

**CUSTOMER OPINION JUDGMENT ABOUT ISLAMIC  
BANKING IN PAKISTAN**



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**CUSTOMER OPINION JUDGMENT ABOUT ISLAMIC BANKING IN PAKISTAN**

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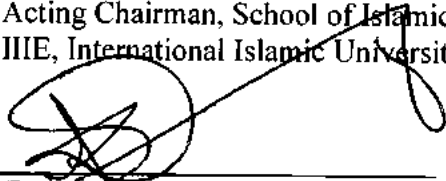
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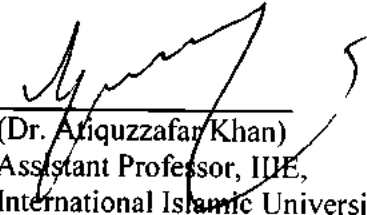
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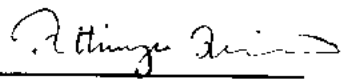
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In the name of Allah Most Gracious and Most Merciful

**A thesis submitted to International Institute of Islamic Economics,  
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## **DEDICATION**

To Ammi, Abbu, Respected Dr. Atiq-ur-Rahman, and  
My Colleague



## **DECLARATION**

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have carried out this research by myself and have completed this thesis on the basis of my personal efforts under the guidance and help of my supervisor. If any part of this thesis is proven to be copied out or earlier submitted, I shall stand by the consequences. No portion of work presented in this thesis has been submitted in support of any application for any other degree or qualification in International Islamic University or any other university or institute of learning.

HumairaAbro

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**Humaira Abro  
May 2013.**

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## **ACRONYMS**

<b>AAOIFI</b>	<b>Accounting and Auditing Organization of Islamic Financial Institution</b>
<b>CII</b>	<b>Council of Islamic Ideology</b>
<b>CIE</b>	<b>Commission for Islamization of Economy</b>
<b>IIIE</b>	<b>International Institute of Islamic Economics</b>
<b>SBP</b>	<b>State Bank of Pakistan</b>
<b>SAB</b>	<b>Standalone branches</b>



## INTRODUCTION

### 1.1 Background

Islamic and conventional banks are differentiated in many respects, particularly through objectivity and operational methodology. The conventional banks aim to maximize profit by providing financial services, whereas earning profit is not the primary objective of Islamic banks, rather they are required to achieve social objective of rendering justice and equality in society. Services extended by Islamic banks should be strictly compatible with the guidance provided by the Shariah. The financial services extended by Islamic banks are free from prohibitions like; interest, excessive uncertainty, gambling, speculation and business transactions subjected to risk of loss, legitimacy in ownership and exchange of true counter values. Each Islamic bank requires a Shariah advisor and the duties of a Shariah advisor are defined by State Bank of Pakistan. According to the circular no. 2 of State Bank of Pakistan 2008, the rulings and fatawa by the Shariah advisor must be followed by the Islamic bank. All the policies and rules regarding Shariah principles of products and services should be signed by the Shariah advisor. Shariah advisor will ensure the Shariah compatibility of products and services.

The Islamic banking system grew rapidly during past half century at the same time, its capital worth increased from 641 billion to 837 billion in one year. The deposits have been increased from 521 billion to 706 billion and the total share of Islamic banking industry reached up to 8.6 percent of total banking sector. There is expansion of branches of Islamic banking sector all over the country therefore; the number of branches has been increased from 886 to 1097. The investment of Islamic banking sector is increased from 274 billion to 373 billion (SBP, 2012: 6).

In Pakistan, Islamic banking can operate in three ways as prescribed by SBP through IDB Circular No. 2 of 2004. Accordingly, following three models can be operated:

1. Islamic Commercial Banks
2. Islamic banking subsidiaries by existing commercial banks
3. Standalone branches for Islamic banking by existing banks

The first and third model is operative in Pakistan whereas Islamic banking subsidiaries are not yet operational. The conventional banks that want to open standalone Islamic branches are required to establish Islamic banking divisions and keep deposits and financing portfolio separate from conventional portfolio where all the transactions are conducted according to principles of Shariah.

Functioning of conventional banking system is of significant concern when the alternate Islamic banking system is available. Overwhelming presence of conventional banking poses challenge to the Islamic Banking, especially when larger proportion of people and corporate are banking with the former. Considering that Islamic banking would ultimately replace the conventional banking and interest would be eliminated altogether. There is need to explore opinion, perception and knowledge of clients of banks as to how they differentiate among full fledged Islamic banks, the Islamic branches of conventional banks and the full fledged conventional banks. It is assumed that conversion toward Islamic banking could speed up only if the public feels that Islamic banks are the preferred institutions providing services in accordance with the teaching of Shariah.

## **1.2 SIGNIFICANCE OF STUDY**

This study attempts to find out as to how the customers of Islamic banks, Standalone branches and conventional banks perceive about Islamic banking practices in terms of Shariah

compliance. This study analyzes for the first time the opinion of customers of all the three types of banks - full-fledged Islamic Banks, Standalone branches of Conventional Banks and conventional Banks. This study therefore emphasizes as to whether the customers differentiate among the three types of banks in respect of opinion, quality of service and implementation of Shariah. This study will be helpful to bring about policy implications about Islamic banks by identifying their weak areas and suggesting room for improvement which would be helpful for their sustainability in the market.

It is understood that customers cannot be forced to join a particular type of bank rather the customer will be inclined towards Islamic banking only if they feel that Islamic banks are radically different from conventional banks especially with respect to elimination of riba and the Shariah compatibility. Although not well documented in academic writings, one often finds the opinion that the operations of Islamic banks are not Shariah compliant, but, the perception has to be examined in the light of the infrastructural institutions developed to facilitate the progress of Islamic banking. Among such institutions, the most important is Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) which has attained the status of complementary mujtahid. Being a standard setting body, AAOIFI issues sharh, accounting & auditing and governance standards to be followed by Islamic banks, State Bank of Pakistan, vide Circular No. 1 of 2001 has also made the application of their standards mandatory for Islamic Banking in the country. Therefore, the structure of Islamic banking instruments, the allied contracts and documentation follow the provisions of these standards. The universality of the standards removes all the doubts against current day Islamic banking. The controversial instruments, if any, like commodity murabaha, tawarruq, are wiping out over time in number and

quantum as result of academic debates held at conferences, symposia and dialogues held at various parts of the world including Pakistan.

### **1.3 OBJECTIVE OF STUDY**

The research objectives of the study are given as under;

1. To find out the opinion of customers regarding Shariah compatibility of three types of banks.
2. To evaluate the awareness of customer about the concepts and operations of Islamic banking.
3. To find out the difference of opinion of different classes of customers regarding the Shariah compatibility of three types of banks.
4. To analyze and compare the opinion of customers regarding the service quality of three types of banks.

While the current chapter introduces significance of the research, chapter 2 will review the relevant literature followed by chapter 3 giving account of historical perspective of Islamic banking in Pakistan. Methodology of research has been described in chapter 4. Results of the research have been discussed in chapter 5 and conclusion and recommendation drawn in chapter 6.

## Chapter 2

### LITERATURE REVIEW

A good amount of research is available on the subject related to perception of customers and satisfaction, bank selection criteria and preferences. However, comparison of these

Understandably, the first study on customer's perception was conducted by Erol and El-Bdour (1989) which reported that reputation of bank and good quality services constitute the main factors for selection of a bank, however, religious point of view was not a very prominent reason in the bank selection despite the fact that customers possessed general knowledge about Islamic financial services. Erol et al. (1990) used the same data for getting the results about patronage behavior and found that patronage factor of Islamic banks was different from that of conventional banks with respect to pricing policy but not due to religious cause.

Omer (1992) studied the role of Islamic belief, awareness and motivating factors among Muslims of United Kingdom in selecting Islamic bank. He concluded that the state of knowledge and awareness of Islamic services prevailing among customers living in Muslim countries are better than those living in non Muslim countries. Omer found that the religious motivation was an important factor in selection of Islamic financial services.

Evaluating dual banking system, Metwally (1996) using the data from three Arab countries (Kuwait, Saudi Arabia, and Egypt), revealed that there was no difference found in costs and benefits of bank products and services.

As regards to comparison of conventional and Islamic banks, Hegazy (1995) studied the demographic profiles of customers of Egyptian banks. The results reveal that religion was the

main causing factor in selection of Islamic banks. It was the efficiency and quick service of Islamic banks that made it different from conventional banks.

Research of Haron, Ahmad, & Planisek, (1994) discussed the differences in bank selection criteria of Muslims and non-Muslims in Malaysia. The results concluded that religion was not main factor for selecting an Islamic bank. The customers would shift to the other bank only if the quality of services was better. Although both Muslims and non-Muslims had knowledge of Islamic banking but were unaware of financing methods used by the banks. Hamid and Nordin (2001) indicated that many customers had knowledge of Islamic banking products but they could not differentiate between Islamic and conventional products and services and that there was need that customers should get more understanding of the products offered by Islamic banks.

Evaluating perception of customers of Islamic vs. Conventional banking gives Zainuddin, Jahyd, & Ramayah (2004) found that Islamic financial services were used by the people of mature age and average income while the non-users belonged to the age group of less than thirty years and had low income. They considered relationship and religion as important factors for the selection of Islamic banks.

Metawa & Almosawi (1998) investigating banking behavior of Islamic bank customers state that the majority of customers of Islamic banks were well educated and the basic motive behind the usage of Islamic bank services was the religious factor. It was further revealed that the customers of these banks were not satisfied with the financing schemes. The study also confirmed findings of Erol and El-Bdour (1989), and Naser (1999) which concluded that religion and bank reputation were the most important factors for the selection of an Islamic bank. Al-Sultan (1999) too considered Islam as motivating factor for Kuwaitis. More than half of the respondent customers

gave preference to the Islamic banks merely because of service quality. According to Metwally (2002), the demographic and socioeconomic characteristics were found important for selection of a bank in Qatar. People of mature age and public employees preferred Islamic banks as against well educated and young professionals favoring conventional banks. Bley and Kuehn (2004) evaluated understanding of Islamic financial services and perception of business students in United Arab Emirates including Arabic and non-Arabic Muslims and concluded that the students preferred Islamic financial services because of religious concern.

Okumkus (2005) conducting research on customer satisfaction and bank selection criteria, analyzed the awareness and degree of satisfaction with finance houses that offered Islamic banking services in Turkey. The most important factor found for bank selection in this study, too, was religion.

Eze, Thambiah, Santhapparaj, & Arumugam (2011) conducted the study about Islamic retail banking services, awareness, perception, and preferences of urban and rural banking customers in Malaysia and revealed that there is lack of awareness among customers about Islamic retail banking. Therefore, there was no advantage in using Islamic retail banking as compared to conventional banking. Both type of customers preferred not to use Islamic services due to cost factor.

Research on Malaysian customers conducted by Haque (2010) concluded that male respondents were more interested in Islamic banks as compared to females.

According to Warde (2000), Islamic banking fulfilled the needs of customers and filled the gap that is present in the conventional banking system, hence, gave a good reason to support the Islamic banking. Warde (2000) described the attitudes of customers that were changing which

resulted in phenomenal growth in the ethical banking and customers refused the banking that encouraged the socially harmful activities.

Some of the studies attempted to compare Shariah nominate contracts with the contemporary contracts. Lewis(2009) finding the religious factor the most important in the Islamic banking suggested that Islamic banks should distinguish themselves in the mechanism of profit and loss sharing and this was also concluded by Manzoor, Aqeel, & Sattar(2010). Chong & Liu(2009) reported that the unique feature of Islamic banking is profit and loss sharing but in practice it was neglected and Islamic banks were operating much closer to the conventional banks deposits.

Firoozye (2009) argued that Islamic finance was a new industry but it had many risks and that Islamic finance should have separate identity that would not lead to the opinion that conventional methods are correct and can be adopted.



## Chapter 3

### **ISLAMIC BANKING: HISTORICAL PERSPECTIVE**

Islam is a comprehensive religion and it gives a solution for every aspect of life. Management of finance is a very important one and cannot be neglected. Islamic banking and finance is the collection of all those financial matters that are likely to be faced by a person in his life. Islamic banking and finance movement is the struggle of Islamic scholars to provide people with a Shariah compliant financial service that is devoid of interest rate. In the contemporary period efforts to eliminate interest started when, in 1946 Qureshi, in 1948 Siddiqi and in 1952 Ahmed presented the idea of Islamic banking (Turk & Sarieedine, 2006). More progress was made in 1955 when Uzair presented a more comprehensive model for Islamic banking. Afterwards more scholars defined the line for the development of Islamic banking including Irshad, Maududi, Al-Arabi, M N Siddiqi and Al-Sadr. First Islamic banking model was developed by Mit-Ghamar social bank established in 1963 in Egypt. The Islamic Development Bank was the first Islamic financial institution with a multilateral profile. In a very short span of time, the number reached to 250,000 depositors, however, its popularity dwindled in 1967 because of political reasons (Iqbal & Molyneux, 2005).

