

MS Research

Factors Influencing the Choice between Islamic and Conventional Bank Accounts: Evidence from Afghanistan



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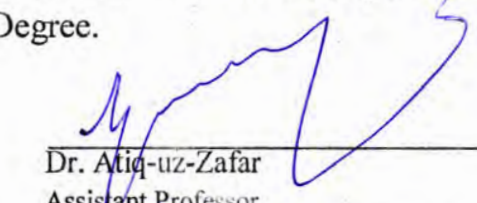
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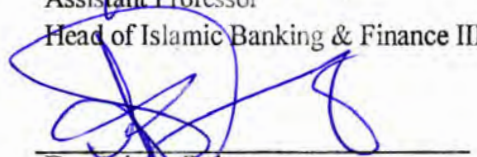
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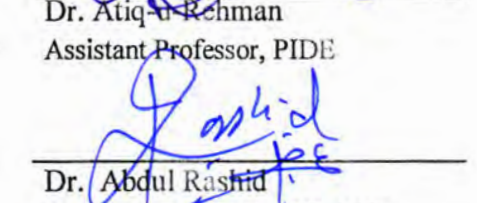
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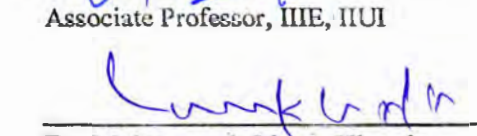
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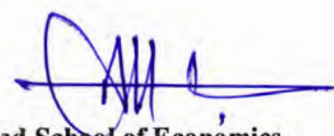

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DEDICATION

This project is completed with the help of Allah who give us strength and knowledge. I dedicate this research report to my family, especially my parents who supported me through out my student life, to my teachers who have been very supportive and helpful during my study. I also dedicate this research report to my brothers and all my true friends.

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1. Chapter 1

Introduction

1.1. Brief Introduction

Conventional banking system is based on (ربوا) interest and we all know that taking and receiving any amount of interest is undisputedly prohibited in Islam. As clearly mentioned in several verses of Quran, Surah (An-Nisa [4:161], Al `Imran [3:130], Ar-Rum [30:39], and Surah Al-Baqarah [2:275-to-280]). On the other hand, banking is inevitable in the modern day life, in this era banking becomes a need and very difficult to avoid, because modern banks perform a number of essential functions like security, convenience, online payments, saving, investing and many more functions. As conventional banking system involves interest (Riba), it creates a big problem for Muslims, because they are being threatened by Islam and not allowed to be involved in such a Riba based system. The solution is, there should be an alternative for current conventional banking system that is consistent with Islamic shariah principles. (أصول الشريعة الإسلامية)

In order to fulfill the banking needs of Muslims, Islamic banking is introduced in Malaysia during 1970s in which all the operations were followed according to Islamic Sharia principles (Henry & Wilson, 2004). Later on it was introduced in many parts of the world; and now we can find Islamic banking in almost every region of the globe. By emergence of Islamic banking the conventional banks should disappear in Islamic countries, because Muslim customers should never opt conventional banking in the presence of interest-free banking system, since interest is regarded as taking a notice of war with Allah and his apostle and no

Muslim can afford it. However, despite having opportunity of Islamic banking in many Islamic countries people still continue their dealings with conventional banks. Even in a country like Afghanistan where over 99% of the population is Muslim; but still a bigger market share is being captured by conventional banks.

The growing competition among Islamic and conventional banking makes it necessary to investigate the determinants of bank choice among customers. There could be several reasons for the choice of conventional banking in the presence of Islamic banks; the most important reason can be the service quality of relevant products. Many researchers (Rashid, Hassan, & Ahmad, 2009, Metawa & Almosawi, 1998, Shanka, 2012, Dusuki & Abdullah, 2007, Naser et al., 2013, Leeds, 1992) have tried to explore the reasons for bank choice, but most of them focused on the service quality.

Now, the current banking system in Islamic republic of Afghanistan exhibits a different picture, one bank operates Islamic and conventional banking branches under one roof in the same building. This means that there is no significant difference of service quality, and customer satisfaction of Islamic and conventional banks, as both branches will have the same facilities, like, ATMs, opening hours, parking facilities internal layout of the bank, furniture etc. In this scenario an interesting question arises, if there is no significant difference in service quality then what are the factors that determine the bank choice? The possible factors maybe education, type of education, awareness, products availability, misconceptions regarding Islamic banking etc. Therefore, we conduct this study to explore the relationship between bank choice and demographic/educational characteristics of the customers. Further, the study aims to determine the level of customer's and employee's awareness regarding Islamic banking and its products. The study also aims to identify the customer's sentiments regarding concepts and modes applied

by Islamic banks. Besides, the study further identifies the customer's reasons behind dealing with Islamic banks and conventional banks. Although customer satisfaction is not our main concern yet we include few questions on our survey questionnaire so that we control the effects of service quality in our analysis arises from those factors which are not same in both branches like, return on deposits, range of facilities, fund availability, etc.

1.2. Research Objectives

Major objective of this study is to find out the determinants of choice of banking types .i.e. Islamic versus conventional banking in Afghanistan, the specific objectives are as follow.

1. To investigate the reasons behind choice of conventional and Islamic banks.
2. To explore the relationship between choice of bank and educational/demographics.
3. To determine the awareness level of both, customers and employees on various aspects of Islamic banking.
4. To find out the extent of customer satisfaction of Islamic and conventional banks.

1.3. Significance of the Study

As a Muslim, we are bound to eliminate interest based transactions from our society. Though, Islamic banking has been successful in Afghanistan, but it still needs to take initiatives to reduce conventional banking from the country. This study will be helpful for Islamic banks to understand why the customers are not opting Islamic banks, so that appropriate steps could be taken to promote Islamic banking. As we already mentioned that Islamic banks have been emerged but still a major part of people continue their dealings with conventional banks, the major reasons could be lack of awareness, misconceptions regarding Islamic banking, type of education and products availability etc. The outcome of this study can help Islamic banks to find

their weaknesses and deficiencies then follow the new steps for improving their products. To understand customer's bank selection criteria and their awareness level is very important, both will assist the bank managers in developing appropriate marketing strategies for retaining and attracting customers. Further it will help Islamic banks to win customers, take better positions in the market, and finally increase their profitability.

2. Chapter 2

Background

This chapter contains history of banking in Afghanistan. The first bank was established in 1933 with the name of Bank-e-Mili Afghan, up to date we have a total of 16 local and foreign banks operating in Afghanistan. 10 local banks and 6 foreign bank branches, out of 16 banks 9 of them have opened Islamic banking windows. But the scope of Islamic banking seems to be very high because over 99% of the population is Muslim and they are not supposed to deal with conventional banks. Further, in this chapter you can find the research gap, problem statement and hypothesis.

2.1. History of Banking in Afghanistan

Banking in Afghanistan first formally started from the establishment of Bank-e-Millie Afghan (BMA) which is the first and former bank in Afghanistan, in its earliest days BMA was in charge of dealing with the central bank until 1939 when the central bank of Afghanistan (Da Afghanistan Bank) is established. From the year 1933 up to now the scope of banking in Afghanistan has been increased and expanded continuously.

According to the central bank of Afghanistan website (Dec, 2014) yet they have licensed sixteen local and foreign banks currently operating in the country, out of which eleven banks are local and the remaining five are branches of foreign banks, as shown in below Table 1.

2.2. Potential of Islamic banking in Afghanistan

Over the last four decades Islamic banking has attained a global momentum, and progressively it becomes a very important and common field of interest for the present day economists and financial institutions. Nowadays, a considerable niche area is being taken by Islamic banking among the global financial markets. The present interest free banking and finance as a form of current Islamic banking system is first formally started in 20th century for the purpose of developing interest free banking system, which is based on the concept of profit and loss sharing. This system has been offering fruitful and better opportunities for institutions as well as individual investors. Now, the concept of Islamic finance is representing a sound and efficient mechanism offering innovative alternative models to be used for investment and development of the existing conventional financial system which has recently experienced some financial crisis. The current excessive market demand for credit and access to finance remains a necessary need in today life, it can be fulfilled through having proper operational banking system to provide need based financing and funding to different segments of the market.

(USAID, 2010) An attempt was made by the Afghanistan financial services USAID, to assess the capital markets in Afghanistan, their survey result indicates that 72% of investment has been raised through self-financing where 93% thought it important and wished to raise their capital in near future. Besides, 78% faced problems and found it difficult to raise their capital, while only 5% of them relied on banks for raising their business capital. In addition, the survey result shows that majority of the respondents' selected Islamic financing for their dealings. Further, in this survey the respondents were asked about their wishes regarding rising of capital. Collectively, in term of United States dollar, they desired to raise \$714.4 million through Qarz-e-Hassana, (قرض الحسنه) \$40.44 million through Musharakah (مشاركه) (Equity) and only \$2 million

through conventional interest based financing. These values clearly indicate a high demand and financing need in Afghanistan. Moreover, the study identifies a need for specialized products and banking operations, the study also commends that in place of Islamic banking window system in Afghanistan; there should be Shariah compliant full-fledged Islamic banks to meet and fulfill the needs of 93% respondents who are willing to raise their capital. This will increase the investment as well as enrich the economy as a result of funds circulations. Findings of this survey gives a hypostatical outcome, as a result of practicing Islamic banking there will be a 30% growth in access to finance which can definitely cause a rapid economic development.

According to aforementioned opportunities the concept of Islamic banking helps to foster economic growth in Afghanistan by contributing to industrialization, reconstruction and self-sufficiency. It will cause an overall increase in ratios of financial inclusion by providing financing facilities to different classes of society. In Afghanistan, the conventional banking system is operating since 1933, but yet their achievements could not fulfill the banking needs of Afghanistan; this is because of having more than 99% Muslim population where most of them don't want to be involved in Riba (Interest) based transactions. According to a news article published in January 2011 (News, 2011)(Afghan Banks to Lure \$3 Billion 'Idle' Funds: Islamic Finance),there is a great chance for Islamic banks to attract around \$3 billion in no more than 4 years, Khan Afzal Hadawal, chief executive officer of Bank-e-Mili Afghan, the nation's oldest lender, said in a telephone interview from Kabul Dec 28, 2011, "You will be surprised if I tell you that some people keep cash in their pillows". Another official, Sayed Jawid Iqbaal chief executive officer at Kabul based Ghazanfar Bank said "Almost 10% of Afghan population use banks". A 35 years old Afghan citizen holding Islamic bank account at Ghazanfar Bank said "I prefer to open account with Islamic banks rather than conventional banks".

A belief that involvement in Riba based transaction is prohibited in Islam cannot be fully eliminated through current Islamic banking window system which is operating under the umbrella of existing interest based or conventional banking system. Hence, there is need for the existence of full-pledged Islamic banks, and such a solution will lead to national stability, because after the elimination of interest, a major part of population will start dealing with Islamic banks. The aforementioned statistics obtained by USAID also indicates a prospective demand for Islamic banking in Afghanistan, the predicted statistics also indicates a potential demand for capital investment as well as financing through Islamic banking. As capital investment and financing increases the more enterprises will be established and this will lead a country towards industrialization. Consequently in long term, the capital market development will lead towards stabilized and self-sufficient economy.

2.3. Research Gap

Several researchers have investigated the impact of service quality and customer satisfaction on bank choice, but in case of Afghanistan as we already discussed that both type of banks Islamic and conventional branches are operating under one roof on the same building, this experience shows that the phenomenon of bank choice exist even if there is no significant difference in service quality. In order to know the possible reasons of bank choice, this requires a study. Therefore, this study attempts to explore the relationship between choice of bank and educational/demographics of customers. The study also identifies the level of customer's and employee's awareness about the concepts of Islamic banking. Further, the study investigates the bank selection criteria of Afghan customers. In current available literature there is no such a direct study in case of Afghanistan, no empirical study has ever attempted this issue. Hence, the study will be an attempt to fill this gap in the literature and add to the existing literature.

2.4. Hypothesis

H 1: Educational factors have strong relationship with bank choice.

H 2: The banks customers are not aware of the concepts applied by Islamic banks.

H 3: The level of customer's awareness significantly effects the bank choice.

H 4: Religious factor can extensively influence Afghan customers in their bank choice.

H 5: The remaining factors mentioned in this study will not extensively influence afghan customers in bank choice.

2.5. Problem Statement

Conventional banking system involves interest (Riba) which is strictly prohibited in Islam. It was believed that consequently after emerging Islamic banks the conventional banks should disappear in Islamic countries, but now the situation is not as expected. Presently in Afghanistan we have both conventional and Islamic banks operating even in the same building under one roof, this means there is no significant difference of service quality between Islamic and conventional banks, as both branches will have the same facilities. But yet a major part of the population is being involved in dealing with conventional banks. A very interesting and important question arises, if there is no significant difference of service quality between Islamic and conventional banks, and then what are the factors that determine the bank choice? If, interest is prohibited for Muslims, then why Muslims still continue their dealings with conventional banks? Though, the alternative is available.

2.6. Structure of this Study

This study is being divided into four sections, section one has covered introductory part of this study, history of banking and potential of Islamic banking in Afghanistan, research objectives, importance of the study, hypothesis and problem statement. Section two includes literature review, research gap and research methodology. Section three will contain results, conclusion and recommendations.

3. Chapter 3

Literature Review

This chapter contains literature review as well as the methodology for conducting this study. Scholars have conducted such studies in different countries and every study has a different result. Now, we have conducted this study in case of Afghanistan. The data is collected through two different questionnaires, one for general bank customers and second for Islamic bank employees only. A total of 330 questionnaires have been distributed in which 300 customers and 30 employees of Islamic banks have been interviewed.

3.1. Reasons behind Dealing with two Different types of Banking Systems

Why people chose to deal with Islamic banks? The answer of this question can be a good definition of Islamic banking selection criteria. Several studies have been made to determine the reasons for Islamic banking selection. The results of different studies have shown various factors that influence the customers' decision regarding Islamic banking selection.

Naser et al., (2013) attempted to determine the reasons for which the Kuwait Finance House (KFH) Customers were dealing with such an Islamic Shariah based financial institution, they revealed that most of the KFH customers have chosen this institution for having a trusted Shariah Supervisory board, a well-known name and image, and finally for having a guaranteed confidentiality.

In Egypt Hegazy, (1995) investigated the customer's attitude for selecting Islamic banking, the finding of this study indicates that majority of the respondents chose Islamic banking for their efficiency and being quick in service delivery. In Nigeria Maiyaki, (2010) have done a research on factors determining the Nigerian customers' decision for selecting Islamic

banks, the study result indicates the size of bank's asset as a first criteria, followed by accessibility of the bank, more branches and a having wide network across the country.

Ahmad & Haron (2002) Attempted to inspect motives that influenced the Malaysian customers for selecting Islamic banking, the study result concluded that 55% of the customers chose Islamic banking due to their religion. However, about 75% of the respondents believed that Malaysian government is supposed to promote Islamic banking by means of marketing channels.

In Malaysia Haron, Ahmad, & Planisek, (1994) attempted to understand the behavior of customers regarding Islamic banking selection, their study resulted friendliness of the staff, efficiency and speed of service delivery as a greatest influencing factors of bank selection. They also revealed that 40% customers ranked religion as a main reason of selecting Islamic banking.

Similarly, a study was performed by (Naser *et al.*, 1999) in case of Jordan, he also resulted that a greater part of the respondents pointed religion as a main factor when decided to choose Islamic banking. On other hand, 10 years prior to this study, in 1989 the same effort was made by (Erol & El-Bdour, 1989) to explore the reasons of Jordanian customers for choosing Islamic banking, their study result indicates that profitability was the most influencing factor on that time.

In 2007 an attempt has been made by (Abdullah & Rahman, 2007) to explore the Malaysian businessmen's attitude regarding bank selection. The study resulted 80% of Malaysian businessmen chose Islamic banking because of religion, followed by safety of capital and revenue. On the other hand, 58% of the respondents declared that they are motivated to choose Islamic banking as a result of their ability to bring proper rights to their customers as well as offering more returns on investment as compared to conventional banking.

Metawa & Almosawi, (1998) have done a research on banking behavior of customers in Bahrain, they have stated two factors, religion and rate of return as a main reasons of selecting Islamic banks by Bahraini customers.

With the same objectives Naveed A. K & Kashif-Ur-Rehman (Naveed, 2010) performed a study in case of Pakistan, their study result indicates that a large number of respondents have pointed a few reasons to choose Islamic banking system for their financial dealings, such as, bank reputation, effective management for handling transactions, provision of privacy or assurance, and likewise religion is also pointed as a key factor of Islamic banking selection.

3.2. Customers' Awareness

Customers awareness can be defined as, knowledge or understanding of customers regarding products and services offered by Islamic banks.

