

BANK PATRONAGE FACTORS IN DUAL BANKING SYSTEM: AN EMPIRICAL ANALYSIS FROM PAKISTAN



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**Submitted in partial fulfillment of the requirements for the MPhil degree in discipline of
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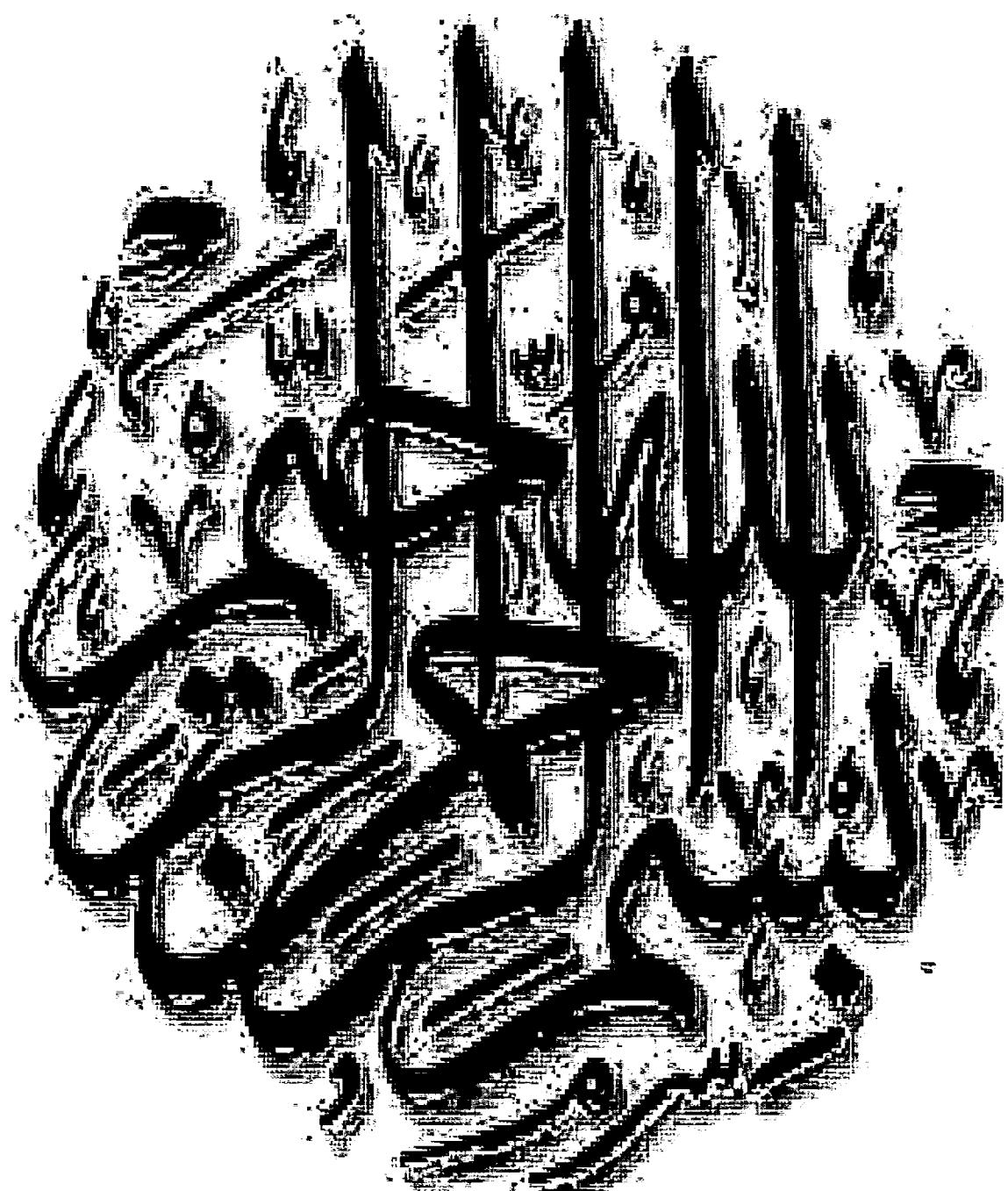
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Dedicated to my parents and teachers

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Abstract

This study patronage of bank customers regarding services of Islamic and conventional banks in Pakistan. In present era of competition international markets and bank services has acquired considerable attention. It is important to know that what are those factors or services that a bank customer find important to invest in a particular bank. This study is important due to increasing trend of Islamic banking in the country. Data was collected from 1000 bank customers by using cluster sampling selecting clusters randomly. It is revealed that customers are more patronized to the services of conventional banks rather than Islamic banks. The results indicate that customers are indifferent in choosing Islamic and conventional banks. The study has a number of implications for bankers, policy makers. It provides a guideline to Islamic banks for provision of particular services to attract more customers and increase market. This study facilitates policy makers and bankers to make efficient and quality oriented arrangements to have satisfied customers for long term profit. Academicians are required to conduct research in the banking sector for beautiful blending of theory and practice to analyze the quality of services for increased satisfaction among bank customers.

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CHAPTER 1

INTRODUCTION

In past Islamic banking was considered as non-viable and non-productive due to lack of knowledge and research in this field. Investors were also reluctant to invest in this field because of less profitability at that time. From last two decades, this concept had changed gradually all over the world not only in Muslim countries but also in European countries where majority of population is non-Muslims. The main reason for this change was increased awareness of Islamic financial laws in Muslims. According to a rough estimate, Muslim population in the world is 2.1 billion¹; which is the target population for Islamic banks, and this ultimately leads towards increasing demand of Islamic banking.

Due to increasing demand, Islamic banking system is progressing day by day and rapid changes are taking place in order to accommodate the choice of customers and to improve *Shari'ah* compliance. Due to inception of Islamic banking about four decades ago the number of Islamic financial institutions increased from 1 to 300 operating in more than 75 countries, mostly concentrated in middle east and south east Asia and appearing in Europe as well.²

Islamic banking practices are not confined only to Islamic banks but these are also used in conventional banks to attract Muslim customers. It is noted a large population of Muslims in front of permissible and halal rate of return does not consider that interest rate important whatever it is less or more. After 9/11 attacks Arab, Muslims withdrew their money and invested

¹ http://www.islamicpopulation.com/world_general.html

² (ElQorchi,2005).

in Islamic banks³. In Islamic countries, vast majority of Muslims is still dealing with conventional banks because they are not aware of the concept and working of Islamic banking.

According to Mehboob ul Hassan (2007), Muslim population can be divided into three parts:

1. The strict or pious Muslims who totally avoid interest based banking.
2. The less devoted or less strict Muslims who hold accounts in Islamic and conventional banks
3. The least strict Muslims who have accounts only at conventional banks no matter the Islamic banks are available in their surroundings.⁴

Therefore, it is seen that greater part of Muslims does not consider interest rate for investment as compare to non-Muslims. They only consider legitimate return on their account permissible by *Shari'ah*.

There is range of variables banks must consider for their operations regarding consumer behaviors and patronage because in this era of competition only the survival of fittest is possible. This is all due to emergence of many new financial institutions in the world economy, which in return resulted into extensive level of competition. These challenging factors have transformed banking industry from “traditional banking to more dynamic and vibrant environment”.⁵

From last four decades emergence of Islamic banking has become feasible and viable alternative to conventional banking system in many Muslim-majority countries. The main purpose of Islamic banks is to provide banking services according to the teachings of Islam. Therefore, to accomplish this mission it is duty of Islamic banks to study the customer's choice criterion and their degree of satisfaction with the products with respect to *Shari'ah* compliance. However, it is

³ http://www.globalislamicfinancemagazine.com/?com=news_list&nid=2367

⁴ Mehboob ul Hassan(2007) People's perceptions towards the Islamic banking : a field work study on bank account holders behavior in Pakistan

⁵ Turnbull and gibbs,1989

interesting to note that with 97% Muslim population in Pakistan⁶, Islamic banking has captured only a small fraction, about 7%⁷ of total banking system. Therefore, the purpose of this study is to investigate the factors, which influence the choice of bank's customers in Pakistan. The study also tries to find the relative importance of Shari'a compliance for banks' customers and their confidence on the existing Islamic banks and their associated Shari'a scholars. It is hoped that findings in this study will provide useful and pertinent practical policy implications to Islamic and conventional banks managers in formulating their marketing strategies. The study will also add to the body of existing literature by incorporating Shari'a compliance as a bank patronage factor and its associated importance. Although there exist some work on banking patronage factors but this area lacks research in the context of Pakistan. Few studies are available in Pakistan but these studies have limited scope (see for example Ahmad and Rehman (2010), Awan and Bukhari (2011) There are two main reasons for conducting this study in Pakistan;

- i. Sufficient research work has not been done in this area in the context of Pakistan,
- ii. Increasing trend of adopting Islamic banking⁸ has inspired Muslims to invest in Islamic financial institutions. However, unfortunately lack of professionalism and knowledge in Pakistan in this sector Muslims are not investing in Islamic banks.

This study will provide guidelines to banks to attract customers by providing them best services according to their choice.

Therefore, this study will provide a good start for new comers and help the existing banks to improve their services and attract foreign investment in light of the findings of this study.

This study is divided into five parts first part contains introduction and objectives of the study. In second part, a broader picture of banking sector in Pakistan is described with reference to some

⁶ <http://www.zackvision.com/weblog/2003/02/muslim-population/>

⁷ <http://www.sbp.org.pk/ibd/bulletin/2011/IBB-Jun-2011.pdf>

⁸ <http://www.fareastjournals.com/files/V2N2P4.pdf>

facts from banking industry of Pakistan and evolution of Islamic banking in Pakistan. Third part is about literature review and fourth section includes collection of data, methodology, and estimation. Conclusion and policy implications are described in the last section of this study.

OBJECTIVES OF THE STUDY

- i. Main purpose of this study is to investigate the factors bank's customer's favor in Pakistan.
- ii. To determine relative use of selected services offered by banks and level of satisfaction with each service.
- iii. To determine whether customers are more attracted towards Islamic banking or conventional banking.
- iv. The study also tries to find the relative importance of Shari'ah compliance for bank's customers.

1.2 PLAN OF STUDY

A brief introduction of the topic is provided in chapter one along with objectives . Second chapter includes an overview of the banking sector in Pakistan. This chapter also includes some facts from the banking industry of Pakistan regarding their business and assets and some promising features of Islamic banking are also discussed in chapter two. Third chapter is the review of related literature which is organized according to the findings of different authors to have a clear picture of the study. Chapter 4 includes data collection methodology and chapter 5 describes conclusions and policy implications of the study.

CHAPTER NO.2

AN OVERVIEW OF BANKING SECTOR IN PAKISTAN

2.1 INTRODUCTION

In Pakistan financial sector is well developed and comprises of different financial institutions like commercial banks, national saving schemes, insurance companies, stock exchanges, brokerage houses, investment banks, leasing companies, discount houses, Islamic banks and micro finance institutions. Banking system in Pakistan has 64 years' history since 1947 and during this time, it faced many problems and challenges due to lack of resources, political instabilities, and socio economic conditions. To regulate and run the banking system in Pakistan State Bank of Pakistan was established in July 1948⁹. Initiatives for establishment of Islamic banking system in Pakistan were started in 1977-78¹⁰ at that time Pakistan was one of the three countries who were trying to establish Islamic banking. In 1974, government nationalized all existing banks. In December 1999, the Shari'at Applet Bench of the Supreme Court passed a historical judgment to cease the interest-based transactions with effect from June 30, 2001¹¹. In 2001, Islamic and Conventional banks were allowed to operate in parallel¹². In year 2002 incredible growth in deposits that was 14% and lending of foreign currency in banking industry was seen¹³. Today banking industry is playing key role in the development of Pakistan's economy and in November 1991 federal Shari'a court passed a statement to cease the interest

⁹ Pakistani Banking sector OSEC 2011, Switzerland

¹⁰ state bank of Pakistan financial report FY02

¹¹ Proceedings of 2nd international Conference on Business Management (ISBN: 978-969-9368-06-6)

¹² Islamic Banking Bulletin Oct-Dec 2011

¹³ an overview prospects and executive summary state bank of Pakistan.

based transactions which finally had effect from June 30, 2001¹⁴. Since 2000 banks are increasing in number, many private sector banks have introduced themselves in market with growing branch network.