In 1970s, Islamic banking acquired significant shape especially in Middle Eastern countries. In this time period many reputable banks were established including Dubai Islamic bank, Kuwait Finance House, Dar-Al-Maal Al-Islami, and Faisal Islamic bank of Sudan. In this era many other

Muslim countries including Iran, Pakistan, and Sudan, took decisions for Islamization of their economy and banking sector (Ahmed, Malik, & Humayoun, 2010).

## **3.2 Islamic banking in Pakistan**

### **3.2.1 1970s – 1980s**

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

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

During the period of 1979-1992 a number of initiatives in the banking sector were taken by the Govt. of Pakistan. In 1979 many interest free transactions were introduced in the companies like

National Investment Trust, House Building Finance Corporation, and Investment Corporation of Pakistan. In 1980, many mudarbah companies were introduced, Zakat ordinance was announced and it was made compulsory for the national banks to introduce interest free counters for their customers (Khan & Bhatti, 2008).

In 1984, State Bank of Pakistan issued a circular on 20 June. Therefore, 12 modes of finance were mentioned in this circular. The State Bank of Pakistan divided these modes of finance into three categories and decided to remove the interest rate from the economy, hence ordered banks to fulfill the needs through these approved modes of financing. The customers of interest based deposits were ordered either to shift their deposits to PLS account or to withdraw their amount before July 1985. Moreover, it created the four committees for the development of legal and institutional framework for practice (SBP, 2008).

### **3.2.21980s - 1990s**

There were some deficiencies in the Islamic banking practices. In the late 1980s there were many complaints and objections on the practice of Islamic banking and finance. In 1991 Federal Shariat Court gave the decision that the prevailing practices of banks in Pakistan are interest based, and ordered for its elimination. The document of Federal Shariat Court was a very good and informative document that contained all the details about interest rate. Because of this verdict of Federal Shariat Court, the government faced a lot of pressure from different sectors of economy and individuals for its implementation. There were different groups some of which were against the decision of Federal Shariat Court they argued that if it is implemented the economy of Pakistan would left alone and would not be able to compete with international economy and they decided that government should appeal against the decision of Federal Shariat Court. Firstly, the government made promise to religious parties that it would not appeal in

Supreme Court but the financial institutions decided to appeal. When there were only two days left in the deadline given by Federal Shariat Court the government decided to appeal in Supreme Court. Supreme Court could not proceed the interest petitions for some years because of incomplete quorum and the government and financial institutions continued dealing with the interest.

In July 1991 the government established Commission for Islamization of Economy that had aim of restructuring the financial and economic sector of Pakistan in accordance with Shariah. Government put the pressure on CIE, hence it submitted the report in June 1992 for abolishing interest from the economy of Pakistan but government did not listen to that.

### **3.2.3 Effort of IIIE towards Islamic banking system**

Although CIE was a permanent institution but it has no resources to implement the economic policy according to Shariah, hence, it sought help from International Institute of Islamic Economics. The International Institute of Islamic Economics, established under the International Islamic University Islamabad. In July 1998, IIIE submitted its report for transformation of interest based system into interest free system. According to IIIE, the banking model it presents is the complete banking model that can replace the interest based system. The model was based on Bai Salam, Bai Muajjal, Mudarabah, Musharakah and Ijarah. It was a good model but could not be implemented because of huge domestic and foreign debt and structural imbalance. The Federal Shariat Court judgment was approved by the Supreme Court hence required to Islamize the economic and financial system of Pakistan by June 2001. The progress of government was not satisfactory so the Supreme Court extended the date till June 2002. The government argued the definition of riba and impracticability of that model.

### **3.2.6 2000 - Onwards**

In June 2002, the Supreme Court asked the Federal Shariat Court to revise the case to find the clear points raised by the parties. It was not a good and neutral decision hence, in 2002 by the effort of some individuals first private Islamic bank started working in Pakistan. There is criticism on the Islamic banks but somehow it started working in the name of Islamic banking. Gradually, there were other banks that started working in the name of Islamic banking (Haron, 1998). Currently there are five Islamic banks working in Pakistan. State bank of Pakistan allowed the conventional banks to start separate branches that can provide Islamic services. So, currently all the conventional banks are providing Islamic services to their customers.

## **METHODOLOGY**

### **4.1 Population**

This research is based on primary data. It includes the opinion of customers of different types of banks viz full fledge Islamic banks, conventional banks and standalone Islamic banking branches of conventional banks were considered. The respondents belonged to different age groups, educational and occupational background, irrespective of gender.

### **4.2 Sampling Procedure**

Three branches of each type of bank were selected at random from Islamabad and Rawalpindi cities where 150 customers were selected from each type of bank. The customers were interviewed on a structured questionnaire through experienced enumerators. The sample remained un-weighted in respect of gender to avoid any bias.

### **4.3 Questionnaire**

The areas of questions consist of the following;

- Personal information
- Preference for bank selection
- Opinion about Shariah compatibility of Islamic standalone branches vs. full fledge Islamic banks
- Knowledge of customers about Islamic financial practices and products
- Level of satisfaction about service quality of banks

Questions were designed keeping these areas in mind and to conform to the objectives of the study. A pilot survey was conducted and necessary adjustments were made in the questionnaire. On the average, it took 15 to 20 minutes of enumerator to interview a respondent customer. The completed questionnaires were reviewed for completeness where 20 questionnaires were rejected and remaining 430 were considered for analysis.

#### **4.4 Data analysis**

The responses of the questionnaires were summarized in SPSS software. Cross tabulation was done for getting the overall results of the research. All the results were then converted into percentages/ proportions. The bar diagrams along with summary statistics were used to interpret the results of the research.

## RESULTS AND DISCUSSION

The results are organized in following order:

- Customers' knowledge about Islamic banking concepts/ terminologies
- Relationship between knowledge of Islamic banking concepts and bank choice
- Perception of customers about difference between conventional banks, Islamic banks and standalone branches
- Customers' satisfaction and loyalty
- Relationship between other variables and bank choice;
  - Demographic factor
  - Education (conventional and religious)
  - Occupation

### 5.1 Knowledge about Islamic banking concepts/ terminologies

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

#### 5.1.1 Familiarity with the term Islamic banking

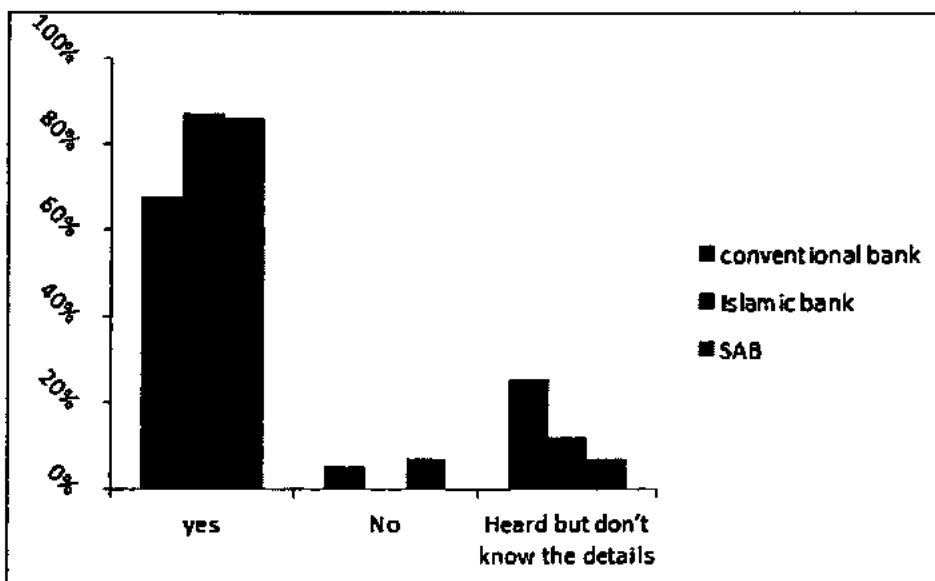
The very basic question is whether or not the customers were aware about Islamic banking. The customers who have no access to electronic or print media might be unfamiliar with this term. Therefore, they could not join any Islamic bank despite their will to refrain from conventional banking. For measuring familiarity with Islamic banking, a specific question was asked "Have you ever heard about Islamic banking?" The response is summarized in Table 5.1.1.



**Table: 5.1.1 Familiarity with the term Islamic banking**

Type of bank	Have you ever heard about Islamic banking?		
	yes	No	Heard but don't know in detail
conventional bank	68%	5%	26%
Islamic bank	87%	0%	12%
SAB	86%	7%	7%

On average, a negligible proportion of only 2 percent respondents did not hear about Islamic banking, while majority (98%) had some knowledge about it. Comparing knowledge of customers of different banks, a smaller proportion (68%) of conventional banking customers were aware about Islamic banking than customers of other two bank types, reflecting smaller amount of interest in Islamic banking whereas the interviews were held in the vicinity of Islamic banks. Accordingly, the largest proportion (26%) did not hear much details about Islamic banking.



### Graph 5.1.1: Familiarity with the term Islamic banking

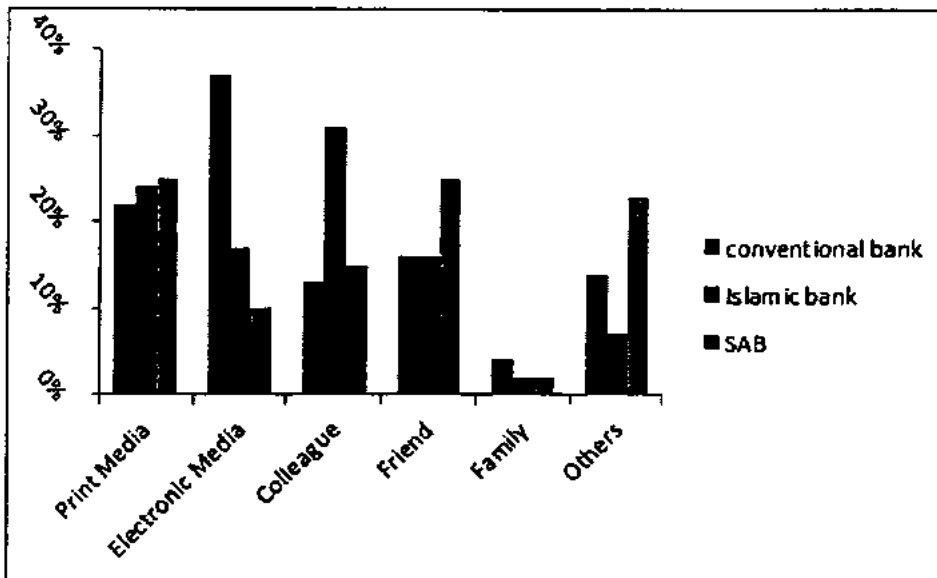
#### 5.1.2 Source of familiarity

To know which one was most important source in propagating the knowledge of Islamic banking, respondents were asked "From where did you hear about Islamic banking?" The response is summarized in the table 5.1.2.

**Table 5.1.2 Source of Familiarity**

Type of bank	From where did you hear about Islamic banking?					
	Print Media	Electronic Media	Colleagues	Friends	Family Members	Other Sources
Conventional bank	20%	37%	11%	16%	4%	12%
Islamic bank	24%	17%	31%	16%	4%	7%
SAB	25%	10%	15%	25%	2%	23%

On average, the most (35%) respondents heard about Islamic banking through electronic media followed by print media, friends, and other sources. Only 2 – 3% respondents heard from colleagues or family members. As such the most effective source happens to be electronic and print media through advertisements and specific awareness programs or TV lectures. It is also helpful to understand the significance of these sources including Islamic banks to approach the market share through these tools of advertisement. Among customers of different banks, electronic media, colleagues and friends have become the most effective institutes for conventional, Islamic, Standalone Branch customers respectively.