Naser et al. (2013) Performed a study on customer awareness and satisfaction in case of Kuwait Finance House (KFH), they distributed 650 questionnaires to the KFH customers, out of which 429 were returned completed, their study end result shows that a higher percentage of the respondents are unaware of products and services currently offered by Kuwait Finance House.

Gerrard & Cunningham, (1997) attempted to find out the level of Islamic banking awareness in case of Singapore, their finding indicates that majority of the customers were found not aware about products and services offered by Islamic banks. A lack of awareness existed in case of Singaporean customers (1997).

Naser, Jamal, & Al-Khatib (1999) Surveyed 206 respondents in Jordan, they attempted to find out the customer awareness in respect of products and services offered by Islamic Banks. Their finding shows that most of the respondents only knows about those products which are commonly offered by Islamic banks around the world, such as, Mudaraba (Islamic partnership),

Musharakah (Islamic joint venture partnership) and Murabaha (A particular kind of sale), but most of the respondents expressed that they haven't used all of these products.

In case of Turkish Islamic banking sector, (Okumuş, 2005) attempted to inspect the customer's awareness in respect of Islamic banking products. The study result indicates that, a greater part of respondents knows only about Musharakah and Mudaraba, the respondents also declared that yet they haven't dealt with these modes.

In Malaysia Hamid & Nordin, (2001) attempted to determine the awareness between the customers of 45 different business enterprises with regard to Islamic banking system. The study result indicates that most of the respondents have no understanding of Islamic financial system, especially related to the aspects of profit-sharing. The study also revealed that a lower portion of respondents used Islamic banking products. The study further reveals that almost all of the participants have started to utilize Islamic banking products 10 years after the emergence of Islamic banking in the country.

In order to understand the awareness level of Australian Muslims regarding profit-and-loss sharing agreements, (Rammal & Zurbruegg, 2007) surveyed 300 Australian Muslims, the analysis of their feedback disclosed that the majority of the customers willing to purchase these products, but most of them don't properly understand how they function. The study elaborates that most of the respondents were interested to purchase these products only in case of availability of credit facility.

3.3. Customer Satisfaction

Nowadays, In order to increase the organizational productivity and probability, it is necessary for all the service providing organizations to focus on the extent of their customer satisfaction which leads to customers' loyalty, since satisfied customers are becoming the positive word of mouth marketers and free advertisers of the organization. On the contrary, those customers who are not satisfied will definitely switch to another brand and probably start negative word of mouth advertising against the organization.

Since past few decades, increasing competition among banking industries compelled them to keep their eyes peeled towards customer satisfaction. That is all for the purpose of attracting new customers as well as retaining the existing customers which can be achieved through improving the service quality. Now, many financial institutions consider the customer satisfaction as a main component of their strategy, because satisfied customers will be inclined to repeat their purchase.

Customer Satisfaction can be defined as customers' feedback to the difference among their expectations and what they actually receive, relating to the fulfillment of their needs and desires. Customer satisfaction let us know whether the products or services offered meets or exceeds the expectation of the customers. (Siddiqi, 2011) is of the view that, in today's highly competitive market for banks and all other financial institutions, the customer satisfaction is deemed to be the essence of success.

Naveed A. K & Kashif-Ur-Rehman (Naveed, 2010) have done a research on customer satisfaction in Pakistan, they have revealed that Customer satisfaction is a very important component in the strategy of every organization, as the customers are being the basic and final source of income for all organizations. Hence, for the bankers to retain their existing customers

and remain an active player in today's competitive market they need to focus and give more attention to the customer satisfaction.

Several numbers of studies have been made to identify the factors that might affect the customer satisfaction. Metawa & Almosawi, (1998) revealed that majority of Bahraini customers are satisfied with the services offered by Islamic banks in Bahrain. The only aspect at which the customers are not satisfied is the charging of higher cost on services.

Shanka, (2012) have indicated on their research that empathy and responsiveness are the key factors in case of Ethiopian customer satisfaction, after which they gives importance to Tangibility, Assurance, and Reliability.

Ndubisi & Wah (2005) Revealed that banks can satisfy their customers by incorporating trustworthy behavior, using appropriate and proper ways for communicating the information to customers, reflection of genuine commitment in case of providing quality services, and finally by settlement of conflicts and focusing on developing the overall customer relations.

In Kuwait, (Othman & Owen, 2001) carried out a study on preference of Islamic banking. They believe that customer satisfaction has an influential connection with the service quality, which means they ensure a positive relationship between both of them.

Dusuki & Abdullah, (2007) have done a research on exploring the reasons of supporting Islamic banking by Malaysian customers, they covered 52 different branches all over the country and found that customer satisfaction is influenced by the quality of services offered. They have reported that quality of services contain different elements, like, respecting customers and treating them politely, upholding trust and confidence, having skilled employees to handle transactions effectively as well as efficiently, and finally, having qualified employees to handle all banking needs of the customers.

Leeds (1992) Also carried out a study on customer satisfaction and found the service quality as well as professional behavior as a key factors of customer satisfaction.

(Rashid, Hassan, & Ahmad) 2009 Investigated the quality perception of Islamic banking customers in case of Bangladesh. They conclude that Islamic banks can attract higher demands of customers by improving the service quality as well as efficiency in system. According to them, efficient management can perform a key role in customer satisfaction. Since, qualified managers will be able to reverse dissatisfied customers into satisfied position by offering better and efficient services. They also find that Islamic bank managers need to improve their helping behavior with customers.

Naser *et al.* (2013) Investigated the degree of customer satisfaction in case of a specific Islamic finance house with the name of (Kuwait Finance House), their finding indicates that majority of the customers have shown satisfaction nearly to entire aspects of the KFH, the only aspects which needs to be improved are related to internal layout of the bank, such as, office appearance, architecture, furniture etc. they also expect the KFH to increase their parking facilities as well as to train their staff in responding customers over the phone.

In order to create customer satisfaction, the modern financial institutions have provided several innovative methods, such as internet banking with 24 hours online services, telephone and call centre. (Levesque & McDougall, 1996) conducted a study on determinants of customer satisfaction, they revealed that competitiveness of the bank as well as convenience are the main factors of customer satisfaction. In summary, Islamic banks must be aware of those aspects of their services which can positively affect the behavior of their customers with regard to satisfaction as well as service quality perceptions.

3.4. Summary of Literature Review

We can summarize that most of the studies like, Naveed & Kashirf-ur-Rehman, Abdullah & Rahman, Ahmad & Haroon and Naseer have concluded that Religion factor can extensively influence Muslims customers in their choice of Islamic banking and then we have some other factors which also influenced some the customers like, trusted shariah supervisory board, well-known image of the banks, confidentiality, more branches, accessibility, profitability and efficiency of the banks.

While the second part which is customers awareness, here we can conclude that most of the studies like, Hamid & Nordin, Naseer & Al-saleem, Rammal & Zurbruegg, Gerrard & Cunningham and Okumus shows that majority of the customers are not aware of Islamic banking and its products.

In the last part which is customer satisfaction most of the studies shows that customers are giving importance to service quality as well as they give importance to tangibility, assurance, reliability and more facilities or we can say large range of facilities.

4. Chapter 4

Research Methodology

4.1. Methodology

In order to find out the factors that influences the bank choice in case of Afghanistan as well as to know the customers and Islamic bank employee's awareness level, we have developed two questionnaires. The data for this study will be collected through these two separate structured questionnaires, one for customers and other for employees of Islamic banks, which are written in three languages, English, Pashto and Persian, We have a total of 16 local and foreign banks operating in Afghanistan, out of which 8 banks have opened Islamic banking windows, for this study we will select 5 of these banks randomly containing both Islamic and conventional banking, from each bank we select 3 branches containing both Islamic and conventional banking, then 20 walk in customers and 2 bank employees will be interviewed from every branch, 10 customers with 2 employees from Islamic banking window and 10 customers from conventional banking window, finally our total sample size will become 330 clients from 15 branches of 5 different banks, as shown in (figure 1). We conduct this survey only in Kabul province, because it's the capital and largest city of Afghanistan.

4.2. Sample Size Determination

We want to keep margin of Error not exceeding 6% and we have the following formula for calculation of our sample size.

$$\sqrt{\mu} = t_x \times \frac{s}{e}$$

Where ' μ ' in sample size S is standard deviation, e is margin of Error and t_x is the value of t statistic.

Corresponding to the required significance level which we take 95%, so we have $t_x = 1.96$

And

$$\sigma = 0.5$$

$$e = 0.06$$

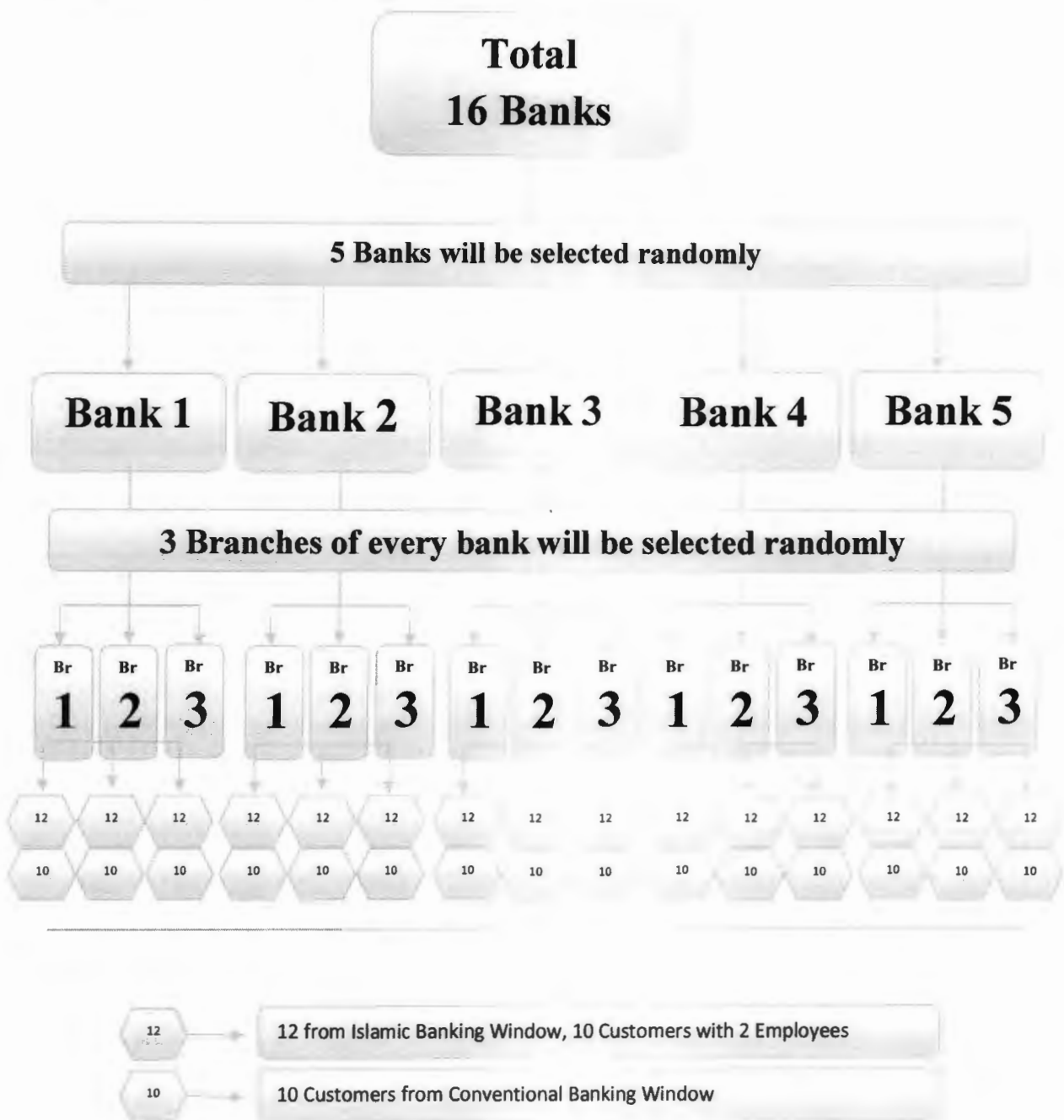
Putting these values we get

$$\sqrt{\mu} = \frac{1.96 \times 0.5}{0.06}$$

$$\mu = 266$$

So, the sample size should be larger than 266 for the required accuracy. Therefore, we take $\mu = 300$

Figure 1: Research Methodology Diagram



Purposive sampling methods will be used to ensure following composition of the respondents.

Table 4: Composition of Sampling Method for customers

	Conventional Bank	Islamic Bank
Business	5 Customers	5 Customers
Non-business	5 Customers	5 Customers

Among the employees, the following composition is proposed for respondents.

Table5: Composition of Sampling Method for employees

	Islamic Banking Window
Operating Staff	3 Employees
Marketing Staff	3 Employee

4.3. Instruments

The developed questionnaire is divided into four sections, first sections is related to respondents' demographic profile, second section is asking questions about customers' understanding and awareness of Islamic banking as well as about their willing to convert from conventional to Islamic banking, third section is the bank selection criteria which is going to investigate the reasons behind dealing with Islamic and conventional banks, fourth section contains questions about customer satisfaction on different aspects of Islamic and conventional banks. Besides, responses of the customers with supply and demand sides (Depositors, Savers) and (Loan Accounts, Financing) will be analyzed separately.

Since being an exploratory study in nature, descriptive analytical tools will be used to analyze the relationship between the customer's characteristics and bank choice. In addition to that, propensity score matching methods will be used to test the relationship between the characteristics of customer and bank choice. PSM is a statistical technique which involves estimating the effect of a treatment, policy, or other intervention by accounting for the covariates

that predict receiving the treatment. In PSM the ideal comparison group is being selected such that matches the treatment group using either a comprehensive baseline survey or time invariant characteristics, in this technique all the matches are selected on the basis of similarities in observed characteristics.

5. Chapter 5

Results and Discussion I: Customer's Questionnaire

Our research report contains customer's awareness about Islamic banking and its products, their reasons for dealing with conventional and Islamic banks along with their satisfaction level. For this, we have distributed two different questionnaires. Our first questionnaire was distributed to general customers of both Islamic and conventional banks and the second questionnaire was distributed to Islamic bank employees only. The outcome of research and all tests is discussed below.

5.1. Analysis of Customer's Personnel information

5.1.1. Gender Distribution (Chart 2)

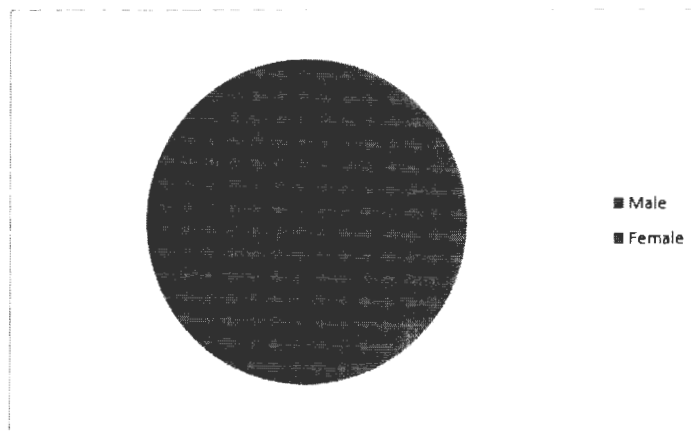


Figure 2: Gender Distribution of Bank Customers

Figure 2 contains gender statistics of our respondents, out of 286 respondents 196 are males and the remaining 90 are females. In percentage it becomes 68.5% males and 31.5% females. In Afghan culture it is easier to interact with male customers than females, therefore if any Islamic bank launches a campaign for promotion; it can be done with convenient.

5.1.2. Occupation Distribution (Table6) (Chart 3)

Table 6: Occupation Distribution

	Frequency	Percent %
Student	5	1.7%
Govt. Employee	126	44.1%
Pvt. Employee	122	42.8%
Businessman	29	10.1%
Shopkeeper	1	0.3%
Housewife	3	1.0%
Total	286	100%

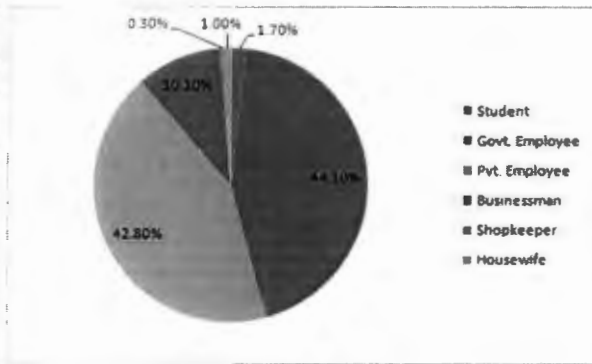


Figure 3: Occupation Distribution of Bank Customers

In Table 6 and Figure 3 we can see the respondent's jobs and professions, the result shows that out of 286 respondents 5 are students, 126 are government employees, 122 are private employees, 29 are businessmen, 1 shopkeeper and 3 of our respondents are housewives. In form of percentage it becomes 1.7% students, 44.1% government employees, 42.8% private employees, 10.1% businessmen, 1.0% housewives, and only 0.3% are shopkeepers. Most of the respondents are government and private employees and a large number of them are holding salary accounts. Islamic banks should convince both government and private institutions and provide them with best salary account facilities. In this way they can easily attract a large proportion of the market. In case of salary account, the Islamic banks could directly approach the employer to ask that salary account should be opened.

