery and employee appearance) strongly influenced both employees and customers in physiological, psychological, emotional, sociological and cognitive ways, particularly as the core service becomes intangible. an organization characterized by such a service orientation is more likely to offer a reliable, responsive, empathetic service to customers and provide them with the assurance in conveying trust and confidence that will result in improved quality in service delivery which, in turn, leads to higher perceived service quality from the customer point of view. However, only two service quality dimensions (human skills and empathy) were found to be statistically significant when measuring customer satisfaction. We found that human skills has a strong impact on customers' satisfaction when engaging in Islamic banking transactions. The finding corresponds to the study of Dusuki and Abdullah (2006), who

found that the staff factor is one of the most important factors that customers use to evaluate Islamic banking services, as well as to select an Islamic bank. Incompetence and lack of courtesy of the bank's personnel was the major reason why customers turn away from an Islamic bank. impact on customer satisfaction. Indeed, the relative importance of these dimensions varies from one country to another and, also, may depend upon the age, gender, income, marital status, occupation and cultural background of customers.

According to Md Abu Saleh, Ali Quazi, Byron Keating, Sanjaya S Gaur (2017), the finding result confirmed the impact of service quality dimensions on service image factors imply that Islamic bank services are uniquely different from those of conventional banks in terms of perceptions of customer service reliability, responsiveness, tangibility and assurance. Prior research on the Islamic banking services in Bangladesh revealed that Islamic banks are consistently maintaining a higher level of quality in serving their customers. This has been instrumental in building a highly favorable reputation in the minds of customers (Khan et al., 2007; Sarker, 1999). Due to better service quality and image of Islamic banks in Bangladesh, more customers from various backgrounds, are keen to use the Islamic banking system (Khan et al., 2007). Literature also indicates that Islamic banks operate under strict integrity principles, and as such there is no culture of bribery or unlawful practices prevalent in Islamic banks. These banks also provide priority-based quality services to all customers irrespective of their religious affiliations. This approach to customers has resulted in the general public, business people and the government recognizing Islamic banks' excellence in delivering customer service.

2.8 Theoretical Framework

Service Quality is the independent variable of this study, which depicts the areas covered by Islamic banks while rendering banking/financial services to their customers. The analysis will demonstrate the extent and direction to which Service Quality affects the level of Customer Satisfaction of Islamic banks' customers. The literature reflects that there is significant positive Relationship between Service Quality and Customer Satisfaction as with better Service Quality, customers experience desirable interaction with banks and thus exert higher level of satisfaction. Service Quality consists of a number of dimensions which directly or indirectly influence the customers and determine their disposition with respect to their expectations and their actual experience. Md Abu Saleh et al (2017).

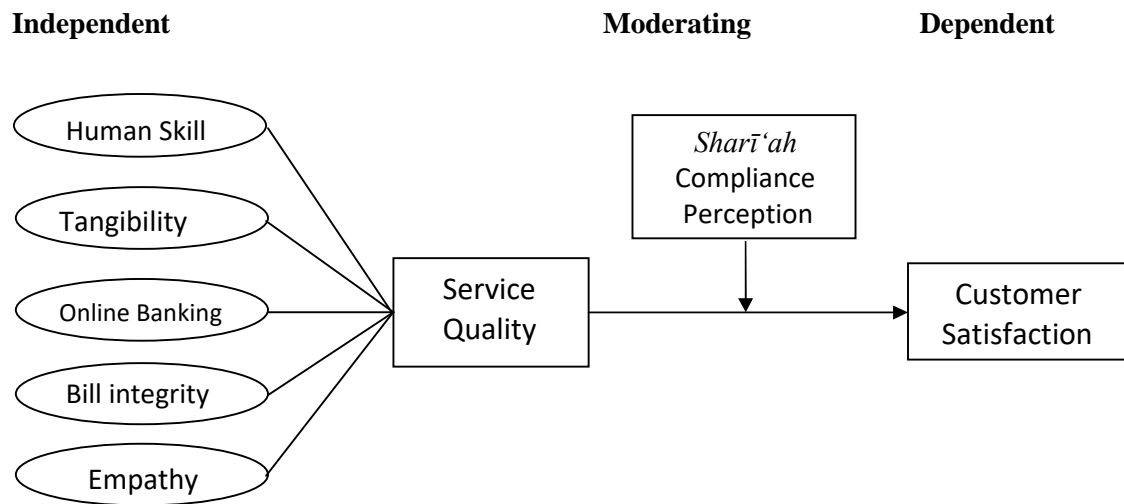


Figure. 1. Framework for the study

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research approach

As (Kothari, 2004) state there are two basic approaches to research, qualitative approach and quantitative approach. Qualitative approach research is concerned with subjective assessment of attitudes, opinions and behavior; and it generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis through focus group interviews,

projective techniques and depth interviews. In quantitative approach research form which can be subjected to rigorous quantitative analysis. Therefore, a mixed research approach used to collecting, analyzing, and interpreting data.

