

## **Perception of Individual Consumers toward Islamic Banking Products and Services in Pakistan**

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### **Abstract**

Islamic banking system was established in Pakistan since 1980. Now, the Islamic banking products are available to serve the customers but these products are not fully accepted by the customers due to the lack of marketing efforts by the providers. To identify the perception about Islamic banking system researcher fill the questionnaires from respondents that what they think about Islamic banking system. And, these respondents are the customers who hold bank account in conventional or Islamic bank. We analyze data through descriptive analysis to find the results about perception of Islamic banking. This study explores the perception of persons that responsible in financial affairs and this study were usage of Islamic banking facilities and respondents understanding of Islamic banking system on different aspects and to selection criteria of bank.

**Keywords:** Consumer Perception, Islamic Banking system, Consumer awareness, features of Islamic bank

### **INTRODUCTION**

Perception is the act of discerning, realizing, and becoming aware of through the senses (Albrecht, 2003). Pakistan is the Islamic country and it should be the Islamic financial system as well. Islamic banking is the most growing industry, now in international financial system all over the world. And, banking is the well-established and developed part of any financial system and for Islamic financial system as well. A large growth is seeing in Islamic banking sector not only in the Islamic countries but all around the world. Main reasons that are observed for its growth are the new products of Islamic banking while Islamic financial industry shows 1 % of world assets but it is growing up to 20 % yearly since 2001. The total revenue of foreign Islamic financial system is estimated to 53 billion dollar in 2007. And, its profit is estimated 15 billion dollar that is expected to increase more than 32 billion dollar in next five to six years. It is estimated that by 2012, Islamic assets will reach about USD 1600 billion, with revenues of USD 120 billion (IFSB, 2007).

In 1980 first attempt was made in Pakistan toward Islamic banking through changing banking system in to the interest free banking system that is also available in Pakistan. But in Jan 2002 SBP gave first Islamic banking license to Meezan Bank Limited. Now days there are more than 600 Islamic Banking Branches all over the Pakistan and 19 Islamic Banking institutions are offering Islamic commercial banking services (Ansari, 2010). In Pakistan Islamic banking system is 32 years old but its performance is increasing day by day in terms of gaining market share and financing portfolio. Islamic banks are struggling against non-Islamic banking systems. To save in this strategic competition, Islamic banks must understand and use the customer satisfaction issues under existing privileges given by Islamic Shari`ah (McIver and Naylor, 1986).

The purpose of this study is to examine the perception of Pakistani individual consumers toward Islamic banking products and services in Pakistan. The purpose of this study is to check the thinking of consumers about Islamic banking products and services so, problem statement is that "What are the perceptions of individual customers toward Islamic banking products and services in Pakistan"

### **LITERATURE REVIEW**

Perception of customer is identified through the satisfaction level about any product or service and satisfaction level usually measured by the offering services by the institution. Turnbull (1983) was among the first researchers who studied perception of corporate customers towards their banks. His pursuits that big organizations are prefer foreign banks rather than their local banks.

Two factors found by Rosenblatt et al. (1988) that describe decision making process influenced on these two factors. First factor is that banks provide their services with better branching networks and second factor identified by researcher is that banks with their better quality services as compared to innovative products. Tyler and Stanley (1999) found reliability, assurance, empathy, responsiveness and pro-activity as key elements of perceived quality by large corporations. Islamic banking system has a great potential in Pakistan rather than the

conventional banking system. But, Islamic banking is not providing their services to their potential customers due to lack of knowledge in the customers about Islamic banking. They don't provide information to the customers and not facilitate their customers about Islamic banking products and services.

Rexha et al. (2003) make a model that explains the factor impacting on corporate customer's client commitment towards their banks. This study shows the positive relationship between customer satisfaction, bank commitment and trust. So, satisfaction has positive impact on trust and commitment according to the researcher. Rashid et al. (2008) studied quality perception of customers towards domestic Islamic Banks in Bangladesh. According to him to get higher demand for Islamic banking products and services they require high quality services and efficiency in system. Efficient management plays an important role to create the satisfied customers. Because, efficient management can turn dissatisfied customers into satisfied level through provide the efficient services. But, according to that researcher Islamic bank managers have lack of helping behavior with customers.