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5.1.3. Type of Account Distribution (Figure 4)

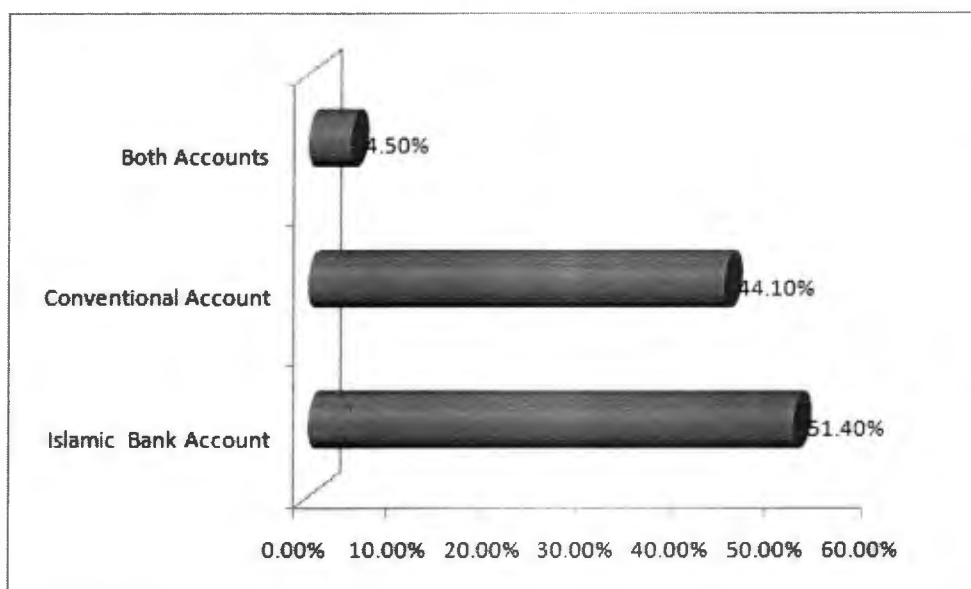


Figure 4: Type of Account Distribution of Bank Customers

In Figure 4 we can see the types of accounts our respondents hold. Out of 286 respondents 147 are having account with Islamic banks and 126 are having accounts with conventional banks and the remaining 13 respondents are having both Islamic and conventional bank accounts. In percentage form it becomes 51.4% Islamic bank account holders, 44.1% conventional bank accounts and only 4.5% are having both types of accounts. A large proportion of the respondents are holding Islamic bank accounts and this can be good news for Islamic banking growth in Afghanistan.

5.1.4. Purpose of Account (Figure 5)

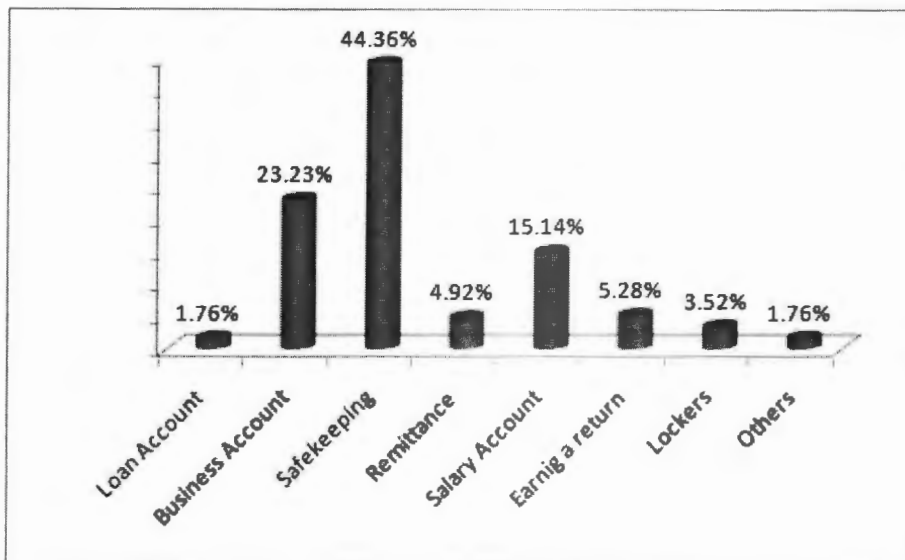


Figure 5: Purpose of Account Distribution of Bank Customers

Figure 5 shows the purpose of accounts being opened by our respondents. The output shows that out of 286 only 5 respondents have opened their accounts for the purpose of getting loan from bank, 66 respondents declared that they have opened their accounts for the purpose of a business with bank, 126 respondents stated that they have opened their accounts for the purpose of safekeeping of their monies, 14 respondents declared that they have opened their bank account for remittance purpose, 43 respondents declared that they have salary accounts, 15 respondents have opened their accounts for the purpose of earning a return, 10 for lockers purpose, 5 for other purposes, and only 2 of our respondents haven't showed the purpose of holding their bank accounts. In form of percentage it becomes, 1.8% loan accounts, 23.2% business accounts, 44.4% safekeeping of money accounts, 4.9% remittance accounts, 15.1% salary accounts, 5.3% interest or earning a return accounts, 3.5% lockers, and 1.8% other purpose accounts. Here we can see that a large proportion of the respondents have opened current accounts just to keep their monies safe, conventional banks are free to invest in whatever business that seems profitable to them, it means there is no limitation of Halal and Haram, they can invest even in non-shariah

compliant businesses, but on the other hand Islamic banks are restricted to Shariah compliant businesses. So, conventional banks might invest our money in a Haram business which is like cooperating people on doing sin and rancor. In Quran (5:2) Allah says, help one another in righteousness and piety, but don't help one another in sin and aggression. If Islamic banks convince and let people know the difference, definitely people will convert to Islamic banking current account.

5.1.5. Conventional Education Distribution (Figure 6)

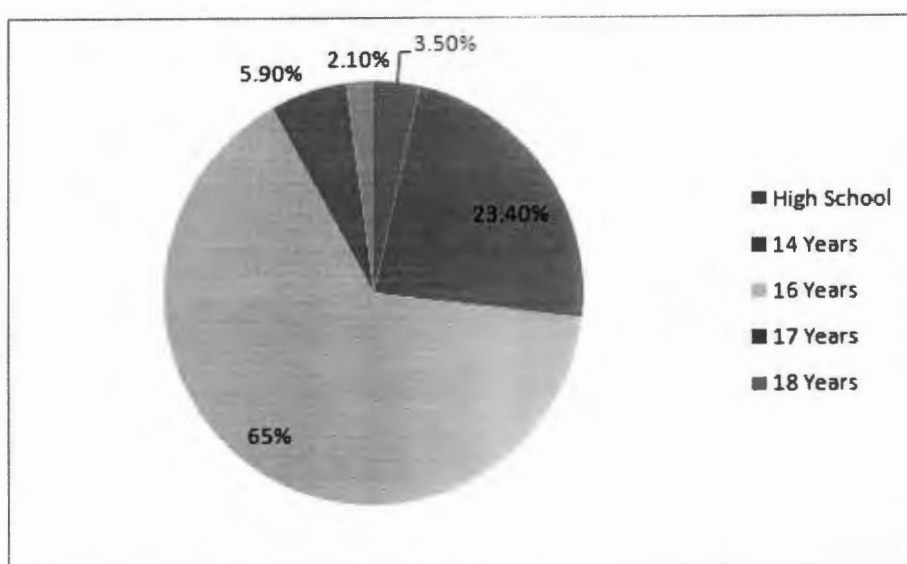


Figure 6: Conventional Education Distribution of Bank Customers

Figure 6 shows conventional educational background of our respondents. Out of 286 respondents 10 have studied up to high school, 67 respondents declared that their educational background is not more than 14 years, 186 respondents are bachelor or 16 years educational background, 17 are above than bachelor MA or MSc which is equal to 17 years, and the remaining 6 respondents are having M.Phil or 18 years background. In form of percentage it becomes 3.5% high school, 23.4% 14 Years, 65.0% bachelor or 16 years, 5.9% MA/MSc or 17 years and only 2.1% are M.Phil/MS or 18 years. We observe that most of the respondent are bachelor degree holders and can be easily convinced to Islamic banking.

5.1.6. Islamic Education Distribution (Figure 7)

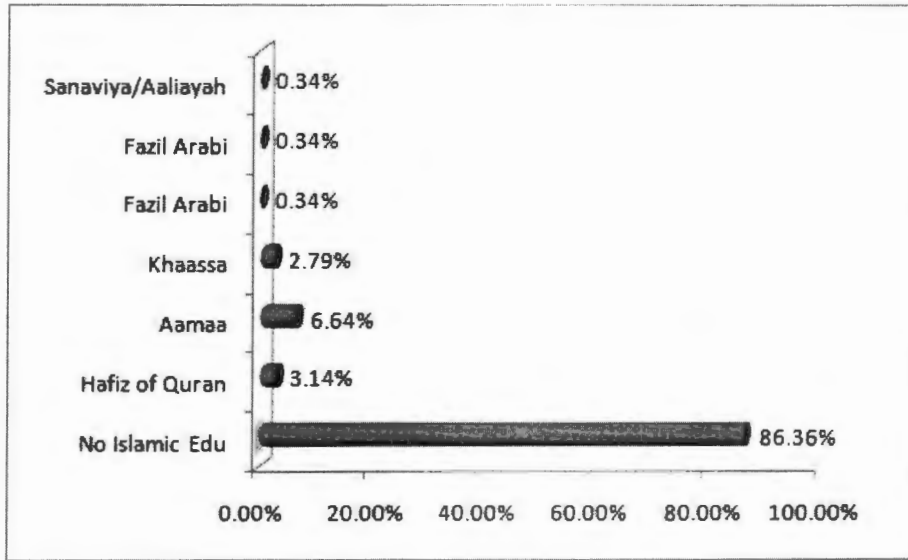


Figure 7(Islamic Education Distribution of Bank Customers)

Figure 7 shows Islamic educational background of our respondents. Here we have a total of 286 respondents out of which 247 respondents declared that they have no Islamic educational background, 9 respondents are hafiz Quran, 19 respondents have studied up to (شهادة عامه) Aamma, 8 have studied up to (شهادة خاصه) Khaassa, 1 (شهادة ثانويه/عاليه) Sanaweya/Aliyah, 1 (عالميه) Alamiya and 1 respondent have studied up to (شهادة فاضل عربي) Fazil Arabi. If we put these 39 respondents in form of percentage it becomes 3.14% Hafiz, 6.64% Aamma, 2.79% Khaassa, 0.34% Sanaweya/Aliyah, 0.34% Alamiya, and 0.34% Fazil Arabi and 86.36% has no Islamic education.

5.1.7. Relationship between Gender & Type of Account (Table 7)

Table 7: Gender & Type of Account

Count		Type of Account			Total
		Islamic Bank Account	Conventional Bank Account	Both Accounts	
Gender	Male	53.5%	41.8%	4.5%	196

	Female	46.6%	48.8%	4.4%	90
Total		51.4%	44.1%	4.5%	286
Pearson Chi-Square Tests					
		Value		Asymp. Sig. (2-sided)	
Pearson Chi-Square		1.271 ^a		.530	
Likelihood Ratio		1.269		.530	

In Table 7 we see that 53.5% of male respondents have Islamic banking account, whereas this percentage is 46.6% for females. Similarly 42% of male and 48.8% of female have conventional banking account. Therefore, this difference is not significant as indicated by Pearson X^2 (chi-square). In other words, we can see the proportion of male customers having Islamic bank accounts is higher than female customers, but chi-square test has p-value larger than 5%, this means association between gender and type of accounts is not significant. In other words, type of account is not dependent of account holders.

5.1.8. Relationship between Occupation & Type of Account (Table 8)

Table 8: Occupation & Type of Account

Count		Type of Account			Total
		Islamic Bank Account	Conventional Bank Account	Both Accounts	
Occupation	Student	40%	40%	20%	5
	Govt. Employee	52.3%	42.8%	4.7%	126
	Pvt. Employee	45.9%	50%	4.0%	122
	Businessman	70%	26.6%	3.4%	30
	Housewife	66.6%	33.3%	0%	3

Total	51.4%	44.1%	4.5%	286
Pearson Chi-Square Tests				
	Value	Asymp. Sig. (2-sided)		
Pearson Chi-Square	9.499 ^a	.485		
Likelihood Ratio	8.919	.540		

Here in Table 8 we can see the proportion of government and private employees having Islamic bank account is larger than other occupations, and X^2 (chi-square) test p-values is greater than 5%, it means association between occupation status and type of account is not significant. In other words, type of accounts statistic is not dependent of occupations statistics.

5.1.9. Relationship between Purposes of Account & Type of Account (Table 9)

Table 9: Purpose of Account & Type of Account

Count		Type of Account			Total
		Islamic Bank Account	Conventional Bank Account	Both Accounts	
Purpose of Account	Loan OR Wadiah (وديعة)	80%	20%	0%	5
	Business Account	53%	42.4%	4.5%	66
	Safekeeping of Money	57%	40.4%	2.3%	126
	Remittance	64.3%	35.7%	0%	14
	Salary Account	34.8%	53.4%	11.6%	43
	Earning a return	33.3%	66.6%	0%	15
	Lockers	30%	50%	20%	10
	Other	60%	40%	0%	5
Total		51.4%	44.1%	4.5%	284

Pearson Chi-Square Tests		
	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.262 ^a	.056
Likelihood Ratio	21.841	.082

In Table 9 we can see the proportion of those respondents who opened Islamic bank account only for the purpose of keeping their monies safe is larger than other purposes, and X^2 (chi-square) test p-values is larger than 5%, it means association between purpose of account and type of account is not significant. In other words, type of accounts statistic is independent of purpose of account statistics. According to above result, customers with the purpose of safe keeping of money and remittance are highly interested to deal with Islamic banks, because most of the respondents have opened Islamic bank accounts for safe keeping their money.

5.1.10. Relationship between Conventional Education & Type of Account (Table 10)

Table 10: Conventional Education & Type of Account

Count		Type of Account			Total
		Islamic Bank Account	Conventional Bank Account	Both Accounts	
Conventional Education	High School	50%	50%	0%	10
	14 Years	55.2%	37.3%	7.4%	67
	16 Years	51%	44.6%	4.3%	186
	17 Years	52.9%	47.1%	0%	17
	18 Years	16.6%	83.4%	0%	6
Total		51.4%	44.1%	4.5%	286
Pearson Chi-Square Tests					

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.314 ^a	.503
Likelihood Ratio	8.705	.368

Here in Table 10 we can see the proportion of 16 years educational background customers having Islamic bank account is larger than other educational backgrounds, and X^2 (chi-square) test p-values is larger than 5%, it means association between conventional educational background and type of account is not significant. In other words, type of accounts statistic is independent of conventional educational statistics. In above table we can see that customers with 14 years educational backgrounds are having a highest 55.2% percentage of Islamic bank account holders and then the second highest percentage is 52.9% which is 17 years educational background, it means there is no relationship between level of education and bank choice.

5.1.11. Relationship between Islamic Education & Type of Account (Table 11)

Table 11: Islamic Education & Type of Account

Count		Type of Account			Total
		Islamic Bank Account	Conventional Bank Account	Both Accounts	
Islamic Education	Hafiz	66.6%	33.3%		9
	Aamma	57.8%	36.8%	5.2%	19
	Khaassa	62.5%	25%	12.5%	8
	Sanaweya/Aliyah	0%	0%	100%	1
	Alamiya	0%	100%	0%	1
Total		59%	33.3%	7.7%	39

Pearson Chi-Square Tests		
	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.122 ^a	.009
Likelihood Ratio	10.491	.399

Here in Table 11 we can see the proportion of Hafiz educational background customers having Islamic bank account is larger than other educational backgrounds, and X^2 (chi-square) test p-values is less than 5%, it means association between Islamic educational background and type of account is significant. In other words, type of accounts statistic is dependent of Islamic educational statistics. If we compare conventional and Islamic educational backgrounds, we can see that 59% of customers with Islamic educational backgrounds and 51.4% of customers with conventional educational backgrounds are dealing with Islamic banks. It means that type of education has affected the choice bank up to some extent. Those with Islamic educational backgrounds are more inclined towards Islamic banking. That is because of their awareness regarding interest and its prohibition in Islam.

