



A comparison of conventional versus Islamic banking customers attitudes and judgment

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Abstract

This investigates the impact of customer attitude and judgment regarding conventional and Islamic banking system in Pakistan. This study attempts to find out, how the customers of Islamic banks perceive about Islamic banking practices in terms of Shariah compliance and conventional banking system regarding earning more profits. This study consists on primary data through a well design questionnaire. Four hundred and thirty (430) questionnaires were distributed among different customers of all three types of banking, such as Islamic, conventional and stand-alone branches in order to investigate customer's attitude and judgment toward banking system. The findings indicate that overall 28% of Islamic banking customers don't know the essential concept of Islamic financial institution's in Pakistan. Furthermore, 54% customers of conventional banking show their interest to convert their accounts toward Islamic banks.

Keywords Customers attitude · Judgment · Islamic banking system · Pakistan

Introduction

Numerous measures were taken to introduce interest-free banking in Pakistan since early 1980s. But these efforts could not produce desired results due to absence of Shariah compliance mechanism and deficient homework in central bank and financial institutions. The process of developing instruments and framework continued in the world and Islamic scholars managed to devise and design Islamic banking system till year 2000. Therefore, after 2000 Islamic

banking started in many parts of the world. In Pakistan, the Islamic banking department had established on September 15th, 2003, at State Bank of Pakistan (SBP). However, the purpose of this department was to develop and strengthen regulatory and Shariah compliance framework for Islamic financial institutions (Islamic Banking Department 2016). According to global financial report (2016) Islamic finance has grown exponentially in the last 2 decades, accumulating nearly \$1.9 trillion in assets and spreading across 50 Muslim and non-Muslim countries around the world.

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As Islamic banking was reinitiated in 2001 by the government of Pakistan and granted first license on January 31st, 2002, to Meezan bank that commenced operations from March 20, 2002, as the premier Islamic bank of the country (Islamic Banking Department 2007). Since then Islamic banking industry has significantly expanded and owned assets. In December 2003, there was just only one Islamic bank, three conventional banks with seventeen Islamic banking branches. However, Islamic banking industry owned 13 billion assets which was 0.3% of the banking industry Shabbir (2019a,b). In 2006, it reached to six Islamic banks, twelve conventional banks with total of one hundred fifty Islamic banking branches. According to (State Bank of Pakistan 2007) Islamic banking owned 118 billion assets which was 2.8% of the industry. In 2009, there were nineteen Islamic financial institutions and 649 branches that owned assets of 366 billion, which was 5.6% of the industry (State Bank of Pakistan 2009). In 2012, there were 18 Islamic banking institutions and 1097 Islamic banking branches. Islamic banking owned assets of 837 billion that was 8.6% of the banking industry (State Bank of Pakistan 2012). By December 2015, Islamic banking institutions were 22 and 1783 Islamic banking branches. The assets tolled to 1511 billion which was 11.2% of the industry (State Bank of Pakistan 2015). These facts show a positive significant increase in the Islamic banking as it owned 118 billion in December 2006, while it reached to 1511 billion in September 2015 which was 2.8% and 11.2% of the banking industry. In terms of market share, Islamic banking industry now stands at 15.3% and 16.9%, respectively, in assets and deposits of overall banking industry. At the end of June 2020, infrastructure of Islamic banking industry remained same with 22 Islamic banking institutions (IBIs); five full-fledged Islamic banks (IBs) and 17 conventional banks having stand-alone Islamic banking branches (IBBs). However, the branch network of IBIs increased from 2913 branches to 3274 branches during financial year (FY) 2020.

This study has selected Pakistan as a case due to several reasons. Firstly Pakistan is the second largest country in the world in terms of Muslim population after Indonesia with 97% of the population belongs Muslims. This study attempts to find out, how the customers of Islamic banks perceive about Islamic banking practices in terms of Shariah compliance. Our study therefore emphasizes, whether the customers differentiate Islamic banking practice in respect of opinion, quality of service in term of loyalty and satisfaction level and implementation of Shariah compatibility of stand-alone branches as compare to Islamic banking system. This study will be helpful to bring policy implications about Islamic banks by identifying their weak areas and suggesting room for improvement, which would be helpful for their sustainability in the market. The research objectives of the study are given as under; to find out the opinion of

customers regarding Shariah compatibility in Islamic banks. To evaluate the awareness of customer about the concepts and operations of Islamic banking. To analyses and compare the opinion of customers regarding the service quality of Islamic banks with respect to conventional banks.

Islamic banking in Pakistan

1970s–1980s

In Pakistan, the efforts for Islamization of economy were initiated in 1970s, when the President of Pakistan General Zia-ul-Haq desired of the Islamic Ideology Council (CII) to prepare a plan for interest-free economy in three years. For the first time, the issue of interest was referred to the Islamic Ideology Council in 1963. After analyzing these transactions, the Council of Islamic Ideology advised the government to stop the transactions since it involved interest, clearly prohibited in Islamic law. It also advised the government to make a committee that should include the economists, Islamic jurists, and legal experts to help the Council of Islamic Ideology in the formation of Islamic financial system.

In 1977, a panel was appointed for analyzing the technical aspects of current economic practices and its reconstruction. This panel submitted its report in February 1980. The council of Islamic Ideology examined the report in depth and made some necessary changes according to Shariah rules. This report was named as ‘The Report on the Elimination of Interest from Economy 1980’. The major aim of this report was to lay the foundation for development of Islamic banking and finance practices in Pakistan. This report plays a crucial role in the Islamization of economy as it was made by best available experts of Shariah and economics. It includes all the aspects for the establishment of interest-free economy.

