



## **Perception of Customers Towards Islamic Banking in Pakistan**

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**Abstract:** This study examines the perception of the customers regarding the Islamic banking in Pakistan by gathering the data from the sample of 130 customers of the Islamic banks. This study is directed by a complete profile analysis frequency test, is utilized to find the demographic profile of respondent. Age, the category of income and the education having significant role in that of the customers' usage of the various Islamic bank and their products/services. The customers appear to be very gratified with them any of the products/services of Islamic banks. Independent variables i.e. Islamic motives, convenience, cost & return and staff factor are taken to test their impact on one dependent variable i.e. satisfaction (used as a proxy for the customer's perception for the Islamic banking). Islamic motives, in this study, are measured by four factors i.e. Islamic principle, Fatwa, religion and Islamic image. Convenience is measured through customer service quality, branches operating throughout the country and convenient location. Cost and return is measured by low service charges and high rates of return while staff factor is measured through relevant knowledge and friendly personnel. In this study multiple regression test is used for analysis. The findings show that three of the four selected independent variables i.e. Islamic motive, convenience and cost & return and staff significantly influence the customers' perception towards Islamic banking.

**Keywords:** Islamic Banking, Finance, Customers Satisfaction

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### **1. Introduction**

The Islamic banking has been presented in last of twentieth century. The need of Islamic banking was due to reasons that Muslims customer's wants financial institution. Islamic banking is emerging from Shariah. In shariah there is strictly prohibited of Interest, insurance and transaction including derivative trading. According to Abor (2007)[1] the interest is prohibited because it is believed that earns income without any risk is unjust. Abdus (2004)[2] studied that in Islamic bank customers invest money according to religion. Kuo, (2000)[3] studied that Islamic banking grows fastest due to recognition both by non-Muslims and Muslims. Islamic banking shows growth increased from 0.1% to 7.5% in the period of 1994-2003. Bhatti (2008) study revealed that the projected size of the Islamic banking is us\$700 billion may be reached to us\$1.6 trillion up to therefore the Islamic bank follows its features according to

customer need. Kahf and Tariqullah, (1992)[4] conducted a study about the awareness of Malaysian clients towards Islamic banking products. The study was in part where the perception of persons responsible for affairs of public firm. It means that almost 65% of the Malaysians have limited knowledge about Islamic banking 38% are not sure about profit sharing 50% believe that this principle is the replacement of riba. In Malaysia the sources of conventional bank have been changed into an Islamic bank these sources of saving accounts, current account and fund side were designed as Al-wadiah accounts. The conventional bank has two sections of lending facilities such as overdraft facilities and trade facilities which Islamic bank provides this service together such as overdraft facilities in the form of Murabaha and trade financing through by bithamanajil.

Now a day's Malaysia has two banking system the banking system mostly depend on Non-Muslims customers. Islamic banking transformed from traditional profit into the instrument. I. e. Murabaha and Bai Bithaman Ajil. The Islamic bank in Malaysia is affected by interest rate which is a risk. They regarded it as regard to economics, saving, meant an excess of income as compared to expenditure, saving provide many ways to invest. In Islam any excess in return is prohibited while saving means rate of return on the saving to motivate the customers patronizing Islamic bank. The Islamic banks were first established in act 10/1998 in Indonesia then a new central bank act no 23/1999 was established the bank is to regulate and to develop Islamic bank. Another firm in Indonesia was set up in (2002). Blueprint of Islamic banking development in Indonesia. This Blueprint has mission objectives which are gotten by a bank in Many studies were conducted to investigate the determinants of saving in Indonesia these factors are important country. In Indonesia one of the survey reveal that assortment of the Islamic bank founded on religion (Bank Indonesia 2005). In (1990) the conference of Ulama was held in cisarua west Java, the purpose of this conference was to start interest-free banking facilities and products according to Shariah at that time establishment of Islamic bank was made. The Islamic banking values and claim in Muslim nations reached to peak where the population is very minimum there are many factors which a local bank considers deciding whether to set up Islamic banking. The population of Singapore almost 350,000 Muslims would that provision Islamic banking. If the Muslims are measured to be the minor to generate the viable process, the resident bank may like to find if the non-Muslims opinion Islamic banking in the optimistic sense so establish the bank but these comments raise a few questions. E.g awareness of culture, attitude of people and selection criteria towards Islamic banking .To answer these questions review of literature, methodology was used. In Singapore the emergence of Islamic banking was because of two reasons. First, the neighbor countries Indonesia and Malaysia have presented Islamic banking into that of their financial facilities As Singapore is the breadwinner of financial service therefore Islamic banking is required in Singapore .Abdouli (1991)[5] study about the customer's satisfaction and awareness towards Islamic banking this study also revealed the relation between different demographic variables they studied that they use both the products of Islamic bank as well as conventional bank for catering their banking needs.