3.2 Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data.(Kothari et.al) and for this study descriptive research is used to a conditions and relationships with dependent and independent variables that exist; practices that prevail; beliefs, point of views and attitudes that are held; processes that are going on; effects that are being felt; or trends that are Developing.

3.3. Population, Sampling Techniques and Sample Size

3.3.1. Target population

CBE has totally fifteen districts in Ethiopia based on location. Branches that are located Addis Ababa city are divided in to four districts which are North, South, west and East Addis. It has forty nine full-fledged grade four Islamic branches throughout Ethiopia and fifteen are in Addis Ababa, (CBE reports, 2019).

If the total area of interest happens to be a big one, a convenient way in which a sample can be taken is to divide the area into a number of smaller non-overlapping areas and then to randomly select a number of these smaller areas (usually called clusters), with the ultimate sample consisting of all (or samples of) units in these small areas or clusters, Multi-stage sampling is a further development of the principle of cluster sampling. Suppose we want to investigate the working efficiency of nationalized banks and we want to take a sample of few banks for this purpose. The first stage is to select large primary sampling unit such as states in a country. Then we may select certain districts and chosen banks in the district (Kothari, 2004).For the study to be inclusive the researcher take a sample from Addis Ababa district Full-fledged interest free banking branches with a 3800 IFB account holders are taken as a sample customers (Bilal branch at Bole Michael north district, Musab branch at south district, Salam & Nur branch at North district, Tekwa at betel south district, Fit Awrare Amedelema at Atobstera in west district because there is a higher number of

IFB account holders compare to fifteen fully- fledged branches in addis ababa hence, the targeted populations are all IFB account holders.

3.3.2 Sample Size

As (Yamane 1967) developed statistical formula to determine sample size, the researcher will be used simplified formula for calculating the required sample size in six branches which are found in Addis Ababa District.it is calculated as follows

Assumptions

A 95% confidence level, and $e = \pm 5\%$

$$n = \frac{N}{1 + N(e)^2}$$

Where:-

n = the sample size

N = the population size

e = the level of precision (Sampling error)

$$n = \frac{3800}{(1 + 3800(0.07)^2)} = 194 \text{ sample size}$$

Therefore, the total sample are 194 IFS account holders are distribute in the selected six branches, moreover, distribute number of customers in each branches calculated in the following formula

$$n = \frac{nN1}{N}$$

Where;

n= is total number of sample

N =is total number of population

N1= is total number of population in each branch

Table 3.1List of Sample Branch

Sample Branch	Total Number of Population	Total Number of Sample
---------------	----------------------------	------------------------

Bilal	1045	53
Musab	622	32
Feti Awrari Amedelema	622	32
Tekwa	508	26
Nur	500	25
selam	503	26
Total	3800	194

Source: CBE 2019 report.

3.3.3 Sampling Technique

According to (Kothari, et al) a good sampling must result in a truly representative, viable in the context of funds available for the research study, that systematic bias can be controlled in a better way and applied, in general for the universe with a reasonable level of confidence.

For my study Addis Ababa was selected using cluster sampling method, Multi-stage sampling was also applied because CBE had four regional classification in Addis Ababa North, South, East and West .

And the study to be manageable from 15 full- fledged branches in all Addis Ababa district six full- fledged branches are selected from each district.

3.4. Sources of data

3.4.1 Primary data

Basically there are two source of information used for research purpose primary and secondary Data. Primary source are those in distributed by Questionnaires and gathering information from IFB customer from selected branch banks. A questionnaire consists of a number of questions typed in a definite order on SERVQUAL measurements in a form of close-ended questions to collect the primary data, for the study only questionnaires employed.