5.1.12. Relationship between Islamic Banking Awareness & Type of Account

Table 12: Islamic Banking Awareness & Type of Account

Count		1Have you ever heard about Islamic Banking?			Total
		Yes	No	Heard but don't know the details	
Type of Bank Account	Islamic Bank Account	40%	0%	60%	147
	Conventional Bank Account	22%	6%	72%	126
	Both Accounts	54%	0	46%	13
Total		32.6%	2.8%	64.6%	286

Pearson Chi-Square Tests		
	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.526 ^a	.001
Likelihood Ratio	19.507	.001

Here in Table 12 we can see the proportion of both accounts holder customers awareness level is higher than other types, and X^2 (chi-square) test p-values is less than 5%, it means association between Islamic banking awareness and type of account is significant. In other words, type of accounts statistic is dependent of Islamic banking awareness.

5.1.13. Relationship between Islamic Banking awareness (Difference) & Type of Account

Table 13: Islamic Banking Awareness (Difference) & Type of Account

Count		Do you know the difference between Islamic& and Conventional Banking?		Total
		Yes	No	
Type of Bank Account	Islamic Bank Account	55.8%	44.2%	147
	Conventional Bank Account	38.9%	61.1%	126
	Both Accounts	76.8%	23.2%	13
Total		49.3%	50.7%	286
Pearson Chi-Square Tests				
		Value	Asymp. Sig. (2-sided)	

Pearson Chi-Square	11.904 ^a	.003
Likelihood Ratio	12.165	.002

Here in Table 13 we can see the proportion of both accounts holder customers awareness level is higher than other types, and X^2 (chi-square) test p-values is less than 5%, it means association between Islamic banking awareness and type of account is significant. In other words, type of accounts statistic is dependent of Islamic banking awareness.

5.1.14. Reliability of the Data

Reliability Statistics

Cronbach's Alpha	N of Items
.431	4

Internal consistency of the model is 43% as indicated by Cronbach's Alpha.

5.2. Have you ever heard about Islamic Banking? (Figure 8)

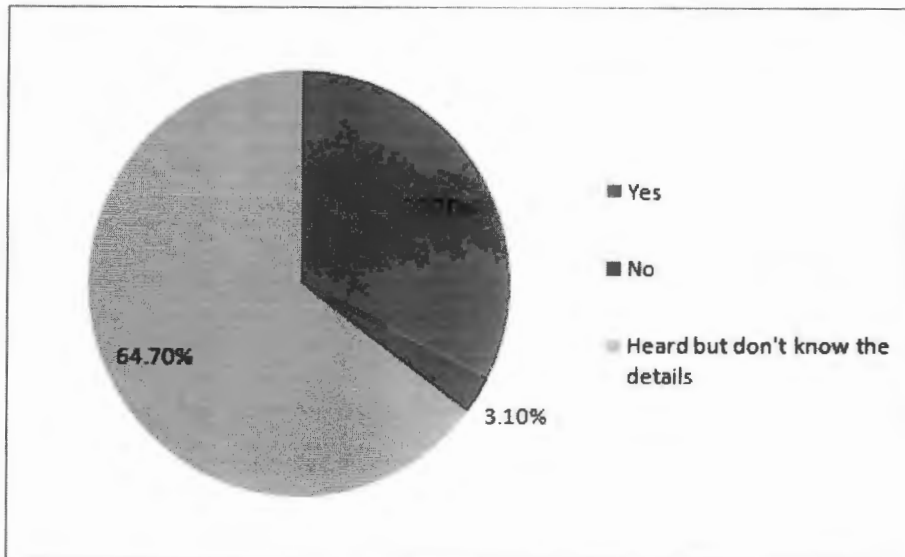


Figure 8: Have you ever heard about Islamic banking?

Figure 8 shows Islamic banking awareness level of our respondents. Out of 286 respondents, 92 of them says that they heard about Islamic banking, 9 respondents says that they never heard about Islamic banking and 185 respondents says that they heard about Islamic banking but don't know the details, in percentage form it becomes 32.2% respondents declared that they heard about Islamic banking, 3.1% haven't heard about Islamic banking, and 64.7% says that they heard about Islamic banking but they don't know the details. A great proportion of the respondents says that they heard about Islamic banking but don't know the details, they could accept Islamic banking if properly conveyed.

5.3. How do you come to know about Islamic banking? (Figure 9)

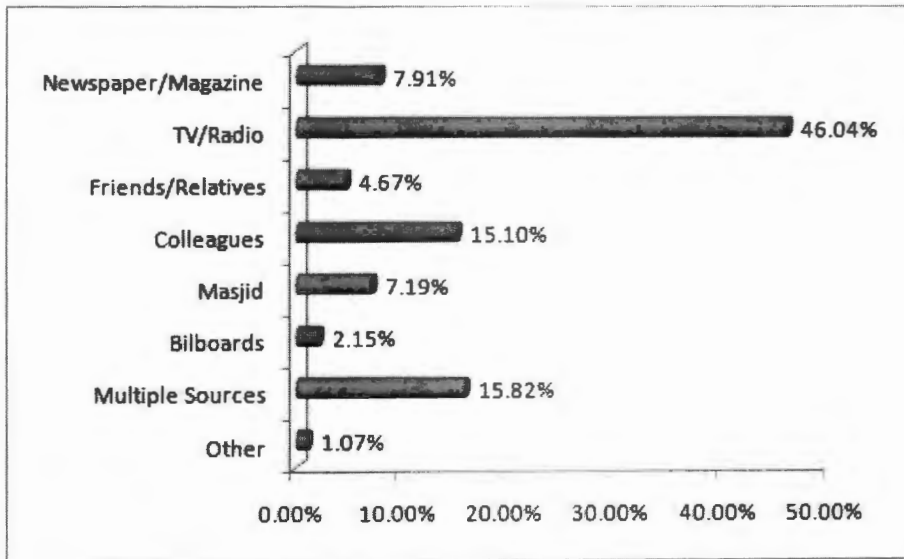


Figure 9: How do you come to know about Islamic banking?

Figure 9 shows the respondent's medium through which they heard about Islamic banking. Out of 286 respondents, 22 of them says that they heard about Islamic banking on Newspaper/Magazine, 128 respondents says they heard on TV/Radio, 13 says they heard from friends/Relatives, 42 says they heard from their colleagues, 20 says they heard in mosque/Masjid, 6 billboards, 44 from multiple sources, 3 from other sources, and 8 respondents have never heard about Islamic banking. In percentage form it becomes, 7.91% Newspaper/Magazine, 46.04% TV/Radio, 4.67% Friends/Relatives, 15.10% Colleagues, 7.19% Masjid, 2.15% billboards, 15.82% multiple sources, 1.07% from other sources. Most of the respondents declared that they heard about Islamic banking on Televisions. In order to attract customers, the marketing managers of Islamic banks should focus to invest on television ads.

5.4. Do you know the difference of Islamic and Conventional Banking Statistics? (Figure 10)

Here in this question we have just asked our respondents to reply through Yes or No about knowing the difference between Islamic & conventional banking, the result shows that, almost 50% says that they know the difference between the two types of banking and 50% declared that they don't know the difference of Islamic and conventional banking. Out of 286 respondents, 141 responded Yes and 147 responded as No, they don't know the difference between the two types of banking.

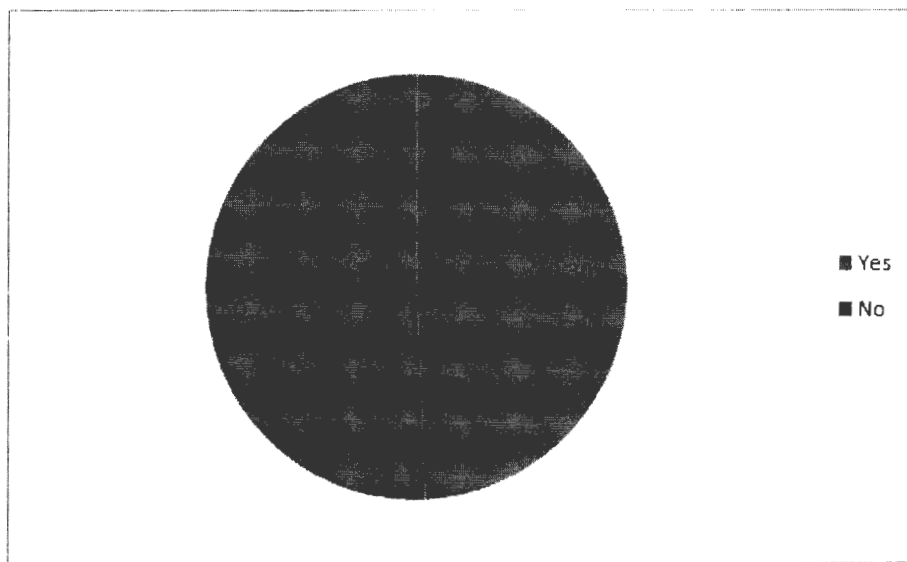


Figure 10: Difference between Islamic and Conventional Banking

To investigate true knowledge of respondents, a mere question answered by yes or no is not enough, as a part of this question we had given four statements and asked the respondents to find and tick the correct statements. Our first statement was (Islamic banks are meant for Muslims and conventional banks are meant for Non-Muslims) which is an incorrect statement. Here out of 141 respondents 83 respondents answered the question incorrectly and the remaining 58 answered the question correctly.

The second statement was (The functions and operating modes of Islamic banks are based on the principles of Islamic Shariah and conventional banks are based on fully manmade principles largely capitalism theory) which is a correct statement. Here out of 141 respondents majority of them answered the question correctly, 129 respondents declared the statement as a correct and only 12 respondents declared the statement as a wrong or incorrect statement. Our third statement was (Conventional banking is a standardized system while Islamic banking is a primitive and non-standardized system) which is an incorrect statement. Here in this statement we can see that out of 141 respondents 112 respondents declared the statement as incorrect which is a correct answer and only 29 respondents declared it as a correct statement which is an incorrect answer. Our fourth statement was (Conventional banking is based on interest (Riba) while Islamic banking doesn't involve interest, instead they use the profit & loss sharing method) which is a correct statement. Here in this statement we can see that out of 141 respondents 129 declared that the statement is a correct statement which is a correct answer and only 12 respondents declared that the statement is not correct which is an incorrect answer. You can see the details in bellow chart.

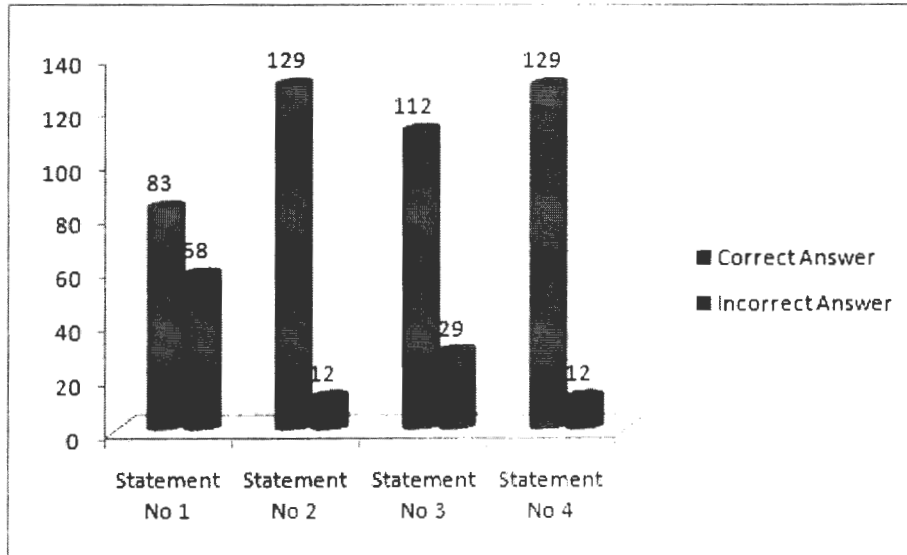


Figure 11 (Customer's awareness level about Islamic banking)

We can summarize that most of the respondents are familiar with four given statements and majority of them answered correctly. As we can see the results in above chart that shows correct answers by blue and incorrect answers by red color.

5.5. What is your (Most and Least important) reason behind dealing with Islamic banking?

In order to determine the reasons of customers behind dealing with different types of banking, we have included a part in our questionnaire which contained two questions, one for Islamic banking customers and other for conventional banking customers. Each question contained seven different possible reasons and the respondents were asked to rank their reasons by writing 1 in front of their first reason, 2 for second reason and so on up to seventh reason.

Out of seven possible reasons for dealing with Islamic banking, the first reason given in the questionnaire was religious factor. The result of survey shows that only 142 respondents replied to this part, out of which 132 respondents declared religion as their first reason of dealing with Islamic banking, 10 respondents declared religion as their second reason, 6 respondents declared

it as their third and a few remaining respondents declared religion as their fourth, fifth and seventh reason. Above result shows that a large number of respondents declared religion as their first and main reason for dealing with Islamic banking, it means that majority of the respondents' opted Islamic banking because of religious factor, which indicates an enormous opportunity for Islamic banks to attract new customers and become a big market share holder.

The second possible reason given in the questionnaire was profitability factor. The survey result indicates that only 75 respondents replied to this part, out of which 42 respondents which is a big proportion of 75 respondents declared profitability as their seventh reason for dealing with Islamic banking, 9 respondents declared it as their sixth reason, 10 respondents declared it as their fifth reason and a few remaining respondents declared profitability as their fourth, third, second and first reason. The above result demonstrates that profitability factor has a very less influence on customer's choice, because majority of the respondents' ranked profitability as a seventh reason and such a result may denote that customers are not satisfied with the profit offered by Islamic banks.

Third possible reason given in the questionnaire was the advice given by friends and relatives; the result indicates that only 113 respondents attempted the question, out of which only 8 respondents ticked advice of friends and relatives as a first reason of dealing with Islamic banks, 43 respondents ticked it as a second reason, 19 respondents ticked it as a third reason, 11 respondents ticked it as a fourth reason, 12 respondents ticked it as a fifth reason, 11 respondents ticked it as a fourth reason, 15 respondents ticked it as a sixth reason, and only 1 respondent ticked it as a last reason. So, it means the advice of friends and relatives can influence the choice of customers up to some extent.

Fourth possible reason given in the questionnaire was the last financial crisis of 2008, a total of 97 respondents replied to this part, out of which only 97 customers replied to this part, out of which only 9 customers stated the crisis as a first reason of selecting Islamic banking, 34 and 27 customers stated the crisis as a second and third reason, a few remaining customers declared crisis as a fourth, fifth, sixth and seventh reason. Again we can say that last financial crisis of 2008 has influenced the choice of customers up to some extent.

Fifth possible factor included in our questionnaire was low service charges; the result indicates that only 77 respondents replied to this part, out of which no one has ticked low service charges as a first reason, only one respondent declared it as a second reason, 11 respondents declared it as a third reason. It means that very few respondents selected Islamic banks because of their low service charges; we can say that service charges of Islamic banks didn't influence customers and maybe the customers are not satisfied with the service charges of Islamic banks, Islamic banks may offer low service charges to attract new customers.

Sixth possible reason for dealing with Islamic banks given in the questionnaire was the Islamic bank's credibility, a total of 98 respondents' replied to this part, out of these respondents only 4 of them selected Islamic bank's credibility as a first reason, 16 respondents ticked it as a second reason, 31 respondents ticked the Islamic bank's credibility as a third reason and the remaining of them selected Islamic bank's credibility as a fourth, fifth, sixth and seventh reason. It means Islamic bank's credibility can influence the customers' choice up to some extent.

The last possible reason of selecting Islamic banks mentioned in our questionnaire was the investment diversification purpose; in order to diversify the investment, some of the respondents' opened both Islamic and conventional bank accounts. A total of 95 customers

responded to this question, out of these only 4 of them declared Investment diversification as a first reason of opening Islamic banking account. 13 respondents ticked it as a 2nd reason, 15 respondents ticked it as a third reason and the remaining 25, 21, 8, 9 has ticked diversification as a fourth, fifth, sixth and seventh reason.

To summarize the above explanation and bellow graph, majority of the respondents opened Islamic bank accounts only because of religious factor, the reaming factors, advice from friends, financial crisis of 2008 and Islamic banks credibility and investment diversification has influenced the respondents up to some extent, then profitability and service charges factor has a very less influence on customer's choice for selecting Islamic banks.