During the period of 1979–1992, number of initiatives in the banking sector were taken by the government of Pakistan. In 1979, many interest-free transactions were introduced in the companies like National Investment Trust, House Building Finance Corporation, and Investment Corporation of Pakistan. In 1980, many mudarabah companies were introduced, Zakat ordinance was announced and it was made compulsory for the national banks to introduce interest-free counters for their customers.

State Bank of Pakistan had issued a circular on 20 June, 1984. Therefore, 12 modes of finance were mentioned in this circular. The State Bank of Pakistan divided these modes of finance into three categories and decided to remove the interest rate from the economy, hence ordered banks to fulfill the needs through these approved modes of financing. The customers of interest based deposits were ordered either to shift



their deposits to PLS account or to withdraw their amount before July 1985. Moreover, it created the four committees for the development of legal and institutional framework for practice.

1980s–1990s

There were some deficiencies in the Islamic banking practices. In the late 1980s, there were many complaints and objections on the practice of Islamic banking and finance. In 1991, Federal Shariat Court (FSC) gave the decision that the prevailing practices of banks in Pakistan are interest based, and ordered for its elimination. The document of Federal Shariat Court contained all the details about interest rate. The government of Pakistan faced a lot of pressure from different sectors of economy and individuals for its implementation due to FSC documents. Several groups of people were against the decision of Federal Shariat Court, they argued that if it is implemented the economy of Pakistan would left alone and would not be able to compete with international economy. They further decided that government should appeal against the decision of Federal Shariat Court Matloob et al. (2020). Firstly, the government made promise to religious parties that it would not appeal in Supreme Court but the financial institutions decided to appeal. When there were only two days left in the deadline given by Federal Shariat Court the government decided to appeal in Supreme Court. Supreme Court could not precede the interest petitions for some years because of incomplete quorum and the government and financial institutions continued dealing with the interest. In July 1991, the government established Commission for Islamization of Economy that had aimed of restructuring the financial and economic sector of Pakistan in accordance with Shariah. Finally, government of Pakistan put the pressure on CIE, hence it submitted the report in June 1992 for abolishing interest from the economy of Pakistan but government did not listen it carefully.

Literature review

The effective research is available on the subject related to perception of customers' satisfaction, bank selection criteria and preferences such as (Shabbir and Rehman 2019; Liu et al. 2021; Shabbir and Zaman 2016; Arif and Shabbir 2019). Understandably, the first study on customers' perception about Islamic banking was conducted by Erol and El-Bdour (1989) which reported that reputation of bank and good quality services constitute the main factors for selection of a bank. However, religious point of view wasn't a very prominent reason in the bank selection despite the fact that customers possessed general knowledge about Islamic financial services. Erol et al. (1990)

used the same data for getting the results about patronage behavior and found that patronage factor of Islamic banks were different from conventional banks with respect to pricing policy but not due to religious cause.

The structure of Islamic banking is purely PLS based, then the need to maintain sufficient amount of capital is low, because customers are now willing to share actual profits of the bank. Low capital adequacy ratio (CAR) indicates the inefficiency of the banks to meet any uncertain conditions. As low CAR maintained by the banks does not build the belief of the customers that the banks are in strong position instead of that they think that banks are only fulfilling the preconditions of Internal banking imposed by the state banks. Due to this competition IB's are under pressure to match their rate of return with current market interest rate to get high market share. IB's had to face this pressure because the customers are price sensitive. The foremost motive of the customers to choose the bank is the maximization of their funds by obtaining the high return. The governance structure is mostly composed of the board of directors and senior management, but due to distinct features of Islamic banking resulting from their commitment toward Shariah principles these institutions incorporate certain additional issues of their stakeholders that may not occur in conventional banking system.

Irfan et al. (2011) reported the findings of a pilot study carried out in Pakistan, about the hindrances perceived by users and non-users of Islamic banking whenever selecting Islamic banks. This study was conducted from two types of banking customers, i.e., users (customers of Islamic banks only and, Islamic and conventional banks both) and non-users (customers of conventional banks only). The study comprehend in-depth interviews with managers of Islamic banks and two focus groups with users and non-users, respectively. The survey questionnaire received (109) responses. The analysis consists of hypothesis testing, factor analysis, and cluster analysis. The narrow branch network, inconvenient branch locations and perception that "Islamic banks do not completely follow Islamic principles" acted as barriers for non-users when selecting Islamic banks. Moreover, "a religious ruling against Islamic banks" didn't find to be a considerable barrier while selecting Islamic banks.

Kun and Shakir (2011) examined the different motivational factors that affect customers' decision regarding Islamic bank selection in Pakistan. The study descriptively analyzed statistics and cross-tabulation based on data collected from 357 customers. The findings depicted that Islamic banks' customers highly value Shari'ah compliance in their banks and that non-compliance with Shari'ah principles leads to disgruntled customers. Another interesting insight came out that if an Islamic bank is involved in repeated violations of Shari'ah, the customers are inclined to switch their banks.