3.5. Data Collection Instrument

Questionnaires are distribute for customer of IFB holder for both depositors and borrowers CBE selected branch in Addis Ababa by mediating IFB deliver staff because it is simple to communicate with customers during day to day transaction process. Likert (1932) ranging used to measure IFS customer account holders response (strongly disagree, disagree, neutral, agree, and strongly agree)

3.6. Method of Data Analysis

The collected data screened and classified to useful raw data to transform to Statistical Package for Social Science- SPSS 20 version software has been used. Descriptive statistics method was applied, based on the results of the tables and figures using grand mean value and standard deviations. For each SERVQUAL dimensions (Human skill, Tangibility, online banking, Empathy, bill integrity and customer satisfaction (the dependent Variable.)), interpret the average response rate of respondents for each item.

3.7 Ethical Considerations

The researcher responsible for the questionnaires are only research purpose and keep Confidential for all information of the participant responses in addition explained the questionnaires politely and respectfully

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

In this chapter the collected questionnaires were present and analyzed based on research methodology. The researcher used descriptive statistics for demographic variables for SQ dimension effect on Customer Satisfaction of a full-fledged Islamic banks of CBE.in different Addis Ababa district branches namely (Bilal branch at Bole Michael north district, Musab branch at south

district, Salam & Nur branch at North district, Tekwa at betel south district, Fit Awrare Amedelema at Atobs tera in west district .

The questionnaires are prepared and distributed for selected branches. Out of 194 questionnaires 155 are returned and the remaining 39 not included due to incompleteness, the response rate 80% to 20% consecutively.

4.1 General Characteristics of Respondents

The questionnaire was designed for IFB customer’s demographic characteristics and banking service experience. All respondents participated in this study were a fully- fledged Islamic banking service users of the commercial Bank of Ethiopia (Bilal,Musab ,Salam ,Nur ,Tekwa, Fit Awrare Amedelema)in Addis Ababa branches, results of the demographic variables are present

Table 4.1: Demographic Characteristic of the Respondent

Parameter		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Female	53	34	34.2	34.2
	Male	102	66	65.8	100.0
	Total	155	100	100.0	
AGE	18-30	63	40.6	40.6	40.6
	31-40	85	54.8	54.8	95.5
	41-50	1	0.6	0.6	96.1
	Above 50	6	3.9	3.9	100
	Total	155	100	100	

Source: survey result 2020

- (1) Table 4.1 above shows respondents’ profile. It indicates that respondents most of them are males (66%) and females (34%), these indicates that both genders represented in the study, majority of respondents are males. Moreover, age of Respondents majority of the respondents (40.6%) were within the age range of 18-30 and (54.8%) within the age group of 31-40, (0.6%) of the respondents were within the age group of 41 to 50 years, (3.9%) of the respondents were above 51 years. Rashid and Hassan (2009), and Mustapha Abubakar (2018) also found that customers with different demographic backgrounds reported different levels of importance toward choice criteria for Islamic banks

Table 4.2: Demographic Characteristic of the Respondent

Education	BA/BSc	81	52.3	52.3	52.3
	Diploma	9	5.8	5.8	58.1
	High school	42	27.1	27.1	85.2
	MA/MSc	22	14.2	14.2	99.4
	PHD	1	0.6	0.6	100
	Total	155	100	100	
Year of IFB Customer	Above 5 years	16	10.3	10.3	10.3
	Between (1-3) years	86	55.5	55.5	65.8
	Between (3-5) years	21	13.5	13.5	79.4
	Less than 1 year	32	20.6	20.6	100
	Total	155	100	100	
religion	Muslim	143	92.3	92.3	92.3
	Orthodox	10	6.5	6.5	98.7
	Protestant	2	1.3	1.3	100
	Total	155	100	100	

Source: survey result 2020

In educational level respondents (52.3%) of respondents were first degree holders, (5.8%) of Respondents were diploma holders,(27.1%) high school graduates,(14.2%)of the respondent

Were MA/MSC holders and (.6%) of the respondent were PH.D holders, these indicates majority of the respondents educated, expected to know how for Islamic financial services.