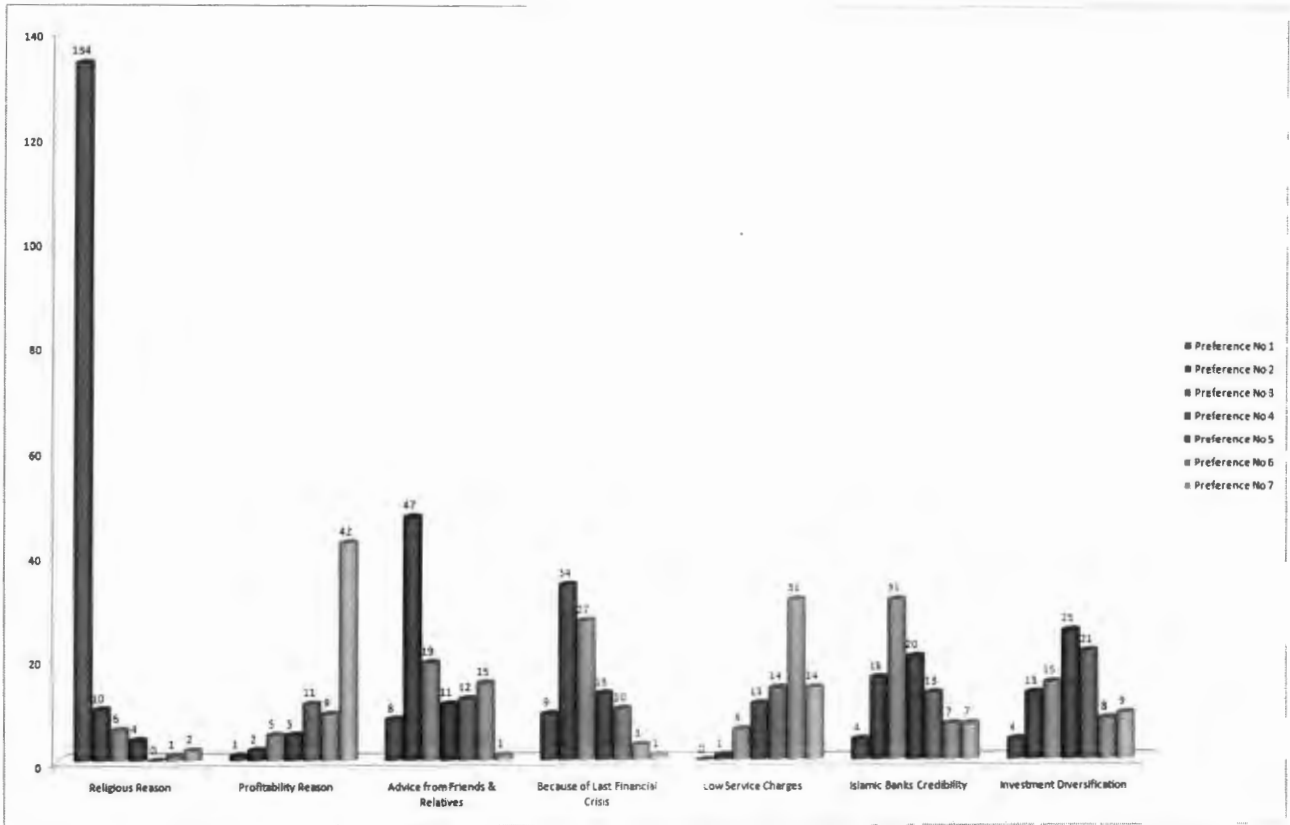


Figure 12: Reasons behind dealing with Islamic banking

The second question of this part was related to determining the reasons of those customers, who opened their bank accounts with conventional banks, again in this part we have included seven possible reasons. The first possible reason given in questionnaire was bank size and reputation factor. After analyzing the responses of this question, the result showed that only 99 customers responded to this question, out of which 26 respondents declared the bank size and reputation as their first reason of dealing with conventional banks, 4 respondents declared it as their second reason, 13 respondents declared it as their third and the remaining 12, 8, 8 and 28 declared it as fourth, fifth, sixth and seventh reason of dealing with conventional banks. We can summarize that bank size and reputation factor has influenced the customer's choice up to some extent.

The next possible factor given in the questionnaire was fixed return and no risk, the survey result shows that a total of 113 respondents replied to this part out of which 42 respondents declared fixed return and no risk as their first reason of dealing with conventional banks, 18 respondents declared it as their second reason, 15 declared it as their third reason and the remaining 9, 5, 19, 5 respondents declared it as their fourth, fifth, sixth and seventh reason. It means that fixed return and no risk have influenced the choice of customers up to significant amount.

Third possible reason that we included in our questionnaire was credit cards and online services, after analyzing the responses; the result indicates that 113 respondents replied to this part, out of which 37 respondents ticked credit card and online services as their first reason of dealing with conventional banks, 43 respondents ticked it as their second reason, 12 respondents ticked it as their third reason and the remaining a few respondents ticked it as their fourth, fifth, sixth and seventh reason of dealing with conventional. We can summarize that a large number of respondent ticked this factor as a first and second reason, it means that majority of the respondents' opted conventional banks because of credit cards and online services and this factor has a great influence on customer's choices. In order to attract new customers, Islamic banks should provide all those facilities which are being provided by conventional banks.

Fourth possible factor we have taken in our questionnaire was large number of products, after analyzing the responses; we got the result that a total of 118 respondent replied to this question out of which 22 respondents ticked availability of different products as their first reason for opening conventional bank account, 33 respondents ticked it as their second reason, 32 ticked it as their third reason and the remaining a few respondents declared it as their 4th, 5th, 6th and 7th reason. We can conclude that a large number of respondents declared that they have opened

conventional bank accounts because of offering a large number of products. It means large number of products has influenced the choice of customers up to significant amount. Having more products leads to attracting more customers, in order to capture the big market share, Islamic banks should develop new products and increase rang of their facilities to their customers.

The fifth reason included in questionnaire was loan availability factor; the survey result let us see that only 99 respondents replied, out of which only one respondent ticked loan availability as his first reason of opening conventional bank account, 11 respondents ticked it as their second reason, 22 ticked it as their third and the remaining ticked it as fourth, fifth, sixth and seventh reason of dealing with conventional bank account. We can say that loan availability factor has a very less influence on customer's choice.

The sixth possible factor we have contained in our questionnaire was low service charges, only 88 respondents replied, out of them 4 customers ticked loan availability factor as their first reason, again 4 respondents ticked it as their second reason, 15 declared it as their third reason and the remaining 13, 16, 26, 10 respondents declared it as 4th, 5th, 6th and 7th reason. We can summarize that loan availability factor has a very less influence on customer's choice as we can see in below graph that a few respondents ticked it as their first, second and third reason.

The last possible reason we have taken was investment diversification factor, a total of 91 respondent replied to this part, out of them only 6 respondents ticked investment diversification factor as their first reason of opening conventional bank account, again six respondents ticked it as their second reason, 5 respondents ticked as a third reason and the remaining 16, 10, 18, 30

respondents ticked it as their 4th, 5th, 6th and 7th reason of opening conventional bank account. It means that investment diversification factor has no influence on customer's choice.

To summarize below graph, most of the conventional banking customers ticked third given factor, credit card and online banking services, second given factor, fixed return and no risk and fourth given factor, large number of products as their first reason of opening conventional bank account. It means that all these three factors influenced the customer's choice. Our first given factor, bank size and reputation has influenced the bank choice up to some extent, and the remaining, fifth given factor, loan availability, sixth given factor, low service charges, seventh given factor, investment diversification has a very less influence on customer's choice, because a few respondents declared these three factors as their first, second and third reason of dealing with conventional banks. See the result in below chart.

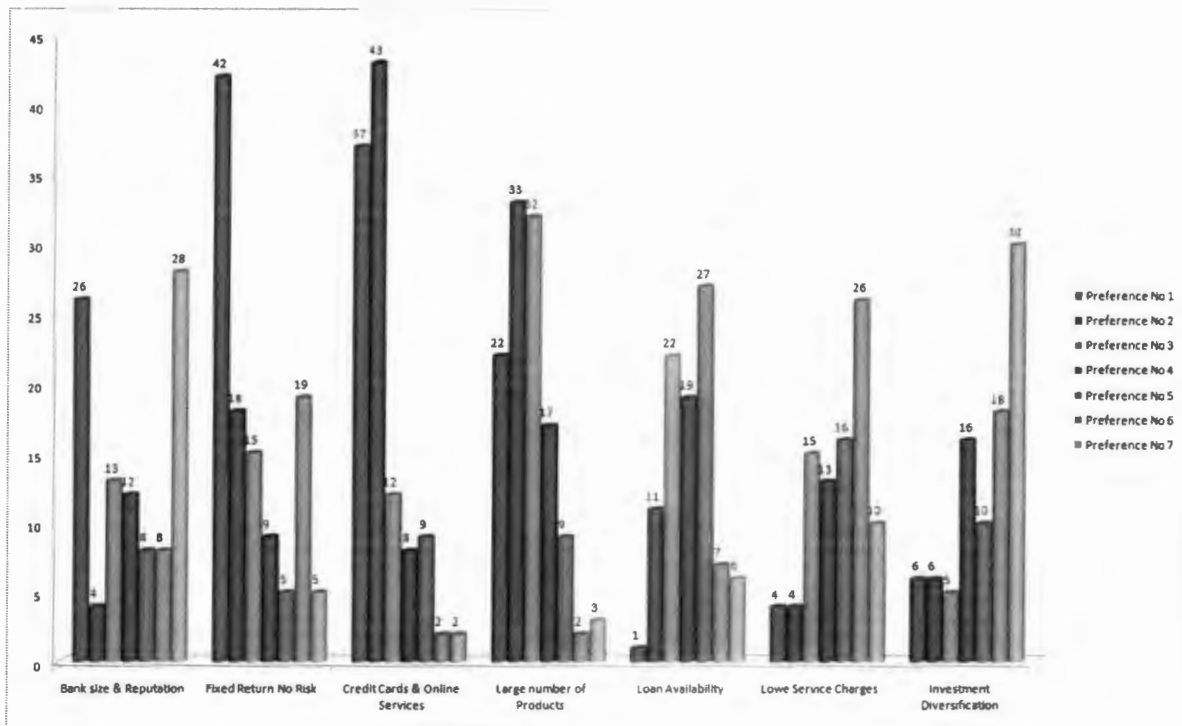


Figure 13: Reasons behind dealing with Conventional Banking

5.6. Switching from Conventional to Islamic Banking

Do you want to convert your bank account from conventional to Islamic banking account? In order to determine the future willingness of customers about converting their conventional bank accounts into Islamic bank accounts, we have included a part in our questionnaire to ask respondents about their future plans or willingness about converting their bank accounts. The result indicates that out of 146 conventional banking customers only 28 customers declared that they do not want to convert their bank accounts into Islamic banking accounts; the remaining 118 customers declared that they are willing to do so. In percentage form it becomes 19.20% respondents are not willing to convert their banks accounts and the remaining 80.80% are willing to convert their bank accounts from conventional to Islamic banking. It means that majority of the respondents are interested to switch from conventional to Islamic banking. This result denotes that Islamic banks have a great opportunity of capturing a big market share; they should

continue developing new and different products and should extend the range of facilities to their customers.

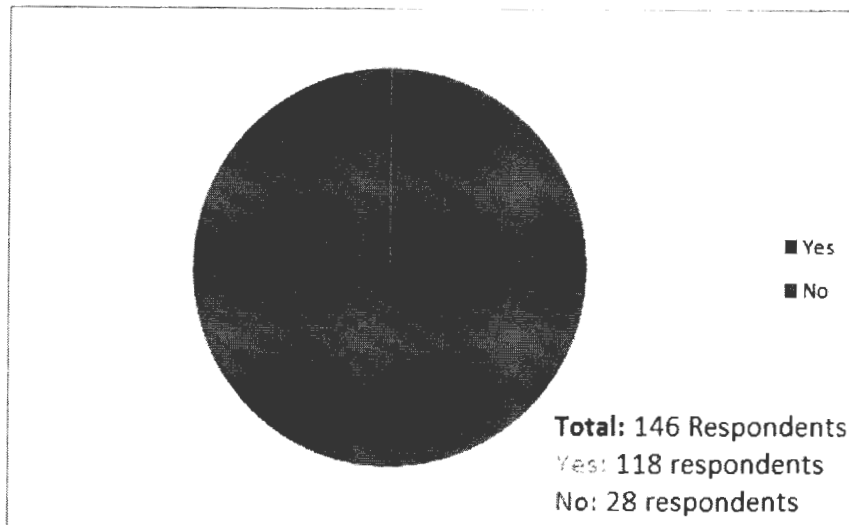


Figure 14 : Switching from Conventional to Islamic Banking

5.6.1. Respondent's Reasons for Converting to Islamic Banking

What are the reasons of switching from conventional to Islamic banking? For determining the reasons of our respondents we have included a few possible reasons in our questionnaire and asked our respondents to tick their reasons of converting and not converting to Islamic banking. For converting to Islamic banking we had included 4 possible reasons as you can see in below graph. Out of 286 respondents 218 declared that they are willing to switch to Islamic banking. After changing these figures into percentage form, out of 218 respondents a greater part 45.87% ticked reason number (1) as a first reason of switching to Islamic banking, It is because, that majority of the country's population is Muslim and most them wants to avoid interest. We can summarize that there is a good opportunity for Islamic banks to capture a big market share.

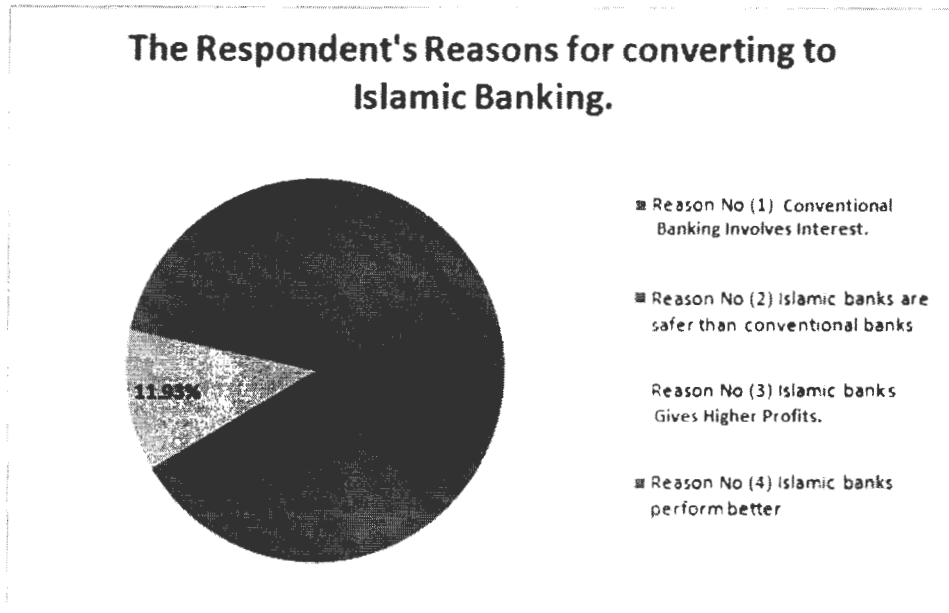


Figure 15: Reasons for switching to Islamic Banking

5.6.2. The Respondent's Reasons for not Converting to Islamic Banking

What are the reasons of those respondents who are not willing to switch from conventional to Islamic banking? In this part, again we have included four possible reasons. The result shows that out of 286 only 43 respondents declared that they are not willing to convert from conventional to Islamic banking. After changing these figures into percentage form, it becomes that out of 43 respondents' a major part 37.21% ticked reason no (1) as a first reason for not switching to Islamic banking, they believes that there is no difference between Islamic and conventional banking, Now, it is the responsibility of Islamic bank managers to focus on marketing strategies and make them believe that Islamic banking is totally different from conventional banking. Respectively, 27.91% respondents ticked reason no (2) as a second reason for not switching to Islamic banking, they declared that conventional banks entail no risk that is why they won't covert to Islamic banking. Next we have 20.93% of the respondents declared that they won't convert to Islamic banking because of availability of different products, if

Islamic banks extend the number of their products then it means that these respondents will surely switch to Islamic banking as. Finally we have 13.95% of the respondents declared that they won't switch to Islamic banking because of availability of loans. Again if Islamic banks develop new products and fulfill different financing needs of the customers then surely these respondents will switch as well.