Table 2.1 List of banks in pakistan

BANK NAME	NO OF BRANCHES
ISLAMIC BANKS	
DUBAI ISLAMIC BANK PAKISTAN LTD	36
MEEZAN BANK	180
ALBARAKA ISLAMIC BANK	29
BANK ISLAMIC PAKISTAN LTD	70
BURJ BANK	100
CONVENTIONAL BANKS WITH ISLAMIC WINDOWS	
ASKARI BANK LTD	204
BANK ALFALAH LTD	309
BANK AL HABIB LTD	267
HABIB BANK LTD	1457
MCB BANK LTD	1085
NATIONAL BANK OF PAKISTAN	1267
SONERI BANK LTD	156
STANDARD CHARTERED BANK LTD	162
THE BANK OF KHYBER	42
THE ROYAL BANK OF SCOTLAND	79
UNITED BANK LTD	1120
FAYSAL BANK LTD	136
COMPLETELY CONVENTIONAL BANKS	
THE BANK OF PUNJAB	273
ALLIED BANK LTD	786
HABIB METROPOLITAN BANK LTD	120
JS BANK LTD	40
MY BANK LTD	70
NIB BANK LTD	204
SILK BANK LTD	85
DEUTSCHE BANK	3
HSBC BANK MIDDLE EAST LTD	12

Source : Islamic banking bulleting state bank of pakistan

¹⁴ Proceedings of 2nd International Conference on Business Management (ISBN: 978-969-9368-06-6)

Beside all macroeconomic political and social instabilities, banking sector is surviving and showing progress somehow. Due to uncertain conditions, cost and return gaps are formed so industries are unable to repay their loans and public sector is suffering for the repayment of loans. Since 2001 when the imposition of *Shari'ah* laws took place banks assets growth rate was 14.8% and till the end of 2009 assets growth rate was remarkably high at 15.8%. Banking sector assessment until 2009 is shown in this table.

TABLE 2.2 **Highlights of Islamic banking in Pakistan**

(in billion rupees)

	2005	2006	2007	2008	2009
Total Assets	3660	4,353	5172	5628	6516
Asset Growth in % (Year over Year)	20	17.1	18.8	8.8	15.8
Investments (net)	800	833	1276	1087	1737
Advances (net)	1991	2,428	2688	3173	3240
Deposits	2832	3,255	3854	4218	4786
Equity	292	402	544	563	660
Profit before tax	94	124	107	63	81
Profit after tax	63	84	73	43	54
No. of banks in loss	7	7	10	16	18
Non performing loans	177	218	218	359	446
Non performing loans (net)	41	39	30	109	134
	Basel-I			Basel-II	
Capital Adequacy Ratio - CAR (All banks)	11.3	12.7	13.2	12.3	14

Source: Islamic banking bulletin State Bank of Pakistan

Total assets of banking system in Pakistan are growing rapidly but in 2008 progress were slightly slow because of some political instability in country due to the same reason net investment in this sector also decreased by the same ratio. Keeping these aside deposit rate increased with the same trend as in past.

TABLE 2.3**Trends in Assets of Islamic banks**

	2005	2006	2007	2008	2009	Rs in billion
Commercial Banks	3,547	4162	5044	5496	6376	
<i>Public sector commercial banks</i>	724	836	1036	1042	1230	
<i>(PSCBs)</i>						
<i>Local Private Banks (LPBs)</i>	2,483	3102	3836	4220	4905	
<i>Foreign Banks (FBs)</i>	339	224	173	234	241	
Specialized Banks	113	120	127	130	140	
All Banks	3,660	4282	5171	5627	6516	

Source: Islamic banking bulletin State Bank of Pakistan

Assets of commercial banks increased at increasing rate till 2008 but in 2009 a sudden decline was reported due to political and socio economic uncertainties in the country. While specialized banks kept on growing with their slow but consistent growth rate.

TABLE 2.4**Top banks in Pakistan by the size of their assets**

Ranking	Name of Bank	Assets (in thousand Rs)
1	National Bank of Pakistan	944232762
2	Habib Bank Limited	820981347
3	United Bank Limited	619744051
4	MCB Bank Limited	509223058
5	Allied Bank Limited	418374331
6	Bank AlFalah Limited	389070055
7	Standard Chartered Bank (Pakistan) Limited	312874212
8	Askari Bank Limited	254327466
9	Bank Al-Habib Limited	249806600
10	Habib Metropolitan Bank Limited	237412230

Source: Islamic banking bulletin State Bank of Pakistan

2.2 ISLAMIZATION OF BANKING SYSTEM IN PAKISTAN

"A banking system which is consistent with the principles of Islamic law and its practical implication through the development of Islamic economics. (Rammal 2007)"

Dr Ahmed al Najjar laid the foundation of first Islamic bank in *Mit Ghumar*, a small town of Egypt, in 1963¹⁵. It was in formal institution, which worked on profit and loss sharing basis. These efforts continued until next five years when Islamic banking sector became familiar in banking industry. In Pakistan, these efforts started in 1977-78¹⁶. Pakistan was one of those three countries, which were launching interest free banking at that time. In July 1985, all banks were strictly forbidden to charge or accept interest on any transaction. From last three decades, Islamic banking is growing at 15% per annum¹⁷. Banking system adopted in Pakistan was challenged by federal Shari'a court in 1991 and declared that it is not according to the practice of Islam and all transactions will be ceased taking place after 1992. An appeal was placed against this decision in the Supreme Court of Pakistan, which was finally rejected in 1999, and the Apex Court asked the government to transform the financial system within one-year time. For this purpose, a commission was established on the directives of the Supreme Court of Pakistan, to transform financial system into Islamic financial system under the supervision of Governor state bank. As a result some Islamic modes of finance were introduced which are mentioned below

- i. *Ijarah*
- ii. *Murabaha*
- iii. *Musharaka*
- iv. *Diminishing Musharaka*

¹⁵ Siddiqi, M.N., 1988. 'Islamic banking: theory and practice', in M. Ariff (ed.)

¹⁶ state bank of pakistan

¹⁷ Bahrain Monetary Agency: Islamic Banking and Finance in the Kingdom of Bahrain, 2002.

v. *Bai' Muajjal*

vi. *Bai' Salam*

vii. *Mudarabah*

viii. *Istisna*

The first Islamic banking license was given to Meezan bank limited in 2002, which started functioning with five branches. By the end of year 2011, five full-fledged Islamic banks and 13 banks with Islamic windows are working in Pakistan. The number of Islamic banking branches is over eight hundred located in almost all major cities in Pakistan.

In the year 2009, a rapid growth in Islamic banking sector was observed when the assets of Islamic banks reach to a limit of 366 billion¹⁸.

TABLE 2.5 performance of Islamic banks

	Islamic banking industry Progress			Growth YOY			Share in overall banking industry		
	June-10	March-11	June-11	June-10	March-11	June-11	June-10	March-11	June-11
Total Assets	411	497	560	31.30%	33.90%	36.30%	6.10%	6.90%	7.30%
Deposits	330	398	452	38.50%	37.70%	37.10%	6.40%	7.30%	7.60%
Net Financing and investment	236	374	420	21.50%	63.50%	78.30%	4.60%	6.70%	7.00%
Total IB institutions	19	17	17						
Total Branches	667	759	799				6.90%	7.90%	8.30%
Source: Quarterly un audited Accounts									

Despite all this remarkable progress, Islamic financial industry needs professionalism and concentration.

¹⁸ Pakistan Banking Sector 2011. OSEC business network Switzerland

2.3 DISTINGUISHING FEATURES OF ISLAMIC BANKING

Although Islamic banks perform, similar functions like conventional banks but they have some distinguishing features, which are explained below:

2.3.1 ELIMINATION OF INTEREST

Keeping in mind the strict prohibition of *Riba* (al Qur'an 2:275-281) Islamic banks do not give or take any loan or enter into contracts seeking any interest over principal or purchase/ sell debt on discount or premium.

2.3.2 SHARING RISK

The most significant attribute of Islamic banking is that it encourages risk sharing between the parties. Risk is shared between both parties either it is profit or loss on PLS basis which is currently used in all banks. In conventional banking all, the risk is borne by one party while Islam prohibits this kind of injustice. Profit and loss are shared by both parties in predetermined ratio.

2.3.3 MORAL ASPECT

Islamic banks do not involve in any activity, which is against moral value system of Islam. For example they cannot invest in any wine factory a casino or any other activity which is against moral values of Islam and harmful for the society.

2.3.4 VERSTALITY BANK

Islamic banking system is an ideal system of banking which serve as commercial bank, investment bank, investment management institution, financial institution and diversified services are offered.

2.3.5 PRODUCTIVITY BASED BANKING

In conventional banking system credit worthiness of the borrower is consider, whether he or she is able to pay back the loan in time or not. While under profit loss, sharing bank will receive return only if project is accomplished successfully. Therefore, Islamic banking sounds more convenient for talented people who believe in productivity.¹⁹

2.4 ISLAMIC BANKING IN PRACTICE

Modern Islamic banking started in early 1980's at government level to address the issues of *riba*²⁰. Two different approaches were adopted regarding practice of Islamic banking in different regions. One is that where government does not intervene in abolition of interest from the economy so there Islamic banks are working side by side with conventional bank like Pakistan and Malaysia. While Sudan and Iran were following a different approach of elimination of interest from the whole system where both banking system are operating side by side. Large amount of funds are transferred to Islamic banks since 1980's assets of Islamic banks had started growing at rapid rate.²¹ Many studies reported high level of deposit

¹⁹ <http://www.iefpedia.com/english/wp-content/uploads/2009/10/Challenges-Facing-Islamic-Banking-by-Ausaf-Ahmad-Tariqullah-Khan-Munawar-Iqbal.pdf>

²⁰ Sayyed Tahir current issues in the practice of Islamic banking.

²¹ Ausaf ahmed,Development and problems of Islamic banks(1987),Islamic research and training institute Jeddah.

mobilization in Islamic banks²². An estimated amount of returns financed over different Shari'ah based activities have become 20-30 billion dollars in late 1980²³. According to another estimate, it was more than fifty billion dollars.²⁴

In the long run Islamic banks has to introduce its dynamic and useful features and products according to the rules of Shari'ah in spite all these commendable efforts and achievements Islamic banks should not forget all those problems which are blocking their progress.

2.5 PROBLEMS' FACING ISLAMIC BANKS IN PAKISTAN

Islamic banking industry is facing some problems for its survival in the market. Some of them are given below:

1. Islamic banking institutions lack universally approved standards or SOPs²⁵ to be followed for day-to-day operations or for developing their products.
2. Liquidation process in conventional banks is far much easier than Islamic banks.
3. Due to increased competition, Islamic banks need not only to compete with Islamic competitors but also with conventional banks. For this reason, cost efficiency must be kept in mind.
4. Selected people in Shari'ah boards must be competitive with highest level of commitment and consensus so that their decision should not be denied by the other group of experts.
5. Staff of Islamic banks does not possess the sufficient knowledge of Islamic banking due to lack of training and unavailability of training programs.

²² volker nienhaus, The performance of Islamic banks trends and cases, in chiblis malla, Islamic law and finance(1988), pp83-122

²³ see Rodeny Wilson. Islamic financial markets(1990). page 7

²⁴ New horizons january 1993,p5

²⁵ Standard operating procedures.

2.6 CONVENTIONAL BANKING:

Bank is financial institution that acts as a payment agent for customers and borrowers and lends money.

In some cases one-bank offer some specialized institutions offer so many services and sometimes similar services. For example, there are different types of banks

1. Commercial banks
2. Community development banks
3. Postal saving banks.
4. Offshore banks
5. Saving banks
6. Building societies and land banks
7. Islamic banks
8. Investment banks
9. Merchant banks
10. Venture capital firms

In some cases a single bank offers all these services and it's not only confined towards conventional banks Islamic banks also offers all these services in its limited operational activities.

CHAPTER 3

LITERATURE REVIEW

An assortment of empirical research using different methodologies has been applied in various parts of world to check the motivation factors for clients to deposit money in specific bank. In this chapter, factors, which affect the choice of customers, are discussed with reference to previous literature.

3.1 MOTIVATIONAL FACTORS FOR SELECTING A BANK

Factors that are considered important by different authors in different studies are discussed below:

3.1.1 RECCOMENDATION BY FRIENDS

Anderson et al. (1976) carried out a survey by using determinant attribute analysis. Based on 15 selection criterion recommendation by friends and availability of credit were ranked higher. Tiong Tan.C and Chua.C(2007) have discussed social influences in selection of a bank and results signify that social influence is the major criteria in selecting a bank. In this study multi attribute, type model was used for attitude research. Findings suggests that traditionally designed banking system is not applicable everywhere particularly where culturally and socially different people are living.

3.1.2 LOCATION

Phuong Ta and Har kar(2000) found by analytical hierarchy method that location, friend's recommendation, reputation of bank, availability of credit and friendliness of staff are more important factors in Singapore. Study by Delvin.J (2011) provided an insight into customer's choice criteria in retail banking. The data was drawn from the UK where there are no large scale empirical investigations available secondly choice criteria regarding customers financial knowledge was studied. 2000 questionnaires were collected by face to face interviews. It was found that customers having less knowledge of banking are mostly attracted by bank's building and location while customers having more knowledge are more concerned towards variety and uniqueness of the services offered by the bank.

