

An investigation of the selection criteria of Islamic banking in Pakistan: customers' perspective

***ZarghamUllah Khan**

Lecturer

Hailey College of Banking and Finance, University of the Punjab, Lahore

meetzargham@hotmail.com

0092-321-4281149

Abstract

Banking system was firstly introduced in the era of Jews where large bankers used to do financial practices in the open market. In the past few decades' capitalistic economy gained momentum. Islamic banking was firstly introduced in Malaysia with the establishment of Islamic banks laid on the basis of SHARIAH compliance, during 1970-90 (Henry & Wilson, 2004; Iqbal & Mirakhor, 2007; Dusuki & Abdullah, 2007). Banking is as old as civilization found its way from barter economies towards market economy and price mechanism. At present the banks have an immense role in deciding the economic fate of any state. Strong banking system is vital for the growth of any country. Banking system in Pakistan can be divided into conventional banking system and Islamic banking system. Islamic banking system is based on the function of Islamic law; Shariah with the context of justice and partnership. Also whose sources are the Holy Quran and the Sunnah. The purpose of the study is to investigate the selection criteria of Islamic banking customers in Pakistan. The population of the study is all the customers of Islamic banks in Pakistan whereas the sample of the study is the Islamic banking customers in Lahore. The sample was chosen through convenient sampling technique. Questionnaire is the tool used to collect the data. Due to the limitation the data was collected from the customers of 17 branches of 5 different banks in Lahore. Total 250 questionnaires were distributed from which 150 questionnaires were filled and returned. Reliability of the instrument is checked through Cronbach Alpha which is satisfactory. Data is analyzed through descriptive statistics and independent sample T test using SPSS v-16. Out of the total respondents 57% respondents are male whereas 43% respondents are female. The results show that people prefer Islamic banks because it offers low cost products and services as compared to conventional banks. Also it is evident from the results that people choose Islamic banks because it provides better and wide range of products as compared to conventional banks. The results have also explored that Islamic banks provide all banking facilities at competitive rates. The findings also reveal that people prefer to select Islamic banks because the personnel of Islamic banks are friendly and cooperative. The results of Independent Sample t-test have examined there is no significant difference in the selection criteria for Islamic banking among the customers on the basis of Gender. The present study adds towards the body of knowledge to identify the factors which persuade the people to become the customers of Islamic banks. Questionnaire is the tool used to collect the data. This study has practical and theoretical implications for Islamic banks' managerial staff, policy makers and academics. Some limitations are faced in the study which might be

addressed in the future study. This study has only selected the general population to gather the data, on the same way data might also be collected from top managerial level of Islamic banks, State banks' Islamic banking department's policy makers and Shariah Scholars as well.

Keywords: Customer behavior, Islamic banking, Selection Criteria, Customers Satisfaction.

Introduction:

Pakistan, having Muslim population of about 86%, is now progressing in its banking industry with the involvement of Islamic banking culture during the period from 1950 to 1970. Before 1970, there is no concept of Islamic banking, Islamic banking evolves in early years of twenty first century and its size reached to a billion after 2004. But after the period from 1992 the progress in this sector has been seen with the evolution of first Islamic Bank named Meezan Islamic bank and still the competition is being seen from the conventional banking sectors .people are attracted towards Islamic banking as their views about banking have shifted from materialistic approach. There is great potential for Islamic banks to prosper in order to meet customer.

Satisfaction in their perceived manner (both individual & cumulative) and increase the market reputation by offering innovative products. They provide state of art services about their products and services keep in view of SHARIAH rules and are providing the Islamic banking services under their separate windows in order to compete with conventional banks. Century prominently 21st has laid numerous opportunities as well as many threats for banking sector with evolving practices of Islamic banking in many countries of the world like Pakistan, Malaysia, Bahraain& in Bangladesh and over all the non-Muslim part of the world.

Literature Review:

Customer perception starts with certain, practical meanings of both the clients and the institution or organization. Perception is the act of anticipating, understanding, and becoming cognizant of through the senses (Albercht, 2003). The customer perception is often identified by their level of satisfaction towards particular products or services. Client contentment is usually calculated in terms of service quality and service features offered by an institution. Due to expansion in demand, different scholarly investigations are done for calculation of customer's contentment.

(Turnbull, 1983)was one of the first canvasser of examining the customer acuity towards their banks. According to Gale (1994 p. 26), companies excel by giving quality services to their

customers. (Zeithaml, 1988) gives four basis of measuring customer satisfaction: – (1) economical; (2) the customer expectation towards a product; (3) quality services according to the price paid; and (4) what I am getting for what is to be received. He derived that large organizations emphasize more on the foreign banks rather than the local banks in their own country. It is also determined that the size plays a consequential place in maintaining different product lines.

(Rosenblatt, 1988) examined the two basis on which the decision of the customers that whether the product should be bought or not depends. First, the banks with wide area networks having branches all over the country and second is their exceptionally high quality service rather than innovative products.

The results of (Gibbs, 1989) showed that the customer perceptions about the products are the main basic of maintaining the long banks customer's relationships. Among the other basis that can affect selection criterion were quality of employees, bank manager's behavior and price of service. Outlook of the bank has no influence on selecting process. (Stanley, 1999) derived fidelity, contentment, compassion, responsiveness and pro-activity as key factors of perceived quality by huge organizations.