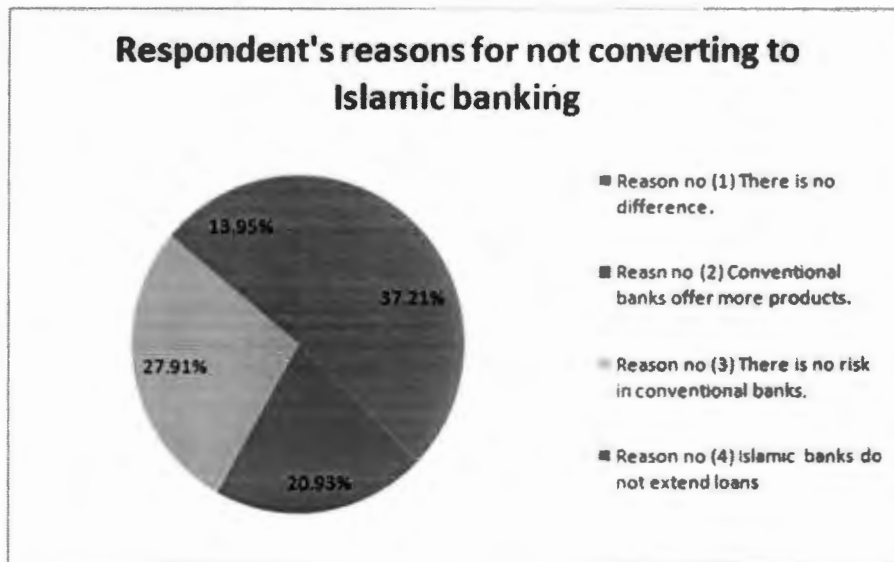


Figure 16: Reasons for not switching to Islamic Banking

5.7. Comparative analysis of Customer Satisfaction Islamic verses Conventional Banking

5.7.1. Return on Deposits

In order to compare customer's satisfaction of two types of banking, we have drawn a single graph showing the return on deposits of Islamic as well as conventional banks. There were five different ranking grades given in questionnaire. Each, very good, good, satisfactory, poor and very poor, the respondents were asked to rank their true satisfaction on different grades given.

Below graph shows customer's satisfaction for returns on deposits of Islamic and conventional banks, the blue line shows the ranking given by Islamic banking customers and the

red line shows the ranking of conventional banking customers. To compare both ranking grades, first we have (Very Poor) here we can see 17 Islamic banking customers and 10 conventional banking customers has ticked the return on deposits very poor. It means that conventional banking customers are more satisfied than Islamic banking customers. Next grade is (Poor) here in this grade again we can see those 34 Islamic banking customers and 10 conventional banking customers have ticked this grade. Again it means that conventional banking customers are much satisfied as compared to Islamic banking customers. Next grade is (Satisfactory) here we can see 62 verses 51; it means here Islamic banking customers are a bit satisfied than conventional banking customers. Next grade is (Good) here we have 37 verses 50, it means that 37 Islamic banking customers ticked return on deposits, which is less than 51, again conventional banking customers are more satisfied than Islamic banking customers, the last grade is (Very Good), here we can see 7 verses 12, which again means that conventional banking customers are more satisfied than Islamic banking customers. We can summarize that conventional banking customers are much satisfied from their respective banks return as compared to Islamic banking customers. Values are shown in percentage form as well.

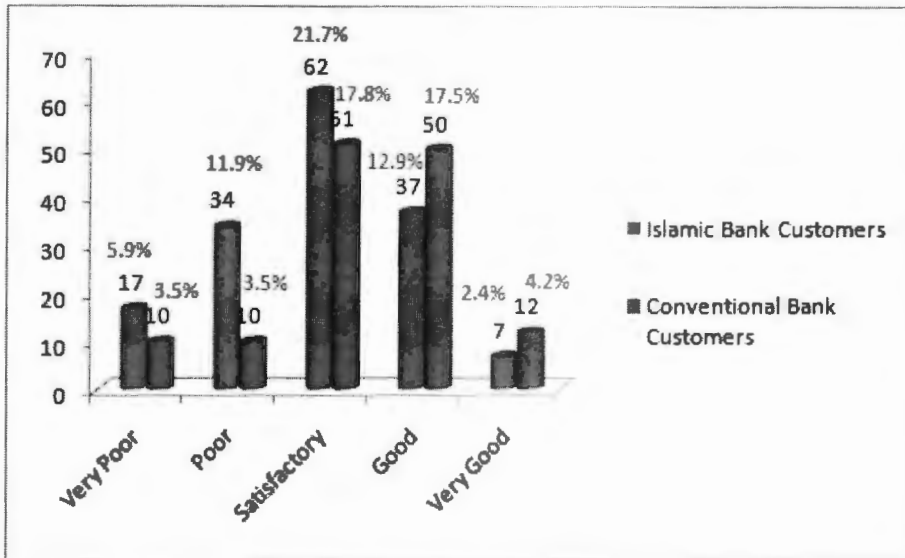


Figure 17: Customers Satisfaction and Return on Deposits

5.7.2. Proficiency of the Bank Personnel

Graph number 2 indicates a comparative analysis of customer's satisfaction from Islamic and conventional bank's personnel. In ranking, first we have (Very Poor) grade in which only 1 Islamic banking customer and 3 conventional banking customers ticked proficiency of the bank personnel as a very poor, then we have second grade (Poor) in which again only 3 Islamic and 12 conventional banking customers ticked proficiency of the bank personnel as a poor, it means a few number of respondents given bank personnel a negative grade and most of them are satisfied from bank personnel. Next we have (Satisfactory) where 50 Islamic and 38 conventional banking customers given bank personnel a satisfactory grade, again it shows that customers are satisfied, then we have (Good) where 74 Islamic bank customers and 65 conventional bank customers ticked bank personnel as a good, again it shows that customer are satisfied, and finally we have (Very Good) where 31 Islamic and 21 conventional banking customers ticked bank personnel as a very good, which means customers of both types of banking are satisfied from their bank personnel. We can summarize that majority of the bank customers are satisfied and have graded

bank personnel positively. To compare the customer satisfaction level of both types of banking. Islamic banks customers are a bit more satisfied than conventional banking customers as we can see this petty difference in below graph. Values are shown in percentage form as well.

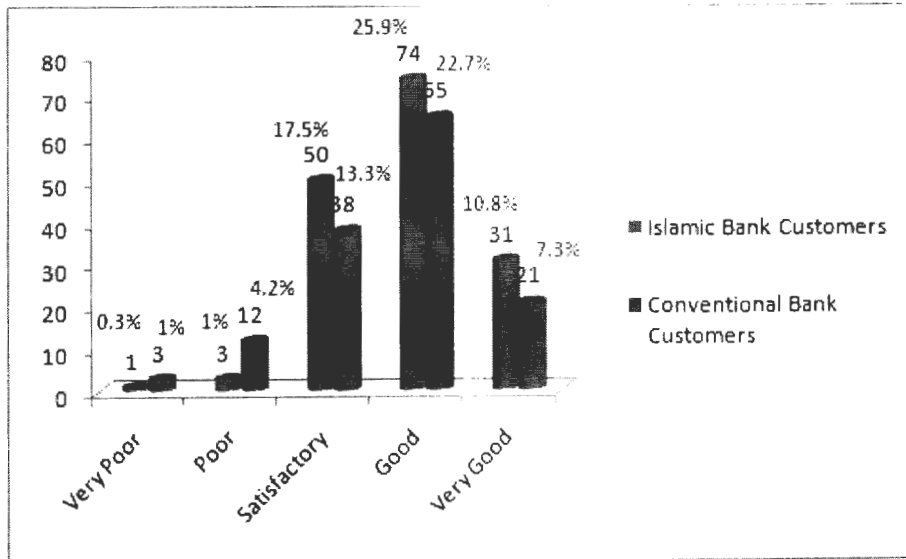


Figure 18: Customers Satisfaction and Proficiency of Bank Personnel

5.7.3. Trust on Banks

Below graph shows comparative analysis of customer's trust on conventional and Islamic banks, as we can see in the graph there are different grades. first we have (Very Poor) in which only 3 Islamic banking customers and 13 conventional banking customers declared that the trust level on their respective banks is very poor. On the whole, number of these respondents is very less and then the number of Islamic banking customer respondents is even lesser. So, it means a few respondents have no trust on banks in the country. Our next grade is (Poor) again we can see that a few respondents, 6 from Islamic banking side and 8 from conventional banking side has graded trust on banks as a poor. Next, we have (Satisfactory) in which 43 Islamic and 43 conventional banking customers ticked trust on banks as satisfactory, which means at equal level they are satisfied from their respective banks. Then we have (Good) where 61 Islamic and 54

conventional banking customers ticked trust on bank as a good. It means most of the respondents have trust on their respective banks. Finally we have (Very Good) where 46 Islamic and 22 conventional banking customers ranked trust on their respective banks as a very good. To summarize below graph, we can say that most of the respondents have trust on their respective banks, but comparatively we can say that Islamic banking customers are more satisfied and have more trust on their banks rather than conventional banking customers. Values are shown in percentage form as well.

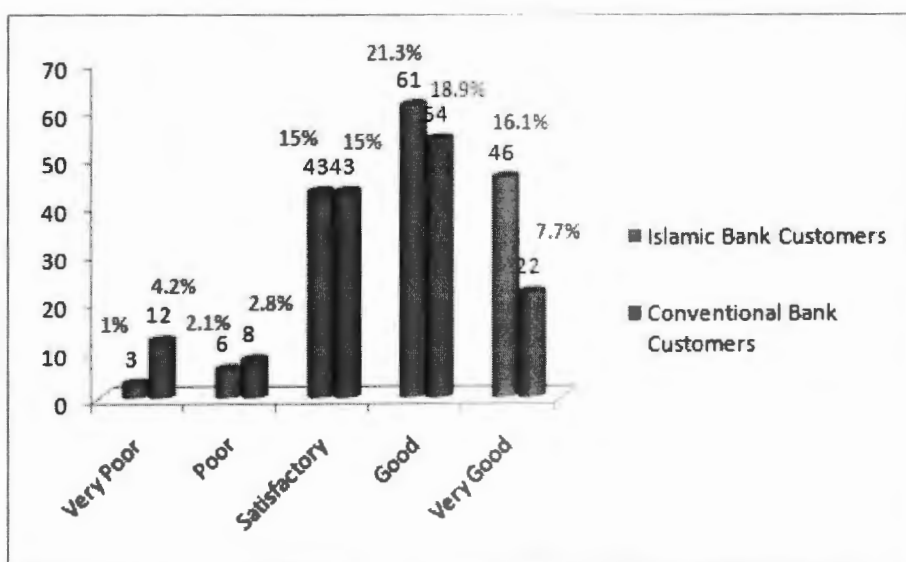


Figure 19: Customers Satisfaction and Trust on Banks

5.7.4. Customer Care of Your Bank

This graph shows comparative analysis of customer's satisfaction from customer care of Islamic and conventional banks. A few respondents 2 from Islamic and 7 from conventional banking side ticked customer care of their respective banks as very poor and then again a few respondents 2 from Islamic and 5 from conventional banking customers ticked customer care of their banks as a poor. It means a few number of respondents are not satisfied with customer care services of their respective banks. Next we can see grade (Satisfactory) in which 32 Islamic banking

customers and 38 conventional banking customers are satisfied with customer care of their respective banks. Next we have grade (Good) where 75 Islamic and 63 conventional banking customers ticked customer care of their respective banks as a good and then we have (Very Good) in which 48 Islamic and 26 conventional customers have ticked customer care of their respective banks as a very good. We can summarize that customers of both types of bank are satisfied with customer care of their respective banks. But comparatively we can say that customer of Islamic banks are more satisfied than conventional banking customers. Values are shown in percentage form as well.

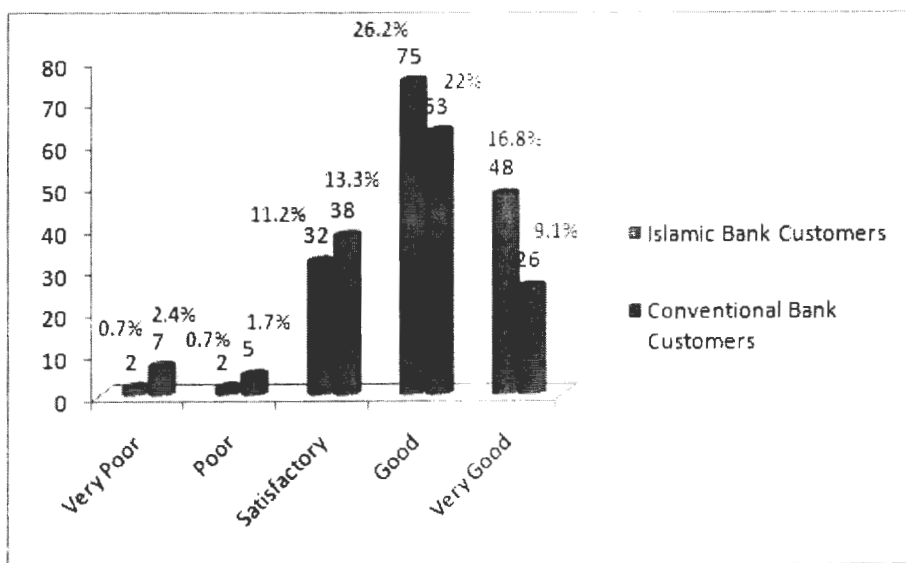


Figure 20: Customers Satisfaction and Customer Care of Banks

5.7.5. Service Charges of the Banks

This graph shows comparative analysis of customer's satisfaction from the amount charged by banks for their services. We have different grades given by respondents. First we have (Very Poor), in this grade we can see that only 2 Islamic and 8 conventional banking customers have ticked bank charges as a very poor and then we have (Poor) where again a few respondents 2 from Islamic and 5 from conventional banking customers have ticked bank charges as a poor.

We can say that a few numbers of respondents are not happy with the amount charged by Islamic and conventional banks. Then we have (Satisfactory) in which 37 Islamic and 44 conventional banking customers have graded service charges as a satisfactory, Next we have (Good) in which 70 Islamic and 58 conventional banking customers ranked service charges as a good and finally we have (Very Good) where 42 Islamic and 21 conventional banking customers graded the amount charged by Islamic and conventional banks as a very good. We can summarize that most of the respondents are happy and satisfied with service charges of the Islamic and conventional banks. Comparatively we can say the Islamic bank customers are more satisfied than conventional banking customers as we can see this difference in below graph. Values are shown in percentage form as well.

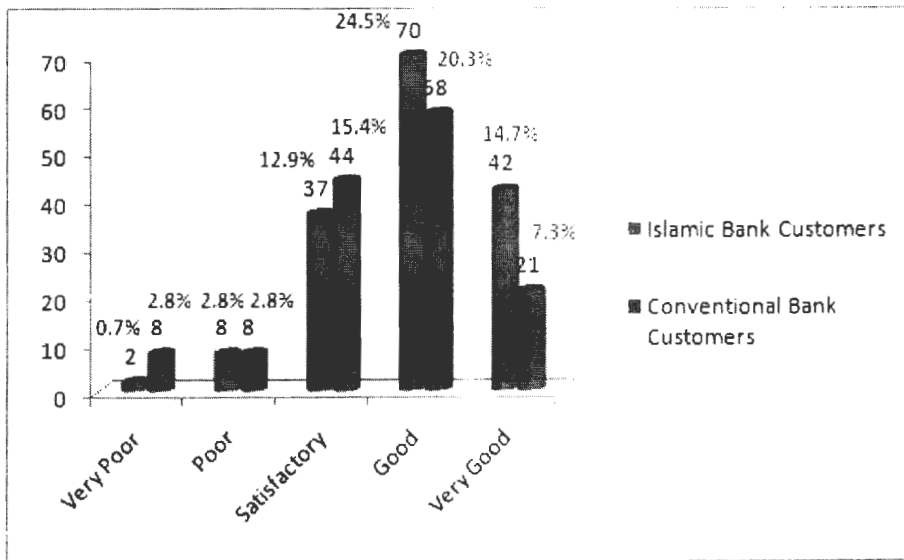


Figure 21: Customers Satisfaction and Service Charges of the Banks

5.7.6. Range of Facilities Offered by Banks

This graph shows a comparative analysis of customer's satisfaction regarding range of facilities offered by Islamic and conventional banks. We can see that 21 Islamic banking customers and 15 conventional banking customers have ticked range of facilities of their respective banks as a very poor, and then we have (Poor) where again 40 Islamic bank customers and 15 conventional bank customers have ticked range of facilities as a poor. It means that Islamic banks have no more facilities than conventional banks that is why more of Islamic banking customers have graded range of facilities as a poor and very poor. Next we have (Satisfactory) in which an equal number or respondents 60 from Islamic and 60 from conventional banking customers ticked range facilities as a satisfactory, and then we have (Good) where 28 Islamic and 39 conventional bank customers have graded range of facilities as a good and finally we have (Very Good) in which 10 Islamic and 10 conventional banking customers graded range of facilities as a very good. We can summarize that comparatively conventional banking customers are more satisfied than Islamic banking customers. For competing conventional banks, Islamic banks should develop new products and extend the range of their facilities. Values are shown in percentage form as well.