3.1.3 FAST AND EFFICIENT SERVICES

Haron *et al.* (1994) worked on requirements and selection decisions of Islamic and conventional environment for this purpose a sample of 301 bank customers was surveyed from different towns of Malaysia, which consist of highly competitive banking environment. In survey, customers were asked to indicate on five point likert scale about their view for selecting a commercial bank. By using uni-variate and multivariate statistical techniques, it was revealed that the potential customers can be targeted by gaining their attention right at the time of selection of the bank. The most important factor considered by Muslim customers is fast and efficient services followed by internal appearance of the bank, interior comfort, wide range of services offered, speed of transactions and friendliness of bank staff, while non-Muslim customers ranked reception received at the bank, friendliness of bank personnel first followed by reputation and image of bank. While both non-Muslims and Muslims confirmed pricing as selection criteria. It was

recommended in the study due to changing environment and increasing rate of literacy banks must provide different and unique products to their customers and increase their branching network to facilitate them. Erol et al. (1990) found that fast and efficient services and bank reputation are most important factors for investors to invest in specific institution. Some work on bank patronage is also been carried out in Pakistan. One study was accomplished by Rehman and Ahmed (2008) who found that customer service, convenience and online banking services were more important to customers' satisfaction. Another previously accomplished study in Pakistan found a strong relationship between service quality and customers' satisfaction (Jamal and Naser, 1993). T-test was adopted by Omar.O and Orakwue.E (2006) to discover the overall view of bank customers and worth of those services. Most important factor by male customers was security of funds and efficient services and female customers ranked speed of transaction as the most important factor. These differences were result of lack of trust for banks in Nigeria²⁶ by customers because female customers rely over recommendations of their family of friends rather to take an independent decision. Managers were suggested in this paper that they must not only focus on the male customers as female customers are also growing in numbers day by day.

3.1.4 RELIGIOSITY

Ahmed et al. (2007) found that Malays prefer Islamic banking due to religious factor while in this selection, most influential factors for bank selection found were availability of ATM machines for working people, fast and efficient services, availability of deposit cheque, and friendliness of staff, variety of services offered. Items that have Islamicity flavor were ranked fourth which shows that efficient services are more appealing. While Muslim who are more religious tends to choose Islamic bank for either deposit or financing. All this was checked by

²⁶ journal of business and retail management research, may (2006)

distributing 430 questionnaires from which 332 usable questionnaires were obtained from Malay Muslims of two cities, which was developed by previous empirical studies by including religious factor. By applying factors analysis on the data, results were obtained.

Same as Geard.P et al. (1997) analyzed the banking patronage factors between two different groups in Singapore i.e. Muslims and non-Muslims. Some differences regarding to religion exists in both groups. Muslims prefer to invest in Islamic bank due to religion and profitability.

TABLE 3.1

Literature review in tabular fo

Literature	Religious Factor	Cost/Benefit	Service Delivery
Anderson and Fulcher(1976)	n/a	+	-
Riggal(1980)	±	+	+
Erol and El-dour(1989)	-	+	+
Erol et al(1990)	-	+	+
Omer(1992)	+	+	n/a
Haron et al(1992)	-	+	+
kader(1993)	+	-	+
kader(1995)	+	-	+
Gerrard and Cunningham(1997)	±	+	+
Methawa and Almossawi(1998)	+	+	n/a
Naser et al(1999)	+	+	+
Phuong ta and Harkar(2000)	-	n/a	n/a
Almossawi (2001)	n/a	-	+
Naser.K(2002)	n/a	n/a	+
Othman and owne(2002)	+	+	+
Ahmed and haron(2002)	-	+	+
Sohail and shanmugham(2003)	-	+	n/a
Abbas et al(2003)	±	+	+
Delvin,J.& Gerrard,P . (2005)	-	-	-
Dusuki, A.& Abdullah,N. (2006)	+	-	+
Denton.L and Chan.A (2007),	n/a	+	+
Tan, C. & Chua, C. (2007).	n/a	+	n/a
Saunders et al(2007),	n/a	+	+
Blankson et al(2007)	-	-	-
Martenson(2007)	n/a	+	n/a

Yawas(2007)	n/a	+	+
Erol and Kaynak (2007)	n/a	+	+
Rehman, H.& Ahmed, S. (2008)	n/a	+	+
Ahmed.W et al(2008)	+	+	+
Haron et al(2009)	±	±	+
Mokhlis.S(2009),	n/a	+	n/a
Methawa and Almossawi(2009)	+	+	+
Awan.H et al(2011)	+	+	+
Delvin.J (2011),	n/a	+	+
Maiyaki.A(2011),	n/a	+	+

+ sign indicates findings in favour of the particular variable.

- sign indicates that a particular variable is not favorable .

± indicates neutral findings for specific variable.

n/a shows that variable is not investigated

3.1.5 CONVENIENCE

Tan and Chua (1986) and Blankson.C et al. (2007) have applied bank selection criteria for different countries having diverse cultures, economy and background and results shows that open and liberalized business climate appears to explain consumer decisions but there exist a similarity of convenience that is preferred in all these countries. Purpose of this study was to find the extent that customers are intended to select a certain bank. Computer and electronic revolution brought rapid changes in current banking system where everything is going to be digitalized and globalized. Same is the case in Malaysia where internet banking is growing at fast speed. Suganti *et al* carried out a survey to check the patronage towards internet banking it was revealed that by having so many reservations about internet banking like security of transactions, trust and reluctance to change customers preferred internet banking due to convenience and ease of use. Different promotional efforts were made by banks to increase awareness of internet banking.

3.1.6 LOCATION

Riggall (1980) analyzed 250 new comers and found location motivated them towards selection of specific bank. Martenson.R (2007) has analyzed consumer choice criteria in retail bank selection. Her findings are based on survey of 558 Swedish bank customers and the results show that customers selects their bank randomly in contradiction to the previous studies where location and rate of return and some other factors are involved in choosing a bank

3.1.7 BEHAVIOUR OF THE STAFF

Evans (1979) divided selection criterion into two factors i.e. “service factors” and situation factors. The findings showed that each of the factors do not show the same degree of importance to customers. And this study was supported by Laroche et al. (1986) who examined 140 households in Montreal, Canada. Manda chitar et al. (2009) revealed ethical behaviors of financial entities on consumer behavior led that corporate social responsibility which plays an important role in improving service quality brand effect and ethical behaviors of staff effects commercial performance. Supporting these arguments Salmons et al. (2009) found that influence of ethical behaviors of financial entities on consumer behaviors. Relationship, trust, satisfaction, and identification were the key factors of loyalty. While ethical and social dimensions have an indirect effect. A study was conducted by Omár.M and Ali.M used probability random sampling to check the brand loyalty and its relationship with marketing. 500 samples were distributed in three different locations by considering Roscoe's rule of thumb (sekaran, 2003). In this study a model was suggested to Islamic banks to ensure high productivity and brand loyalty. In this regards employees played very important role in building good relationships with their customers. Customer's satisfaction in retail banking was confirmed by Jamal and Naser (2002). Abu Dhabi Bank was selected for this study because it is the most profitable bank in UAE secondly it is significantly important bank in retail market. Some conclusions were drawn by managerial perspective that employees must be trained that they not only give attention to customers but they should be courteous and willing to help customers. Managers should be expert in their field that they understand their customer's need.

3.1.8 BANK EXPERIENCE

Yavas.U(2007) have examined banking behavior of Gulf customers and he found bank experience, reputation quality of services and pleasant personnel's as major concerns of Gulf customers while advertising and rate of return as least important concerns. Jain. A and Pinson.C(2007)carried out a study about customers loyalty as a construct in the marketing of banking services and consumer patronage factors for banking services have been examined. It was found that bank loyalty should be considered while designing marketing strategies. It was suggested that banks need to put some efforts in retaining the patronage of on hand customers to increase market share and experience growth. Furthermore, this study resulted in developing some strategies to target loyal and non-loyal customers and indicated some directions for future researches.

3.1.9 INTEREST RATE

Analytical hierarchy process was used by Javalgi et al. (1989) to check the patronage and found that interests on saving accounts and availability of loans were ranked higher in selecting a bank. Methawa.S et al. (1998) have recommended Islamic banks to understand their customers in this highly competitive market. Gerrard and Cunningham carried a study in Singapore which states that Muslims and non Muslims have different attitude towards selecting a bank depending on the nature of matter for example non Muslims were more attracted towards interest while Muslims were more attracted towards suggestion of friends and family. It was proposed in the study that Islamic banks should aim at distributing more profit as much as conventional banks do.

3.1.10 USE OF TECHNOLOGY

Almossawi.M et al. (2001) focused on finding the criteria to attract potential customers. It was found that potential²⁷ customers are mainly attracted towards technology-based transactions like use of ATM machines. It was also revealed that potential customers must be considered as a capable market with two distinct segments i.e. male and female each having different choices of selecting a bank. M.Sadiq Sohail, Shanmugham.B(2003) have analyzed customer's preferences for electronic banking and revealed that internet accessibility, awareness, attitude towards change, computer and internet access costs, trust in one's bank, security concerns, ease of use and convenience are the major factors affecting the adoption of internet banking in Malaysia.

3.1.11 SHARIAH COMPLIANCE

While, a latest study accomplished in Pakistan found Shari'ah compliance as the most important factor for patronizing decision for Islamic banks' customers (Hamid and Masood, 2011). The inclination for Shari'ah compliance is also confirmed by a more recent study (Lee and Ullah, 2011) but its claim is that "Shari'a compliance is not the only satisfaction yardstick for Islamic banks' customers; they also expect their banks to be convenient, technologically advanced and provide security for their capital" (p.131). This is also the case with other studies claiming key priority for Shari'a compliance (Hamid and Masood, 2011, Naser et al., 1999, Gerrard and Cunningham, 1997). CARTER model is used by Osman and Ali (2009) to measures the customer's satisfaction in Malaysian Islamic bank. Compliance is significantly important in choosing IFI and reliability and tangibility are ranked second and third after compliance. This

²⁷ who are expected to open bank account in future

study supports researches done previously. It is found in this study that bankers must present good service quality to its customers to strengthen their position in the market. If customers are satisfied they will ultimately be loyal to that particular bank.

3.1.12 FOREIGN EXCHANGE SERVICES

Erol.C and Kaynak.E(1989) have examined the patronized behaviors of Jordanian customers and revealed that services of foreign exchange, safety of deposits, night depository and travelers cheques were found most useful services offered by the banks. Bank customers are indifferent among Islamic and conventional banking services. Authors have recommended that Islamic bank services must not be the duplication of services offered by conventional banks. W. Thomas Anderson et al. (1976) have made an analysis of marketing activities in service industry and they concluded that in spite of unprecedented expansion, service sector needs improvements as compared to manufacturing sector. A Manarai.L and K Manarai.A(2007) has analyzed bank switching behavior of customer which is very helpful from managerial aspect. In this study customer satisfaction is mainly focused and revealed many theoretical and managerial implications

Kaynak.E(2007) has analyzed that how to measure banks personality and came up with some specific guidelines for ideal banking system. Mismatch between the perceptions of managers and customers leads towards unsatisfactory performance.

3.1.13 AWARENESS OF PRODUCTS

Ahmed.A et al (2010) examined perceptions of bank customers regarding service quality of the Islamic and conventional banks in Pakistan and a significant difference between the perceptions

of Islamic bank customers was found on the basis of gender but in conventional banking there was no significant differences between male and female's perceptions. Some guidelines were provided for the provision of marketable products to fulfil expectations of male and female customers according to their specific requirement. Especially it was suggested that Islamic banks should enhance awareness regarding products and services offered to compete with conventional banks.

3.1.14 PROFESSIONALISM

A study was conducted on bank selection criteria of multiple bank users in Japan by Denton and Chan (2007) and it was found that multiple banking in Hong Kong is prevalent which is not restricted only to higher income group. Secondly people in Hong Kong are well aware with the financial services of the banks in city and their level of competency in different fields so they use multiple banks which provide best services individually. Convenience, risk and return were the primary factors in selecting multiple banks which are revealed in this study. 1250 samples were distributed equally among two different cities to check attitudes and usage of credit cards and a specialised company in data collection was hired for this response rate was 57%. Factor analysis was performed to check the behaviour of the customers. Satisfaction with financial situation was found most important by both groups and the second factor was convenience. Phenomenon used in previous studies was identified that income has a definite impact on use and marketing of credit cards. Numbers of different attitudinal and behaviour differences between English and French customers were found in this study. So it was suggested that different strategies must be used for both group while marketing.

3.1.15 BANK CHARGES

An online questionnaire was distributed among different students over one server then data was checked for reliability and validity by cronbach's alpha coefficient. Internet banking in Singapore was new due to this reason majority of customers never tried internet banking while self efficacy and government support was needed to enhance internet banking. Attitudinal subjective and behavioural norms are important in understanding selection of internet banking. Ideally the internet banking should not charge any fee for those services which are for free in physical world.

3.1.16 MARKETING STRATEGIES

Gender differences in retail bank selection were represented by Mokhlis (2009). A quantitative approached was used on the survey performed on college male and female students and it was revealed that choice criteria for females is different from males. Females are more patronised towards marketing, attractiveness of bank building, financial benefits and ATM services offered. This research explains variations in the choice criteria of three different groups in Malaysia namely Malays, Chinese and Indians. The analysis approved that differences do exist between three ethnic groups and where managers do should focus on marketing and providing services. Exploratory factor analysis and Friedman analysis and varimax rotated factor analysis were employed to check and compare the selection process

3.1.17 SERVICE QUALITY

Tahir.I et al conducted an empirical study regarding customer's expectation and perceptions of service quality by using exploratory factor analysis it was found t-hat service quality level was unsatisfactory because huge gaps exist between customer's expectations and perceptions. Because their perceptions were not up to the limit of their expectations. Some corrective suggestions were given by the authors in this study to bridge this gap.