Ahmed et al. (2010) explains that service quality significantly impact the customer satisfaction in case of Islamic & Conventional Banking while the effect is greater in Islamic Banking rather than the conventional Banking. Ahmed et al (2011) observed that in Pakistan Islamic banking customers are more satisfied as compared to the conventional banking system. They also suggest that managers of Islamic banks should increase the services quality to get the maximum output and to retain the long term relationship with their customers.

Different researchers have different mind sets and have different set criteria to measure the customer perception about Islamic banking products and services. And, study tells perception about Islamic products and services also lack till now. And, we examine the perception of corporate customers toward Islamic banking products and services in Gujranwala.

#### **Selection of bank**

A selection of bank is an important factor that plays role in the development and success of any organization. Selection of bank has significance influence on consumer's satisfaction and differentiates organizations from its competitors. Selection is all about service quality. Service quality has a large definition; however definition of this concept and the most famous definition of this concept defined by researchers revolves around the idea that it is the result of the comparison that customers make between their expectations about a service and their perception of the service performance (Lehtinen, 1982; Zeithaml, 1988; Gronroos, 1988; Parasuraman, Zeithaml, and Berry 1985, 1988, Mersha, 1992). Quality of services is an essential element to increase customer satisfaction and to measure consumer perception toward Islamic banking products and services. Many organizations and firms particularly service organizations give attention to service quality as a necessary factor for their competitive advantage because they believe that it is an important factor for improving organization level of competitiveness. So, marketers should have to ensure that they provide high quality service values to their customers, particularly companies that are active in the banking sector (Parasuraman, Zeithaml, and Berry 1985, 1988). Service quality has two dimensions that it is intangible and perishable and all the researcher agrees with this statement. Some of them believe that these elements are the source of all the other elements. (Snoj 1998; Gronroos 2001). Managers of service organizations like bank tried to identify customers expected about service quality and extract their last experience to enhance their service quality dimensions to apply in their production for meeting their customer's expectation. By using of these dimensions, marketers can measure customer perceive service quality and increasing their customers satisfaction.

#### **Bank image**

The first study is by Jalees and Kamal (2007) who used Akers five determinants in their study to measure the brand image of Islamic banks. The results of the study shows that the brand image of Islamic banks is not good, while the Islamic banks may be developing and progressing because of the facilities given by the government, and that their current high growth rate may be an aberration because of their relatively small size compared to the total size of the Pakistani banking market. This study concludes that, being that Islamic banks need to think on developing and increasing their brand image if they want to succeed in the long run.

#### **Consumer awareness**

"It is expanding not only in nations with majority Muslim populations, but also in other countries where Muslims are a minority, such as the United Kingdom and Japan" (Solé j.,2007).

The study of Khalidi and Amanullah (2010), anything that has a religious label attached to it becomes hallowed and gains its legitimacy because of the reluctance of the scholars and academicians to question the legitimacy of those truths. Despite the legitimacy provided to Islamic banking by the Shariah advisors, the reality is that the general public in Pakistan has doubts about the legitimacy vis-à-vis Shariah compliance of Islamic banking products and services.

## Framework

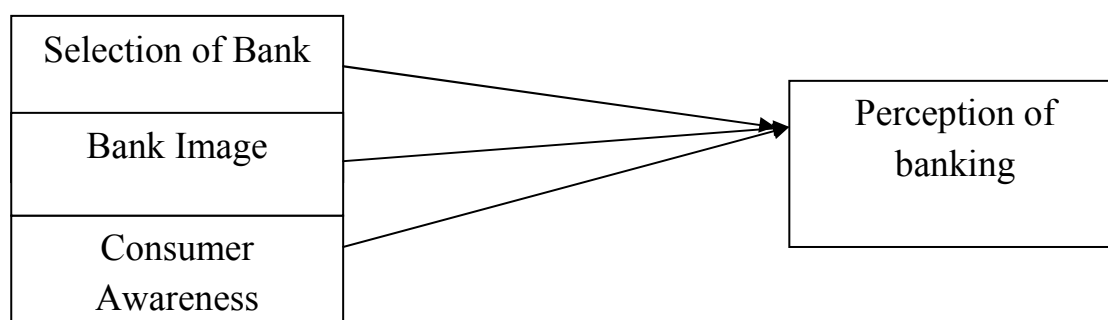


Figure No 01

## Methodology

The Respondents participating in this study were the people who hold the bank account, and independent of his financial affairs. Research assistants made initial visit the Islamic banks and also the traditional bank that don't have Islamic services. On visit the questionnaires fill by the independent customer who using the bank services. The 115 questionnaires were being filled.