**Graph 5.1.2 Source of Familiarity**

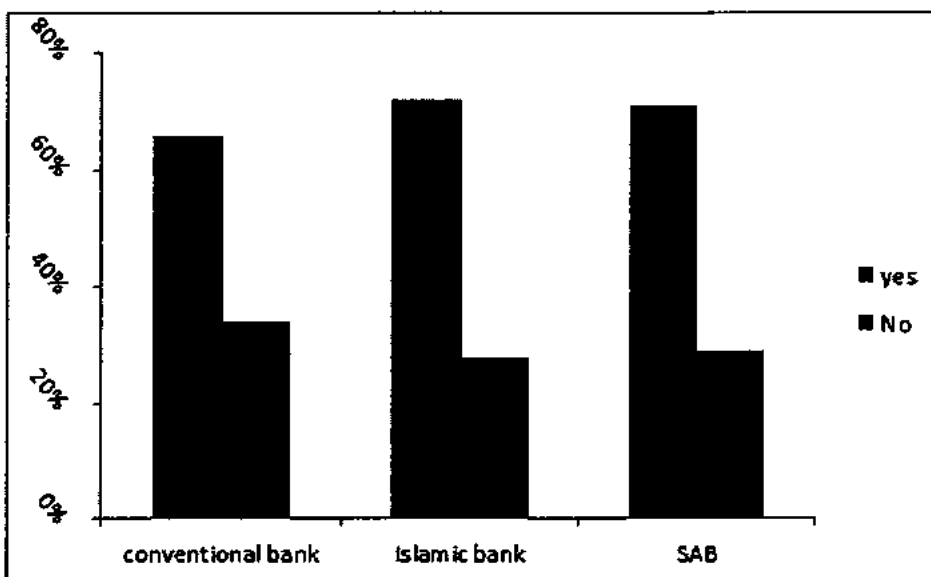
**5.1.3 Understanding of Islamic banking concepts/ terminologies:**

Familiarity with Islamic banking terminologies is supposed to be a facilitating factor to become a customer of Islamic bank. In first step, a general question was asked about respondents' understanding of Islamic banking, particularly was to have an idea about the understanding of basic concepts of Islamic banking. Therefore, following question was asked "Do you understand the basic concepts of Islamic banking?" The response of customers is summarized in the table 5.1.3.

Table 5.1.3:

Type of bank	Do you understand the basic concepts of Islamic banking?	
	yes	No
conventional bank	66%	34%
Islamic bank	72%	28%
SAB	71%	29%
Average	70%	29%

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



**Graph 5.1.3: Understanding of the basic concepts of Islamic banking**

**5.1.4 Purpose of using bank services**

The reason of asking the question about purpose of usage is to know whether the customers are using bank services because of their own desire or they are obliged to use such services.

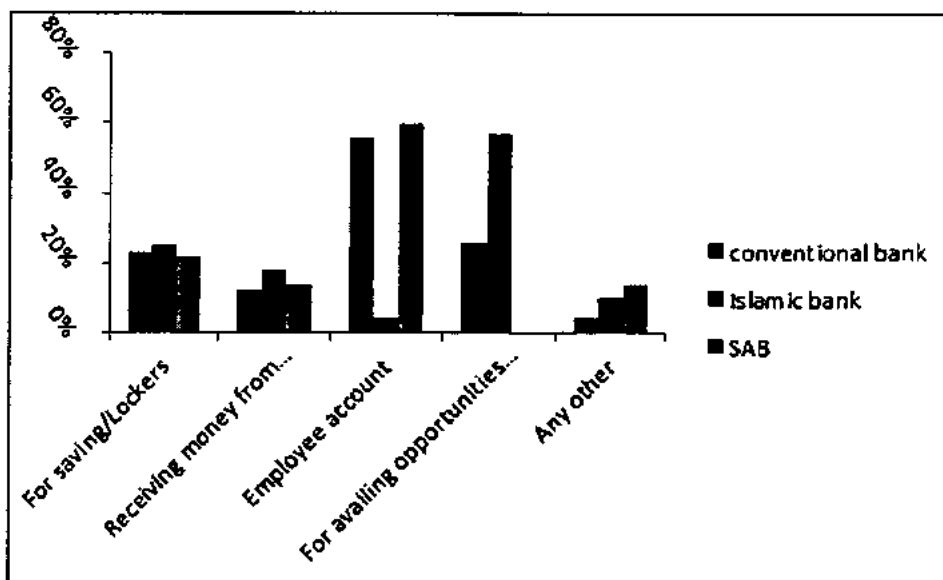
Therefore, following question was asked “For what purpose do you use services of this bank?”

The response of customers is summarized in the table 5.1.4:

Table 5.1.4:

Type of bank	For what purpose do you use services of this bank?				
	For saving/Lockers	Receiving money from abroad	Employer opened the account	For availing opportunities given by your bank	Any other
conventional bank	13%	10%	56%	20%	2%
Islamic bank	20%	10%	4%	56%	10%
SAB	20%	10%	60%	0	10%

The results show that the majority of customers of conventional banks and standalone branches were using services of respective banks to receive their salary. In conventional banks, 56 percent customers use bank accounts for receiving their salary and only 13 percent customers use it for saving their money. This shows that customers are not interested in banking services and they just want to receive their salary. It can be possible for some customers that if the customers have the option of receiving salary in cash, they would not open their account. There is another possibility that they do not want to open saving accounts as they feel it involves interest. In the Islamic banking sector, 56 percent customers want to avail the opportunities given by the bank. The opportunity might be profit or remaining safe from interest and halal investment.



Graph 5.1.4: Purpose of using bank services

### 5.1.5 Concerns of customers about Islamic banking

Concern of customers is important, hence it is necessary to have an idea whether they are concerned about Islamic banking or it doesn't make any difference for them. Therefore, the following question was asked "Do you ask from your banks about the Shariah compatibility of the bank operations?" The response of customers is summarized in table 5.1.5.

Table 5.1.5:

Type of bank	Do you ask from your banks about Shariah compatibility of the bank operations?		
	Frequently	Seldom	Never
conventional bank	10%	33%	56%
Islamic bank	23%	49%	28%
SAB	25%	48%	27%

There were 28 percent customers of Islamic banks who never asked about shariah compatibility of banking operations. The reason behind never asking about it can be their perception that their knowledge about the respective bank is enough and they stick on it because they have full trust on it or they don't care about shariah compatibility of bank. However, it shows that almost half of the customers care about it and they ask questions from the bank when they get time.



**Graph 5.1.5: Customers' concern about shariah compatibility of Islamic banking**

### **5.1.6 Familiarity with the operating procedures of Islamic banks**

This is important to know whether the customers know the operating procedures of Islamic banks or not because if they don't know the operating procedures of Islamic banks how can they claim that Islamic banks are doing halal transactions. It also gives the idea that if the conventional banks customers are aware of operating procedures of Islamic banks still they are not adopting it, it shows that they do not find it acceptable. Hence, the following question was asked "Do you understand the operating procedure of Islamic banks?" The response of customers is summarized in Table 5.1.6.

Table 5.1.6:

Type of bank	Do you understand the operating procedures of Islamic banks?			
	Completely	Somehow	Little bit	Don't know
conventional bank	10%	23%	27%	39%
Islamic bank	17%	32%	22%	28%
SAB	13%	44%	20%	18%

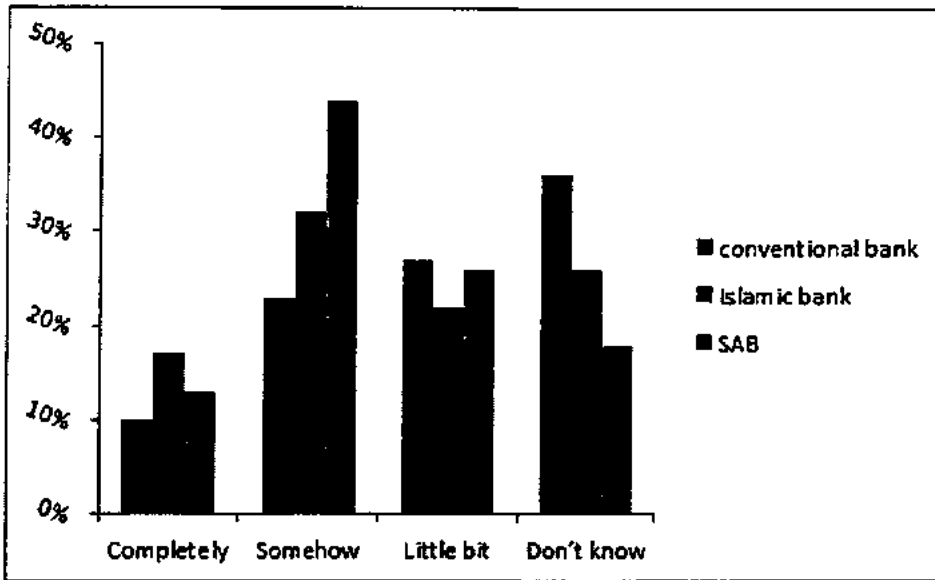
When the customers were asked about the operating procedures of Islamic bank, on the average only 13 percent customers replied that they know complete procedure of Islamic banks, 32 percent knew somehow and 25 percent knew little bit, and 27 percent did not know. In the Islamic banks 26 percent knew little bit and 28 percent did not know. In the conventional banks 39 percent did not know the operating procedures of Islamic banks. It is possible that conventional bank customers did not know the operating procedures of Islamic banks, but even in Islamic banks, customers did not know the operating procedures of Islamic banks. There is lack of awareness; it is the responsibility of Islamic bank to educate the customers about the operating procedures.



Table 5.1.6:

Type of bank	Do you understand the operating procedures of Islamic banks?			
	Completely	Somehow	Little bit	Don't know
conventional bank	10%	23%	27%	39%
Islamic bank	17%	32%	22%	28%
SAB	13%	44%	20%	18%

When the customers were asked about the operating procedures of Islamic bank, on the average only 13 percent customers replied that they know complete procedure of Islamic banks, 32 percent knew somehow and 25 percent knew little bit, and 27 percent did not know. In the Islamic banks 26 percent knew little bit and 28 percent did not know. In the conventional banks 39 percent did not know the operating procedures of Islamic banks. It is possible that conventional bank customers did not know the operating procedures of Islamic banks, but even in Islamic banks, customers did not know the operating procedures of Islamic banks. There is lack of awareness; it is the responsibility of Islamic bank to educate the customers about the operating procedures.



Graph 5.1.6: Familiarity with the operating procedure of Islamic banks

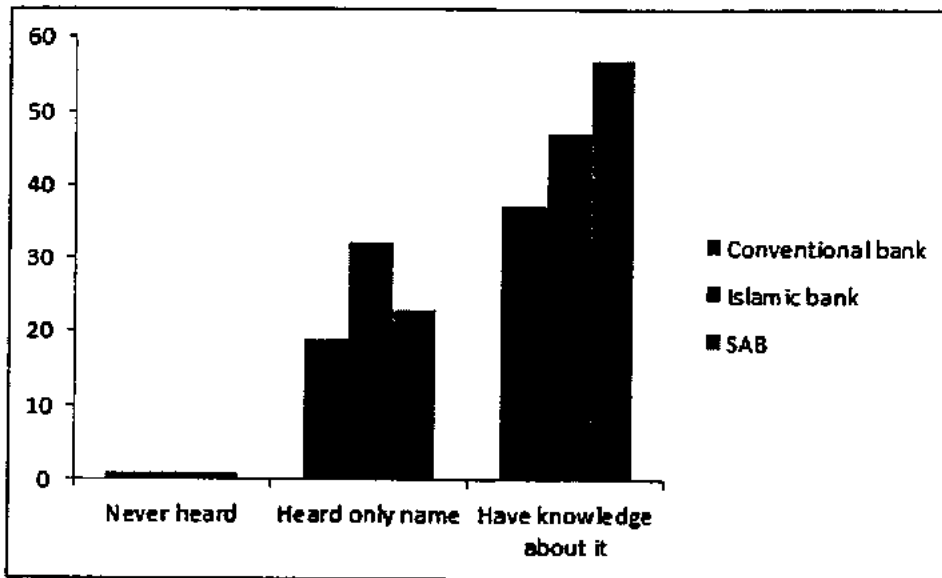
## 5.2 Relationship between knowledge of Islamic banking concepts and bank choice