250 questionnaires were distributed among four different cities of Pakistan to check the importance of factors for selection of a bank. Fried man and factor analysis were used for this purpose. Service Quality and product features were highly regarded in the study while customers expect long term financing while this service lack in IFI's. By managerial aspects it was suggested that Islamic bank must maintain service quality and products features along with Shari'ah compliance.

Convenience sampling and descriptive sampling frame was used to conduct a study in Nigeria to check the customer choice criteria Maiyaki.A (2011). In this study results were interpreted by using sample and population means and by Z score. It was revealed that the first bank was the most preferred bank in Nigeria followed by united bank for Africa and intercontinental bank.

In previous literature most of the studies were conducted for upper and medium income levels and poor were totally ignored but still these banking products and services are acquired by the poor. Saunders's et al (2007) conducted a study in USA on patronage motives of urban informal poor. They concluded four factors that influence the perceived usefulness of selecting a bank. It was also observed that there is a significant difference in the perception of the individuals who have bank account in contrast with those who do not have bank account so it may be difficult for banks to attract those informal poor who do not have bank account.

All literature included in this study shows similar kind of studies from the past done in different parts of the world but particularly in Pakistan this kind of studies are carried out with different perspective. For example (Ahmad A. , Rehman, Saif, & Safwan, 2010) this study is done with perspective of service quality (Awan & Bukhari, 2011) discussed the customer criteria but it is not comparative analysis by the perspective of Islamic and conventional bank. (Blankson, 2007) made this kind of study but it is done in USA while only one banking concept is used.

CHAPTER 4

DATA AND VARIABLE DESCRIPTION

This section includes description about variables and data and the way it is designed, Collected, Analyzed, and tools used for this process.

4.1 The FACTOR Model

The factor model assumes that for individualc, the observable multivariate P vector x_i can be generated as

$$x_c = \mu + LF_c + \varepsilon_c$$

$$E(X) = x_c - \mu$$

Where μ is a $P \times 1$ vector of variable means and L is $P \times m$ matrix of co-efficient, F_c is $m \times 1$ vector of standardized unobservable variables. ε_c is a $P \times 1$ vector of errors or unique factors.(Johnston and wichern 1992)

The model express p observable variables $x_c - \mu$ in terms of m unobservable common factors.

The loading pattern of matrix links the unobserved common factors to observed data. The jth row of L represents the loading of jth variable on common factor.

Restriction of the model:

$$E(F_c \varepsilon_c) = 0$$

$$E(F_c F_c') = \Phi$$

$E(\varepsilon_c \varepsilon_c') = \Psi$ While Ψ is the diagonal matrix of unique variances.

$$\text{var}(x) = E[(X_c - \mu)(X_c - \mu)']$$

$$= E[(LF_c + \varepsilon_c)(LF_c + \varepsilon_c)']$$

$$= L\Phi L' + \Psi$$

Variances of individual variables can be written as

$$\sigma_{jj} = h_{jj}^2 + \psi_j$$

For each j , h_{jj}^2 are taken from diagonal element of $L\Phi L'$ element and ψ_j is the analogous diagonal element of Ψ . h_{jj}^2 represents common part of the variance of j th variable termed as communality. While ψ_j is unique portion of the variance referred to as uniqueness.

Factor arrangement matrix can be obtained by:

$$\text{var}(X, F) = E[(X_c - \mu)F_c']$$

$$= E[(LF_c + \varepsilon_c)F_c']$$

$$= L\Phi$$

We assume that factors are orthogonal $\Phi = 1$

Then

$$\text{var}(X) = LL' + \Psi$$

$$\text{var}(X, F) = L$$

Factor analysis is mathematically complex, involves diverse considerations in application.

Technically it includes strange terms such as eigenvalues, Factor loadings, communalities, uniqueness, Eigen values, Rotation etc. So before applying factor analysis it is necessary to get familiar with the particular tools used in execution of this analysis.

4.2 DATA COLLECTION

A questionnaire was developed to conduct a survey among the bank's customers to check the importance of multiple factors while selecting a bank. In present study, 1000 self-administered questionnaires are distributed among the 778 Islamic and 222 conventional bank customers by using cluster sampling. The geographical coverage of data extends to six different cities, Islamabad, Karachi, Wah Cantt, Swat, Rawalpindi, and Taxila and the data was collected from each in proportion of their population. The total population of the survey area is 23696611 (Karachi 54%, Rawalpindi 14%, Islamabad 5%, Swat 18%, Wah Cantt 1%, Taxila 6%).

The demographics and socio economic characteristics are analyzed according to the selection of their banks. Respondents were randomly selected from different banks in working hours in order to avoid the bias occurred due to concentration of data at specified time or some unexpected events. Moreover, customers were approached to fill up the questionnaire after giving them a briefing about questionnaire.

4.2.1 QUESTIONNAIRE DESIGN

The questionnaire contains three sections: the first section is designed to gather respondent's information, second section contain account information; in third section Likert style scale

(1=Least important and 5=Most important) is used to rank the importance of variables which are common for conventional and Islamic banks. Section 3 is further divided into three parts in which variables seemed to belong from one group according to their characteristics. 1) Convenience. 2) Cost and return 3) Shari'ah compliance. While factor analysis will perform grouping based on correlation among variables.

To compare the competency of Islamic bank customers with conventional banks, these variables seem important for both banking systems. Initially 25 variables were selected that a respondent perceive important in selection of a bank these variables are Convenient location, Availability of parking, Accessibility with public transport, Security of your money, Branch outlook (Does it look like Islamic?), Friendly behavior of the staff , Queue system, Availability of ATM machines, Online banking facility, Quick service, Competence of staff, Staff's knowledge about Islamic banking, Reputation of organization and Recommendation of parents.

Respondents were to select on a five point Likert type scale ranging from not important to most important. Most of these factors were adopted by previous studies (Erol and El-Bdour, 1989; Erol et al., 1990; Omer, 1992; Haron et al., 1994; Gerrard and Cunningham, 1997; Metawa and Almossawi, 1998; Ahmad and Haron, 2002; Abbas et al., 2003).

4.3 FACTOR ANALYSIS

Factor analysis is a statistical tool used to “reduce a large number of variables to some smaller number by telling us which belong together and which seem to say the same thing” (Emory and Cooper, 1991).

4.3.1 KAISER-MAYER-OLKIN

Before obtaining the results of whole factor analysis, it's better to see the results of Kaiser-Mayer-Olkin (KMO) test. This test determines that whether data is adequate for factor analysis. Kaiser-Mayer-Olkin measure of sampling adequacy, which has become a standard test procedure for factor analysis. This test investigates that either the partial correlations among variables are small. KMO must be in excess of 0.7, which is the rule of thumb, KMO test value for our data is 0.9 which shows that our data is adequate for analysis. In addition, Bartlett's test of sphericity is used to test that whether the correlation matrix is an identity matrix, which will indicate that data is inappropriate or appropriate for the model. Results of the test shows that data is appropriate for analysis with zero level of significance.

TABLE 4.1 **KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.949
Bartlett's Test of Approx. Chi-Square	11619.383
Sphericity Df	300.000
Sig.	.000

4.3.3 DESCRIPTIVE STATISTICS

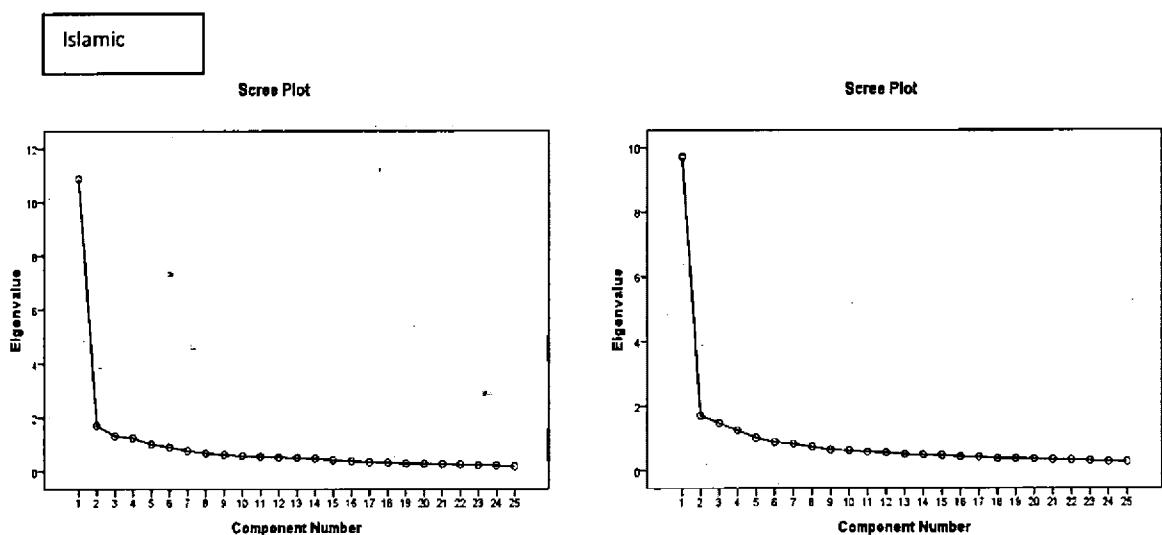
Mean of the factors shows respectability of the product. If we look at the data in the table highest mean is 4.1 for conventional and 3.31 for Islamic banking which shows that a customer regards security of his money as most important while investing in a particular bank.

TABLE 4.2 **Descriptive Statistics of variables**

(Conventional)			(Islamic)		
	Mean	Std. Deviation		Mean	Std. Deviation
CONVINIENT LOCATION	3.70	1.31	CONVINIENT LOCATION	3.05	1.47
AVAILABILITY OF PARKING	3.32	1.44	AVAILABILITY OF PARKING	3.02	1.23
ACCESSIBILITY WITH PUBLIC TRANSPORT	3.78	1.32	ACCESSIBILITY WITH PUBLIC TRANSPORT	3.14	1.22
SECURITY OF YOUR MONEY	4.12	1.22	SECURITY OF YOUR MONEY	3.31	1.27
FRIENDLY BEHAVIOUR OF STAFF	3.85	1.24	FRIENDLY BEHAVIOUR OF STAFF	3.18	1.25
EASE OF ACCESS TO ACCOUNT INFO	3.80	1.27	EASE OF ACCESS TO ACCOUNT INFO	3.03	1.28
HOURS OF OPERATION	3.76	1.18	HOURS OF OPERATION	3.14	1.21
QUEUE SYSTEM	3.61	1.33	QUEUE SYSTEM	2.92	1.26
AVAILABILITY OF ATM MACHINES	3.85	1.31	AVAILABILITY OF ATM MACHINES	3.07	1.33
ONLINE BANKING FACILITY	3.82	1.29	ONLINE BANKING FACILITY	3.26	1.23
QUICK SERVICE	3.85	1.14	QUICK SERVICE	3.27	1.19
ATTRATIVENESS OF BANK BUILDING	3.45	1.25	ATTRATIVENESS OF BANK BUILDING	3.00	1.15
COMPETENCE OF STAFF	3.76	1.19	COMPETENCE OF STAFF	3.25	1.20
STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	3.48	1.32	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	3.16	1.21
TRUST WORTHINESS OF BANK SHARJAH BOARD	3.60	1.27	TRUST WORTHINESS OF BANK SHARIAH BOARD	3.17	1.23
SHARIAH COMPLIANCE	3.45	1.43	SHARIAH COMPLIANCE	3.18	1.34
RECCOMENDATION OF PARENTS	3.56	1.25	RECCOMENDATION OF PARENTS	3.08	1.15
BRANCH OUTLOOK	3.33	1.44	BRANCH OUTLOOK	3.08	1.22
REPUTATION OF ORGANIZATION	3.74	1.20	REPUTATION OF ORGANIZATION	3.21	1.18
NO COMMISSION CHARGED ON SERVICES	3.42	1.27	NO COMMISSION CHARGED ON SERVICES	3.00	1.16
NO PENALTY FOR LATE PAYMENT	3.41	1.29	NO PENALTY FOR LATE PAYMENT	3.00	1.18
CONFIDENTIALITY OF INFORMATION	3.86	1.26	CONFIDENTIALITY OF INFORMATION	3.25	1.26
INTERBRANCH FACILITIES	3.63	1.19	INTERBRANCH FACILITIES	2.99	1.21
VARIETY OF SERVICES OFFERED	3.53	1.28	VARIETY OF SERVICES OFFERED	3.04	1.17
LOW BANK CHARGES	3.51	1.28	LOW BANK CHARGES	2.99	1.15

This result negates the previous researches on the same issue i.e. Anderson and Fulcher (1976), Riggal (1980), Erol and El-dour (1989) and Awan.H et al (2011) etc and confirmed the results of Omar.O and Orakwue.E (2006). One reason to prefer this attribute could be current scenario when the law and order situation in Pakistan is not well then a customer regards the security of his money on priority basis.