Rehman and Masood (2012) determined the selection criteria for Islamic banks employed by customers in a dual banking system, as in the case of Pakistan, and to know the overall satisfaction of the customers with Islamic banks. This is a survey-based study conducted on the primary data collected through structured questionnaire. In total, 23 variables are identified from the literature which are reduced to eight main variables by using factor analysis in SPSS. Data are gathered from 200 customers of full-fledged Islamic banks in Pakistan, i.e., Meezan bank, Bank Islamic and Dubai Islamic bank, Al-Baraka Islamic bank, Burj Bank Ltd. The data have been analyzed in two models: the first includes the selection criteria according to gender; the second includes the overall customer's preferences for selection criteria. The result reveals that the most important factors are "Religious factors" and "Convenient location" that customers consider while selecting an Islamic bank. Other important factors include "Secure feeling" by customer, "Quality related issues" and "Efficiency of bank." The data used in this study are limited, so the generalization of the results is not possible. Also, the study is conducted on the full-fledged Islamic banks and it has ignored the Islamic Windows.

Asif et al. (2016) explored the particular effects of such factors, which directly or indirectly involved to determining the attitude of Islamic banking customers in Peshawar, Pakistan. They used several critical factors to analysis the effects of attitude such as social influence, religious, cost effectiveness, intention to use, Government support, and service facilitation. They collected data from Dawood Islamic bank, Dubai Islamic bank, Meezan bank, and Al-Barka Islamic bank to investigate the attitude of Islamic financial institution customers. However, the results indicate that cost effectiveness, intention to use and service facilitation have more significant effects on attitude of customers as compared to rest of all factors. Ahmad and Haron (2002) investigated the perception of Malaysian corporate customer toward products and services of Islamic banks. For this purpose, they took the customers of two full pledged Islamic banks. It is noted that corporate customers are not fully satisfied with these products on the initial basis.

Islam and Rahman (2017) explored the awareness and willingness of Muslim Indians toward Islamic banking. They conducted the survey through self-structured questionnaires from Indian Muslims in Delhi national capital regional of India. The findings of this study concede that majority of people are unable to understand the working system of the Islamic banks and how they make differ with conventional system. Furthermore, this study also suggests that Islamic financial institutions must use effective communication strategies for customers to better understand the operation system of Islamic banks.

Kashif et al. (2016) measured administration nature of Pakistani Islamic banks through approving a culturally

sensitive scale: PAKSERV. Besides, the path from service quality to customer dedication has been displayed through applying PAKSERV benefit quality scale. Following a positivist convention, the service quality to loyalty path in Islamic banking system of Pakistan is set up. A self-administrated study was led to approach (300) Islamic bank customers in significant urban areas of Pakistan. The respondents were deliberately chosen in view of their degree of utilizing the retail banking services. The data were dissected through utilizing different quantitative measures, for example, correlation and structural equation modeling employing AMOS. The results uncover that Pakistani Islamic banking customers are content with the service quality advertised. All the dimensions of PAKSERV are found to considerably add toward customer satisfaction and loyalty. Though, focal point of customer is on the dimensions such as responsiveness and sincerity which are reasonable in high-risk avoiding and somewhat power-oriented Pakistani society.

Riaz et al. (2017) carried out their study to examine consumers' perception on Islamic banking and finance in Pakistan. This research is amid to bridge the gap in the literature to capture the perceptions of the consumers about Islamic finance. The research consists of a questionnaire filled from 150 respondents from KPK. This study only consists of Islamic banking system in one city of Pakistan. The regression analysis has been done using variables of awareness, knowledge and religious motivation. The results revealed with these remarks that Islamic banking system needs to upgrade their employees regarding proper information about Islamic finance and its different modes of financing. The results of these below studies are in line with our study results. Indeed, some studies, such as Hussain et al. (1994), Arif et al. (2020); Uroos et al. (2021); Lee and Ullah (2011), Shabbir et al. (2015); Ahmad and Haron (2002), Shabbir and Wisdom (2020); Kumari et al. (2021); Ehsan et al. (2021); Baloch et al. (2016), Saher et al. (2020); Kaabachi et al. (2016), Arasu et al. (2021) and Islam et al. (2017) have investigated bank selection in Muslims and non-Muslims countries, customers' attitude, knowledge, perception and some behavioral variables toward Islamic banks in countries such as, India, Tunisia, and Malaysia.

Nawaz et al. (2019), examined the dynamic interaction between Islamic financing and economic growth of Pakistan by employing the unit root test, cointegration test and Granger Causality tests to see whether the Islamic financial system influences the economic growth. For the analysis, time series data of total Islamic financing and real GDP per capita, Islamic financial assets, and population to represent real economic sector were considered. The findings indicate that a bidirectional relationship between Islamic asset financing and population. Salman et al. (2018) analyzing the importance of cultural demographic characteristics in choosing conventional and Islamic banks. They have concluded



that in considering motives responsible for selecting Islamic banks as preferred institutions, respondent level of understanding about Islamic financial system stands out as being the significant one with many other motives based on personal beliefs. Salman and Nawaz (2018) differentiate the Islamic and conventional banking with respect to profitability, efficiency and liquidity. The secondary data set is used in this study and Ratio analysis and one sample t test is applied to determine the characteristics of study. The results show that there is significant difference between the both types of banking for the variables under study.