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

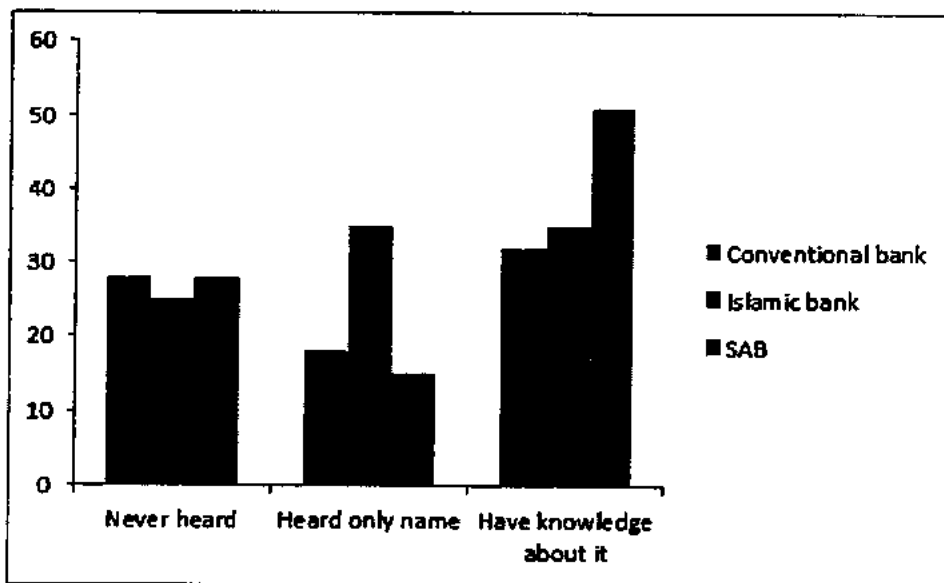
Table 5.2: Knowledge of Islamic banking concepts and bank choice

Questions	Never heard			Heard only the name but without sufficient knowledge			Heard and had knowledge about it		
	CB	IB	SAB	CB	IB	SAB	CB	IB	SAB
Have you heard about Musharkah?	1	1	1	19	32	23	37	47	57
Have you heard about Murabaha?	26	17	19	19	31	20	32	44	55
Have you heard about Istisna'?	28	25	28	18	35	15	32	35	51
Have you heard about Ijarah?	24	20	12	15	33	22	38	41	60
Have you heard about Mudharba?	20	14	13	18	36	26	35	38	52

The results show that there are very less respondents who never heard about musharkah, that is the basic contract of Islamic law. However, even in Islamic banks, half of the respondents did not had knowledge about it, whereas istisna, which is relatively less in usage, one fourth customers of all banking sectors had not heard its name. In Islamic banks, only 35 customers had knowledge about it. Ijarah is well-known contract used in Islamic banks so even in conventional banks, 38 percent customers have heard about it. Murabaha is also a contract about which customers of Islamic banks have heard. Mudarbah is also a famous contract but even in Islamic banks, 14 percent customers have not heard about it. It is the responsibility of Islamic banks to educate their customers about the products.



**Graph 5.2.1: Familiarity with the term Musharkah**



**Graph 5.2.2: Familiarity with the term Istisna**

## 5.3 Perception of customers

### 5.3.1 Opinion on services of conventional banks

The purpose of asking the opinion of customers about conventional banking services was to know whether the customers were different in using these services or they could not find any alternative. Hence the following question was asked “The conventional bank offers services on

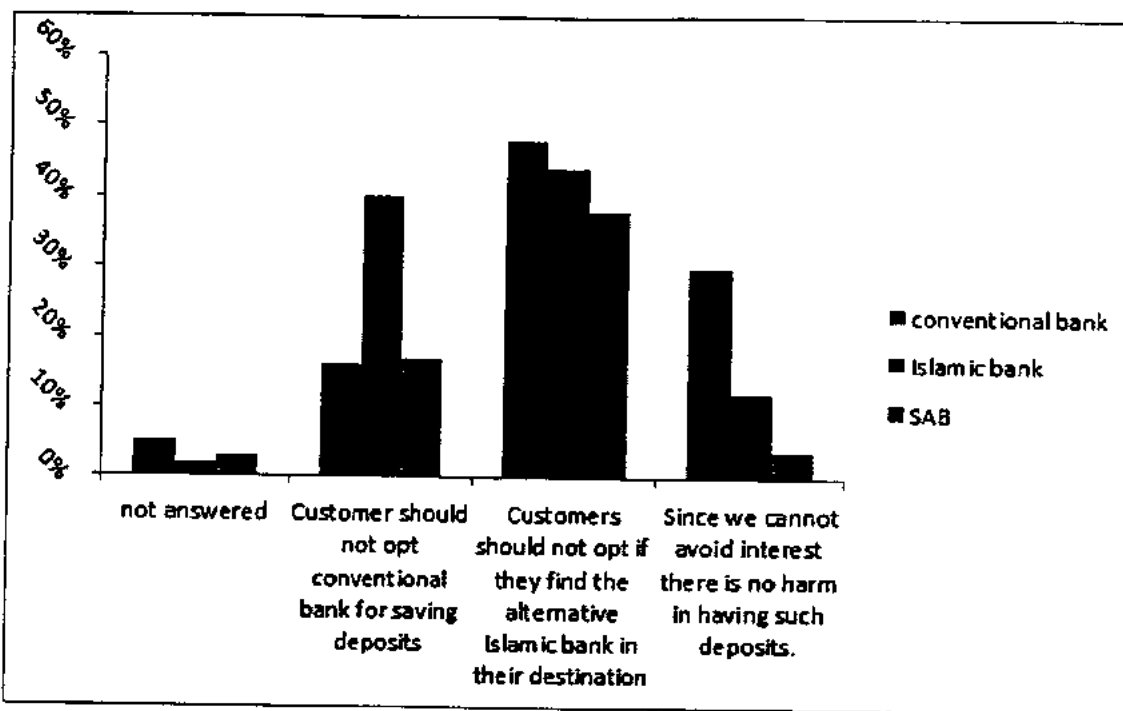
the basis of interest; what is your opinion about these services?" The response of customers is summarized in table 5.3.1.

Table 5.3.1:

Type of customers	The conventional bank offers services on the basis of interest; what is your opinion about the services?			
	Did not respond	Customer should not opt conventional bank for saving deposits	Customers should not opt if they find the alternative Islamic bank in their destination	Since we cannot avoid interest there is no harm in having such deposits.
conventional bank	5%	16%	48%	30%
Islamic bank	2%	40%	44%	12%
SAB	3%	17%	38%	4%

The above table reflects that, 27 percent customers thought that we cannot avoid interest so there is no harm in using such services. On the average, 24 percent customers thought that customer should not opt saving accounts of conventional banks whereas 43 percent customers said that if there is an Islamic bank in their area they must not go towards conventional banks. Islamic banks should target these customers through the contract with different organizations because almost half of the customers of conventional banks have employee accounts in these banks and this question shows that they are not willing to use these services. In the Islamic banks, 12 percent customers thought that the prevailing interest rate cannot be avoided so there is no harm in having such deposits. It shows that these 12 percent customers do not care about Islamic banking they might have their employee accounts in these banks.

TM/2009.5



Graph 5.3.1: Opinion on services of conventional bank

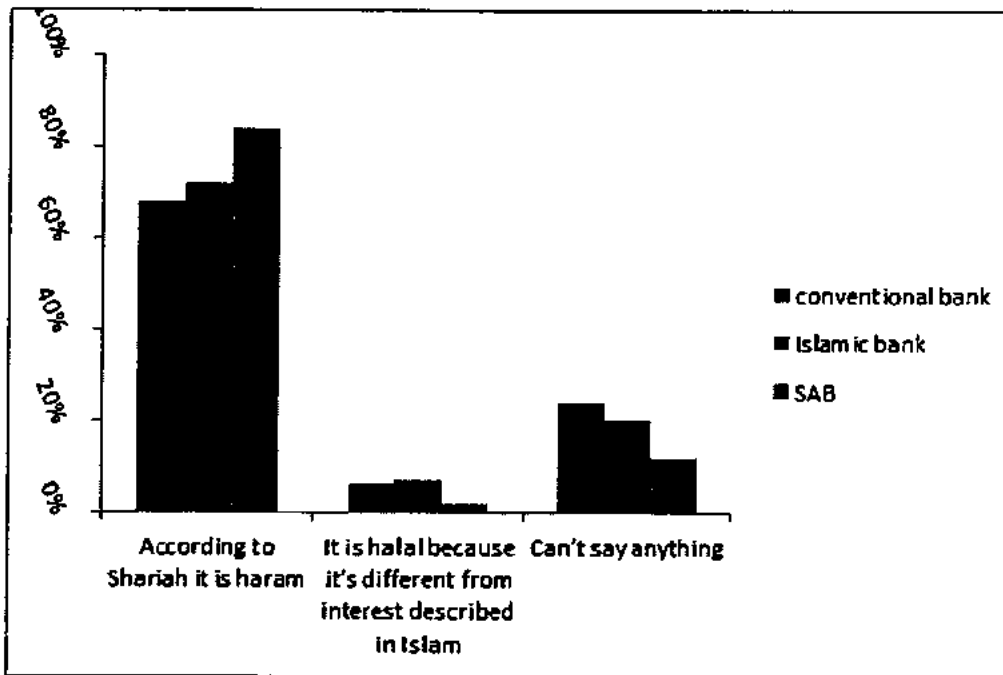
### 5.3.2 Opinion on interest based transactions of conventional banks

This question was asked to get the opinion of customers about the interest based transactions of conventional banks. Therefore, the following question was asked "What do you think about interest of conventional banks?" and the response of customers is summarized in table 5.3.2.

Table 5.3.2:

Type of bank	What do you think about interest of conventional banks?		
	According to Shariah it is haram	It is halal because it is different from interest described in Islam	Can't say anything
conventional bank	68%	6%	24%
Islamic bank	72%	7%	20%
SAB	84%	2%	12%

On the average 74 percent customers thought that the interest involved in the banks is haram according to shariah. Only 5 percent thought that it is halal because it is different from the interest described in Islam. Interestingly the customers of Islamic bank are more, who thought that this interest is different.



**Graph 5.3.2:** Opinion on interest of Conventional banks

### 5.3.3 Perception on Shariah compatibility of Islamic banks

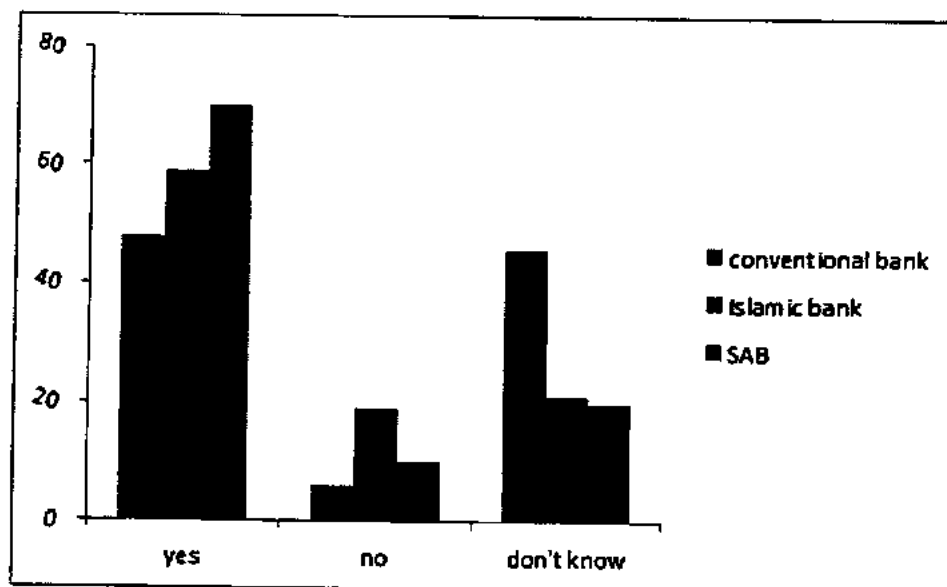
In the section of perception the customers were asked about the shariah compatibility of Islamic banks to get the idea what customers think about the products of these banks. Therefore, the following question was asked “Do you believe that products of Islamic banks are Shariah compliant?” and the response of customers is summarized in table 5.3.3.

**Table 5.3.3:**

Type of bank	Do you believe that products of Islamic banks are Shariah compliant?		
	yes	no	don't know
conventional bank	48%	6%	46%
Islamic bank	59%	19%	21%
SAB	70%	10%	20%



When the customers were asked about shariah compatibility of Islamic banking products, 48 percent customers from conventional banks were agreed with the shariah compatibility of Islamic banks, 46 percent did not know about it and 6 percent said no. From the Islamic banks, 59 percent said yes, and 40 percent of Islamic banks' customers disagreed or shown no concern regarding the shariah compatibility of Islamic banks. From the standalone branches, 70 percent believed that it is shariah compliant, and 20 percent did not had knowledge about it. If we conclude the results of customers' opinion about shariah compatibility we can analyze that there is less awareness about products of Islamic banking because almost 50 percent customers do not have knowledge about these products and 20 percent from Islamic banking sector do not know. Interestingly, answer of more customers from Islamic banking sector is 'no', they do not feel that the products of Islamic banks are shariah compliant.