4.3.4 SCREE PLOT



Optimal number of components can be selected with the help of scree plot. First five components shows variation in the line and after that Scree line is almost parallel to x-axis. Moreover, generally, factors lying on steep slope are selected while factors lying on shallow slope are ignored. The last big drop occurred between fifth and sixth factor so it is better to select first five factors.

4.3.5 COMMUNALITIES

It is the squared multiple correlation coefficient of one variable with the all other variables. When factor analysis is performed certain amount of information is lost that are small values

which do not fit well in factor solution and certain amount of information is retained and it is decided on the basis of communalities.

In complete principal components analysis, with no factors left behind, communality is 1.0, or we can say that 100% of the variance of the known variable. The summation of the squared factor loadings for entire factors of a known variable is the variance in that variable accounted for by all the factors, and this is called the communality.

A portion of information which is extracted on the basis of communalities from the data by using principal component extraction method five factors are performed. Extraction communalities in table 4.3 are high in values both for Islamic and conventional bank customers so we can say that components which are extracted represents the variables well and there is no need to extract another component. It shows the pattern of variations in the characteristics. Principal Component Analysis work on the assumption that variance of all attributes is common so before extraction it is considered as one. After removing those variables which defines the same pattern and which are highly inter correlated we are left with five factors.

The factor analysis model extorts only that of variance, which is because of the common factors and mutual items. The percentage of variance of a specific item that is because of mutual items is called communality. The percentage of variance that is unique to each item is then the respective item's total variance minus the communality.

Common variance in the data structure is represented in Extraction column. By using percentages of squared multiple correlation coefficients we can find the percent of variation which can be produced for one variable by using all other variables. For example for Convenient location it is 0.67 which means that 67% of the convenient location data can be predicted from

the data on remaining 24 characteristics. By knowing the data of other 24 attributes we can find the importance of convenient location within 67 percent of the true value on average. Information extracted from each variable i.e. common variance is shown in the table as under.

TABLE 4.3 communalities

	Initial	Extraction (conventional)	Extraction (Islamic)
CONVINIENT LOCATION	1	0.67	0.72
AVAILABILITY OF PARKING	1	0.74	0.70
ACCESSIBILITY WITH PUBLIC TRANSPORT	1	0.56	0.71
SECURITY OF YOUR MONEY	1	0.67	0.66
FRIENDLY BEHAVIOUR OF STAFF	1	0.65	0.57
EASE OF ACCESS TO ACCOUNT INFO	1	0.71	0.64
HOURS OF OPERATION	1	0.68	0.55
QUEUE SYSTEM	1	0.54	0.57
AVAILABILITY OF ATM MACHINES	1	0.60	0.62
ONLINE BANKING FACILITY	1	0.65	0.55
QUICK SERVICE	1	0.76	0.60
ATTRATIVENESS OF BANK BUILDING	1	0.59	0.59
COMPETENCE OF STAFF	1	0.73	0.66
STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	1	0.68	0.71
TRUST WORTHINESS OF BANK SHARIAH BOARD	1	0.69	0.62
SHARIAH COMPLIANCE	1	0.65	0.56
RECOMMENDATION OF PARENTS	1	0.59	0.52
BRANCH OUTLOOK	1	0.73	0.49
REPUTATION OF ORGANIZATION	1	0.52	0.62
NO COMMISSION CHARGED ON SERVICES	1	0.55	0.65
NO PENALTY FOR LATE PAYMENT	1	0.71	0.53
CONFIDENTIALITY OF INFORMATION	1	0.61	0.65
INTERBRANCH FACILITIES	1	0.64	0.68
VARIETY OF SERVICES OFFERED	1	0.65	0.56
LOW BANK CHARGES	1	0.60	0.52

In different estimation methods, initial estimates of common variances are needed. In iterative methods, for example ML & GLS, initial communalities are initial values in estimating uniqueness, while in principal factor analysis these are the basis for constructing estimates. In

communality estimation diagonal elements of dispersion matrix are replaced with communality estimates and as a result, a reduced matrix is constructed²⁸

4.3.6 COMMUNALITY ESTIMATION

In communality estimation, reduced matrix is performed by replacing diagonal elements of dispersion matrix with the estimates of communalities. Three basic steps are involved in estimating communalities.

1. Constant fraction of $a=1$ is replaced in the original diagonal elements of correlation matrix performed by principal component analysis.
2. After that, largest correlation of one variable with the other within the matrix is selected.
3. Squared Multiple Correlations between variables are estimated for communality. These communalities are calculated as $h_{i\omega}^2 = 1 - (1/r^{\omega})$ where r^{ω} is the i th diagonal of the inverse of the dispersed matrix.

Communalities indicates amount of variance for each variable and in principal component extraction method, initial communalities are always equal to one in correlation analysis.

4.3.7 FACTOR LOADINGS

These are the weights and correlation coefficients between the variables and factors²⁹. Higher loadings are better in defining dimensionality of the data. Moreover, negative values have negative impact in defining the relationship of the factors of the data. Factor loadings are the foundation for assigning a name to singular factors. Corresponding to Pearson's correlation

²⁸ estimation of unattenuated factor loadings by Hunter and Wood Word in journal of education and behavioral statistics 1999

Gorsuch 1993

²⁹ Understanding factor analysis by R J Rummel

coefficient r , the squared factor loading is the percentage of variance in the variable, elucidated by a factor.

A variety of rotation stratagems are anticipated in the literature: Varimax, Oblimin, Quartimin, but the mostly preferred rotation stratagem is the Varimax rotation. The goal of these rotation strategies is to obtain a clear example of loadings, i.e. the factors are somehow clearly manifested between high and low loadings for other variables. This is called 'Simple Structure'.

Varimax rotation search to maximize the variances of the squared normalized factor loadings across variables for all factors. This is equal to maximize the variances in the columns of the matrix of the squared normalized factor loadings.

4.3.8 EIGENVALUES:

Eigenvalues are a group of scalars related with a linear system of equations known as characteristic roots, characteristic values³⁰ or proper values, or latent roots.³¹ It shows the variance in all the variables, which is accounted for by that factor. A factor's eigenvalue can be calculated by the sum of its squared factor loadings. The ratio of eigenvalues is the ratio of explanatory significance of the factors with respect to the variables. If a factor has a low eigenvalue, then it is causative little to the explanation of variances in the variables and may be overlooked. Number of eigenvalues depends upon the number of variables. As many eigenvalues are calculated as the number of variables are analyzed. As it is assumed that eigenvalues more than 1 should be taken. In our data only five values are more than one so these five values are shown in the table 4.4.

³⁰ (Hoffman and Kunze 1971),

³¹ (Marcus and Minc 1988, p. 144).

TABLE 4.4**Total Variance Explained**

(Conventional)				(Islamic)			
Component	Initial Eigenvalues			Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %		Total	% of Variance	Cumulative %
1	10.88	43.51	43.51	1	9.71	38.82	38.82
2	1.71	6.85	50.36	2	1.72	6.86	45.68
3	1.32	5.27	55.63	3	1.48	5.91	51.59
4	1.25	4.99	60.62	4	1.25	5.01	56.60
5	1.01	4.05	64.67	5	1.02	4.07	60.66
6	0.90	3.60	68.27	6	0.89	3.56	64.22
7	0.77	3.07	71.34	7	0.83	3.33	67.54
8	0.68	2.73	74.08	8	0.74	2.98	70.52
9	0.62	2.50	76.57	9	0.65	2.59	73.10
10	0.57	2.28	78.86	10	0.63	2.51	75.62
11	0.55	2.18	81.04	11	0.58	2.33	77.95
12	0.52	2.07	83.11	12	0.56	2.25	80.20
13	0.50	2.01	85.12	13	0.51	2.04	82.24
14	0.48	1.92	87.04	14	0.49	1.95	84.19
15	0.42	1.67	88.71	15	0.47	1.89	86.08
16	0.38	1.53	90.24	16	0.43	1.72	87.80
17	0.34	1.37	91.62	17	0.42	1.67	89.47
18	0.33	1.32	92.94	18	0.37	1.49	90.96
19	0.30	1.20	94.14	19	0.37	1.48	92.44
20	0.29	1.15	95.29	20	0.35	1.41	93.85
21	0.28	1.12	96.41	21	0.34	1.36	95.21
22	0.26	1.04	97.45	22	0.33	1.31	96.53
23	0.23	0.92	98.37	23	0.31	1.23	97.75
24	0.22	0.88	99.25	24	0.28	1.13	98.88
25	0.19	0.75	100.00	25	0.28	1.12	100.00

One important aspect of factor model estimation is eigenvalue³² of reduced or unreduced matrices. This table shows variance explained by the initial solution. The total column shows eigenvalue or amount of variance in original variable accounted for by each component. It can be seen from the table below that first variable which is security of money effects the first component 43.5%, the second factor accounts for 6.8 % of variation and third, fourth and fifth factors are affected by the variables in the same manner which is performed by factor analysis.

³² Eigenvalues are the variances of the factors.

Percentage of variance column shows ratio of variance accounted for each component by total variance. The Cumulative percentage column gives the sum of percentage of variance accounted for by components. For example, the cumulative percentage for the second component is the cumulative sum of each column. These 25 variables are examined by factor analysis at 5% level of significance, which is divided into 5 components.

TABLE 4.5 Extraction Sums of Squared Loadings

(conventional)			(Islamic)		
Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
10.9	43.5	43.5	9.7	38.8	38.8
1.7	6.8	50.4	1.7	6.9	45.7
1.3	5.3	55.6	1.5	5.9	51.6
1.2	5.0	60.6	1.3	5.0	56.6
1.0	4.0	64.7	1.0	4.1	60.7

In initial eigenvalues there are as many components as the number of analyzed variables while in correlation analysis sum of eigenvalues equals to number of components obtained after extraction. Correlation analysis is executed on correlation matrix and variables are standardized and each variable have a variance of one. In this analysis eigenvalue more than 1 is selected, so we have five components from the extracted solution. These five components explain 64% percent of variability that exist in the whole data, which is a large portion of the data, so by selecting this data which consist of these five components of 64% of variability of data. Data can be reduced with 46% loss of the information by taking these five components. While other 20 variables contribute very little to the data. Now these 25 variables can be arranged into five groups, which belong to the same category.

4.3.9 ANALYSIS

Factor analysis is a technique, which is used to reduce the large number of variables into smaller number by combining those variables, which belong together (Emory and Cooper 1991). By factor analysis these observable random variables can be clustered into factors, each reflecting an underlying property, which is commonly shared by a certain group of variables (De Vaus, 2002)

4.3.10 ROTATED COMPONENT MATRIX

This analysis is carried out to check whether some correlation among factors exists or not. It shows that what variables represents which factors or belong to same group. Results are given below in table no 4.6 The first component is highly correlated with variable 1, 3, 4, 7, 9, 10, 17, and 25. Therefore, it is best representative of all these variables while it is less or not correlated with the other variables. In the same way, other four components are formed. Variable are grouped into that factor where its correlation coefficient or factor loading is high. Different methods of rotation are used for analysis but in this study varimax³³ rotation method is used

TABLE 4.6 Rotated Component Matrix

(Conventional)			(islamic)			Component													
			Component																
			1	2	3	4	5							1	2	3	4	5	
1	CONVINIENT LOCATION		0.7	0.2	0.2	0.	0.3	CONVINIENT LOCATION			0.	0.	0.	0.	0.	0.	0.	0.	
2	AVAILABILITY OF PARKING		0.3	0.1	0.4	0.	0.7	AVAILABILITY OF PARKING			0.	0.	0.	0.	0.	0.	0.	0.	
3	ACCESSIBILITY WITH PUBLIC TRANSPORT		0.6	0.3	0.1	0.	0.3	ACCESSIBILITY WITH PUBLIC TRANSPORT			0.	0.	0.	0.	0.	0.	0.	0.	
4	SECURITY OF YOUR MONEY		0.6	0.3	0.0	0.	0.2	SECURITY OF YOUR MONEY			0.	0.	0.	0.	0.	0.	0.	0.	
5	FRIENDLY BEHAVIOUR OF STAFF		0.3	0.3	-	0.	0.4	FRIENDLY BEHAVIOUR OF STAFF			0.	0.	0.	0.	0.	0.	0.	0.	