(El-Bdour, 1989) discovered that the most important standard set by customers while choosing Islamic Banks were the reservation of rapid and operative services, banks reputation and character, and secrecy. These were the stipulation of quick and quality service, how quickly the transaction is made and the amicable bank employees. (Cunningham, 1997) considered that the outlook of branches of banks plays an important role by customers while choosing their banks.

(Metawa, 1998) examined the Islamic banking client's behavior by analyzing the data of 300 customers. They targeted to view the consciousness and level of fulfilling expectation of the clients of Islamic banks by calculating geographic findings. They inferred that banks should create capability and expertise in their products and services to maintain long term association with the customers. Islamic bank employees got the highest satisfaction score among the factors of the service delivery system; the two most important bank selection criteria were adherence to the Islamic principles, followed by the rate of return.

(Nexhmi Rexha, 2003) has made a model which shows the factors influencing the customer perception about the products and services. The study has shown the positive response of the association between customer satisfaction, honesty and bank dedication. It was analyzed that trust was the only issue that influences the customer using the system of electronic banking. Perceived customer satisfaction is only indirectly affecting the banking system. (Abdullah,

2007)found that capability and courtesy of employees and their competency to impart trust and confidence on to their customers. This study shows that the selection criterion of Islamic banks is both the financial and Islamic services provided by the Islamic banks. The repute of Islamic Bank also influences the selection.

Methodology

A ‘**structure questionnaire**’ is constructed in order to generate all relevant necessary data from a number of respondents to answer research questions that are framed to check the relationship that exists among various variables relating our study. There were two basic sections of survey questionnaire:

1. Demographic factors
2. Questions related to ‘customer selection criteria’

To measure this relationship, data analysis tools are used. Moreover, 21 items were added under **7 major variables** that consist of religion of respondent, service as well as ‘product quality, ‘customer care of bank, ‘financial benefits on investor's investment’ & the market reputation of bank in the industry. Demographic factors were also considered.

Findings:

Table 1:

Reliability, Normality and Central tendency measurement of construct

	Cronbach's Alpha	No. of Items
Selection Criteria	0.858	14
	Skewness	Kurtosis
	-0.604	0.895
	Mean	Std. Deviation
	3.924	0.564

Above table is presenting that reliability of the construct is checked through Cronbach Alpha which is 0.858. The value of Cronbach alpha of this study representing that data is reliable. Skewness of data is -0.604 and Kurtosis of data is .895 meanwhile mean of observations is 3.924 with having standard deviation equivalent to 0.564.

Selection Criteria of Islamic banking:

H₁= There is no significant difference in the selection criteria of Male and Female Customers of Islamic Banking.

Table 2

Independent Sample T-Test for difference in the selection criteria for of Islamic banking among Male & Female customers of Islamic banking.

Gender	N	M	Std.Dev.	Levene's Test for Equality of Variances		T-test for equality of Mean		
				F	Sig	t	Df	Sig.(2 tailed)
Male	85	3.9193	0.60074	1.11	0.294	-0.111	148	0.912
Female	65	3.9297	0.51716					

The above table 1.9 shows the results for customers' selection criteria for Islamic banking in Pakistan. Levene's statistic (1.11) for equality of variances is not significant (p = 0.294). So, equal variances are assumed. The t-statistic for equality of means is (0.111) and p value is 0.912 (2-tailed). Now, since (0.912) is not less than or equal to (0.05), therefore, desired hypothesis is selected. That implies that it is failed to observe a significant difference in the selection criteria for Islamic banking among the customers on the basis of Gender.

Conclusion:

Above findings established help conclude that Islamic banking products & services are not that much well received by Muslim population however, there exists optimistic relationship between 'customer satisfaction' & 'Islamic banking' in Pakistan as customers using Islamic Banking products & services have shown a positive response as to establish the fact that "they get what they perceive". The majority of the respondents are those who have accounts in both conventional and Islamic banks. Respondents of our research are those people who have better knowledge and information of Islamic banking owing to news and other information sources. At the end, we establish that there is an extremely substantial positive relationship among variables, identifying 'customer satisfaction' in relation to 'Islamic banking' in Pakistan. The results show that most of the customers of 'Islamic banking' show following frequent results. It is also observe that no substantial difference exists in opinions of males and females regarding the perception of customer satisfaction in Islamic banking.

Further research:

Research has to be undertaken in more detailed manner in order to Analyze perception of non-Muslims toward Islamic banking as this study is confined to Muslims & with limited number of respondents. In addition to this, more publications on “Islamic banking” theme should be made Offered publically in order to raise the “level of understanding” & awareness as well As increase the “level of knowledge” heedlessly of “age or level of Edification” amongst Non-Muslims & Muslims with respect to Islamic banking related concepts & operations. In crux the ‘Islamic Banks’ which are in presence for about more than 20 year in Pakistan, is required to take More hands-on & antagonistic effort such as “recurrent products campaigns & Collaborations” with Educational institutions so as to promote Islamic banking products & services to Muslims & non-Muslims. With Pakistan’s growing population, targeting at early age would prophesies fine with an objective of promoting “Islamic banking” & can result in positive and ‘long term effect’ on benefit & avoid any independent discernments on ‘Islamic banking’s.

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