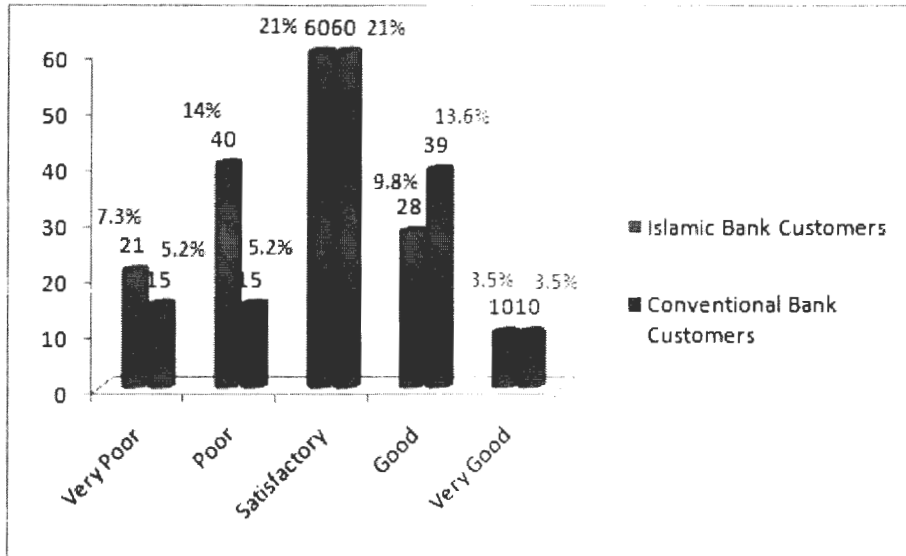


Figure 22: Customers Satisfaction and Range of Facilities

5.7.7. Availability of Fund

This graph shows a comparative analysis of customer's satisfaction of two types of banking regarding availability of funds. First we have (Very Poor) where a few respondents, 4 Islamic and 6 conventional banking customers have ranked availability of funds as a very poor, Next we have (Poor) in which again a few respondents, 14 Islamic banking customers and 12 conventional banking customers have graded availability of funds as a poor. It means that a few respondents are not pleased from availability of funds and most of them are satisfied. Next we have (Satisfactory) in which 37 Islamic and 47 conventional banking customers are satisfied and then we have (Good) where 50 Islamic and 54 conventional banking customers graded availability of funds as a good and finally we have (Very Good) in which only one Islamic and 20 conventional banking customers declared that they are very pleased with their respective banks. We can summarize that most of the respondents are satisfied regarding availability of funds. Comparatively we can say that conventional banking customers are a bit more satisfied than Islamic banking customers. Values are shown in percentage form as well.

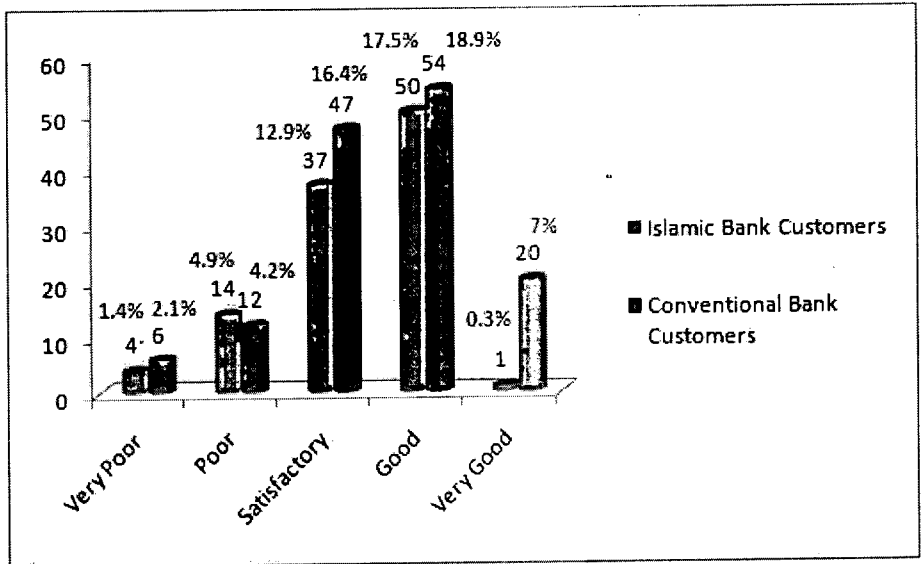


Figure 23: Customers Satisfaction and Availability of Fund

6. Chapter 6

Results and Discussion of Employees Questionnaire

This chapter contains the employee's evaluation and their awareness regarding Islamic banking and its concepts. We have interviewed a total of 30 Islamic banking employees from five different Islamic banks. The developed questionnaire contained two parts, the first part relates to personal information of employees and second part was related to Islamic banking awareness; the detailed result is discussed below.

6.1.1. Gender Distribution (Figure 24)

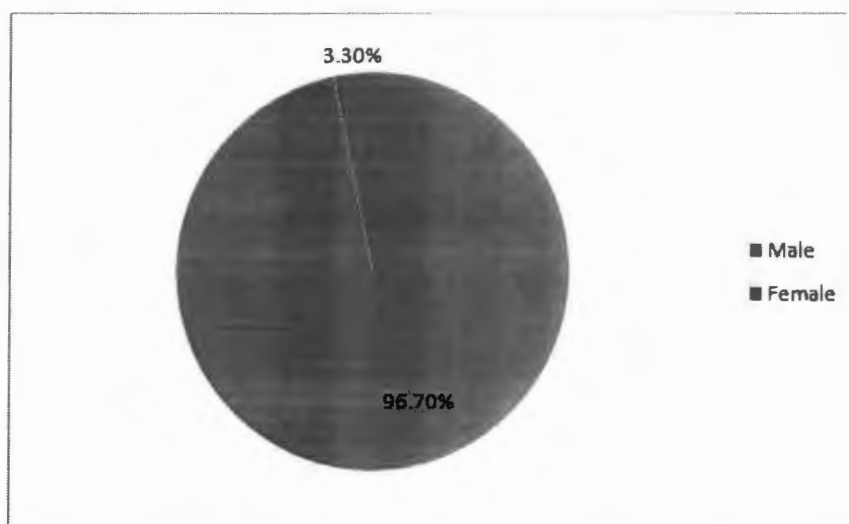


Figure 24: Gender Distribution of Employees

The above chart shows gender distribution of our respondents, we have interviewed 30 Islamic banking employees, out of them only 1 was female and the remaining 29 were males. To show this outcome in percentage form, it becomes 96.70% male employees and 3.30% females. The reason for less female employees could be the methodology of our survey, as in every Islamic

bank we have interviewed only those employees with key positions and most of the females were hired in lower positions like receptionists, customer care. . etc.

6.1.2. Job Field Distribution (Table14)

Table 14: Job Field Distribution

	Frequency	Percent %
Operating Staff	26	86.7%
Marketing Staff	1	3.3%
Head of Islamic Banking	3	10.0%
Total	30	100%

Out of 30 employees that we have interviewed, 26 of them declared their job fields as operating staff, only 1 employee declared his job field as a marketing staff and the remaining 3 were Heads of Islamic banking windows.

6.1.3. Education of Employees (Figure25)

6.1.3.1. Conventional Education

We asked Islamic bank employees to tell us about their conventional as well as Islamic education, this chart shows the conventional education distribution of our respondents and the next chart shows the Islamic education distribution of our respondents.

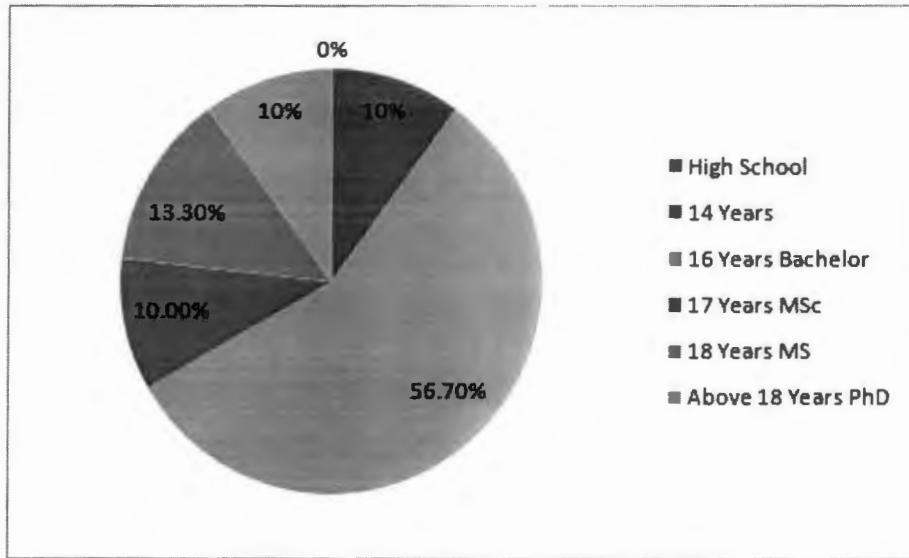


Figure 25: Conventional Education Distribution of Employees

The above chart explains conventional education background of the employees. We can see that most of the respondents are holding bachelor degrees, out of 30 employees 17 of them are bachelor degree holders, 3 are having 14 years educational background, 3 respondents are having MSc or 17 years educational background, 4 MS degree holders, 3 PhDs and no one is less than 14 years. In percentage form it becomes 0% school, 10% 14 years, 56.70% bachelor degree holders, 13.30% MS or M.Phills, and the remaining 10% PhD degree holders.

6.1.3.2. Islamic Education (Figure 26)

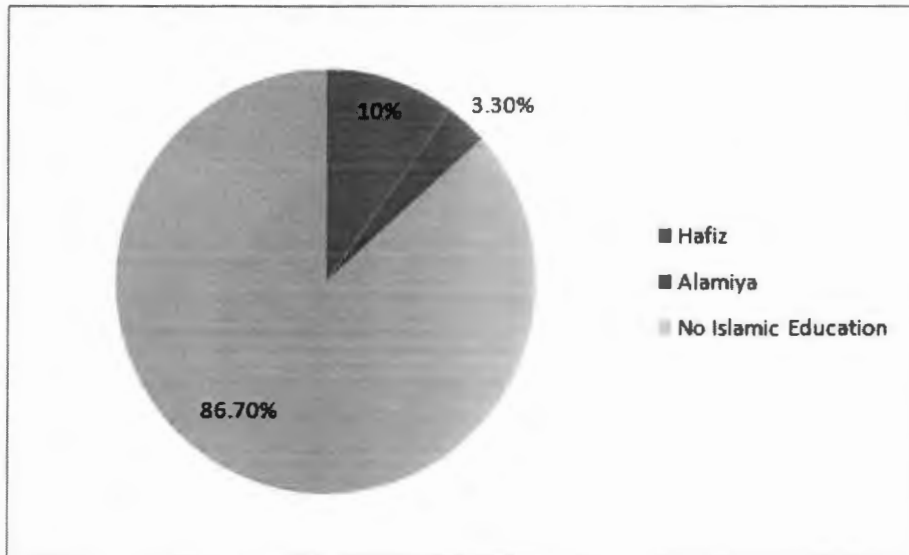


Figure 26: Islamic Education Distribution of Employees

The above chart let us know about Islamic educational background of the employees, the survey result indicates that, there are a very few students Madraasa's involved in banking sector. Out of 30 respondents 26 of them has no Islamic educational backgrounds, we have only 3 Hafiz of Quran and one employee with Alamiya grade of a Madrasa (Pure Islamic Educational Institute). In percentage form it becomes, 86.70% no Islamic education, 10% Hafiz of Quran and 3.30% Alamiya. During interviews we have faced some employees with Shariah academic background which is also Islamic education but in our questionnaire they could not tick on Islamic educational background side, because the grades of a Madrasa system are totally different from a university system.

We can summarize that most of the employees are aware of the difference between Islamic and conventional banking systems, as we can see the result in below Figure 28.

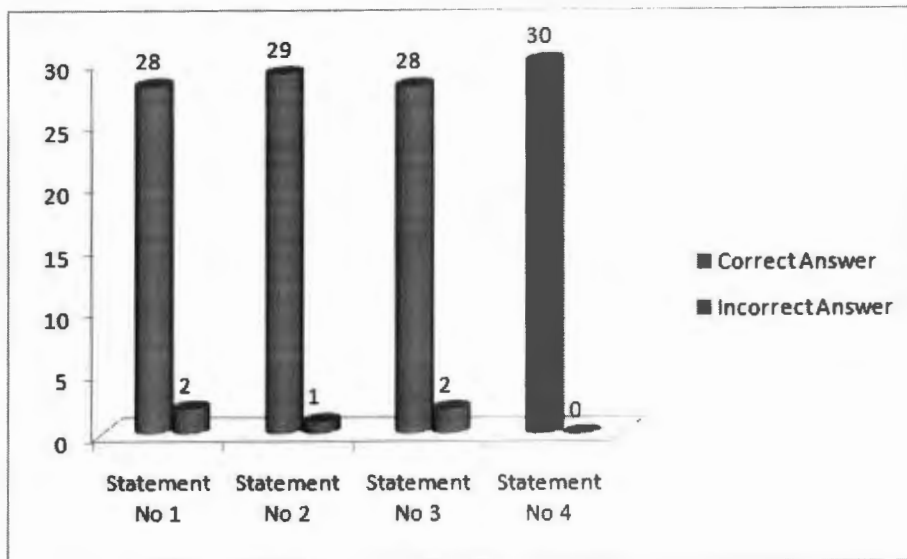


Figure 28: Islamic Banking Awareness of Employees

6.3. Please carefully read the below definitions and tick (✓) the correct answers:

In order to check the awareness level of bank employees regarding Islamic banking, we gave them six definitions with different options to find the correct answers. The first definition was, (A contract of sale between the bank and its client for the sale of goods at a price plus an agreed profit margin for the bank is called what?) It is (مرابحه) Murabaha, and all of the respondents replied correctly. The second definition was (A form of partnership where one partner (client) provides the funds (gives money) while the other provides expertise and management, investing the fund in a commercial enterprise or any other business is called?) It is (مضاربه) Mudaraba and all of the respondents answered correctly. Third definition given in questionnaire was (A joint enterprise or partnership structure with profit & loss sharing implications that is used in Islamic

finance instead of interest-bearing loans is called?) It is (مشاركه) Musharakah and all of the respondents replied correctly.

Fourth definition was (A practical financing tool which let businesses/Individuals to acquire their equipment and machinery through leasing, instead of outright purchase is called?) It is (اجاره) Ijara, majority of the respondents ticked the correct answer, out of 30 employees 29 of them replied correctly and only one employee declared that he/she don't know the definition. In percentage form it becomes 96.7% knows the definition and 3.3% don't know. The fifth definition was (A contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract, is called?) It is (سلم) Salam; again most of the respondents answered correctly, out of 30 respondents 28 of them ticked it as Salam and only 2 respondents stated that they don't know the definition. In percentage form it becomes 6.7% don't know the definition and 93.7% knows the definition. The last definition was (A type of contract in which the customer approaches the bank with the desired asset's specifications. Both the customer and bank signs the contract, and then the bank manufactures the product or the asset for the customer through its agent, such as a manufacturer.) It is (استصناع) Istisna, and majority of the employees answered correctly, only one respondent stated that he/she don't know the definition and the remaining 29 answered correctly. In percentage form it 3.30% don't know the definition and 96.70% replied correctly.

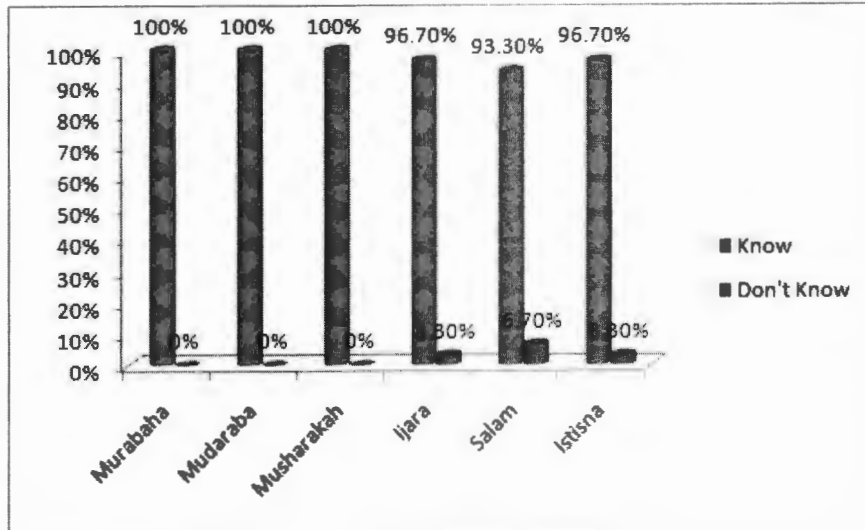


Figure 29: Islamic Banking Concepts

We can summarize that most of Islamic bank employees answered correctly and they know the definitions of general modes of contracts as shown in above Figure29.

6.4. Do you know what Ijarah Muntahiyah Bittamlik is?

Out of 30 employees 4 of them stated that they have no idea about (إجارة منتهي بالتملك) Ijara Muntahiyah Bittamlik, and the remaining 26 employees stated that they are familiar with this term. In percentage form it is 86.70% are familiar with the term and 13.30% have no idea. See Figure 30.