**Graph 5.3.3: Opinion about shariah compatibility of Islamic banks' products**

### 5.3.4 Customers' perception about difference in three types of banks

Customers' perception regarding three types of banks was asked to know whether the customers feel any difference or they think these are same, if they feel any difference what type of

difference it is. Hence, the following questions were asked and the results are also summarized in table 5.3.4.

Table 5.3.4:

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

Customers were asked about the difference between conventional bank and SAB, conventional bank and Islamic bank, and Islamic bank and SAB, 48 percent customers responded they did not feel any difference between conventional bank and SAB. From Islamic banks, 20 percent customers replied there is no difference between Islamic banks and standalone branches. From SAB, 23 percent customers responded there is genuine difference between conventional banks and standalone branches. From Islamic banks, 12 percent customers replied there was only difference of labeling between conventional banks and Islamic banks and 40 percent respondents from conventional banks thought there is only difference of prices in conventional bank and Islamic bank.

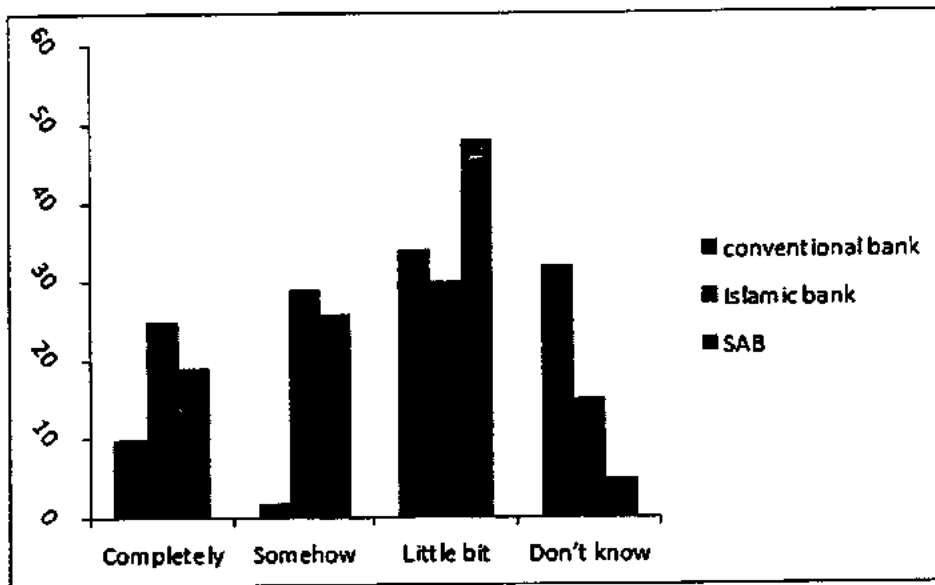
**5.3.5 Knowledge of customers about operating procedure of products of Islamic banks they prefer**

There are many customers who analyze the products of both conventional and Islamic banks and they adopt which they find best. The purpose of asking the question about the procedure is to get the idea that if they feel there is only difference of prices then what is their knowledge about the procedure of products. If they do not know the procedure how can they claim that both systems are same. Therefore, the following question was asked “Do you know about the operating procedure of products of Islamic banking like car and house financing?” The results are summarized in table 5.3.5.

Table 5.3.5:

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

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



Graph 5.3.5: Knowledge about the operating procedure of Islamic banking products

## 5.4 Customer Satisfaction and loyalty

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

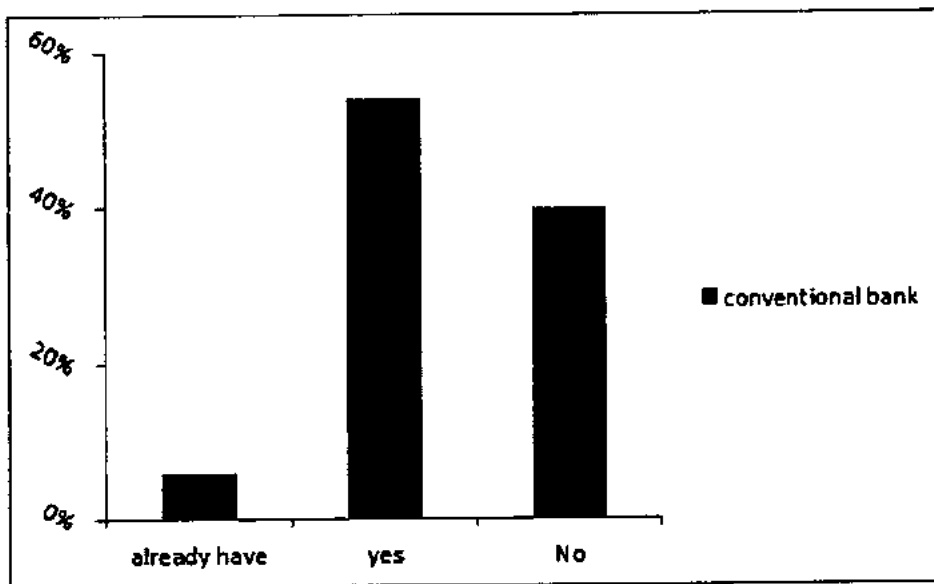
### 5.4.1 Willingness of customers for conversion to Islamic banks

This question was asked to check the willingness of customers for adopting Islamic banking. This question is very important as it gives the policy implication to Islamic banks. Therefore, the following question was asked “Do you want to convert your conventional account into Islamic account?” and the results were summarized in table 5.4.1.

Table 5.4.1:

Type of bank	Do you want to convert your conventional account into Islamic account?		
	already have	yes	No
conventional bank	6%	54%	40%

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



**Graph 5.4.1:** Willingness of customers for conversion to Islamic banks

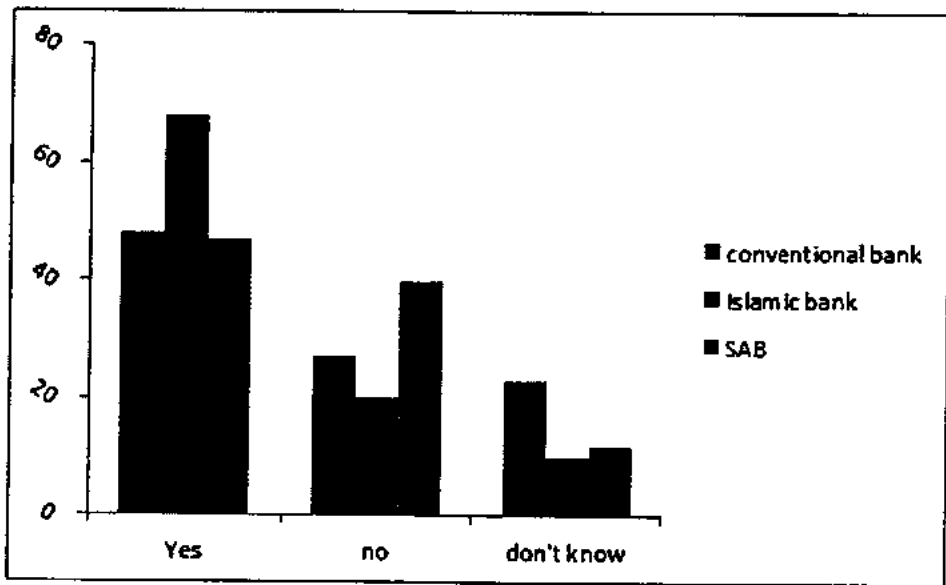
#### **5.4.2 Concern of customers about profit distribution by the bank**

This question is very important as the goal of this question was to check whether the customer is concerned with the profit of bank or he don't care whether the bank distribute the profit or not. Hence, the customer was asked "Would you continue dealing with this bank even in case the bank does not distribute any profit for 3 consecutive years?" and the results are summarized in table 5.4.2.

Table 5.4.2:

Type of bank	Would you continue dealing with this bank even in case the bank does not distribute any profit for 3 consecutive years?		
	Yes	no	don't know
conventional bank	48%	27%	23%
Islamic bank	68%	20%	10%
SAB	47%	40%	12%

In the conventional banks, most of the customers had bank accounts for salary purpose so they did not care if the bank would not distribute profit for a long time, however 28 percent customers who were concerned with the profit of bank and 12 percent people did not know what they would do if the bank will stop giving profit. The loyalty of Islamic banks' customers is higher than conventional bank customers.



**Graph 5.4.2: Assessing Concern of customers**

### **5.4.3 Assessing customer satisfaction about service quality of bank**

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

Table 5.4.3:

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

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



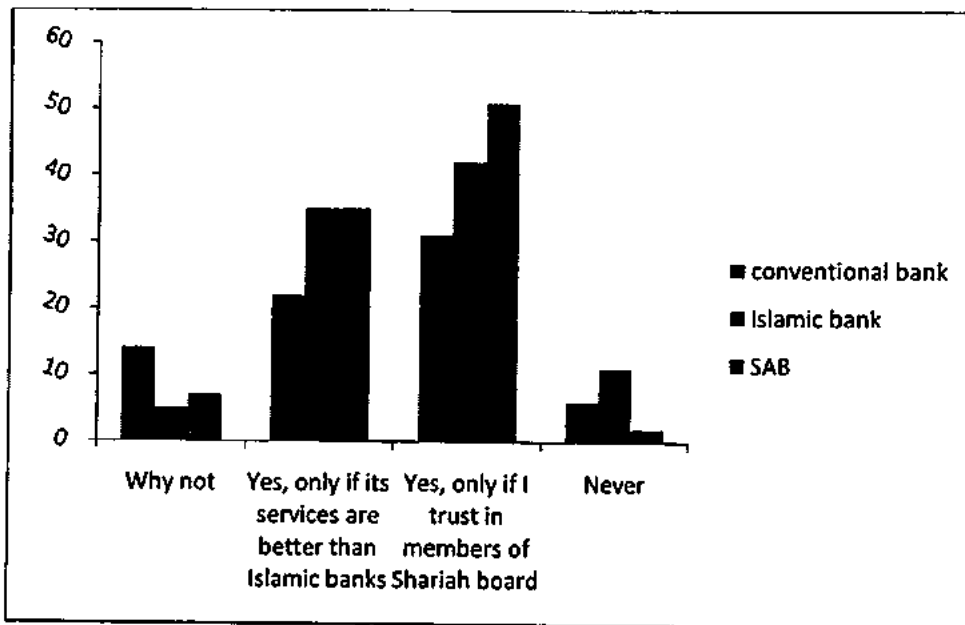
#### 5.4.4 Assessing the preference of customers in selection of bank type

This was important to assess the trust of customers on the banks whether they trust on standalone branches or they will not prefer these on Islamic banks. Therefore, following question was asked “If you will be given a choice between a full fledged Islamic bank and standalone Islamic branch, would you prefer standalone branch?” and the results are summarized in table 5.4.4.

Table 5.4.4:

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

When the customers were asked about the choice between Islamic banks and standalone branch, 41 percent replied they will prefer only if they trust shariah board members, 30 percent replied that they will prefer if the services are better than Islamic banks, 6 percent replied never prefer and 9 percent replied why not. This shows that 9 percent customers had full trust on these banks, and 6 percent did not trust even if these banks provide better services.



**Graph 5.4.4:** Assessing the preference of customers about bank selection

#### 5.4.5 Opinion of Islamic banking customers

This section is of great importance as in this section the customers of Islamic banks were asked about the reason of their satisfaction. It analyzes the behavior of customers towards the Islamic banking and their reason of adoption. The following table (table 5.4.5) includes different questions about it and the results are summarized in it.

Table 5.4.5:

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

Some questions were asked about the products of Islamic banks, while they were asked about religious satisfaction 27 percent customers were strongly agree, and 54 percent were agree, and 4 percent customers disagreed. In standalone Islamic branches, 19 percent customers were strongly agreed and 33 percent were agreeing whereas 12 percent strongly disagreed. This shows that Islamic banking customers were more satisfied than standalone branch customers. The reason might be the attachment with conventional branches.

When the Islamic bank customers were asked about the involvement of interest in Islamic products, 31 percent strongly agreed, 35 percent agreed, and 30 percent didn't know. In standalone branches, 32 percent strongly agreed, 27 percent agreed and 27 percent didn't know about it. This shows that there is lack of awareness in customers about Islamic banking products.

If we summarize the opinion of Islamic banking customers about the attitude of staff and environment, only 15 percent strongly agreed whereas 62 percent were neutral. In the standalone

branches, 28 percent strongly agreed, and 36 percent are neutral, that shows the attitude of standalone branch customers' staff was better than the attitude of Islamic bank customers.

There were 50 percent customers of Islamic banks who thought that the reputation of Islamic banks was better than conventional banks. In the standalone branches, the ratio was lesser than Islamic banks, 10 percent customers strongly agreed, 42 percent agreed and 36 percent were neutral.