Rashid and Hassan (2009) cited in Naser, Al Salem, and Nuseibeh (2013) investigated how demographic groupings including gender, age, marital status, and educational qualification have impact on bank patronage. The study found varying factors as determinants. Laroche, Rosenblatt, and Manning (1986), in their Canadian study, made comparisons relating to gender, age, educational level, income, and language spoken (i.e. French or English) and established that there are some significant differences in choice criteria for retail banks in Canada. Mustapha et.al (2018)

Regarding to religious follow nearly all respondents were Muslim (92.3%), Orthodox (6.5%), protestant (1.3%).These indicates Muslims are highly devoted to used Islamic financial services.

	for interdicted perrson	1	0.6	0.6	0.6
Which IFB account associated	Wadiah	13	8.3	8.3	1.3
	Earmarked account	1	0.6	0.6	1.9
	Education	4	2.6	2.6	4.5
	fixed-time financing	5	3.2	3.2	7.7
	for Minors	1	0.6	0.6	8.4
	Ijara	1	0.6	0.6	9
	Joint Accounts	4	2.6	2.6	11.6
	Mudaraba Lc financing	15	9.6	9.6	58
	Mudaraba Women	21	13.5	13.5	34.2
	mudaraba Youth	4	2.6	2.6	36.8
	Mudaraba post-shipment financing	1	0.6	0.6	38.1
	Qard	41	26.5	26.5	64.5
	revolving financing	43	27.7	27.7	92.3
	Total	155	100	100	

Source: survey result 2020

Abduh and Omar (2012) examine Islamic banking patronage criteria. The research applied analytic hierarchy processes to respondents from Malaysia. The result indicated that the most important attribute for individuals in Malaysia to patronize an Islamic bank is Sharia compliance.

Nawi, Yazid, and Mohammed (2013) in their work in Malaysia found six main reasons for customers' preference for Islamic banking products. The reasons are based on understanding of Islamic banking concept, Shari'ah-compliance, religious conviction, quality and attractiveness of offerings, willingness to deal with Islamic banks, and prospects and potentials of Islamic banks. Khattak and Kashif-Ur-Rehman (2010) also confirm that in Pakistan customers patronize Islamic banks because of religious motivations. Furthermore, Metawa and Al-Mossawi (1998) as well as Okumus (2005) found religion as an important factor considered by customers of Islamic banks.(Mustapha et.al,(2018)

4.3 IFB account associated

In the IFB account associated Interdict person account respondent (0.6%) ,Wadiah account respondent (8.3%),Earmarked account respondent (0.6%),Education account respondent (2.6%),Fixed time Financing account respondents (3.2%),for minors account respondents (0.6%), Ijera account respondents (0.6%), Joint Accounts respondents (2.6%).Mudareba Women account respondents (13.5%), Mudareba Youth account respondents (13.5%),Mudareba post-shipment finance account respondents (0.6%),Qard account respondents (26.5%), Revolving finance account respondents (27.7%).Both theoretical and empirical literature have shown that customers can have three types of product knowledge: knowledge about the attributes or characteristics of products, the benefits of using the products, and the values the product will help them achieve. The product attributes may be concrete or abstract while the benefits may be functional or psychosocial. Keller (1993) extends product benefits to consist of functional benefits (basic necessities), experiential benefits (pleasure and stimulation), and symbolic benefits social approval and self-esteem.(Mustapha et.al,(2018)

4.2 Analysis of Collected Data

4.2.1 Descriptive Analysis For the collected Survey

The analysis of the study was done by using a descriptive statistics by computing the mean and grand mean score of each item and dimension respectively. The main purpose of using this statistical parameter is to interpret the average response rate of respondents for each item According to Btawee (1987) cited in Mulugeta, the mean score range from 4.51-5.0 excellent, very good, 3.51-4.50 good, 2.51-3.50 average/moderate, 1.51-2.50 fair and 1.00-1.50 poor.

Source: survey result 2020

Table 4.3: Human Skill Dimension

According to table 4.2 the highest mean score was The employees always available at the information desk (3.84),SD (0.88) The employees willing to help and pay attention to individual customer problems and Employees are friendly and pleasant when providing services have the same mean score (3.79), SD (0.93) The employees give clear and precise answers for customers inquiries a mean score (3.76), SD (0.93) Services are provided quickly in this bank mean score (3.70), SD (0.99)The employees are a well-trained and knowledgeable score (3.66), SD (0.96)The bank