³³ an orthogonal rotation method which group the similar variables which contains high loadings on each factor. interpretation of factors is simplified by this procedure

6	EASE OF ACCESS TO ACCOUNT INFO	0.4	0.7	0.1	0.1	EASE OF ACCESS TO ACCOUNT INFO	0.	0.	0.	0.	0.
7	HOURS OF OPERATION	0.5	0.6	0.2	0.1	HOURS OF OPERATION	0.	0.	0.	0.	0.
8	QUEUE SYSTEM	0.2	0.2	0.1	0.5	QUEUE SYSTEM	0.	0.	0.	0.	0.
9	AVAILABILITY OF ATM MACHINES	0.5	0.0	0.1	0.4	AVAILABILITY OF ATM MACHINES	0.	0.	0.	0.	0.
10	ONLINE BANKING FACILITY	0.7	-0.1	0.1	0.3	ONLINE BANKING FACILITY	0.	0.	0.	0.	0.
11	QUICK SERVICE	0.6	0.1	0.3	0.6	QUICK SERVICE	0.	0.	0.	0.	0.
12	ATTRATIVENESS OF BANK BUILDING	0.2	0.1	0.7	0.1	ATTRATIVENESS OF BANK BUILDING	0.	0.	0.	0.	0.
13	COMPETENCE OF STAFF	0.3	0.2	0.3	0.7	COMPETENCE OF STAFF	0.	0.	0.	0.	0.
14	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	0.1	0.3	0.4	0.6	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	0.	0.	0.	0.	0.
15	TRUST WORTHINESS OF BANK SHARIAH BOARD	0.0	0.6	0.4	0.4	TRUST WORTHINESS OF BANK SHARIAH BOARD	0.	0.	0.	0.	0.
16	SHARIAH COMPLIANCE	-0.1	0.7	0.2	0.2	SHARIAH COMPLIANCE	0.	0.	0.	-	0.
17	RECCOMENDATION OF PARENTS	0.6	0.2	0.4	0.0	RECCOMENDATION OF PARENTS	0.	0.	0.	0.	0.
18	BRANCH OUTLOOK	0.2	0.2	0.2	0.1	BRANCH OUTLOOK	0.	0.	0.	0.	0.
19	REPUTATION OF ORGANIZATION	0.3	0.2	0.5	0.4	REPUTATION OF ORGANIZATION	0.	0.	0.	0.	0.
20	NO COMMISSION CHARGED ON SERVICES	0.2	0.3	0.6	0.1	NO COMMISSION CHARGED ON SERVICES	0.	0.	0.	0.	0.
21	NO PENALTY FOR LATE PAYMENT	0.0	0.3	0.7	0.3	NO PENALTY FOR LATE PAYMENT	0.	0.	0.	-	0.
22	CONFIDENTIALITY OF INFORMATION	0.4	0.6	0.2	0.2	CONFIDENTIALITY OF INFORMATION	0.	0.	0.	0.	0.
23	INTERBRANCH FACILITIES	0.5	0.6	0.2	0.2	INTERBRANCH FACILITIES	0.	0.	0.	0.	0.
24	VARIETY OF SERVICES OFFERED	0.5	0.2	0.6	0.1	VARIETY OF SERVICES OFFERED	0.	0.	0.	0.	0.
25	LOW BANK CHARGES	0.5	0.2	0.5	0.2	LOW BANK CHARGES	0.	0.	0.	0.	0.

As a result of rotated component matrix these five groups are generated.

4.4 NAMING COMPONENTS

The customer satisfaction data on 25 attributes is analyzed by using factor analysis to obtain the dimensions of bank services. Results are shown with detail of methodology in the table below.

Five dimensions of customer satisfaction are identified which are explained as

Some significant insights about banking services are provided by these factors. As it can be seen that factor 1 is correlated with 8 factors. In previous studies it was examined that financial considerations did stand out separately as compared to other non financial services by AK Manrai and LK Manrai(2007) but in current study one attribute regarding bank financial consideration is included in the factor grouped with convenience.

The variance explained by different factors is an indication of the extent of variability that existed in surveyed population in their satisfaction with the bank services along the five service dimensions. Thus the variance describes the range of responses i.e. how scattered the customer's responses were along each of the six service dimensions. The financial aspects like penalty for late payment and commission charged on services explains 5% of variation in the data as compared to non financial aspects like accessibility, reliability, personnel and location which explains 57% of the variance. This finding suggests that greater variability exists in customer satisfaction on account of non financial aspects.

4.4.1 FACTOR 1

The first factor for conventional bank describes group of variables relationship: convenient location, accessibility with public transport, security of money, hours of operation, availability of ATM machines, online banking facility, recommendation of parents and low service charges.

The nature of the loaded variables suggests that these are *convenience and family oriented* customers. These findings confirmed an earlier analysis done by Erol and Radi(2007)³⁴ who discovered that in factor one convenience and image oriented customers were grouped. This factor is considered as most important factor in selection of bank which explains largest variation of 43% in total variation. While looking at Islamic banking factor one consist of convenient location, availability of parking, accessibility with public transport, security of money, friendly behavior of staff and branch outlook constitutes six main variables which have high loadings for factor one, which indicates that Islamic bank customers *are convenience oriented and desires security of their assets aside*.

4.4.2 FACTOR 2

Emerged from analysis of conventional banks data includes easy access to account info, trustworthiness of Shari'ah board, *shariah compliance* but in fact these variables must result in zero attraction for conventional bank customers because *shariah* board and *shariah* compliance are not available in conventional banks it happens because of less knowledge regarding *shariah* compliance to bank customers. While other variables are confidentiality of information and inter branch facilities, which are related to *the reliability* of a bank and it explains 6% of variation in total. While for Islamic bank customer's second factor consists of quick service, competence of staff, staff knowledge about Islamic banking, reputation of organization. This group is related with *the human resource management* in Islamic banking.

³⁴ conventional and Islamic banks patronage behavior of Jordanian customers.

4.4.3 FACTOR 3

Represents *financial strength* of a bank i.e. how sound and well reputed is that bank by appearance and secondly charges applied on different services and payments given by that particular banks are good enough to make deposits. This factor explains 5% of total variations. While Islamic banks factor 3 contains seven variables i.e. attractiveness of bank building, branch outlook, recommendation of parents and no commission charged on service, no penalty for late payment, variety of services offered, low banking charges this factor is *about image and charges oriented* customers.

4.4.4 FACTOR 4

Explains the behavior and response of the staff in preceding any transaction in conventional banking it consists of five variables Friendly behavior of staff, Queue systm, Quick service, Competence of staff and staff knowledge about Islamic banking. This factor is labeled as *human resource management*. This explains total variance of 4%. Location includes availability of parking and outlook, which explains 4% variation of the total. While factor 4 in Islamic banking consists of Ease of access to account info, queue system, availability of ATM machines, Online banking facilities and interbranch facilities variables, which explains *technology related Services*.

4.4.5 FACTOR 5

In conventional banking consists of two variables that is availability of parking and branch outlook. This group is labeled as convenient location. While in Islamic banking, it consists of four variables i.e. hours of operation, trustworthiness of bank Shari'ah board, *Shari'ah* compliance, and confidentiality of information that indicates the importance of *Shari'ah* compliance.

These results are somehow consistent with previous studies of Anderson and Fulcher (1976), Omer (1992), Methawa and Almossawi (1998), Phuong ta and Harkar(2000) and Ahmed.W et al (2008)

TABLE NO 4.7 **Grouping of variables**

Factors	Attributes	Rotated Loadings	Variance Explained	Factors	Attributes	Rotated Loadings	Variance Explained
Factor 1	CONVINIENT LOCATION	0.71	43%	Factor 1	CONVINIENT LOCATION	0.8	43.50%
	ACCESSIBILITY WITH PUBLIC TRANSPORT	0.58			AVAILABILITY OF PARKING	0.8	
	SECURITY OF YOUR MONEY	0.64			ACCESSIBILITY WITH PUBLIC TRANSPORT	0.8	
	HOURS OF OPERATION	0.54			SECURITY OF YOUR MONEY	0.6	
	AVAILABILITY OF ATM MACHINES	0.53			FRIENDLY BEHAVIOUR OF STAFF	0.5	
	ONLINE BANKING FACILITY	0.71			BRANCH OUTLOOK	0.5	
	RECCOMENDATION OF PARENTS	0.62		Factor 2	QUICK SERVICE	0.6	6.80%
	LOW BANKING CHARGES	0.52			COMPETENCE OF STAFF	0.7	
Factor 2	EASE OF ACCESS TO ACCOUNT INFORMATION	0.69	6%		STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	0.8	
	TRUST WORTHINESS OF BANK SHARIAH BOARD	0.64			REPUTATION OF ORGANIZATION	0.6	
	SHARIAH COMPLIANCE	0.72		Factor 3	ATTRATIVENESS OF BANK BUILDING	0.7	5.30%

	CONFIDENTIALITY OF INFORMATION	0.56			RECCOMENDATION OF PARENTS	0.5	
	INTERBRANCH FACILITIES	0.60			NO COMMISSION CHARGED ON SERVICES	0.8	
Factor 3	ATTRACTIVENSS OF BANK BUILDING	0.69	5%		NO PENALTY FOR LATE PAYMENT	0.6	
	REPUTATION OF ORGANIZATION	0.45			VARIETY OF SERVICES OFFERED	0.6	
	NO COMMISSION CHARGED ON SERVICES	0.61			LOW BANK CHARGES	0.5	
	NO PENALTY FOR LATE PAYMENTS	0.68		Factor 4	EASE OF ACCESS TO ACCOUNT INFO	0.6	5%
	VARIETY OF SERVICES OFFERED	0.55			QUEUE SYSTME	0.7	
Factor 4	FRIENDLY BEHAVIOUR OF STAFF	0.58	4%		AVAILABILITY OF ATM MACHINES	0.7	
	QUEUE SYSTEM	0.50			ONLINE BANKING FACILITY	0.5	
	QUCK SERVICE	0.58			INTERBRANCH FACILITIES	0.6	
	COMPETENCE OF STAFF	0.70		Factor 5	HOURS OF OPERATION	0.6	4%
	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	0.62			TRUST WORTHINESS OF BANK SHARIAH BOARD	0.6	
Factor 5	AVAILABILITY OF PARKING	0.69	4%		SHARIAH COMPLIANCE	0.5	
	BRANCH OUTLOOK	0.77			CONFIDENTIALITY OF INFORMATION	0.7	

a) Eigen value of five factors is greater than one.

b) Rotation is done by using varimax rotation. Variables written next to factors have a loading value greater than .50 on that factor.

c) Reliability measure ranges 0-1. Higher values are better acceptable.

d) Extraction method is principal component analysis.

Thus the overall banking services for conventional banks can be described in five dimensions

that are

1. Convenience
2. Reliability
3. Financial strength
4. HRM
5. Convenient Location

Five Dimensions for Islamic banks are:

1. Security of money
2. HRM
3. Image and Charges oriented considerations
4. Technology related services
5. Importance of Shari'ah Compliance

For each of these five factors compound variables are constructed by combining customer's answers on relevant attributes that was loaded on a particular factor.

For each case and each component, the component score is computed by multiplying the case's standardized variable values (computed using list wise deletion) by the component's score coefficients³⁵. The resulting five component score variables are representative of, and can be used in place of, the twenty-five original variables.

It is somehow good to use the component instead of using original variables because the factors are representative of original variables and these factors are not linearly correlated with each other.

4.5 FRIEDMAN ANALYSIS

The Friedman test is a non-parametric statistical test developed by the Milton Friedman that compares three or more groups. In this test, values are ranked in each row from smaller to greater and every row is ranked individually. It then sum the rank in every column like the parametric repeated measures ANOVA, it is used to identify disparity in treatments across multiple test

³⁵ Gorsuch (1983), Ten Berge et. al (1999), Grice (2001), McDonald (1981), Green (1969).

attempts. The process entails ranking each row collectively, then considering the values of ranks by columns³⁶.

CALCULATION METHOD:

$$F = \frac{12}{nC(C+1)} \sum R_c^2 - 3n(C+1)$$

Where

C= number of columns

n= number of rows

R_c^2 = sum of ranks in columns

Twenty-five variables were analyzed by using Friedman's test to determine their ranks. Most of the variables focused on accessibility of customer while some measure financial benefits, location, and reliability. The results of the Friedman's test are significant with asymptotic significance of zero.

Table 4.8 **Test statistica**

test statistica	conventional	Islamic
N	221	778
Chi-Square	199.1655	191.75
Df	24	24
Asymp. Sig.	0	0
a. Friedman Test		

³⁶ Friedman, Milton (December 1937). "The use of ranks to avoid the assumption of normality implicit in the analysis of variance". *Journal of the American Statistical Association* (American Statistical Association) 32 (200): 675–701.

4.5.1 RANKING (CONVENTIONAL BANKS)

Ranks are calculated for each variable by using friedman test. In other words we can say that evaluation of all variables according to their mean is done by using this test.