Less Islamic banks customers were satisfied with the attitude of staff of the Islamic banks. Majority of customers were neutral when they were asked about consulting shariah scholars.

#### **5.4.6 Pricing and Shariah compatibility of products of Islamic banks**

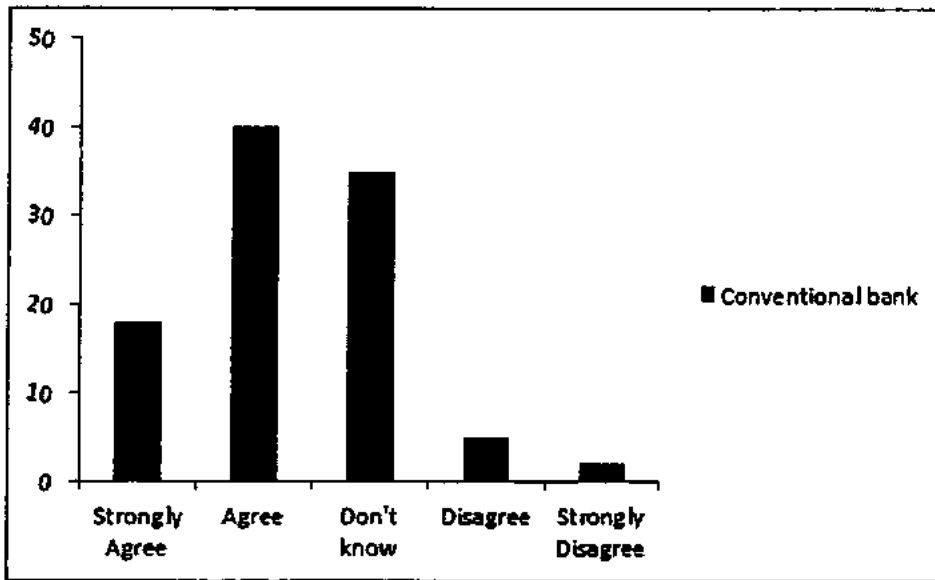
In this section the conventional banks' customers were asked about the Islamic banks' products. It will help in analyzing the reason for not adopting Islamic banks. The following table 5.4.6 includes the questions about it and it summarizes the results of these questions.

Table 5.4.6:

Questions	Strongly Agree	Agree	Don't know	Disagree	Strongly Disagree
	CB	CB	CB	CB	CB
Products of Islamic banks are expensive (earning on deposits is lesser and financing is expensive)	8%	25%	40%	17%	7%
Staff of Islamic banks cannot answer about products and issues of Islamic banking	18%	40%	35%	5%	2%
Non cooperative staff	6%	18%	36%	26%	12%
There is no difference between conventional and Islamic banks	7%	12%	36%	23%	19%
I have consulted scholars and I believe that Islamic banks are not Shariah compliant	4%	8%	52%	21%	14%
Islamic banking products are not according to my requirements	7%	14%	45%	22%	9%
Islamic banks do not give the products that conventional banks give	6%	20%	50%	15%	6%
Services of Islamic banks are not good	3%	15%	38%	29%	12%

According to customers of conventional banks, products of Islamic banks were expensive. They thought that financing was expensive and earning on deposits was less.

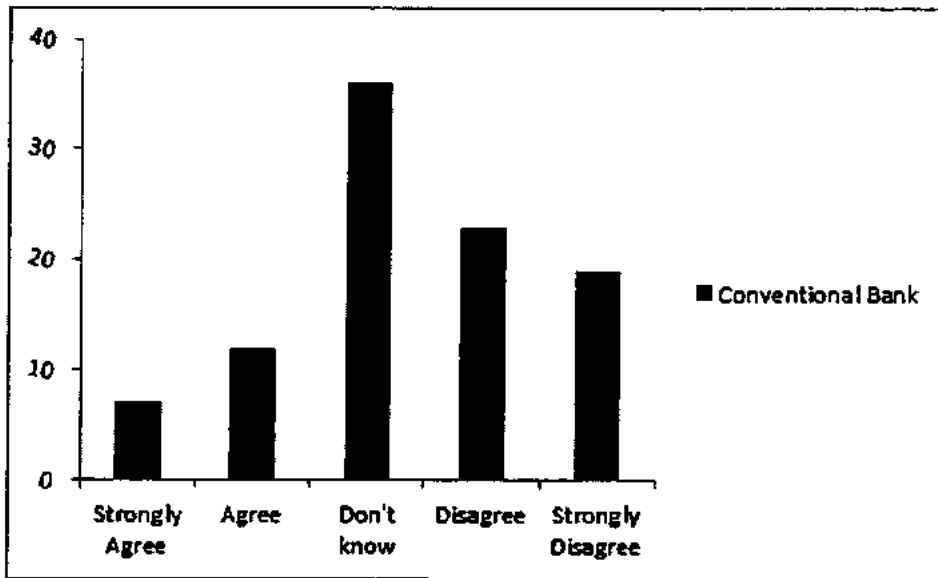
Majority of customers of conventional banks thought that the staff of Islamic banks cannot answer their questions about the products and issues of Islamic banking.



**Graph 5.4.6.1: Opinion of customers regarding knowledge of employees of Islamic banks**

Conventional bank customers felt that the staff of Islamic banks was non-cooperative. This is a big drawback of Islamic banks that they do not deal in a good way with the customers. Although 26 percent disagreed with this, but a single person should also be important for the staff and they should treat him in a good way.

On the average 20 percent customers thought that there was no difference between conventional and Islamic banks and 40 percent thought that there was difference between conventional and Islamic banks.



**Graph 5.4.6.2:** Opinion of customers about difference of conventional and Islamic banks

If we summarize the results of the above table we can say that mostly conventional banks customers did not know about the Islamic banking system but half of the customers agreed that the staff cannot answer the questions about the Islamic banking products. Islamic banks should educate their employees so that they can attract more customers towards it and satisfy their needs.

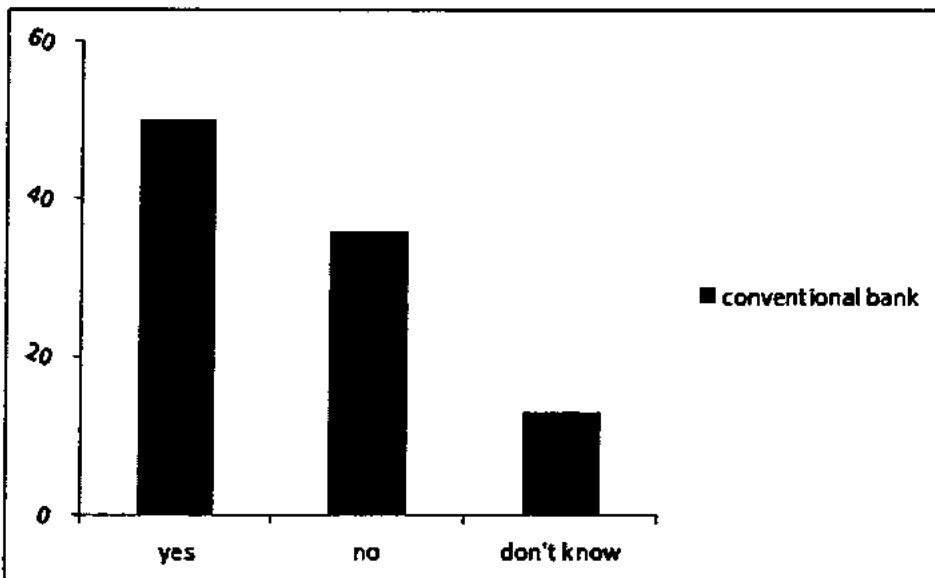
#### **5.4.7 Willingness of customers to shift to Islamic banks**

This section inquires whether the customers are willing to convert to an Islamic bank or not. The following question was asked “Do you have plan of conversion to an Islamic bank?” and the results were summarized in table 5.4.7.

Table 5.4.7:

Type of bank	Do you have plan of conversion to an Islamic bank?		
	yes	no	don't know
conventional bank	50%	36%	13%

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



Graph 5.4.7: Assessing willingness of customers about converting their account to Islamic banking account

#### 5.4.7.1 Reasons of not converting to an Islamic bank

From the previous question it is analyzed that there are many customers who are willing to convert their accounts to Islamic banks, below section summarizes the results of the reasons for

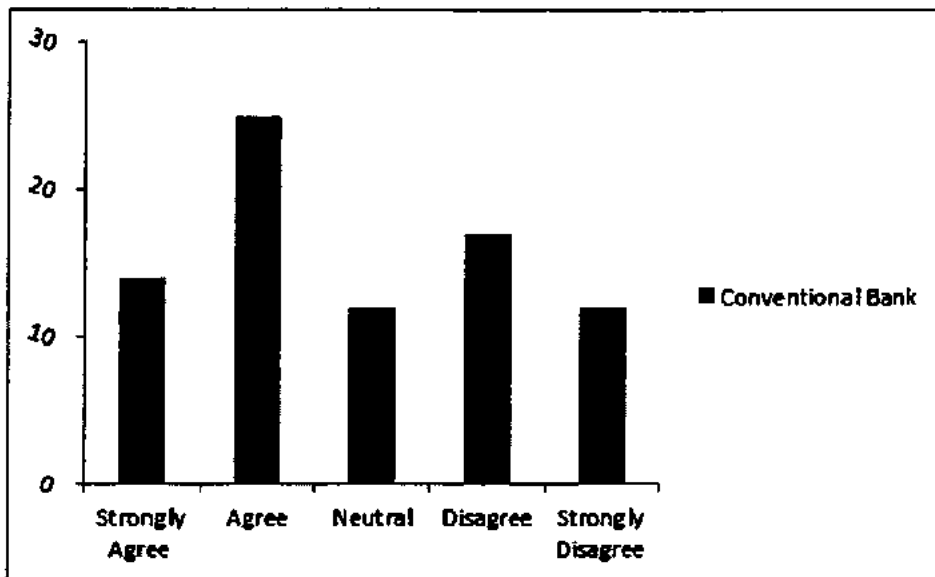


not converting yet. It gives a very good implication for Islamic banks to make the policy keeping these reasons in mind.

Table 5.4.7.1:

Questions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	CB	CB	CB	CB	CB
There is no Islamic bank in my area	14%	25%	12%	17%	12%
No Islamic bank approached me	20%	24%	12%	10%	2%
Procedure of opening an account is difficult in Islamic bank	8%	26%	28%	18%	8%
I am lazy or not finding any time	10%	20%	11%	15%	12%

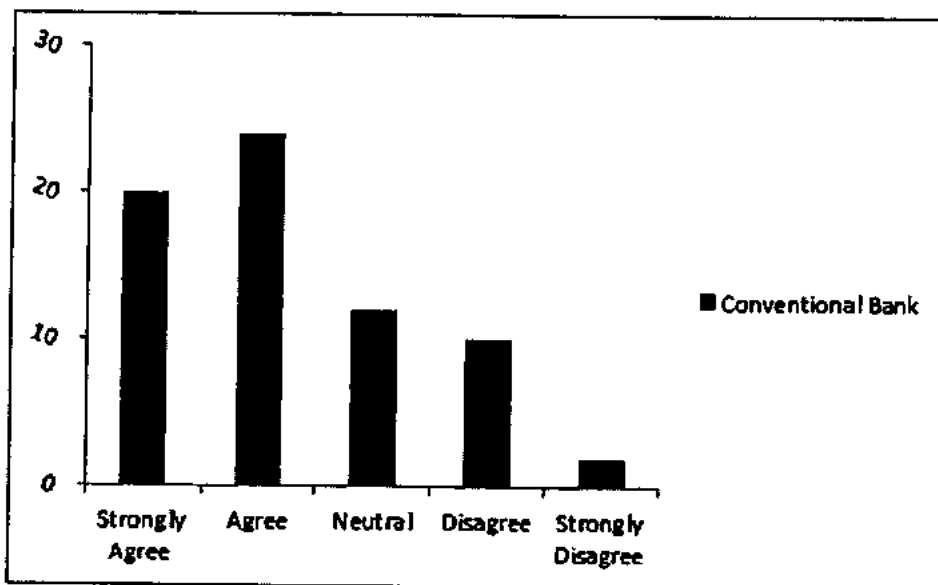
Almost 50 percent customers thought that there is no Islamic bank in their area. Islamic banks are new so they need more time to establish but customers should cooperate with these banks in establishing their network.