The questionnaire contained four sections; the first section was designed to gather information about the respondent's personal background. In the second section of the questionnaire, the respondents were asked to salient features of Islamic banking system. The third section of the questionnaire was designed to measure the overall knowledge of the respondents in Islamic banking system. The questions asked in this section included those that measured the respondents' level of understanding of the concepts and principles of Islamic banking. The questionnaire in the fourth section was designed to determine the role of respondents in the decision-making process of the bank selection. The descriptive analyses were run to determine the perception of responded about Islamic banking system. Since this study is exploratory in nature, no rigorous statistical technique was used in analyzing the data.

## Findings:

### Salient features of Islamic Banking:

Table 2 indicates the salient features of Islamic banking and findings of that table describes Islamic banking system was introduced to prohibited interest and 67.8 per cent respondents agree with that. Conventional banking system offer interest that considers haram in Islam and therefore Islamic banking system was introduced to prohibited interest. This table also tells about the adaptation of profit maximization and 47 per cent indicated and agreed that both banks must adopt the profit maximization that may cause to create negative perception about Islamic banking system. And, 43.5 per cent respondents also indicated that with the profit sharing principle can replace interest in Islamic banking. When asked about the knowledge of Islamic banking system 49.6 per cent respondents that have medium knowledge about Islamic banking or they understand partially about Islamic banking system as shown in table 2.

### Awareness about Islamic banking

The findings in table 3 indicate that how much respondents are aware about Islamic banking system in Pakistan. 87.8 percent respondents don't know about Islamic banking system 10 years back and 44.3 percent respondents know about Islamic banking system since 3 to 4 years and 42.6 respondents says they know about Islamic banking system since more than 5 years. And, 68.7 per cent respondents believed that awareness about Islamic banking system has increased during the last 10 years. When asked about that an individual how come to know about Islamic banking 40 percent respondents tells through their friends and personal reference they were able to know about Islamic banking system.

68.7 percent respondents believed that Islamic bank and conventional bank offer same products services there is no difference between conventional banking and Islamic banking. When asked about satisfaction level of Islamic banking customers 72.2 percent respondents says they are satisfied with Islamic banking services they may be due to the similarity of conventional banking and Islamic banking. When researcher asked that what should be the improvement in Islamic banking 36.5 percent respondents believed that Islamic banking should enhance their product portfolio or to improve the product portfolio. 80.9 percent respondents answer that they have not switched from conventional bank to Islamic bank. At the end when asked about recommend Islamic bank to your family, friends and personal reference only 37.4 percent respondents say they will recommend further to their personal reference to adopt Islamic banking system.

### Selection criteria of bank:

67.8 percent respondents believed cost/benefit is the important factor when to select a bank. And, 47 percent

respondents consider service delivery is an important factor to select a bank. 53 percent respondents believed size and reputation of bank plays an important role in selecting a bank. 57.4 percent respondents tells they consider convenience is important factor in selecting a bank. And, at the end 71.3 percent respondents consider friendliness of bank is important factor in selecting a bank although it is a Islamic or conventional.

### Concluding remarks

This study though exploratory in nature, provides useful information about the perception of Islamic banking system in Pakistan. Firstly, this study serves that providers of Islamic banking products and services have not done enough to communicate customers about their products and services because a large number of respondents say they have not enough knowledge about Islamic banking system. There are few people that properly know about Islamic banking system. However, marketing efforts should increase to attract the more customers toward Islamic banking system. Secondly, this study highlights that mostly people cannot differentiate between Islamic and conventional banking system due to lack of awareness and knowledge but they are satisfied with Islamic banking because they don't know real difference between Islamic banking and conventional banking. Although, they believed both banks offer similar products and services. Finally this study concludes that most important factors perceived by respondents in selecting their banks is the cost or benefit of the products and services and friendliness behavior of banks. And, this result shows that Islamic banking system cannot be attractive as compared to conventional banking till than it will offer low cost products and high benefits as well as provide friendliness behavior in their banks.