Methodology

Sample size

This research is based on primary data. It analyses opinions of customers of Islamic banks (IB) with compare to conventional banks (CB) and stand-alone Islamic bank (SAB) branches of conventional banks. The respondents belonged to different age groups, educational and occupational background, irrespective of gender. This survey has conducted through face to face as well as online system in month of August 2019. The data were collected through non probability sampling as the sampling frame, i.e., list of bank's clients is not available. Three branches of each type of bank were selected at random from Islamabad and Rawalpindi cities, where 450 customers were selected from each type of bank. The sample consists of two hundred and fifty (250) male's respondents and two hundred (200) female's respondents. The choice of sample size is based on power analysis as recommended by Kock and Hadaya (2018) have recommended the more robust and accurate sample size calculation, which is based on inverse square root and gamma-exponential methods. Calculated using WarpPLS 6.0, with a minimum significant path model coefficient at 0.107, the significance level at 0.05, and power is set at 0.50, the minimum sampling size for this paper is set at 237. This paper, thus, collected 450 questionnaires, which is above the minimum sample size requirement.

The customers were enquired on a structured questionnaire through experienced enumerators. The sample remained un-weighted in respect of gender to avoid any bias. The areas of questions consist of personal information, knowledge about Islamic banking concepts/ terminologies, relationship between knowledge of Islamic banking concepts and bank choice, perception on Shariah compatibility of Islamic banks, knowledge of customers about operating procedure of products of Islamic banks they prefer, customer Satisfaction and loyalty, relationship between socio-economic profiles of customers and bank choice.

Measurement

The questions were designed keeping these areas in mind and to confirm the objectives of the study. We have adopted questionnaires from two studies for instance; Shabbir and Rehman (2015, 2019) and structure it as per demand of our study objectives. A pilot survey was conducted and necessary adjustments were made in the questionnaire. The completed questionnaires were reviewed for completeness. Twenty questionnaires of respondents were rejected and the remaining 430 were considered for analysis. This sample is used for further analysis and discussion. The responses of questionnaires were summarized in Statistical Package for the Social Sciences (SPSS) software. However, cross-tabulation was done for getting overall results of the research. All results were converted into percentages/proportions. The bar diagrams along with summary statistics were used to interpret the results of the research.

Data analysis

Knowledge about Islamic banking concepts/ terminologies

It is essential to get the opinion of customers regarding the knowledge of basic Islamic banking concepts as it helps them to select a type of bank. The below are responses to the basic questions that were asked from the customers to judge their understanding about the Islamic banking concepts.

Familiarity with the term Islamic banking

The very basic question is whether or not the customers were aware about Islamic banking. The customers who have no access to electronic or print media might be unfamiliar with this term. Therefore, they could not join any Islamic bank despite their will to refrain from conventional banking. For measuring familiarity with Islamic banking, a specific question was asked "Have you ever heard about Islamic banking?" The response is summarized in Table 1.

On average, a negligible proportion of only 12% respondents did not hear about Islamic banking, while majority (87%) had some knowledge about it. Comparing knowledge of customers of different banks, a smaller proportion (68%) of conventional banking customers were aware about Islamic banking than customers of other two bank types, reflecting smaller amount of interest in Islamic banking whereas the interviews were held in the vicinity of Islamic banks. Accordingly, the largest proportion (26%) did not hear many details about Islamic banking.



Table 1 Familiarity with the term Islamic banking

Type of bank	Have you ever heard about Islamic banking? (%)		
	Yes	No	Heard but don't know in detail
conventional bank	68	5	26
Islamic bank	87	1	12
SAB	86	7	7

Source of familiarity

To know which one was most important source in propagating the knowledge of Islamic banking, respondents were asked "From where did you hear about Islamic banking?" The response is summarized in Table 2.

It is observed that on average, the most (24%) respondents heard about Islamic banking through electronic media followed by print media, friends, and other sources. Only 2–3% respondents heard from colleagues or family members. As such the most effective source happens to be electronic and print media through advertisements and specific awareness programs or TV lectures. It is also helpful to understand the significance of these sources including Islamic banks to approach the market share through these tools of advertisement. Among customers of different banks, electronic media, colleagues and friends have become the most effective institutes for conventional, Islamic, Stand-alone Branch customers, respectively.

Understanding of Islamic banking concepts/terminologies

Familiarity with Islamic banking terminologies is supposed to be a facilitating factor to become a customer of Islamic bank. In first step, a general question was asked about respondents' understanding of Islamic banking, particularly was to have an idea about the understanding of basic concepts of Islamic banking. Therefore, following question was asked "Do you understand the basic concepts of Islamic banking?" The response of customers is summarized in Table 3.

From the conventional banks, 66% respondents claimed that they knew the basic concepts of Islamic banking yet they were still affiliated with conventional bank because they thought that Islamic banks did not operate according to the rules of Shariah. Whereas, 72% Islamic banking customers understood the concepts of Islamic banking and 28% did not understand the basic concepts of Islamic banking, whereas 71% of customers of stand-alone branches responded to have concept of Islamic banking.