Parameter	Mean	Std. Deviation
The bank provides service according to Islamic financial services sharia laws	2.90	1.24
The employees are a well-trained and knowledgeable	3.66	0.96
The employees always available at the information desk	3.84	0.88
The employees willing to help and pay attention to individual customer problems	3.79	0.93
The employees give clear and precise answers for customers inquiries	3.76	0.93
Employees provides service with high competence	2.81	1.12
Calls are answered promptly by the employees of the bank	3.28	0.88
Employees continuously provides progress information for customers	2.84	1.09
Services are provided quickly in this bank	3.70	0.99
Employees are friendly and pleasant when providing services	3.79	0.83
Grand mean	3.44	0.74

provides service according to Islamic financial services sharia laws(2.90) ,SD (1.24), Employees continuously provides progress information for customers mean score (2.84), SD (1.09) the lowest mean score was Employees provides service with high competence (2.81), SD (1.12) to conclude the grand mean shows (3.44), SD (0.74) compare to measurement scale its moderate/good.For Islamic Banking Institutions, compliance of their dealings in accordance with Islamic Shari'ah is of supreme significance as this point has been the very reason of their existence. Moreover, the reason for Shari'ah Compliance for these institutions is based on religious and moral considerations; as they were established in the name of religion with prime focus to ensure that all financial affairs were conducted according to the guidelines of Islam. Accordingly, Islamic banks proactively pursue total compliance with Shari'ah rulings in all financial and non-financial affairs which are re-affirmed by the Shari'ah Advisors of these institutions. Lutfullah saqib Muhammad Aitisam Farooq Aliya Mueen Zafar , (2016) ,On the other hand Competence is a standardized requirement for an individual/employee to properly perform a specific job task. It is a combination of knowledge, skills and behavior. A competent employee will ensure that his or her customers get a warm, friendly and prompt response, thus making the customers confident of their ability in carrying out the service. In other words, it is the customers' feeling of responsiveness, assurance and empathy that influences the level of service quality (Kumar, 2016).

Table 4.4:Tangibility Dimension

Parameter	Mean	Std. Deviation
The bank looks attractive from outside	3.60	1.079
This bank has modern equipment and technology	3.03	1.072
The interior of the bank is neat and convenient	3.55	1.076
The bank have a separate ATM card from convection ATM	3.15	1.123
ATM machines are easily accessible	3.85	.961
There are no long lines in front of the ATM machines	2.85	1.232
Mean	3.3387	.76693

Source: survey result 2020

Tangibility dimension refers to the physical facilities, equipment and appearance of visible elements of a bank and its surroundings (Parasuraman , 1985; 1988). Ladhari et al.' (2011) found that perceived tangibility of bank service is significantly related to service quality and further service quality significantly influences the bank's image, The highest score of tangibility was ATM machines are easily accessible(3.85), The bank looks attractive from outside mean score (3.60), The interior of the bank is neat and convenient score(3.55), The bank have a separate ATM card from convection ATM mean score (3.15) and the lowest mean score was There are no long lines in front of the ATM machines, the grand mean shows (3.33) which means on moderate/good stage,

Table 4:5 Online Banking dimension

Parameter	Mean	Std. Deviation
The bank helps customers perform their internet banking	3.79	0.93
online banking is easily accessible	3.74	1.02
Online banking system have many characteristics	3.70	0.93
Do you think daily transaction limit is enough for business activity	2.19	1.36
Call center give response quickly some problems happen	2.65	1.06

The online bank service works 24hrs and 7 days	2.86	1.15
The online banking service have different language	3.54	1.05
Grand mean	3.21	0.69

Source: survey result 2020

According to table 4:5 the highest mean score were the bank helps customers to perform their internet banking, service (3.79), SD (0.93) online banking is easily accessible mean score (3.74), SD (1.02)Online banking system have many characteristics mean (3.70) , SD (0.93)The online banking service have different language score (3.54), SD (1.05) The online bank service works 24hrs and 7 days mean scored (2.86), SD (1.15) Call center give response quickly some problems happen(2.65), SD (1.06) at last the lowest mean score where Do you think daily transaction limit is enough for business activity which is (2.19), SD (1.36) compare to grand mean (3.21) ,SD (1.36), SD (0.69) which is in moderate/good Scale, The idea of having various ways to provide service, including the use of self-service technologies like ATMs, internet banking or phone banking, is welcome but banks should further educate their customers on the said technologies. Banks must be innovative in creating more types of channels by riding on technological advancement; reducing customers' waiting time and effort should be their main priority and objective. The banks struggle to distinguish themselves from competition by offering attractive banking products. Studying the pitfalls of the current queuing system will help the banks to come out with an enhancement in timely and extended service by means of implementing a revised queuing system or additional counters or off-time services. Mukesh et.al,(2016) the researcher conclude that to be competitive in the market a day to day transaction is crucial for customers and CBE increase the daily limit in higher amount to Satisfied its customers for their business and other activities.