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**Table 1**  
**Profile of Respondents**

	N	%
<b>1. Gender</b>		
Male	103	89.6
Female	12	10.4
	115	100
<b>2. Age</b>		
<30 years	34	29.6
30-39 years	46	40.0
40-49 years	31	27.0
5 and above	4	3.5
	115	100
<b>3. Qualification</b>		
University/College	28	24.3
Professional	81	70.4
Both	6	5.2
	115	100

**Table 2**  
**Salient Features of Islamic Banking**

	N	%
1. Islamic banking system was introduced because Muslims are prohibited from interest.		
Absolutely untrue	0	0
Untrue	2	1.7
Not sure	21	18.3
True	78	67.8
Absolutely true	14	12.2
	115	100
2. Both Islamic and conventional banks must adopt profit maximization.		
Absolutely untrue	2	1.7
Untrue	23	20.0
Not sure	32	27.8
True	54	47.0
Absolutely true	4	3.5
	115	100
3. The profit sharing principle is the only principle that can replace interest in Islamic banking.		
Absolutely untrue	2	1.7
Untrue	23	20.0
Not sure	38	33.0
True	50	43.5
Absolutely true	2	1.7
	115	100
4. How do you rate your level of overall knowledge in Islamic bank?		
Very knowledgeable	1	.9
Knowledgeable	24	20.9
Understand partially	57	49.6
Limited knowledgeable	28	24.3
No knowledgeable at all	4	3.5

**Table 3**  
**Awareness about Islamic Banking**

	N	%
1. Were you aware about Islamic banking products 10 year back?		
Yes	14	12.2
No	101	87.8
	115	100
2. Since how long do you have know about Islamic banking in Pakistan.		
1 year	2	1.7
3 years to 4 years	51	44.3
5 years to 10 years	49	42.6
More than 10 years	13	11.3
	115	100
3. What is your perception about the awareness of Islamic banking industry during last 10 years?		

Has increased	79	68.7
Remind the same	36	31.3
Has decreased	0	0
	115	100
4. How do you come to know about Islamic banking?		
Newspaper	26	22.6
Television	36	31.3
Friends / Personal reference	46	40.0
Masjid	0	
Internet	0	
Others	7	6.1
	115	100
5. How do you compare the services of Islamic banks with the conventional banks?		
Better standards	24	20.9
Similar to conventional banks	79	68.7
Inferior standards	5	4.3
Don't know	7	6.1
	115	100
6. How do you perceive Islamic banking products as compared to with the conventional banking?		
Similar to conventional banks	79	68.7
Different from conventional banks	20	17.4
Don't know	16	13.9
	115	100
7. Are you satisfied with the services of Islamic banks as compared to conventional banks?		
Yes	83	72.2
No	32	27.8
	115	100
8. What do you think there should be improvement in Islamic banking?		
Trained staff	21	18.3
Branch housekeeping	0	
Service standards	34	29.6
IT infrastructure	12	10.4
Product portfolio	42	36.5
Other	6	5.2
	115	100
9. Have you switched to an Islamic bank from a conventional bank?		
Yes	22	19.1
No	93	80.9
	115	100
10. Would you recommend anyone to switch to Islamic bank?		
Yes	43	37.4
No	72	62.6
	115	100

**Table 4**  
**Selection Criteria of Banks (%)**

<b>Factors</b>	<b>Very Important</b>	<b>Important</b>	<b>Moderately Important</b>	<b>Of little Important</b>	<b>Least Important</b>	<b>Total</b>
1. Cost/Benefit	17.4	67.8	11.3	2.6	.9	100
2. Service Delivery	37.4	47.0	11.3	3.5	.9	100
3. Size and Reputation	13.0	53.0	27.8	1.7	4.3	100
4. Convenience (location& ample parking)	17.4	57.4	18.3	3.5	3.5	100
5. Friendliness of Bank	16.5	71.3	9.5	2.6	-	100