Purpose of using banking services

The reason of asking the question about purpose of usage is to know whether the customers are using bank services because of their own desire or they are obliged to use such services. Therefore, following question was asked "For what purpose do you use services of this bank?" The response of customers is summarized in Table 4:

The results show that the majority of customers of conventional banks and stand-alone branches were using services of respective banks to receive their salary. In conventional banks, 56% customers use bank accounts for receiving their salary and only 23% customers use it for saving their money. This shows that customers are not interested in banking services and they just want to receive their salary. It can be possible for some customers that if the customers have the option of receiving salary in cash, they would not open their account. There is another possibility that they do not want to open saving accounts as they feel it involves interest. In

Table 3 Understanding of Islamic banking concepts/terminologies

Type of bank	Do you understand the basic concepts of Islamic banking? (%)	
	Yes	No
Conventional bank	66	34
Islamic bank	72	28
SAB	71	29
Total	70	29

Table 2 Source of familiarity

Type of bank	From where did you hear about Islamic banking? (%)					
	Print media	Electronic media	Colleagues	Friends	Family members	Other sources
Conventional bank	22	37	13	16	4	14
Islamic bank	24	17	31	16	2	7
SAB	25	10	15	25	2	23



Table 4 Purpose of using banking services

Type of bank	For what purpose do you use services of this bank? (%)				
	For saving/lockers	Receiving money from abroad	Employer opened the account	For availing opportunities given by your bank	Any other
conventional bank	23	12	56	26	4
Islamic bank	25	18	4	57	10
SAB	22	14	60	0	14

Table 5 Concerns of customers about Islamic banking

Type of bank	Do you ask from your banks about Shariah compatibility of the bank operations? (%)		
	Frequently	Seldom	Never
Conventional bank	10	33	56
Islamic bank	23	49	24
SAB	25	48	22

the Islamic banking sector, 57% customers want to avail the opportunities given by the bank. The opportunity might be profit or remaining safe from interest and halal investment.

Concerns of customers about Islamic banking

Concern of customers is important, hence it is necessary to have an idea whether they are concerned about Islamic banking or it doesn't make any difference for them. Therefore, the following question was asked "Do you ask from your banks about the Shariah compatibility of the bank operations?" The response of customers is summarized in Table 5.

There were 24% customers of Islamic banks who never asked about Shariah compatibility of banking operations. The reason behind never asking about it can be their perception that their knowledge about the respective bank is enough and they stick on it because they have full trust on it or they don't care about Shariah compatibility of bank. However, it shows that almost half of the customers care about it and they ask questions from the bank when they get time.

Familiarity with the operating procedures of Islamic banks

This is important to know whether the customers know the operating procedures of Islamic banks or not because if they don't know the operating procedures of Islamic banks how can they claim that Islamic banks are doing halal transactions. It also gives the idea that if the conventional banks customers are aware of operating procedures of Islamic banks still they are not adopting it, it shows that they do not find it acceptable. Hence, the following question was asked "Do you understand the operating procedure of

Table 6 Familiarity with the operating procedures of Islamic banks

Type of bank	Do you understand the operating procedures of Islamic banks? (%)			
	Completely	Somehow	Little bit	Don't know
Conventional bank	10	23	27	36
Islamic bank	17	32	22	26
SAB	13	44	26	18

Islamic banks?" The response of customers is summarized in Table 6.

When the customers were asked about the operating procedures of Islamic bank, on the average only 17% customers replied that they know complete procedure of Islamic banks, 32% knew somehow and 22% knew little bit, and 26% did not know. In the SAB 26% knew little bit and 18% did not know. In the conventional banks 36% did not know the operating procedures of Islamic banks. It is possible that conventional bank customers did not know the operating procedures of Islamic banks, but even in Islamic banks, customers did not know the operating procedures of Islamic banks. There is lack of awareness; it is the responsibility of Islamic bank to educate the customers about the operating procedures.

Relationship between knowledge of Islamic banking concepts and bank choice

This section was added to assess the customers' knowledge about Islamic banking concepts. The following table shows the names of Islamic banking products. It shows how much a customer knows about Islamic banking products (Table 7).

The results show that there are very less respondents who never heard about musharkah, that is the basic contract of Islamic law. However, even in Islamic banks, half of the respondents did not have knowledge about istisna. Which is relatively less in usage, one fourth customers of all banking sectors had not heard its name. In Islamic banks, only 35 customers heard about it and had not knowledge about it. It is the responsibility of Islamic banks to educate their customers about the products.



Table 7 Knowledge of Islamic banking concepts and bank choice

Questions	Never heard (%)			Heard only the name but without sufficient knowledge (%)			Heard and had knowledge about it (%)		
	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB
Have you heard about Musharkah?	4	1	3	39	29	32	17	47	36
Have you heard about Murabaha?	26	17	19	19	31	20	20	44	36
Have you heard about Istisna'?	28	25	28	18	35	15	24	35	41
Have you heard about Ijarah?	24	12	16	15	33	22	23	41	37
Have you heard about Mudharba?	20	14	13	18	36	26	23	38	39

Table 8 Perception on Shariah compatibility of Islamic banks

Type of bank	Do you believe that products of Islamic banks are Shariah compliant? (%)		
	Yes	No	Don't know
Conventional bank	48	6	46
Islamic bank	59	19	21
SAB	70	10	20

Perception on shariah compatibility of Islamic banks

In the section of perception the customers were asked about the Shariah compatibility of Islamic banks to get the idea what customers think about the products of these banks. Therefore, the following question was asked "Do you believe that products of Islamic banks are Shariah compliant?" and the response of customers is summarized in Table 8.

When the customers were asked about Shariah compatibility of Islamic banking products, 48% customers from conventional banks were agreed with the Shariah compatibility of Islamic banks, 46% did not know about it and 6% said no. From the Islamic banks, 59% said yes, and 40% of Islamic banks' customers disagreed or shown no concern regarding the Shariah compatibility of Islamic banks. From the stand-alone branches, 70% believed that it is Shariah compliant, and 20% did not had knowledge about it Shabbir et al. (2016). If we conclude the results of customers'

opinion about Shariah compatibility, we can analyze that there is less awareness about products of Islamic banking because almost 50% customers do not have knowledge about these products and 20% from Islamic banking sector do not know. Interestingly, answer of more customers from Islamic banking sector is 'no', they do not feel that the products of Islamic banks are Shariah compliant.