Table 4:6Empathy Dimension

Parameter	Mean	Std. Deviation
The branches of full-fledged financial services of bank is easily accessible	2.30	1.42
Business hours of the bank are sufficient and convenient	3.57	1.12
The bank parking lots are sufficient	2.41	1.09
The bank responses to my loan requests are always encouraging	2.17	1.43

Mean	2.61	0.96
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Source: survey result 2020

Empathy refers the ability to recognize customers' needs and providing them with special care. Treating customers with care and paying special attention to them can lead to the creation of a bond and image between the banks and their customers. This suggests that empathy could play vital role in enhancing image factors such as access to service, offered service, security and reputation of bank. Saleem, M.A., Zahra, S., Ahmad, R. and Ismail, H. (2016), According to table 4:6 the highest mean score were the Business hours of the bank are sufficient and convenient (3.57),SD (1.12)The bank parking lots are sufficient (2.41),SD (1.09) The branches of full-fledged financial services of bank is easily accessible (2.30),SD (1.42) and the lowest mean score were the bank responses to my loan requests are always encouraging (2.17),SD (1.43)the grand mean in fair scale moreover, the lowest mean compare to other service quality dimension, the researcher conclude that understanding and implementation of Islamic financial system in CBE are not satisfied customers will.

Table 4; 7Billing Integrity dimension

parameter	Mean	Std. Deviation
Letters sent by the bank are clear and easy to understand	3.73	.863
Bank statements are easily accessible to take regularly	3.61	.957
Mean	3.6677	.82430

Source: survey result 2020

With regard to table 4:7 bill integrity dimension the highest mean score were (3.73),SD (.863)the lowest mean score were Bank statements are easily accessible to take regularly, compare mean scale it's Very good and the researcher conclude that the customers are satisfied in service provided by CBE.

To conclude, the SQ dimension of each grand mean i.e. Human skill (3.44), Tangibility (3.33),online banking (3.21),Empathy (2.61) and bill integrity (3.66) .as a whole bill integrity has

the highest grand mean score compare to the other SQ dimensions these shows us Customers are satisfied on bill integrity service provided by the bank compare to other SQ dimensions.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The main objective of the study was Islamic banking service practice in the case of commercial bank of Ethiopia in a full-fledged Islamic banks (Bilal, Tekwa, Musab,Salam.nur and fit awrari Amede lema) branches in Addis Ababa City districts.

The researcher used modified SERVQUAL models mostly employed by scholar to measure Islamic bank service quality practices in terms of (Human skill, tangibility, online banking, empathy, bill integrity) dimension, the dependent variable customer satisfaction in addition for data processing descriptive statics was applied.

5.1 CONCLUSION

The finding of the study particularly showed that human skill dimension measured in ten parameter, the grand mean scored, shows moderate this implies employees are as such qualified to Islamic financial services thus customers expectation and the service provided by the banks have a gap.

Tangibility dimension examine in five items parameter and the result shows that the grand mean scored is moderate, the researcher conclude that CBE in order to attract more customers need continuously improve its facilitation.

The grand mean of Online banking result indicate moderate, customers are not satisfied with the daily limit transaction amount not sufficient for business activity, and frequently travel to banks, waiting line be time consuming. Hence, CBE increase the daily limit to satisfy customers.

Empathy dimension result shows that there is a big gap between customer expectation and service provided by the bank, thus customers are not satisfied. Bill integrity results indicate customers are satisfied according to their expectation and the highest mean scored compared to the other SERVQUAL dimensions.

5.2 RECOMMENDATIONS

This study examine Islamic banking service practices in commercial bank of Ethiopia in a full-fledged Islamic banks namely(Bilal,Tekwa, Musab, Fit AwrariAmede Lema,,selam and Nur)branches ,based on the study of findings the following points recommend for commercial bank of Ethiopia Shariah compliance board and Management team.

- Islamic financial system is not like a debtors and creditors system rather a business partnership in profit sharing, in CBE a full-fledged Islamic banks most account holders uses

the same activity like conventional bank accounts in addition they are very small in number these indicate the rule & regulation of Sharia compliance financial system CBE doesn't consider the customers' needs thus revision of the system and consideration of customers perception is necessary.