Graph 5.4.7.1.1: There is no Islamic bank in the area

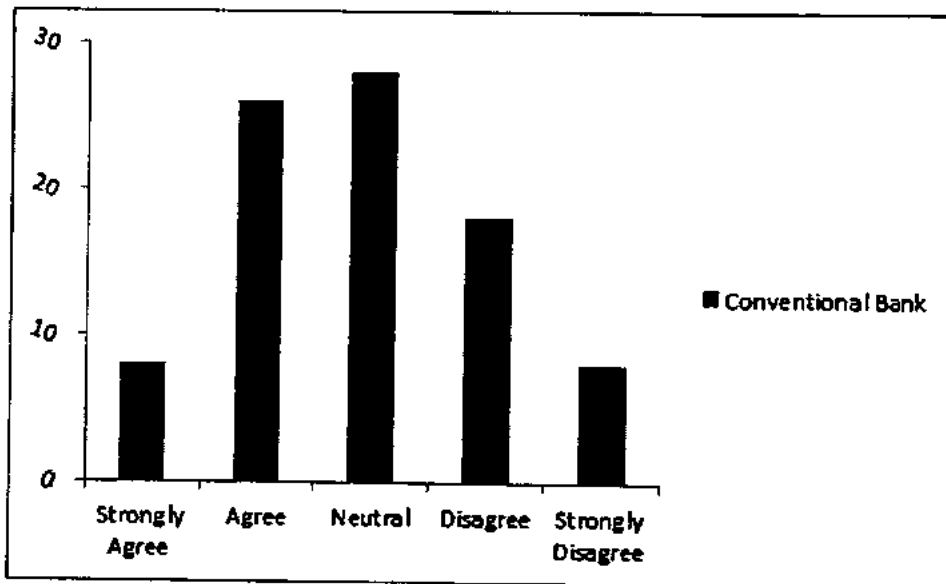
From the conventional banks, 20 percent customers felt the reason of not opening an account is that they are lazy, and not finding time to go to bank for opening an account and 27 percent customers thought that this is not the reason for not opening an account in Islamic bank.

More than half of the respondents thought the reason of not opening an account is that no Islamic bank approached them. Islamic banks should improve their method of advertising so that more and more customers can get the knowledge about it.



**Graph 5.4.7.1.2: No bank approached me**

Some 28 percent customers thought that the procedure of opening an account in Islamic banks was difficult that is why they were not opening account in these banks. Islamic banks should improve their procedure so that they can attract more customers towards Islamic banks.



**Graph 5.4.7.1.3:** Procedure of opening an account is difficult

## **5.5 Relationship between socio-economic profiles of customers and bank choice**

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

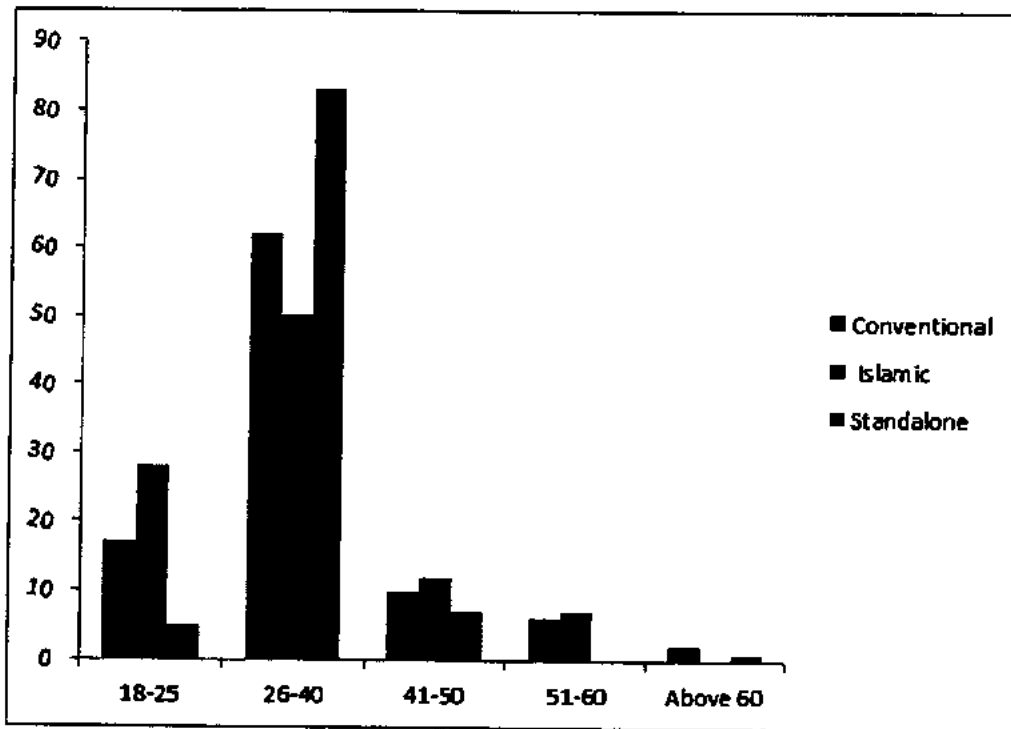
### **5.5.1 Age and bank choice:**

Age is the very important factor for making decision and selecting one from many things. The relationship of age with the bank choice is important because by comparing this it can be analyzed easily that what age group prefers which bank. The results for relationship of age and bank choice are summarized in table 5.5.1.

Table 5.5.1

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

While analyzing the effect of age on bank choice we can see that as the age of customers is increasing their number is also increasing, but in case of Islamic banks, mostly young customers e.g. from the age of 18-25. The customers from the age of 26-40 are interested in standalone branches the reason for this might be their interest in Islamic banking but they have some fear about Islamic banks as these are establishing or there can be another reason that is these customers have their accounts in conventional banks as these banks have opened their Islamic branches these customers have shifted their accounts in those branches.



**Graph 5.5.1:** Assessing relationship of age and bank choice

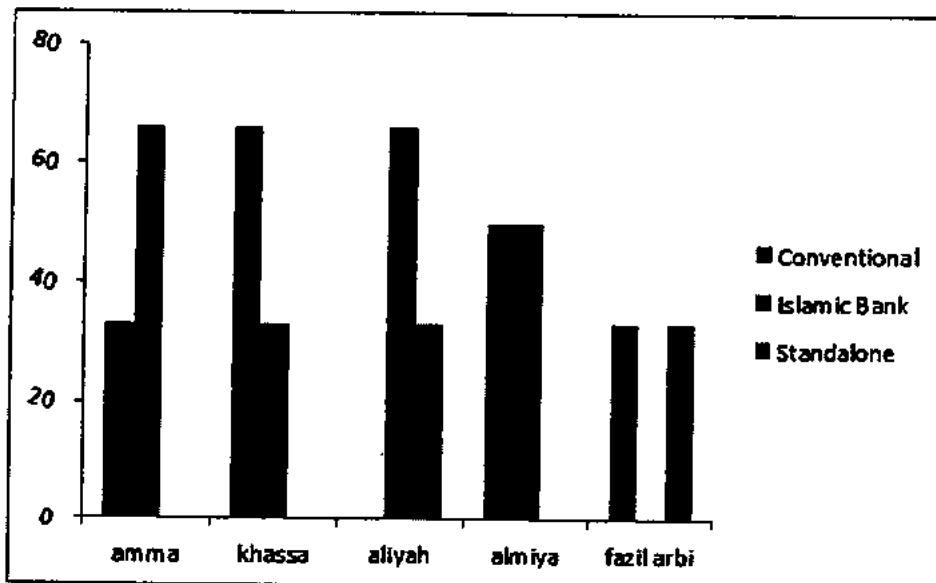
### 5.5.2 Bank type and religious education

Religious education is another important factor for bank selection. By analyzing this relationship, it can be assessed that religious community prefers Islamic banking or not as Muslims have faith that interest is haram. In this case customers having religious education should adopt Islamic banking. Is this the case or reverse; the results are summarized in table 5.5.2.

Table 5.5.2:

Type of bank	Relationship of bank type and religious education				
	amma	khassa	aliyah	almiya	fazilarbi
Conventional	33%	66%	0%	50%	33%
Islamic Bank	66%	33%	66%	50%	0%
Standalone	0%	0%	33%	0%	33%

This table shows that in case of conventional banks, as the religious education of customers is increasing, the number is also increasing, but those who have higher degree they prefer it less than the customers who do not have higher degree. In case of Islamic banks, when the education is increasing their ratio is decreasing.



Graph 5.5.2: Assessing relationship of Islamic education and bank choice

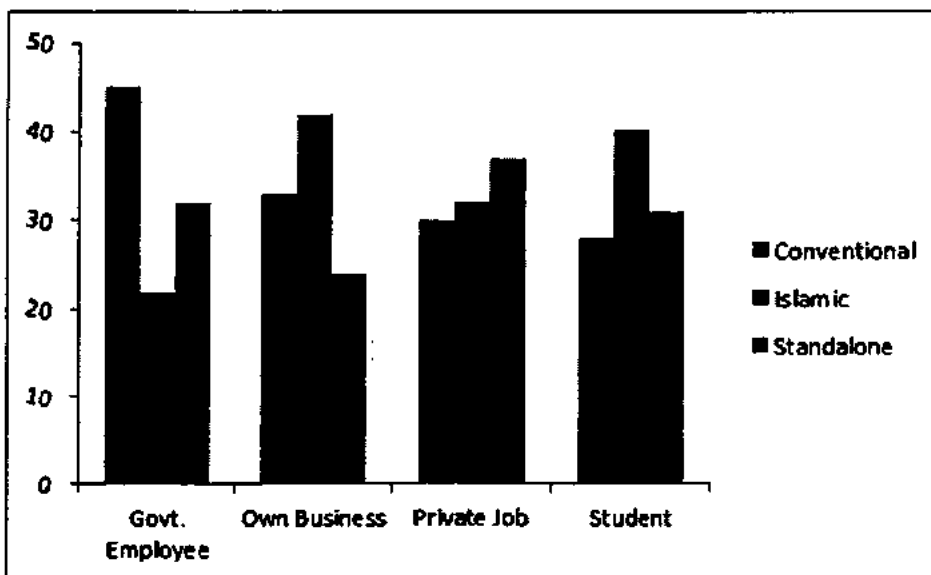
### 5.5.3 Bank type and type of business

To know the type of business shows that the customer is having the account in his bank is by authority or his own will. For finding this, relationship of bank type and type of business is analyzed and the results are summarized in table 5.5.3.

Table 5.5.3:

Type of bank	Relationship of bank choice and type of business			
	Govt. Employee	Own Business	Private Job	Student
Conventional	45%	33%	30%	28%
Islamic	22%	42%	32%	40%
Standalone	32%	24%	37%	31%

The results show that most of the Islamic bank customers have their own business whereas the conventional bank customers have their employee accounts in these banks. Mostly students prefer Islamic banks and the employers prefer conventional banks.



**Graph 5.5.3: Assessing relationship of type of business and bank choice**



## CONCLUSION AND RECOMMENDATIONS

### 6.1 Conclusion:

The results of research reveal that print and electronic media has been major source of communication for general awareness about Islamic banking. Majority of customers in all types of banks understood the basic concepts of Islamic banking. Majority of customers of conventional banking and SAB used banking services to receive their salary and without their own preference which in other words means that corporate sector or government departments did not prefer to keep accounts with Islamic bank. It was also found that the customers in general were not inquisitive about shariah compatibility of their banks and were not interested to know the operating procedures of their banks which is an important element at least for the customers of Islamic banks and SAB. As regards familiarity with Islamic banking concepts, majority of customers had heard the name of famous products like musharkah and mudarbah but almost one third of customers did not even heard the name of the Islamic banking products like istisna. This state is reflective of the situation that Shariah nominate contracts are well known due to historical perspective and use in early Islamic history. This could be one reason that the public in general desire the musharkah and mudarbah contracts to be frequently used by Islamic banks which, in fact, is not the case. Majority of customers in conventional banks had shown interest in moving to Islamic bank if they find some alternative in the vicinity. Almost 70 percent customers of conventional banks believed that the interest given in conventional banks was haram while 20 percent of Islamic banks customers didnot know about the interest of conventional banks. In

Islamic banks 40 percent customers either did not know or did not believe that the products of Islamic banks were shariah compliant.