TABLE NO 4.9 Ranking of variables according to their means

	(CONVENTIONAL BANKS)	Mean Rank
1	SECURITY OF YOUR MONEY	16.06
2	AVAILABILITY OF ATM MACHINES	14.43
3	QUICK SERVICE	14.33
4	FRIENDLY BEHAVIOUR OF STAFF	14.28
5	ONLINE BANKING FACILITY	14.18
6	CONFIDENTIALITY OF INFORMATION	14.16
7	ACCESSIBILITY WITH PUBLIC TRANSPORT	13.91
8	EASE OF ACCESS TO ACCOUNT INFO	13.88
9	COMPETENCE OF STAFF	13.74
10	HOURS OF OPERATION	13.57
11	REPUTATION OF ORGANIZATION	13.36
12	CONVINIENT LOCATION	13.32
13	QUEUE SYSTME	13.00
14	INTERBRANCH FACILITIES	12.73
15	TRUST WORTHINESS OF BANK SHARIAH BOARD	12.62
16	RECCOMENDATION OF PARENTS	12.33
17	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	12.04
18	VARIETY OF SERVICES OFFERED	11.99
19	LOW BANK CHARGES	11.99
20	SHARIAH COMPLIANCE	11.86
21	NO PENALITY FOR LATE PAYMENT	11.54
22	ATTRATIVENESS OF BANK BUILDING	11.53
23	BRANCH OUTLOOK	11.52
24	NO COMMISSION CHARGED ON SERVICES	11.43
25	AVAILABILITY OF PARKING	11.20

Conventional bank customers ranked security of money as most important while availability of ATM machines, Quick service, and Friendly behavior of staff are ranked second, third and fourth respectively. This indicates that customers are more concerned about security of their money and

availability of ATM machines. Availability of ATM machines was ranked seventh by Rehman and Abdur (2008) who conducted a same kind of study in Pakistan. While this study supports the results of Sudin Haron, Norafifah Ahmed and Sandra and Planisek(1994) who revealed that customers rank ATM machines on second number. Quick service is the third most important factor ranked by conventional bank customers it indicates that customers are more considered about their time that is wasted on provision of slow services. Sudin Haron obtains almost similar results where Quick services are ranked fourth while Almossawi ranked quick service on sixth number. Friendliness of bank staff is ranked fifth followed by online banking facility, confidentiality of information, accessibility with public transport and ease of access to account info. Customers of conventional banks ranked availability of parking as least important factor in selection of bank which negates the findings of Kaynak and Kucukemiroglu(1992) who indicated availability of parking as second most important factor in selection of bank. Anderson and Fultcher(1976) and Yavas(2007) ranked as 10th. Second least important factor ranked by conventional bank customers is commission charged on services negating the results of Sudin haron(1994), Saunders and Russell abratt (2007) and Delvin (2011) who ranked commission charged on services in the top ten most important factors. While results of Erol, Kaynak and Radi(2007) are confirmed by this finding. The third least important factor for conventional bank customer is branch outlook. Which confirmed the results of Saunders,Bendixen and Abratt (2007) who ranked appearance of bank in least important factors. While negates the results of Erol,Kaynak and Radi (2007) who revealed that appearance of bank building is one of the most important patronage~factor. These least important factors are followed by no penalty for late payment, Shariah compliance (It must be resulted as the least important factor but still it have

gained some place in ranking factors which may be due to lack of information regarding shariah compliance to customers in Pakistan).

4.5.2 RANKING (ISLAMIC BANKS)

Islamic bank customer's ranked security of money as most important factor in selection of bank results shows that Islamic bank customers in Pakistan are more concerned about security of their deposits.

TABLE NO 4.10 Ranking of variables according to their means

	(Islamic BANKS)	Mean Ranks
1	SECURITY OF YOUR MONEY	14.23
2	COMPETENCE OF STAFF	13.90
3	ONLINE BANKING FACILITY	13.89
4	CONFIDENTIALITY OF INFORMATION	13.84
5	QUICK SERVICE	13.78
6	REPUTATION OF ORGANIZATION	13.64
7	SHARIAH COMPLIANCE	13.62
8	TRUST WORTHINESS OF BANK SHARIAH BOARD	13.36
9	FRIENDLY BEHAVIOUR OF STAFF	13.36
10	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	13.33
11	AVAILABILITY OF ATM MACHINES	13.17
12	HOURS OF OPERATION	13.09
13	ACCESSIBILITY WITH PUBLIC TRANSPORT	12.90
14	EASE OF ACCESS TO ACCOUNT INFO	12.86
15	RECCOMENDATION OF PARENTS	12.78
16	BRANCH OUTLOOK	12.69
17	INTERBRANCH FACILITIES	12.37
18	VARIETY OF SERVICES OFFERED	12.36
19	AVAILABILITY OF PARKING	12.34
20	CONVINIENT LOCATION	12.33
21	NO PENALTY FOR LATE PAYMENT	12.31
22	NO COMMISSION CHARGED ON SERVICES	12.29
23	LOW BANK CHARGES	12.28
24	ATTRATIVENESS OF BANK BUILDING	12.25
25	QUEUE SYSTME	12.02

when customer moves to a bank to open an account security of his/her money is the main reason for selection of a bank and in current scenario of Pakistan where law and order situation is the burning issue it can be inferred that customers are more concerned about their security of money. Second most important factor in selection of Islamic bank is the competence of staff. Methawa and Almossawi (1998) suggested that future of Islamic banking depends upon competency of staff as the same results are inferred by the current study. Online banking facility is the third most important factor revealed in selection of a bank. This is followed by confidentiality of information, Quick service, Reputation of organization and shariah compliance. The least important factor ranked by Islamic bank customer is queue system. These findings are contradictory with the findings of Omar and Orakwue (2006) who suggested queue system as an efficiency indicator for Nigerian banks. Second least important factor by Islamic bank customers is attractiveness of bank building and third least important factor is low commission charged on services. These least important factors are followed by no penalty for late payment, convenient location, availability of parking and variety of services offered.

4.5.3 SIMILARITIES AND DISSIMILARITIES

Ranking of variables with mean importance is shown in the table below.

Variable, which is loaded first by Islamic and conventional bank customers, is security of your money, which indicates that Islamic and conventional bank customers most frequently use this service and it is considered as most important in selection of bank. Second most important variable considered by conventional bank customers is Availability of ATM machines while Muslim customers prefer competence of staff at second number. Quick service is third most important factor in conventional banking while it is considered as fifth in Islamic banking patronage and Islamic banking customers prefer online banking facility as third most important

variable. Availability of parking and Queue system are given least importance by conventional and Islamic bank customers respectively.

TABLE 4.11

	Ranks(CONVENTIONAL BANKS)	Mean Rank		Ranks(Islamic BANKS)	Mean Ranks
1	SECURITY OF YOUR MONEY	16.06	1	SECURITY OF YOUR MONEY	14.23
2	AVAILABILITY OF ATM MACHINES	14.43	2	COMPETENCE OF STAFF	13.90
3	QUICK SERVICE	14.33	3	ONLINE BANKING FACILITY	13.89
4	FRIENDLY BEHAVIOUR OF STAFF	14.28	4	CONFIDENTIALITY OF INFORMATION	13.84
5	ONLINE BANKING FACILITY	14.18	5	QUICK SERVICE	13.78
6	CONFIDENTIALITY OF INFORMATION	14.16	6	REPUTATION OF ORGANIZATION	13.64
7	ACCESSIBILITY WITH PUBLIC TRANSPORT	13.91	7	SHARIAH COMPLIANCE	13.62
8	EASE OF ACCESS TO ACCOUNT INFO	13.88	8	TRUST WORTHINESS OF BANK SHARIAH BOARD	13.36
9	COMPETENCE OF STAFF	13.74	9	FRIENDLY BEHAVIOUR OF STAFF	13.36
10	HOURS OF OPERATION	13.57	10	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	13.33
11	REPUTATION OF ORGANIZATION	13.36	11	AVAILABILITY OF ATM MACHINES	13.17
12	CONVINIENT LOCATION	13.32	12	HOURS OF OPERATION	13.09
13	QUEUE SYSTME	13.00	13	ACCESSIBILITY WITH PUBLIC TRANSPORT	12.90
14	INTERBRANCH FACILITIES	12.73	14	EASE OF ACCESS TO ACCOUNT INFO	12.86
15	TRUST WORTHINESS OF BANK SHARIAH BOARD	12.62	15	RECCOMENDATION OF PARENTS	12.78
16	RECCOMENDATION OF PARENTS	12.33	16	BRANCH OUTLOOK	12.69
17	STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	12.04	17	INTERBRANCH FACILITIES	12.37
18	VARIETY OF SERVICES OFFERED	11.99	18	VARIETY OF SERVICES OFFERED	12.36
19	LOW BANK CHARGES	11.99	19	AVAILABILITY OF PARKING	12.34
20	SHARIAH COMPLIANCE	11.86	20	CONVINIENT LOCATION	12.33
21	NO PENALTY FOR LATE PAYMENT	11.54	21	NO PENALTY FOR LATE PAYMENT	12.31
22	ATTRATIVENESS OF BANK BUILDING	11.53	22	NO COMMISSION CHARGED ON SERVICES	12.29
23	BRANCH OUTLOOK	11.52	23	LOW BANK CHARGES	12.28
24	NO COMMISSION CHARGED ON SERVICES	11.43	24	ATTRATIVENESS OF BANK BUILDING	12.25
25	AVAILABILITY OF PARKING	11.20	25	QUEUE SYSTME	12.02

No penalty for late payment is the least important factor selected by both Islamic and conventional bank customers. While almost similar results are obtained for attractiveness of bank building. Patronage factors related to convenience are given much importance then HRM, Financial concerns and Reliability. While Muslim regards security of their assets more important than HRM, Image, Technology, and Shari'ah Compliance. There are some similarities in between the findings of this study and findings of earlier studies. The convenient location as most important variable was resulted in the studies of Tan and Chua (1986), Blankson.C et al. (2007) and Riggal(1980). Particularly convenient location for most of the customers is desirable to avoid un necessary time in finding and reaching the desired bank. It suggests that there is significance difference in selection criteria for Islamic bank as well as conventional banks.

4.6 TESTING DIFFERENCE IN MEAN RESPONSES

Whether difference in mean response by the conventional and Islamic bank customers is same or different, we use t-test. T-test applied on the independent samples by using following formula:

$$t = \frac{\bar{X}_i - \bar{Y}_c}{\sqrt{\frac{\sigma_i^2}{n_i} + \frac{\sigma_c^2}{n_c}}}$$

Where \bar{X} is mean of Islamic bank customers, \bar{Y} is mean of conventional bank customers, σ_i^2 is population variance of Islamic bank customers, σ_c^2 is population Variance of conventional bank customers, n_i is sample size of Islamic bank customers, n_c is sample size of conventional bank customers.

When population variances are unknown and assumed to be equal then we use their sample variances S_i^2 and S_c^2 to compute a pooled variance estimator (S_p^2) as

$$S_p^2 = \frac{(n_i - 1)S_i^2 + (n_c - 1)S_c^2}{(n_i + n_c - 2)}$$

And then use following formula to compute t-statistics

$$t = \frac{\bar{X}_i - \bar{Y}_c}{\sqrt{\frac{S_p^2}{n_i} + \frac{S_p^2}{n_c}}}$$

However, if population variances are unknown and not equal, then following modifications are required in computation of t-test, variances and the degrees of freedom as:

$$t = \frac{\bar{X}_i - \bar{Y}_c}{\sqrt{\frac{S_i^2}{n_i} + \frac{S_c^2}{n_c}}} \quad \text{With degree of freedom} = \frac{[(\frac{S_i^2}{n_i}) + (\frac{S_c^2}{n_c})]^{-1}}{\frac{(\frac{S_i^2}{n_i})^2}{n_i-1} + \frac{(\frac{S_c^2}{n_c})^2}{n_c-1}}$$

To check equality of variances we use F-test. In F test, null hypothesis of equal variances is tested against the alternative that they are not equal and F statistic is calculated as

$$F = \frac{S_i^2/df}{S_c^2/df}$$

If F statistic computed is greater than F critical we reject the null of equal variances.

4.6.1 RESULTS

First, we see the descriptive statistics for two groups. Looking at the column of mean it can be seen that mean for Islamic bank customers for different services is lower than that of conventional bank customers. It means that customers are more satisfied with the services of conventional banks as compare to Islamic banks.