Customers' perception about difference in three types of banks

Customers' perception regarding three types of banks was asked to know whether the customers feel any difference or they think these are same, if they feel any difference what type of difference it is. Hence, the following questions were asked and the results are also summarized in Table 9.

Customers were asked about the difference between conventional bank and SAB, conventional bank and Islamic bank, and Islamic bank and SAB, 48% customers responded they did not felt any difference between conventional bank and SAB. From Islamic banks, 20% customers replied there is no difference between Islamic banks and stand-alone branches. From SAB, 23% customers responded there is genuine difference between conventional banks and stand-alone branches. From Islamic banks, 12% customers replied there was only difference of labeling between conventional banks and Islamic banks and 40% respondents from conventional

Table 9 Customers' perception about difference in three types of Banks

Questions	No difference (%)			Difference of labeling only (%)			Difference of method but not w.r.t Shariah (%)			Genuine difference w.r.t methodology and Shariah compliance (%)			Difference of prices only (%)		
	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB
Do you feel any difference between CB and SAB?	1	6	48	2	2	4	21	1	4	2	30	23	4	57	15
Do you feel any difference between CB and IB?	8	4	2	12	15	22	12	17	15	28	51	50	40	5	2
Do you feel any difference between IB and SAB?	18	11	20	18	44	29	12	17	9	18	15	32	3	7	3



banks thought there is only difference of prices in conventional bank and Islamic bank.

Knowledge of customers about operating procedure of products of Islamic banks they prefer

There are many customers who analyze the products of both conventional and Islamic banks and they adopt which they find best. The purpose of asking the question about the procedure is to get the idea that if they feel there is only difference of prices then what is their knowledge about the procedure of products. If they do not know the procedure how can they claim that both systems are same? Therefore, the following question was asked “Do you know about the operating procedure of products of Islamic banking like car and house financing?” The results are summarized in Table 10.

In the conventional banks 32% did not know about the procedure of Islamic banking products, and in Islamic banks 15% did not know. This ratio was lesser in stand-alone branches. In Islamic banks, 25% customers had complete knowledge about it. More Islamic banking customers had complete knowledge about the products, but there was still large number of customers who did not know the procedure Shabbir (2020). Reason behind their complete knowledge can be the attraction of customers toward these products and they have opened the account in Islamic banks for availing the opportunities provided by the bank.

Customer satisfaction and loyalty

The purpose of adding this section is to check the customer satisfaction and his loyalty with the bank.

Willingness of customers for conversion to Islamic banks

This question was asked to check the willingness of customers for adopting Islamic banking. This question is very important as it gives the policy implication to Islamic banks. Therefore, the following question was asked “Do you want to convert your conventional account into Islamic account?” and the results are summarized in Table 11.

Table 10 Knowledge of customers about operating procedure of products of Islamic banks they prefer

Type of bank	Do you know about the procedure of products of Islamic banking like car and house financing? (%)			
	Completely	Somehow	Little bit	Don't know
Conventional bank	10	2	34	32
Islamic bank	25	29	30	15
SAB	19	26	48	5

Table 11 Willingness of customers for conversion to Islamic banks

Type of bank	Do you want to convert your conventional account into Islamic account? (%)		
	Already have	Yes	No
Conventional bank	6	54	40

From the conventional banks 6% people already had their account in Islamic bank, 54% wanted to have their account in Islamic bank, whereas 40% did not like to open account in Islamic banks. This is a big number, there can be many reason for this, these customers might not find it Islamic or they do not have the knowledge of their products so they do not trust on Islamic banking system.

Concern of customers about profit distribution by the bank

This question is very important as the goal of this question was to check whether the customer is concerned with the profit of bank or he don't care whether the bank distribute the profit or not. Hence, the customer was asked “Would you continue dealing with this bank even in case the bank does not distribute any profit for 3 consecutive years?” and the results are summarized in Table 12.

In the conventional banks, most of the customers (50%) had bank accounts for salary purpose so they did not care if the bank would not distribute profit for a long time, however 27% customers who were not concerned with the profit of bank and 23% people did not know what they would do if the bank will stop giving profit. The loyalty of Islamic banks' customers is higher than conventional bank customers and SAB branches customers.

Assessing customer satisfaction about service quality of bank

This section was added to check the level of customers' satisfaction with their bank. It is important to check the customers' satisfaction from the services their bank provides. In this respect, it can be analyzed which type of bank has

Table 12 Concern of customers about profit distribution by the bank

Type of bank	Would you continue dealing with this bank even in case the bank does not distribute any profit for 3 consecutive years? (%)		
	Yes	No	Don't know
Conventional bank	50	27	23
Islamic bank	70	20	10
SAB	47	40	13



more satisfied customers. Most of the customers are satisfied with the transaction of their bank, however the Islamic bank customers are more satisfied with the transactions of Islamic banks Shabbir (2018a,b). However, Islamic bank customers are not satisfied with the ATM service as there are less ATMs of Islamic banks.

Assessing the preference of customers in selection of bank type

This was important to assess the trust of customers on the banks whether they trust on stand-alone branches or they will not prefer these on Islamic banks. Therefore, following question was asked “If you will be given a choice between a full fledge Islamic bank and standalone Islamic branch, would you prefer standalone branch?” and the results are summarized in Table 13.