## 2. Literature Review

Globally there is a lot of features given by different researches the selection criteria are the benefits and cost of products, delivery of service, image of the bank, friends and family's influences. Religious subject is one of significant standards for the assortment of Islamic banking facilities .The patronage studies focused on numerous religious, commercial facility satisfaction, reputation and suitability factors. Standards careful by the clientele are efficient services, bank's copy and provision of fast. They also provide information that spiritual incentive is not main standard in Jordan for selection of the banking. Both the spiritual and the financial issues are significant for the customers. Previous research is limited due to restrictions in representation or due to limited services. Sample was limited because the sample was collected from single district .Similarly [1] collected information was from three towns of north Shanghai, petunia, kangaroo and Alor Setar. As a result, Islamic bank doesn't rely on religious factors to secure customers. They should provide equality and services and products. Barclay & Smith, (1996)[6] studies on the banking selection exclude socially responsible funds. These studies provide insight into customers, the insight towards the social accountability together with the other Islamic bank's selection in the Malaysia. Islamic Bank

performances like purposes to that of conservative banks but with a definitely dissimilar approach. The silent features which make Islamic banking and money different from that of conservative complements are: Islamic banking strives for the fair & the balanced society.

### **2.1. Islamic Banking and Ethical Investment**

Abdus (2004)[2] investigated that The Islamic banking is the similar to that (SRI) socially accountable investment in the west. The Islamic banking and finance is a marvel, which requires educational check from the that customers and ISA informally accountable monetary transaction in that of the west. The Islamic bank needs balancing operation between social responsibility and profit-making activities. All the funds prevent the desirable products in terms of religious, social or ethical preferences. These firms include production of alcohol, tobacco and armaments. This has a bad effect of environmental record and cruelty to animals. The desirable products and processes which have good effect on the environment is the positive attribute of these funds. Chisti, Ali & Sangmi, (2013)[7] in UK that of the moral asset and the informally accountable monetary firm have developed popular meanwhile the mid. The investigation led by EIRIS (ethical asset research facilities) additional than 50 moral investment account happens in the UK. All offers deliver ecological, social or moral criteria for the assortment of their asset. The estimate worth of these offers stands at 4 billion in August 2001 [8]. The moral asset industry indicates the stress on the communal and moral behavior of the businesses. The company's strength they make, they enhance the obliging image between customers and suppliers. Commitment towards the social and ethical duties will lead to better performance. I. e. Profitability, risk management and competitiveness. Islamic bank also needs a keen role in the development of human resources, promotion of human rights, protection of the environment and participation in expansion programs'. The religious injections interweave the transaction concern for socially and ethically responsible activities. Islamic banking also prohibits illegal activities. The conventional bank after various depository schemes similarly Islamic bank also offers.

### **2.2. Customer Satisfaction**

Satisfaction is significant in firms such as main order automobiles, bank and insurance. In firm the customers have the choice to select anything, on more demand than before. Swedish customers assert that quality and customer's satisfaction is more important for all industries. When the customers used the products & services then they feel satisfaction. According to some authors such as Jamal, Al-Khatib and Naser, (1999) Customers are satisfied when they used such factors competitiveness, Convenience and place where jobs are provided. The bank must understand the attitudes behavioral pattern, needs of the market. According to Kuo, (2000)[3] the banking is one of the firm where customer satisfaction is the point of research. Here the competition is increased in the banking sector. Banking customer's shows major thought in selecting a bank is about 75%. This study shows the improved customer satisfaction, service quality and professional behavior. The customer views fair price, but according to Stafford (1994) in USA that customer need convenience. In semi-urban Pennsylvania a study is conducted about commercial bank evaluative criteria. The six evaluative constructs can be used to explain the customer's commercial bank choice. Handling facility excellence depends bank employees and also depends upon attitude, professionalism and courtesy of personnel. Islamic banking satisfaction based on four factors. I. e. Location, late banking hours, facilities of bank and employees.

### **2.3. Hypothesis**

H1: There is a significant impact of Islamic motive on customers satisfaction towards Islamic banking.

H2: There is a significant impact of convenience on customers satisfaction towards Islamic banking.

H3: There is a significant impact of cost & return on customer satisfaction towardsIslamic banking.

H4: ThereisasignificantimpactofstafffactoroncustomerssatisfactiontowardsIslamic banking

### 3.1 Research Methodology

#### 3.1 Sources of Data

For this study, the primary source such as the questionnaire method as well as secondary data have been used. This research is conducted on the Islamic banks in Pakistan. So sample of the present study is all the Islamic banks operating in Pakistan. Multiple regression model is used to analyze the data.

#### 3.2 Variable Definitions

The present study focuses on the impact of customer satisfaction (dependent variable) on the independent variables (Islamic motive, convenience, cost & return and staff factor). Customer satisfaction is dependent variable which is used as a proxy for the customers' perception towards Islamic banking. Satisfaction level is indicated with the following aspects of Islamic bank i.e. employees, the physical facilities of the bank, location, speed of transaction and products.