As regards perception about difference between Islamic and conventional banks, 50 percent customers of standalone branches and 30 percent customers of Islamic banks believed that there was difference between conventional and Islamic bank. Only 25 percent customers of Islamic banks had complete knowledge of the procedures of Islamic banking products. When the customers were asked about the satisfaction they derive for their bank, the proportion of Islamic banking customers was higher who were more satisfied from the services delivered by their banks but they were not satisfied with the ATM availability in their area. Islamic banking customers were not satisfied with the attitude of staff perhaps because of poor attendance to the customers or inability to respond to the queries related to shariah questions. When the conventional bank customers were asked about the Islamic banks, majority of customers feels that the staff of Islamic banks cannot answer their questions about the issues of Islamic banking and the staff is non-cooperative. The customers of conventional banks (34%) were of the opinion that account opening procedure was difficult in Islamic banks, being one of the cause of not converting from conventional banks. Mostly young people and students preferred the Islamic banking. Customers who had qualified lower level of religious education (aama, khassa, or aaliyah) were not much aware of Islamic banking concepts therefore, mixed preferences were noted. As against this, the higher religious education like 'almiyah' helped them to select Islamic banks, maybe due to the reason of intensive study of fiqh-ul-muamlat at this stage.

## **6.2 Recommendations:**

From these results we can conclude with few points.

1. Islamic banking is the popular system among the young and educated generation. Islamic banks should capture this segment through electronic and print media.
2. The customers are familiar with the term Islamic banking; more awareness can be brought through the popular modes of communication.
3. Customers' knowledge should be enhanced to convince them and make a strong case for inclusion.
4. There is strong need to expand the Islamic banking and SAB network to urban, sub-urban and rural areas, offering them opportunity to join Islamic banks.
5. There is strong desire that the shariah knowledge of Islamic banking staff should be enhanced, enabling them to effectively communicate with the customers.
6. It is also desired that staff of Islamic banks should be improved and some training programs on Islamic values of personal relationship and code ethics should be imparted.
7. Islamic banks should use electronic and print media for promoting Islamic banking and for disseminating knowledge of basic concepts and products of Islamic banking.
8. The government offices and corporate sector should be approached for opening the accounts with Islamic banks which will invite thousands of the employees to become customers of Islamic banks.
9. Islamic banks should carryout market surveys to identify the potential segments to be worked on to become their customers. The latent customers always present good care for conversion.

10. There is also need to harmonize the difference in shariah opinion. The central shariah advisory board of SBP can take up the issue effectively.

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## APPENDIX

Assalam o Alaikum

Dear Respondent!

I am a student of Islamic Banking at International Islamic University, Islamabad, and am conducting a research on '*Customer Opinion judgment about Islamic Banking in Pakistan*'. The questionnaire will be used for research. The objective of this questionnaire is to find out the opinion of the customers of Pakistani Banks. Approximately it should not take more than 15 minutes to fill the questionnaire as all of questions just require you to tick appropriate answer.

Your answer will be kept strictly confidential and will only be used for research purposes. Your name will not be mentioned anywhere on the document so kindly give an impartial opinion to make research successful.

You are requested to take some 15 minutes out of your busy schedule to fill this questionnaire. Your cooperation is highly appreciated.

Thanks once again for your time.

JazakAllahuKhair

**Personal Information:**

Please fill out and if some answers you find confidential feel free to leave it.

<b>Name of Your Bank</b>					
<b>Education</b>					
<b>Religious</b>	Amma	Khasa	Aliyah	Almiyah	FazilArbi
<b>Conventional</b>	Below Metric	Matric	F.A/ F.Sc	Graduate	Post Graduate
<b>Age</b>	18-25	25-40	41-50	51-60	Above 60
<b>Profession</b>	Govt. Employee	Own Business		Private Job	Student
<b>Gender</b>	Male			Female	
<b>Religion</b>	Islam			Non Muslim	
<b>Marital Status</b>	Single			Married	
<b>Accounts in Banks</b>	<b>Account 1</b>		<b>Account 2</b>		<b>Account 3</b>
	Bank Name:		Bank Name:		Bank Name:
	Type: • Current		Type: • Current		Type: • Current



	<ul style="list-style-type: none"> <li>• Saving</li> <li>• Fixed</li> </ul>	<ul style="list-style-type: none"> <li>• Saving</li> <li>• Fixed</li> </ul>	<ul style="list-style-type: none"> <li>• Saving</li> <li>• Fixed</li> </ul>			
	Location:	Location:	Location:			
	Distance from bank branch <ul style="list-style-type: none"> <li>• Nearer to Home</li> <li>• Nearer to Office</li> </ul>	Distance from bank branch <ul style="list-style-type: none"> <li>• Nearer to Home</li> <li>• Nearer to Office</li> </ul>	Distance from bank branch <ul style="list-style-type: none"> <li>• Nearer to Home</li> <li>• Nearer to Office</li> </ul>			
<b>Deposit Size</b>	1000-5,000	6,000-10,000	11,000-15,000	16,000-20,000	21,000-30,000	More than 30,000

**For conventional Bank account holders:**

<b>Q.1: Have you ever heard about Islamic banking?</b>	Yes	No	Heard but don't know the details			
<b>Q. 2: Where did you hear about Islamic banking?</b>	Print Media	Electronic Media	Colleague	Friend	Family	Others

<b>Q.3: Do you understand the basic concepts of Islamic banking?</b>	Yes	No
<b>Q.4: Do you want to convert your conventional account into Islamic account?</b>	Yes	No

**If the answer of Q#3 is YES then answer the following:**

<b>Q.5: Do you feel any difference between conventional and Islamic Banks?</b>	No difference	Difference of labeling only	Difference in method but not w.r.t shariah	Genuine difference w.r.t methodology and Shariah compliance	Difference of prices only
<b>Q.6: Do you feel any difference between conventional Banks and Standalone Branches?</b>	No difference	Difference of labeling only	Difference in method but not w.r.t shariah	Genuine difference w.r.t methodology and Shariah compliance	Difference of prices only

<b>Q.7: Do you feel any difference between Islamic banks and Standalone Branches?</b>	No difference	Difference of labeling only	Difference in method but not w.r.t shariah	Genuine difference w.r.t methodology and Shariah compliance	Difference of prices only
<b>Q.8: Have you heard about Musharkah?</b>	Never heard	Heard only the name	Heard and have knowledge about it		

		without sufficient knowledge	
<b>Q.9:</b> Have you heard about Mudharba?	Never heard	Heard only the name without sufficient knowledge	Heard and have knowledge about it

<b>Q.10:</b> Have you heard about Murabaha?	Never heard	Heard only the name without sufficient knowledge	Heard and have knowledge about it
<b>Q.11:</b> Have you heard about Istisna'?	Never heard	Heard only the name without sufficient knowledge	Heard and have knowledge about it
<b>Q.12:</b> Have you heard about Ijarah?	Never heard	Heard only the name without sufficient knowledge	Heard and have knowledge about it

<b>Q.13:</b> Musharkah is fully Shariah compliant mode	Strongly Agree(1)	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)
<b>Q.14:</b> Mudharba is fully Shariah compliant mode	Strongly Agree(1)	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)
<b>Q.15:</b> Murabaha is fully Shariah compliant mode	Strongly Agree(1)	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)
<b>Q.16:</b> Salam is fully Shariah compliant mode	Strongly Agree(1)	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)
<b>Q.17:</b> Ijarah is fully Shariah compliant mode	Strongly Agree(1)	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)
<b>Q.18:</b> Istisna' is fully Shariah compliant mode	Strongly Agree	Agree(2)	Don't know(3)	Disagree(4)	Strongly Disagree(5)

<b>Q.19:</b> The dividends you receive on your deposits are based on:	Musharkah	Mudharbah	Murabaha	Ijarah	Salam
<b>Q.20:</b> The Islamic bank advances the loans to customers mainly according to:	Musharkah	Mudharbah	Murabaha	Ijarah	Salam

**For both (Islamic & Conventional bank account holder)**

<b>Q.21: For what purpose do you use services of this bank?</b>	For saving/Lockers	Receiving money from abroad	Employer opened the account	For availing opportunities given by your bank	Any other
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<b>Q.22: The conventional bank offers services on the basis of interest; what is your opinion about the services?</b>
Since interest is prohibited;
<ul style="list-style-type: none"> <li>• Customer should not opt conventional bank for saving deposits</li> <li>• Customers should not opt if they find the alternative Islamic bank in their destination</li> <li>• Since we cannot avoid interest there is no harm in having such deposits.</li> </ul>

<b>Q.23: At what mode Islamic banks give loans to the customers?</b>	Musharkah	Mudharbah	Murabaha	Ijarah
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<b>Q.24: Would you continue dealing with this bank even in case the bank does not distribute any profit for 3 consecutive years?</b>	Yes	No	Don't know
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<b>Q.25: How would you rate your level of satisfaction with this bank during your transactions?</b>	Very much Satisfied(1)	Satisfied(2)	Neutral(3)	Not satisfied(4)	Very much dissatisfied(5)
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<b>Q.26: Do you ask from your banks about the Shariah compatibility of the bank operations?</b>	Frequently	Seldom	Never
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<b>Q.27: Technology associated with your service is visually appealing at your bank?</b>	Very much Satisfied (1)	Satisfied (2)	Neutral (3)	Not satisfied (4)	Very much dissatisfied (5)
<b>Q.28: When you have a problem, your bank shows a sincere interest in solving it?</b>	Very much Satisfied (1)	Satisfied (2)	Neutral (3)	Not satisfied (4)	Very much dissatisfied (5)
<b>Q.29: Your bank gives clear guidance and information about usage of services and facilities?</b>	Very much Satisfied (1)	Satisfied (2)	Neutral (3)	Not satisfied (4)	Very much dissatisfied (5)
<b>Q.30: ATM of your bank is located at convenient place?</b>	Very much	Satisfied (2)	Neutral (3)	Not satisfied	Very much dissatisfied

	Satisfied (1)			d(4)	d(5)
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<b>Q.31: Are you interested in Islamic banking?</b>	Yes	No	
<b>Q.32: Is it correct that interest is prohibited in Islam?</b>	Yes	No	Don't know

<b>Q.33: What do you think about interest of conventional banks?</b>	<ul style="list-style-type: none"> <li>• According to Shariah it is haram</li> <li>• It is halal because it's different from interest described in Islam</li> <li>• Can't say anything</li> </ul>
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<b>Q.34: Do you believe that products of Islamic banks are Shariah compliant?</b>	Yes	No	Don't know
<b>Q.35: Is there any bank that has Shariah compliant products?</b>	yes	No Bank	Don't know

<b>Q.36: Is there any standalone branch that has Shariah compliant products?</b>	yes	No Bank	Don't know
<b>Q.37: What's your opinion about Shariah compliant bank?</b>	<ul style="list-style-type: none"> <li>• Shariah board members are trust worthy</li> <li>• Products are different from conventional banking system</li> <li>• Bank's staff are committed about Islamic banking</li> </ul>		

<b>Q.38: Do you understand mechanism of Islamic banks?</b>	Completely	Somehow	Little bit	Don't know
<b>Q.39: How Deposits are used, utilized and distributed?</b>	Completely	Somehow	Little bit	Don't know
<b>Q.40: Do you know about the procedure of products of Islamic banking like car and house financing?</b>	Completely	Somehow	Little bit	Don't know

**For Standalone and Islamic bank account holders:**

<b>Q.41: If you will be given a choice between a full fledge Islamic bank and standalone Islamic branch, would you prefer standalone branch?</b>	<ul style="list-style-type: none"> <li>• Why not</li> <li>• Yes, only if its services are better than Islamic banks</li> <li>• Yes, only if I trust on members of Shariah board</li> <li>• Never</li> </ul>
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<b>Why you use Islamic banking products</b>					
You are religiously satisfied with these products	Strongly	Agree(2)	Neutral(3)	Disagree(4)	Strongly

	Agree(1)				Disagree(5)
Islamic products are not interest based	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Reputation of Islamic banks is better than Conventional banks	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
I believe on profit and loss sharing and Islamic banks are doing that	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Attitude of staff and environment is better than other banks	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
I have consulted scholars and I agree that Islamic banking products are Shariah compliant	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Islamic banks provide better services	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)

**For Conventional Bank Account holders:**

<b>Why you do not use Islamic banking products</b>					
Islamic banks do not give the products that conventional banks give	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Islamic banking products are not according to my requirements	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
I have consulted scholars and I believe that Islamic banks are not Shariah compliant	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Services of Islamic banks are not good	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Products of Islamic banks are expensive (earning on deposits is lesser and financing is expensive)	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Staff of Islamic banks cannot answer about products and issues of Islamic banking	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Non cooperative staff	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
There is no difference in conventional and Islamic banks	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Any other (specify)					

Do you have plan of conversion to an Islamic bank?	Yes	No	Don't know
<b>If you want to convert what is the reason of not converting yet, please give score</b>			

There is no Islamic bank in my area	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
I am lazy or not finding any time	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
No Islamic bank approached me	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)
Procedure of opening an account is difficult in Islamic banking	Strongly Agree(1)	Agree(2)	Neutral(3)	Disagree(4)	Strongly Disagree(5)