When the customers were asked about the choice between Islamic banks and stand-alone branch, 41% replied they will prefer only if they trust Shariah board members, 30% replied that they will prefer if the services are better than Islamic banks, 6% replied never prefer and 9% replied why not. This shows that 9% customers had full trust on these banks, and 6% did not trust even if these banks provide better services (Table 14).

Opinion of Islamic banking customers

This section is of great importance as in this section the customers of Islamic banks were asked about the reason of their satisfaction. It analyzes the behavior of customers toward the Islamic banking and their reason of adoption. The following table (Table 15) includes different questions about it and the results are summarized in it.

Some questions were asked about the products of Islamic banks, while they were asked about religious satisfaction 27% customers were strongly agree, and 54% were agree, and 4% customers disagreed. In stand-alone Islamic branches, 19% customers were strongly agreed and 33% were agreeing whereas 12% strongly disagreed. This shows that Islamic banking customers were more satisfied

than stand-alone branch customers. The reason might be the attachment with conventional branches.

When the Islamic bank customers were asked about the involvement of interest in Islamic products, 31% strongly agreed, 35% agreed, and 30% didn't know. In stand-alone branches, 32% strongly agreed, 27% agreed and 27% didn't know about it. This shows that there is lack of awareness in customers about Islamic banking products. If we summarize the opinion of Islamic banking customers about the attitude of staff and environment, only 15% strongly agreed whereas 62% were neutral. In the stand-alone branches, 28% strongly agreed, and 36% are neutral, that shows the attitude of stand-alone branch customers' staff was better than the attitude of Islamic bank customers Shabbir et al. (2016). There were 50% customers of Islamic banks who thought that the reputation of Islamic banks was better than conventional banks. In the stand-alone branches, the ratio was lesser than Islamic banks, 10% customers strongly agreed, 42% agreed and 36% were neutral. Less Islamic banks customers were satisfied with the attitude of staff of the Islamic banks. Majority of customers were neutral when they were asked about consulting Shariah scholars.

Pricing and Shariah compatibility of products of Islamic banks

In this section the conventional banks' customers were asked about the Islamic banks' products. It will help in analyzing the reason for not adopting Islamic banks. The following Table 16 includes the questions about it and it summarizes the results of these questions.

According to customers of Islamic banks, products of Islamic banks were expensive. They thought that financing was expensive and earning on deposits was less. Whereas, majority of customers of Islamic banks thought that the staff of Islamic banks cannot answer their questions about the products and issues of Islamic banking. The Islamic bank customers (18%) felt that the staff of Islamic banks was non-cooperative and (40%) customers didn't know about it. This is a big drawback of Islamic banks that they do not deal in a good way with the customers. Although 26% disagreed with this, but a single person should also be important for the staff

Table 13 Assessing the preference of customers in selection of bank type

Type of bank	If you will be given a choice between a full fledge Islamic bank and stand-alone Islamic branch, would you prefer stand-alone branch? (%)			
	Why not	Yes, only if its services are better than Islamic banks	Yes, only if I trust in members of Shariah board	Never
Conventional bank	14	22	31	6
Islamic bank	5	35	42	11
SAB	7	35	51	2
Total	9	30	41	6



Table 14 Assessing customer satisfaction about service quality of bank

Questions	Very much satisfied			Satisfied			Neutral			Not satisfied			Very much dissatisfied		
	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB
How would you rate your level of satisfaction with this bank during your transactions?	28	42	41	38	35	32	28	18	20	2	3	2	2	1	1
Technology associated with your service is visually appealing at your bank?	10	26	15	38	48	35	46	23	49	3	1	0	1	0	0
When you have a problem, your bank shows a sincere interest in solving it?	18	12	20	40	40	50	31	15	18	6	0	5	3	0	2
Your bank gives clear guidance and information about usage of services and facilities?	17	22	22	44	41	42	25	29	22	10	4	10	2	2	1
ATM of your bank is located at a convenient place?	28	32	35	49	6	47	11	7	9	8	47	5	2	0	0

and they should treat him in a good way Shabbir (2019a, b). On the average 12% customers thought that there was no difference between conventional and Islamic banks and 23% thought that there was difference between conventional and Islamic banks. If we summarize the results of the above table we can say that mostly Islamic banks customers did not know about the Islamic banking system but half of the customers agreed that the staff cannot answer the questions about the Islamic banking products. Islamic banks should educate their employees so that they can attract more customers toward it and satisfy their needs.

Willingness of customers to shift toward Islamic banks

This section inquires whether the customers are willing to convert to an Islamic bank or not. The following question was asked “Do you have plan of conversion to an Islamic bank?” and the results are summarized in Table 17.

Half of the customers of conventional banks thought that they have plan for conversion to an Islamic bank but there are some reasons because of which they have not converted yet. In the conventional banks, 36% customers were satisfied with their bank and did not want to convert their account into Islamic banking account.

Relationship between socio-economic profiles of customers and bank choice

In this section, the relationship of bank choice with socio-economic profiles of customers is assessed. These factors include; relationship of bank choice with age, religious education and business type. These factors were analyzed to get the better idea of what type of people are interested in Islamic banking and what is the role of their organizations in this matter.

Age and bank choice

Age is the very important factor for making decision and selecting one from many things. The relationship of age with the bank choice is important because by comparing this it can be analyzed easily that what age group prefers which bank. The results for relationship of age and bank choice are summarized in Table 18.