- In human skill qualified and professional employees are mandatory because Islamic financial system is different from conventional financial system therefore, development of human resource is not a choice rather a mandatory for survive in the Islamic banking industry.
- tangibility have a significant impact in SERVQUAL of banks physical appearance, visibility areas of the banks are not competent as CBE conventional branches further facilitation is needed.
- Online banking also impact on customers satisfaction, traveling to banks, waiting in lines consuming time therefore CBE increase daily limits transaction to satisfy customers' needs.
- Customer retention is the core elements for banking industry therefore caring customer and implementation Islamic finance system encourage to handle the Muslim society if not customers shifts to competitors banks.
- Finally Liberalization and globalization have led to increased competition in the banking industry both in the conventional and Islamic banking services, the result being that banks place greater emphasis on their customers moreover, financial institution have a crucial role in the development of social and economic growth of a country and for the last two three decades Islamic finance/banking is one of the fastest growing facets in global financial markets therefore, CBE full-fledged Islamic banks improved in all aspect of SERVQUAL dimensions for customer satisfaction and sustain in the rivalry bank industry.

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Appendix I
Appendix 1 – Questionnaire
Questionnaire
St. Mary’s University
School of Graduate Studies
Department of Accounting and Finance

Dear respondents:

I am a graduate student Accounting and Finance. This questionnaire is designed to collect data for the research project titled “**Islamic Banking Services Practice: A Case Study of Commercial Bank of Ethiopia.**” Therefore, this is to request our kind cooperation in filling out the questionnaires and I would like to assure you that all the data gathered will be held confidential and will be used for the intended academic purposes only. I would like to express my heartfelt gratitude for your time, willingness and kind support in filling out the questionnaire

Anter Yilma
Tel. No. 0912603604
0911132731
e-mail-anteryilma16@gmail.com

General Instruction:

Do not write your name in any part of the questionnaire

Part One General Information

1. Gender

Male Female

2. Age

18-30 31-40 41-50 above 50

3. The highest level of education you achieved

High school Certificate Diploma

BA/BSc. MA/MSc. PHD

4. How long since you have started using Islamic financial service

Less than 1 year between (1-3) years

Between (3-5) years above 5 years

5. Which religion does you belongs to

Muslim Orthodox Catholic Protestant

6. Which IFB account (product/service) you are associated?

- Mudaraba Women hTeen Youthfor M
- Mudaraba EducationJo countsEarmarked Ac
- Mudaraba Youth Acco Interdicted persons
- Mudaraba fixed-time financing re g financing
- Mudaraba LC financing pr ment
- Mudarabapost-shipment financing alstisna

Part II This part divided into five sections, in each section there is statements that indicate what determine customer's perception towards the service quality of Islamic financial products and services that you intend to fill. In this part as your agreement with the statement tick or circle the alternatives.

1. HUMAN SKILLS	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5
1.1 The bank provides service according to Islamic financial services sharia laws					
1.2 The employees are a well trained and knowledgeable					
1.3 The employees always available at the information desk					
1.4 The employees willing to help and pay attention to individual customer problems?					
1.5 The employees give clear and precise answers for customers inquiries					

1.6 Employees provides service with high competence					
1.7 Calls are answered promptly by the employees of the bank					
1.8 Employees continuously provides progress information for customers					
1.9 Services are provided quickly in this bank					
1.10. Employees are friendly and pleasant when providing services					
1.11 The employees of this bank look professional and are well dressed					
2. TANGIBILITY	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5
2.1 The bank looks attractive from outside					
2.2 This bank has modern equipment and technology					
2.3 The interior of the bank is neat and convenient					
2.4 The bank have a separate ATM card from convection ATM					
2.5 ATM machines are easily accessible					
2.6 There are no long lines in front of the ATM machines					
3. ONLINE BANKING					
3.1 The bank helps customers perform their internet banking					
3.2 Online banking is easily accessible					
3.3 Online banking system have many characteristics					

3.4 Do you think daily transaction limit is enough for business activity					
3.5 Call centre give response quickly some problems happen					
3.6 The online bank service works 24hrs and 7 days					
3.7 The online banking service have different language					
4. EMPATHY					
4.1 The branches of full-fledged financial services of bank is easily accessible					
4.2 Business hours of the bank are sufficient and convenient					
4.3 The bank parking lots are sufficient					
4.4 The bank responses to my interest free loan requests are always encouraging					
5. BILLING INTEGRITY					
5.1 Letters sent by the bank are clear and easy to understand					
5.2 Bank statements are easily accessible to take regularly					