TABLE NO 4.12

Group Statistics

	TYPE OF BANK	N	Mean	Std. Deviation	Std. Error Mean
CONVINIENT LOCATION	ISLAMIC BANK	778	3.0527	1.46817	.05264
	Conventional	222	3.7207	1.28458	.08622
AVAILABILITY OF PARKING	ISLAMIC BANK	778	3.0193	1.22853	.04404
	Conventional	222	3.3378	1.42324	.09552
ACCESSIBILITY WITH PUBLIC TRANSPORT	ISLAMIC BANK	778	3.1440	1.21968	.04373
	Conventional	222	3.8018	1.29963	.08723
SECURITY OF YOUR MONEY	ISLAMIC BANK	778	3.3098	1.26854	.04548
	Conventional	222	4.1396	1.18945	.07983
FRIENDLY BEHAVIOUR OF STAFF	ISLAMIC BANK	778	3.1774	1.24972	.04480
	Conventional	222	3.8649	1.21444	.08151
EASE OF ACCESS TO ACCOUNT INFO	ISLAMIC BANK	778	3.0373	1.28245	.04598
	Conventional	222	3.8108	1.24772	.08374
HOURS OF OPERATION	ISLAMIC BANK	778	3.1452	1.20733	.04328
	Conventional	222	3.7793	1.14983	.07717
QUEUE SYSTEM	ISLAMIC BANK	778	2.9177	1.25855	.04512
	Conventional	222	3.6261	1.30777	.08777
AVAILABILITY OF ATM MACHINES	ISLAMIC BANK	778	3.0694	1.33571	.04789
	Conventional	222	3.8649	1.28328	.08613
ONLINE BANKING FACILITY	ISLAMIC BANK	778	3.2609	1.23444	.04426
	Conventional	222	3.8378	1.26234	.08472
QUICK SERVICE	ISLAMIC BANK	778	3.2674	1.19004	.04267
	Conventional	222	3.8739	1.11442	.07480
ATTRATIVENESS OF BANK BUILDING	ISLAMIC BANK	778	3.0013	1.15414	.04138
	Conventional	222	3.4685	1.22434	.08217
COMPETENCE OF STAFF	ISLAMIC BANK	778	3.2545	1.20467	.04319
	Conventional	222	3.7748	1.15875	.07777
STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	ISLAMIC BANK	778	3.1607	1.21070	.04341
	Conventional	222	3.4955	1.29652	.08702
TRUST WORTHINESS OF	ISLAMIC BANK	778	3.1735	1.22688	.04399

BANK SHARIAH BOARD	CONVENTIONAL	222	3.6126	1.24886	.08382
SHARIAH COMPLIANCE	ISLAMIC BANK	778	3.1851	1.33816	.04798
	CONVENTIONAL	222	3.5541	1.77826	.11935
RECCOMENDATION	OF ISLAMIC BANK	778	3.0810	1.15576	.04144
PARENTS	CONVENTIONAL	222	3.5676	1.23392	.08282
BRANCH OUTLOOK	ISLAMIC BANK	778	3.0784	1.22091	.04377
	CONVENTIONAL	222	3.3423	1.42375	.09556
REPUTATION	OF ISLAMIC BANK	778	3.2134	1.17710	.04220
ORGANIZATION	CONVENTIONAL	222	3.7523	1.17934	.07915
NO COMMISSION	ISLAMIC BANK	778	2.9987	1.16081	.04162
CHARGED ON SERVICES	CONVENTIONAL	222	3.4369	1.24874	.08381
NO PENALTY FOR LATE	ISLAMIC BANK	778	3.0553	1.88765	.06768
PAYMENT	CONVENTIONAL	222	3.4324	1.27006	.08524
CONFIDENTIALITY	OF ISLAMIC BANK	778	3.2506	1.26538	.04537
INFORMATION	CONVENTIONAL	222	3.8739	1.23022	.08257
INTERBRANCH FACILITIES	ISLAMIC BANK	778	2.9936	1.21603	.04360
	CONVENTIONAL	222	3.6486	1.17013	.07853
VARIETY OF SERVICES	ISLAMIC BANK	778	3.0386	1.16846	.04189
OFFERED	CONVENTIONAL	222	3.5541	1.25639	.08432
LOW BANK CHARGES	ISLAMIC BANK	778	2.9871	1.14455	.04103
	CONVENTIONAL	222	3.7568	3.61174	.24240

Next we see the Levene's test³⁷ for equality of variances which is used to assess equality of variances in different samples. If the Levene's test is significant the two variances i.e Islamic and conventional banks variances are significantly different. If it is not significant the two variances are approximately equal.

³⁷ Levene's test (Levene 1960) is used to test equality of variances of k samples. Equal variances of different samples are called homogeneity of variance. It is assumed in some tests that samples variances are equal. The Levene test is used most frequently in statistics to verify that assumption.

Results shown in table 14.2 indicates that we reject the null hypothesis of equal variances in case of Convinent location, Availability of parking, Security of money, Attractiveness of bank building, Staff knowledge about Islamic banking, Shariah compliance, Reccomendation of parents, Branch outlook , No commission charged on services, Variety of services offered and low bank charges are those services which effect the selection of Islamic bank rather conventional bank.while the other services do not have a significant effect on selection of bank

TABLE NO 4.12

		Levene's Test for Equality of Variances	sig	t-test for Equality of Means(t)	df
CONVINIENT LOCATION	Equal variances assumed	10.61	0	-6.14	998
	Equal variances not assumed	1	1	-6.61	401
AVAILABILITY OF PARKING	Equal variances assumed	19.05	0	-3.29	998
	Equal variances not assumed	1	1	-3.03	321
ACCESSIBILITY WITH PUBLIC TRANSPORT	Equal variances assumed	1.66	0.2	-6.98	998
	Equal variances not assumed			-6.74	340
SECURITY OF YOUR MONEY	Equal variances assumed	6.99	0.01	-8.71	998
	Equal variances not assumed	1	1	-9.03	376
FRIENDLY BEHAVIOUR OF STAFF	Equal variances assumed	1.02	0.31	-7.27	998
	Equal variances not assumed			-7.39	365
EASE OF ACCESS TO ACCOUNT INFO	Equal variances assumed	0.12	0.73	-7.97	998
	Equal variances not assumed			-8.1	365
HOURS OF OPERATION	Equal variances assumed	0.73	0.39	-6.97	998
	Equal variances not assumed			-7.17	371
QUEUE SYSTEM	Equal variances assumed	2.62	0.11	-7.33	998
	Equal variances not assumed			-7.18	346
AVAILABILITY OF ATM MACHINES	Equal variances assumed	2.59	0.11	-7.89	998
	Equal variances not assumed			-8.07	369
ONLINE BANKING FACILITY	Equal variances assumed	0.02	0.9	-6.11	998
	Equal variances not assumed			-6.04	351
QUICK SERVICE	Equal variances assumed	3.1	0.08	-6.79	998

	Equal variances not assumed			-7.04	377
ATTRATIVENESS OF BANK BUILDING	Equal variances assumed	6.94	0.01	-5.25	998
	Equal variances not assumed	1	1	-5.08	341
COMPETENCE OF STAFF	Equal variances assumed	1.55	0.21	-5.72	998
	Equal variances not assumed			-5.85	368
STAFF KNOWLEDGE ABOUT ISLAMIC BANKING	Equal variances assumed	4.27	0.04	-3.58	998
	Equal variances not assumed	1	1	-3.44	339
TRUST WORTHINESS OF BANK SHARIAH BOARD	Equal variances assumed	1.69	0.19	-4.68	998
	Equal variances not assumed			-4.64	352
SHARIAH COMPLIANCE	Equal variances assumed	8.47	0	-3.35	998
	Equal variances not assumed	1	1	-2.87	296
RECCOMENDATION OF PARENTS	Equal variances assumed	7.51	0.01	-5.45	998
	Equal variances not assumed	1	1	-5.25	339
BRANCH OUTLOOK	Equal variances assumed	22.19	0	-2.73	998
	Equal variances not assumed	1	1	-2.51	319
REPUTATION OF ORGANIZATION	Equal variances assumed	0.68	0.41	-6.01	998
	Equal variances not assumed			-6.01	356
NO COMMISSION CHARGED ON SERVICES	Equal variances assumed	10.43	0	-4.88	998
	Equal variances not assumed	1	1	-4.68	338
NO PENALTY FOR LATE PAYMENT	Equal variances assumed	0.98	0.32	-2.8	998
	Equal variances not assumed			-3.47	528
CONFIDENTIALITY OF INFORMATION	Equal variances assumed	2.41	0.12	-6.51	998
	Equal variances not assumed			-6.62	365
INTERBRANCH FACILITIES	Equal variances assumed	0.12	0.73	-7.14	998
	Equal variances not assumed			-7.29	368
VARIETY OF SERVICES OFFERED	Equal variances assumed	6.77	0.01	-5.7	998
	Equal variances not assumed	1	1	-5.47	338
LOW BANK CHARGES	Equal variances assumed	9.22	0	-5.12	998
	Equal variances not assumed	1	1	-3.13	234

CHAPTER 5

CONCLUSION

This section of the study describes conclusions and policy implications derived from this study. In banking, industry of Pakistan competition is increasing day by day due to existence of Islamic and conventional banking for this reason current study has focused on determining those factors, which are important in selection of a bank. Being an Islamic state people are more interested in conventional banking system. We have tried to figure out those factors, which are motivating a customer towards conventional banking, and in this regard what should Islamic banks need to do to attract the larger share of customers in market.

The analysis of variables constitutes different aspects of customer selection criteria showing that there are five overriding dimensions for Islamic and five for conventional bank customers. Customers in Islamic banks consider security of money as an important factor in selecting an Islamic bank while customers of conventional banks regards convenience more important in selection of bank. In the same manner other four factors are derived which are discussed before in this study. These two factors are highly regarded by the both Islamic and conventional bank customers. Second important factor by Islamic bank customers was HRM³⁸ while conventional bank customers are considered about reliability of bank and its services.

From the ranking of the variables by Friedman analysis it was found that Islamic and conventional bank customers both regards security of their money as most important so it is

³⁸ Human Resource Management

given highest rank i.e. 16.06 by Conventional bank customers while 14.23 by Islamic bank customers. Second important variable by conventional bank customers is Availability of ATM machines while Islamic bank customer prefers competence of staff as the second important. Looking at the least important factors we can find that conventional banks regards availability of parking while Queue system is least significant by Islamic bank customer So we can say that there is significant difference between the choice of Islamic and conventional bank customers regarding their services.

To ascertain which demographic characters like Occupation, Gender and Education play an important role in selecting each factor by applying Kruskall Wallis test on the data. While the Association between selection factors. Two independent samples t-test was applied to check the mean difference of variables from both banking system and findings revealed that customers from the conventional banking system are more satisfied with their services as compare to Islamic bank customers.

5.1 POLICY IMPLICATIONS

Based on the finding of this research several policies can be drawn for policy makers who wish to attract more customers and increase productivity by their promotional efforts.

Islamic bank managers should keep in mind mainly two factors i.e. convenience and security of money while preparing policies for their banks. Convenience for those customers who are using conventional banking services to attract them by offering their choice of services and security of money to maintain their Islamic bank customers. The study shows that there is a significant difference in selection criteria of Islamic bank and conventional bank customers. This affirms that it will be very difficult for Islamic bank managers to attract conventional bank customers.

Therefore, banks need to establish a different strategy for both kinds of customers by keeping in mind their choices.

Banks need to address five factors while implementing and marketing their strategies for their promotion to conventional bank customers as well as Islamic bank customers. Banks need to address the security of money and convenience as more actively to Islamic and conventional bank customers and after determination of the importance of services it is the responsibility of bank to use them in a way to attract more customers.

Since Islamic banks are competing against conventional banks which are offering almost the same products and services which are provided by Islamic banks by opening Islamic windows, so it can be very good initiative for conventional banks to provide some Islamic products and services to attract the fraction of Islamic bank customers. Same technique is adopted in Middle East (Shook and Hassan 1988).

Islamic bank management must target those customers which belong to high age group and belongs to occupation like business and private jobs because Islamic banking lack market in these areas. While highly educated people are inclined towards Islamic banking services which is a good sign. But if we see the level of satisfaction for both banking services by Islamic and conventional bank customers it is revealed that conventional bank customers are more satisfied from that of Islamic bank customers. Islamic bank managers need to improve their service quality in line with the services revealed in this study to increase the level of satisfaction of their customers and to compete with their opponents.

Success and survival of Islamic banks depends upon manager's ability to understand the requirements of customer in provision of services and finding the best way to serve them.

APPENDIX A

QUESTIONNAIRE

International Islamic University, Islamabad

Questionnaire

Bank Patronage Factors in Pakistan

[Academic research]

Questionnaire

Thank you for participating in this research.

The overall aim of this research is to understand what criteria customers use for choosing his/her bank.

The answers provided by you will be kept fully confidential and will not be used for any purpose other than academic research.

RESPONDENT DETAILS: Please enter below.

Name of respondent:	
Occupation:	
Age:	
Gender:	Male Female
Education Level	Below Matric, Matric, FA/FSc, Bachelor, Master, PhD
City (Area):	
Name of the Bank/Islamic or conventional	
Are you working in this Bank?	Yes, No

Email address		
Phone numbers		

Choose the suitable answer for the following questions:

<i>What type of account do you have in this bank?</i>	
1. Current Accounts	
2. PLS	
3. Certificate	
<i>Do you have an account in a conventional bank?</i>	
1. Yes	
2. No	
<i>What is your average balance in this bank?</i>	
1. Up to Rs. 100,000	
2. Between 100,000 and 1,000,000	
3. Above 1,000,000	

On a scale from 1-5 (where 1 represents 'Least Important' and 5 represents 'Most Important'), how will you rank the following aspects of your bank? Please, encircle the best response.

Convenient location	1	2	3	4	5
Availability of parking	1	2	3	4	5
Accessibility with public transport	1	2	3	4	5
Security of your money	1	2	3	4	5
Branch out look (Does it look like Islamic?)	1	2	3	4	5
Friendly behavior of the staff	1	2	3	4	5
Queue system	1	2	3	4	5
Availability of ATM machines	1	2	3	4	5
Online banking facility	1	2	3	4	5
Quick service	1	2	3	4	5
Competence of staff	1	2	3	4	5
Staff's knowledge about Islamic banking	1	2	3	4	5
Reputation of organization	1	2	3	4	5
Recommendation of parents	1	2	3	4	5
Low banking charges	1	2	3	4	5
Variety of services offered	1	2	3	4	5
No commission charged on services	1	2	3	4	5
Attractiveness of bank building	1	2	3	4	5
No penalty for late payment	1	2	3	4	5
Trust worthiness of bank Shari'a Board	1	2	3	4	5
Confidentiality of information	1	2	3	4	5
Inter branch facilities	1	2	3	4	5
Hours of operation	1	2	3	4	5
Ease of access to account information	1	2	3	4	5

Shari'a Compliance	1	2	3	4	5
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