The above table indicates that customers (28%) from the age of 18–25 are more interested in Islamic banks. While, the age of 26–40 are interested in stand-alone branches. The age factor from (41–50) and (51–60) are also interested in Islamic banks, respectively. Finally, age of customers (above 60) still preferred conventional banks. However, these customers have their accounts in conventional banks as well as they have opened their accounts in Islamic to get more incentives Shabbir et al. (2015).



Table 15 Opinion of Islamic banking customers

Questions	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	IB	SAB	IB	SAB	IB	SAB	IB	SAB	IB	SAB
You are religiously satisfied with these products	27	19	54	33	13	17	4	17	0	12
Islamic products are not interest based	31	32	35	27	30	27	2	10	0	2
Attitude of staff and environment is better than other banks	15	28	24	19	52	36	5	3	5	5
Reputation of Islamic banks is better than Conventional banks	17	10	45	42	29	36	6	6	1	4
I believe on profit and loss sharing and Islamic banks are doing that	24	15	34	37	32	39	7	7	1	1
I have consulted scholars and I agree that Islamic banking products are Shariah compliant	13	17	30	25	52	50	1	4	1	2

Table 16 Pricing and Shariah compatibility of products of Islamic banks

Questions	Strongly agree (%)	Agree (%)	Don't know (%)	Disagree (%)	Strongly disagree (%)
	CB	CB	CB	CB	CB
Products of Islamic banks are expensive (earning on deposits is lesser and financing is expensive)	11	25	40	17	7
Staff of Islamic banks cannot answer about products and issues of Islamic banking	18	40	35	5	2
Non-cooperative staff	6	18	36	26	12
There is no difference between conventional and Islamic banks	10	12	36	23	19
I have consulted scholars and I believe that Islamic banks are not Shariah compliant	5	8	52	21	14
Islamic banking products are not according to my requirements	9	14	45	22	10
Islamic banks do not give the products that conventional banks give	7	20	50	15	8
Services of Islamic banks are not good	7	15	38	29	12

Table 17 Willingness of customers to shift toward Islamic banks

Type of bank	Do you have plan of conversion toward an Islamic bank? (%)		
	Yes	No	Don't know
conventional bank	50	36	13

Conclusion

Islamic banking is consonance with ethics and value system of Islam and governed under the principles, laid down by Islamic Shariah, in addition to the conventional good

governance and risk management rules. The results of this study show that print and electronic media have major source of communication for general awareness about Islamic banking. It has also found that the customers in general were not inquisitive about Shariah compatibility of their banks and also were not interested to know the operating procedures of their banks, which are important elements at least for the customers of Islamic banks and stand-alone branches. The Shariah compatibility regarding Islamic banking system in Pakistan, 23% customers frequently and 49% seldom asked about Shariah complaint banking to the staff of Islamic financial institutions, whereas only 24% customers never ask this question from staff of Islamic banks.

Table 18 Age and bank choice

Type of bank	Age and bank choice					Total (%)
	18–25 (%)	26–40 (%)	41–50 (%)	51–60 (%)	Above 60 (%)	
Conventional	17	62	10	6	2	150
Islamic	28	50	12	7	0	140
Stand-alone	5	83	7	0	1	140



Furthermore, customers give their views about all products of Islamic banking are Shariah compliant, so 59% reply as yes, while 19% no and rest of 21% don't know about it. However, customers of other conventional banks are also interested to convert their account in Islamic banks, as 6% customers have dual accounts, while 54% customers want to convert their accounts to Islamic financial institutions and rest of 40% don't want to convert their accounts. In Islamic banks 40% customers don't believe or know that the products of Islamic banks are Shariah compliant, whereas, only 25% customers of Islamic banks had completed knowledge of the procedures of Islamic banking products. When the customers were asked about the satisfaction they get from their banks, the proportion of Islamic banking customers was higher, who were more satisfied from the services delivered by their banks but they were not satisfied with the ATM availability in their area. Moreover, Islamic banking customers were not satisfied with the attitude of staff because of poor attention to the customers and inability to respond appropriately to the queries related to Shariah questions.

Practical implications

It is observed that Islamic and conventional banks are differentiated in many respects, particularly through objectivity and operational methodology. The conventional banks aim to maximize profit by providing financial services. The earning profits are not the primary objective of Islamic banks, rather Islamic banks aimed to achieve social justice and equality in society. This study recommends the managers of IB's to create such asset portfolio where the returns of fixed margin assets have minimum effects on profitability of banks, as the structure of asset composition determines the extent practices should performed by IB's. Along with this IB's should revise their corporate governance structure according to the recent Islamic CGI discuss in this study. Moreover, IB's should discuss following matters in their annual disclosure such as risk sharing structure especially for investment account holders, methods used for the calculation of profit distribution, and governance rules.

Future research

Further research can be conducted by increasing the sample size, i.e., taking the IB's and conventions banks of other regions. Moreover, future studies can also focus on the displaced commercial risk (DCR) a unique risk faced by IB's, to investigate the exposure of IB's to DCR due to profit distribution management practices.

Limitations of study

There is a need to enhance the level of customer services and quality assurance department to ensure the efficient service delivery. Our study only limited for primary data set, while it may extend with secondary data set for panel study. Our study limits only for twin cities customers of Islamic and conventional banks in Pakistan. It may increase for more cities with different dimensions and directions.

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