There are four independent variables. Islamic motive in this study is measured by Islamic principle, fatwa, religion and Islamic image. Convenience is measured through fast and efficient service, convenient location and branches operating throughout the country. Cost & return which is measured by low service charges and high rate of return. Staff factor is measured through relevant knowledge and friendly personnel.

## 4. Findings andAnalysis

This section is divided into demographic profiles, and Multiple regression analysis.The summary of demographic results is given below;

Table 1: Profile of the Respondents

Table : 1 Profile of the Respondents

Variable	Categories	Percent
<i>Age</i>	Below 25 years	23.1
	25-35	55.4
	36- 45	13.8
	More than 45 years	7.7
<i>Gender</i>	Male	84.6

	Female	15.4
<b>Level of Income</b>	R's 5,000-10,000	9.2
	R's. 11,000-20,000	29.2
	R's. 21,000-30,000	23.1
	R's. 31,000-40,000	13.8
	Above Rs. 40,000	24.6
<b>Level of Education</b>	SSC	3.8
	Intermediate	13.1
	Bachelors	27.7
	Masters	48.5
	MS/PhD	6.9

The age analysis of the respondents was done to identify the age group customer's perception towards Islamic banking. The age profile of the respondents indicates that a majority of the customers i.e. 55.4% are in the age group of 25-35 years, followed by 23.1% of the customers in the age group less than 25 years and 13.8% of the customers are in the age group of 36-45 years while 7.7% are in the age group above 45 years. The gender analysis of the respondent was done to find the perception of male and females customers' towards Islamic banking. The male percentage of the respondents are 84.6% and females were 15.4%. In the case of the monthly income 29.2% of our respondents were Rs 11,000 - 20,000, 24.6% were above Rs 40,000 and 23.1% were Rs 21,000-30,000. In terms of qualification the higher percentage i.e. 48.5% of our respondents were master's or equivalent, 27.7% were bachelors or equivalent while 13.1% were intermediate or equivalent.

Table 2 Customers Track of banking relationship

Table : 2

Variable	Categories	Percent
<b>Previous relationship with conventional banks</b>  (I.e. Banks that are other than the Islamic banks)	Yes	90
	No	10
		53.1
<b>Length of relationship with Islamic</b>	1-2 years	

<i>banks</i>	33.1
3-4years	6.9
5-6years	6.9
Above 6years	

Table3: Model Summary

Model	R	Adjusted R Square	Std. Error of the Estimate
1	.733 <sup>a</sup>	.537	.38864

a. Predictors: (Constant), costandreturn, islamicmotive, convenience, staff

The above Table shows the satisfaction of the different customer's towards Islamic banking. The multiple linear regression test  $R = 0.733$  and standard error of estimate = 038864. The R square value is 0.53 explain that 53% of change in the dependent variable (satisfaction) can be explained by the independent variables included in the regression equation (Islamic motives, Convenience, Cost and return and Staff factor).

Table4:ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21.888	4	5.472	36.228	.000 <sup>a</sup>
	Residual	18.880	125	.151		
	Total	40.768	129			

a. Predictors: (Constant), costandreturn, Islamic motive, convenience, staff

b. Dependent Variable: customers satisfaction

From the above Table it can be concluded that the p-value 0.000 (significant) means the independent variables (Islamic motives, Convenience, Cost and return and Staff) can significantly affect the satisfaction of the customers toward Islamic banking.

Table5: Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.270	.305		4.158	.000
	Islamicmotive	.202	.065	.205	3.131	.002
	Convenience	.702	.077	.721	9.138	.000
	Staff	.154	.074	.187	2.070	.040
	Costandreturn	-.193	.046	-.278	-4.167	.000

a. Dependent Variable: customers satisfaction

In the above Table, the P- value for Islamic motives is 0.002. Since the p- value is less than 0.05, so Ho is rejected at the 1% significance level. The sample provides sufficient evidence that there is a significant relationship between satisfaction (dependent variable) and Islamic motive (independent variable). Next the p- value for convenience is 0.000. Since the p- value calculated is smaller than 0.05 Ho is rejected and H1 is accepted which indicating that there is a significant relationship between customers satisfaction (dependent variable) and convenience (independent variable). The P- value for Staff is 0.040 which is also less than 0.05 There is a positive and significant impact so we accept H1 and reject Ho and the last and final P- value for cost and return is 0.000 which is smaller than 0.05 so we reject Ho and accept H1. The sample provide sufficient evidence that there is a significant relationship between customers satisfaction (dependent) and cost and return (independent).

## 5. Recommendations

To maintain its reputation, Islamic bank needs to increase the speed of transactions, which increase the efficiency. The staff factor has less influence on the perception of customers towards the Islamic bank. Therefore, the bank's management needs to take the essential step to increase its importance. There is a need for educating customers about Islamic banking products and their Importance. Different seminars and workshops should be conducted to highlight the importance of Islamic Banking.

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