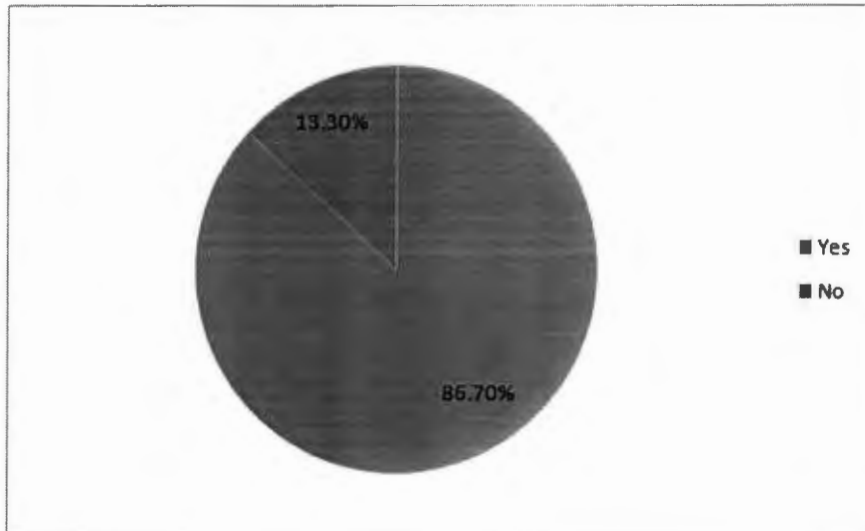


Figure 30 : Ijara Muntahiya Bittamlik Awareness

Now to make sure these employees really know about Ijara Muntahiya Bittamlik, we gave them four definitions and asked them to find the correct definition. In given definitions the first one, second and fourth one was incorrect and the third one was a correct definition of Ijara Muntahiya Bittamlik as you can see in below chart 8. As already explained in above chart, 26 employees declared that they know about Ijara Muntahiya Bittamlik. Out of those 26 respondents, 6 of them answered incorrectly and only 20 respondents answered correctly. We can summarize that a largest part of Islamic banking employees knows about Ijara Muntahiya Bittamlik. For graphical explanations see chart 17. Further, as part of this question we asked them about shariah permissibility of this mode, all of the respondents declared that Ijara Muntahiya Bittamlik is a permissible contract.

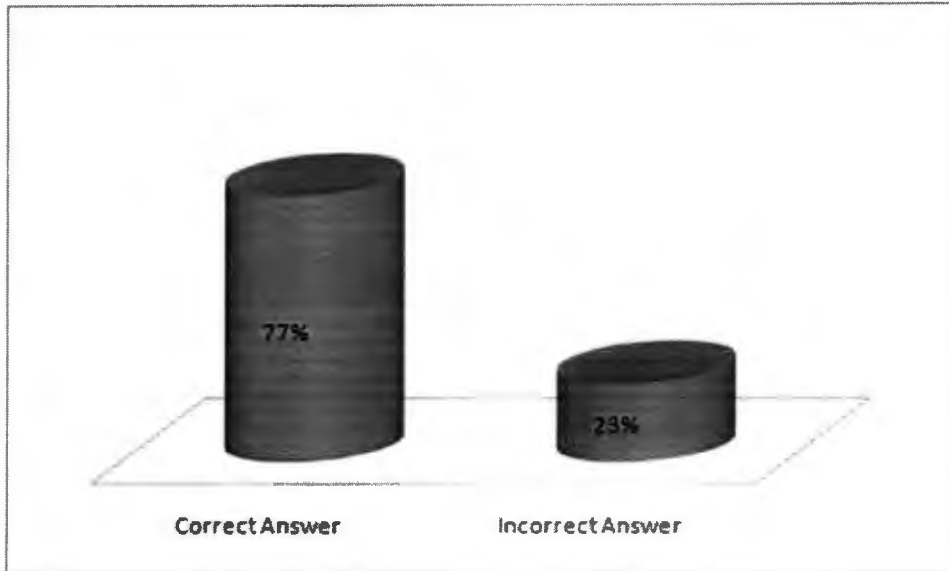


Figure 31: Correct Definition of Ijara Muntahiya Bittamlik

6.5. Do you know what Diminishing Musharakah is?

Out of 30 respondents only 2 of them declared that they don't know about (مشاركه متناقصه) Diminishing Musharakah, and the remaining 28 respondents declared that they are familiar with Diminishing Musharakah. In percentage form it becomes 6.7% don't know the term and 93.30% are familiar with Diminishing Musharakah. For details see figure 32.

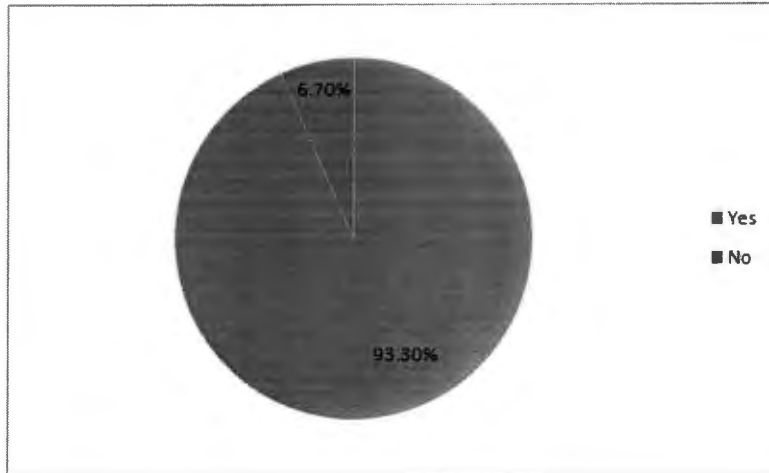


Figure 32: Diminishing Musharakah Awareness

Now to check whether these respondents really know about Diminishing Musharakah or not, again we asked them to mark the accurate definition of Diminishing Musharakah in four given definitions. As you can see in below chart 10, from left side the first three definitions are incorrect and the last one is the correct definition of Diminishing Musharakah, out of 28 employees who declared that they are familiar with the term of Diminishing Musharakah only 20 of them marked the correct answer and the remaining 8 employees couldn't find the correct definition. It means that a large number of the respondents answered correctly and they are familiar with this term. Besides, we asked our respondents to give their views about shariah permissibility of Diminishing Musharakah, again all of the respondents acknowledged Diminishing Musharakah as a permissible mode of financing.

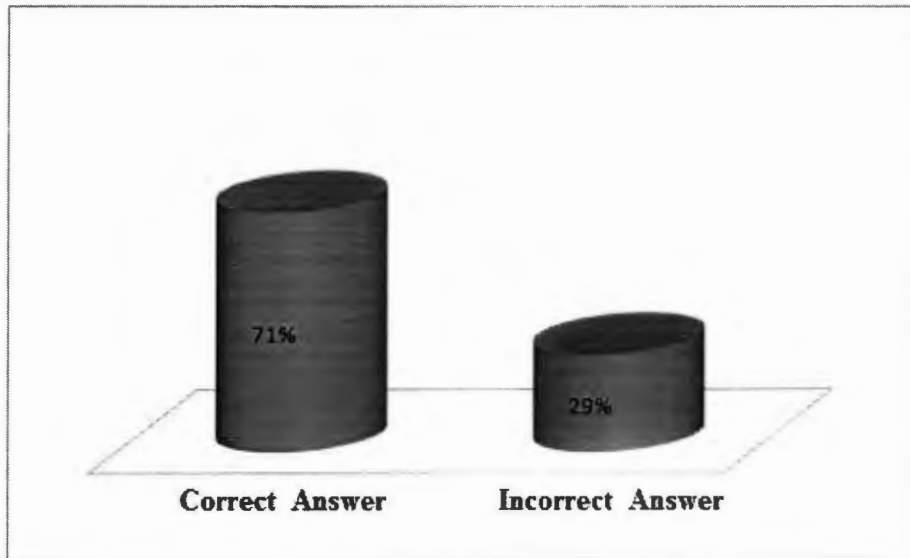


Figure 33: Correct Definition of Diminishing Musharakah

6.6. Summary of Results

Almost 97% of the Islamic banks employees constituted males and majority of them were bachelor degree holders with no Islamic educational backgrounds, but still most of them claimed that they are well experienced and knows the difference between Islamic and conventional banking as well as the concepts of Islamic banking. After analyzing their awareness level, majority of them answered correctly on the part of basic concepts. But in part of Ijara Muntahiya Bittamlik and Diminishing Musharakah around a quarter of employees couldn't explain and these terms and the remaining majority of them were quite familiar with above mentioned concepts.

7. Chapter 7

Conclusion and Recommendations of the Study

7.1. Conclusion

This study is conducted to determine the customer's priorities in selecting a specific bank in case of Afghanistan. The study also aimed to find out the comparative level of customers' satisfaction of conventional and Islamic banks. Furthermore, the study aimed to find out the awareness level of general customers about Islamic banking and its products as well as the awareness level of Islamic bank employees in Afghanistan.

The outcome of this study shows that most of the bank customers were males with young age and middle incomes, majority of them constituted private and government employees with bachelor or 16 years educational backgrounds. We have distributed 300 questionnaires out of which 286 returned usable, among our total respondents 147 were Islamic bank customers, 126 conventional bank customers and the remaining 13 customers were having both Islamic and we as conventional bank accounts and most of them declared that they have opened bank accounts just for safekeeping of their monies and some them stated that they have opened bank accounts for business purpose.

Most of the respondents said that they heard about Islamic banking in TV's and radios but don't know the details. We asked our respondents if they know the difference between Islamic and conventional banking, majority of them were not confident about their answer and most of them couldn't differentiate Islamic banking from conventional banking.

When we asked our respondents about their reasons for dealing with Islamic banks, most of them indicated religion as first reason of dealing with Islamic banks and advice from friends and relatives as a second reason, Islamic banks credibility and last financial crisis of 2008 as a third

and fourth reason. We asked the same question from conventional bank employees, most of them declared that they have opened conventional bank accounts for having no risk and giving them a fixed return, but some of them said that we have opened conventional bank accounts because of credit cards, online banking and range of facilities with a large number of products.

When we asked our respondents about their future willingness of converting their conventional bank accounts to Islamic banking, 80% of them were agree and willing to switch from conventional to Islamic banking just because of interest and it's prohibition in Islam. The remaining 20% who were not interested on switching to Islamic banking believed that there is no difference between Islamic and conventional banking and that is why we don't need to switch.

In part of comparative customers' satisfaction we can summarize that there is no significant difference of customers' satisfaction between Islamic and conventional banking customers, but generally we can say that Islamic banking customers are a bit more satisfied as compared to conventional banking customers.

In the second questionnaire which is distributed to Islamic bank employees, again most of the employees were male in young age with 16 years educational backgrounds, and majority of them have no Islamic educational backgrounds. When we asked them about the difference between Islamic and conventional banking, almost all of them were confident and aware of the difference. Then we asked them about some basic concepts and modes of Islamic banking, again majority of them answered correctly, and finally we asked them some complicated concepts like Ijrah Muntahi Bitamlik and Diminishing Musharakah, again most of the employees replied correctly but this time some of them were not confident as they were in defining those of basic concepts and definitions of Islamic banking. The last part of our questionnaire was to take the views and observations of Islamic bank employees regarding three questions which listed above.

7.2. Recommendations

As we have determined that most of the customers are not aware of Islamic banking, its products and concepts. Therefore, the researcher feels that in order for Islamic banks to sustain their position in the market, they need to focus on developing new marketing strategies, arrange certain seminars to ensure that their products are properly introduced and the differences of Islamic and conventional banking is properly understood to customers, as well as they need to ensure their service quality as this will entail customer satisfaction and ultimately customer loyalty. They need to remain competitive by offering good quality products and services as well as not just only rely on their “Islamic” image and reputation to draw customers.

After determining the customer’s priorities in opting a bank, Islamic banks should focus on those determined factors and provide all those facilities which can attract new customers.

As we mentioned above that most of the customers declared religion as a first reason of dealing with Islamic banks. Therefore, Islamic banks should also inform general public and customers regarding interest and its consequences in Islam and they should assure customers that Islamic banking system is interest free system. Some of the customers’ opted conventional banks because of having wide range of facilities therefore, Islamic banks should consider different products provision to its customers. And that will cause their success in today’s competitive market in Afghanistan.

In today’s high competitive market among banks, it is necessary to know the needs and expectations of your customers. And we have determined the level of customer’s satisfaction and their expectations in case of Afghanistan. Therefore, Islamic banks should consider these factors which can help Islamic banks on how to compete and win customers in today’s competitive market.

7.3. References

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7.4. Appendixes

The Last Part of Employee's Questionnaire

In the last part of employee's questionnaire, we asked Islamic banking employees to give their views/observations on the following three questions.

Note: Answers of the employees are listed for every question.

(A). Frequently Asked Questions (FAQs) from Islamic Bank Staff?

1. Where do you invest?
2. What is the profit rate you offer?
3. What are the ratios of profit and loss sharing?
4. How to open an account, what are the requirements?
5. Does your bank charge for current account?
6. What are the main differences between Islamic and conventional banking?
7. What is the difference between Interest and profit?
8. What is the difference between Murabah and Interest?
9. Where do you invest our fund?
10. Do you have Shariah board and Islamic Ulama in your bank?
11. How to know that your bank is utilizing our funds on Shariah compliant businesses?
12. Why Islamic banks don't suffer loss, they are always in profit?
13. What dose Islamic banks do, how they offer profit?
14. There should be an easy way of complaining, when we are not satisfied.
15. Is the profit you offer is Halal?
16. How much profit do you give?
17. How much profit the bank takes from us?
18. If I switch to Islamic banking, will I still have the facilities we use in conventional banking account?
19. Which products do you have in Islamic banking?
20. What is the tenure of contract?
21. What is the security and assurance to secure my money?

22. They usually ask about the profit distribution mechanism.
23. What is the base for profit?
24. Do you mix up the capital with conventional banking funds?
25. Some customers ask about Islamic banking products like Murabaha and Mudarabah.
26. Why there should be a difference between credit sale and cash sale in Murabaha?

(B). Major objections clients raise against Islamic Banking?

1. Islamic banks have two different windows but inside they have one account and same story.
2. Profit rate calculation method.
3. Most of the customers raise objection on window system. They are saying that, this is just a fraud and a different way to collect money from people, and there is no difference.
4. Most of the customers object Murabaha financing. They say there is no difference between Murabaha and interest.
5. Very limited branches.
6. Most of them raising questions about the reality of Islamic banking.
7. They object on mixed operations of Islamic and conventional banking on the same building.
8. Why Islamic banks don't extend loans.
9. Tough requirements for financing and partnership.
10. The profit rate for the bank is very high.
11. Why there is no rollover option in Murabaha.
12. Most of the clients ask about the reality of Islamic banking operations.
13. In Islamic banking the term Interest is replaced with profit, there is no difference.
14. The profit ratio of customer is very low.
15. Why banks do ask too many questions when we are opening account.
16. There should be a separate building for Islamic banking.
17. The profit rate for bank is very high.
18. Penalty for late payment should not be charges.

19. Lack of awareness, they are rejecting Islamic banking and says it is just a Helal Fraudulent.
20. Why in same building, why you have combined both types banks in the same building.

(C).The most important reasons for slow growth of Islamic banking in Afghanistan?

1. Limited investment opportunities for Islamic banks.
2. Trust on agent is one of the big problems for Islamic banks.
3. Most of the Shariah board members are not aware of banking procedures, they are only aware of shariah.
4. We have no full-fledged Islamic bank in Afghanistan.
5. Customer's wrong perception about Islamic banking.
6. Fixed profit rate from central bank of Afghanistan, there is no standard like KIBOR or LIBOR.
7. It is perceived by customers that, Islamic banking has a complex process, it is easy and less time consuming to get loan from conventional banks.
8. Bank owners are just looking for profit, they have no tension of halal and haram.
9. Shariah board problems on profit distribution method.
10. Lack of Islamic banking regulations from central bank of Afghanistan.
11. Public awareness about Islamic banking.
12. No professionalism.
13. Trust on banking sector in general.
14. No sufficient and proper support from government.
15. There is no interest for government bodies to work and support Islamic banking.
16. Non familiarity of people with banking system.
17. Security and political situation of the country.
18. Strong support of business men for conventional banking.
19. Lack of Islamic banking experts.
20. Foreigner customers/Investors are not interested in Islamic banking.
21. After Kabul bank crisis, people don't trust banks.

22. Islamic scholars are not involved in Islamic banking, most of them don't discuss riba in their speeches.
23. Generally slow growth of economy.
24. Islamic banking is something new in Afghanistan, it will take more time.
25. No sufficient marketing for Islamic banking.
26. Lack of Islamic banking associations and unions.
27. Lack of trust and confidence of customers on Islamic banking.
28. Bank owners are not much interested in converting their banks to Islamic.

