

## Customer's Behavior towards Islamic Banking in Pakistan

Muhammad Nouman Shafique<sup>1</sup>, <sup>2</sup>Reema Mazhar, <sup>3</sup>Naveed Ahmad, Hussain Ahmad<sup>2</sup>,  
Muhammad Ansar Nazir<sup>1</sup>, Khalil- Ur- Rehman<sup>3</sup>, Raza Ellahi<sup>3</sup>

1, Ph.D Scholar Preston University, Islamabad

2, Department of Business Administration, Federal Urdu University of Arts Science and Technology, Islamabad

3, Department of Business Administration, Lahore Leads University, Pakistan

### Abstract:

Islamic banking is one of the most developing sectors in Pakistan. This study reveals the relationship between consumer behavior towards bank selection criteria and customer satisfaction. For this purpose, qualitative data was collected from consumers in different Islamic bank in Multan. It is find out relationship among independent variables( religion, high profit & low service charges, influence of friends & family, service quality, responsive attitude of staff ,mass media & bank image) and dependent variable (customer satisfaction). The findings show positive and significant relationship among all variables and customer satisfaction partially mediates the relationship between independent variables and dependent variables. We conclude that customers' satisfaction is increasing day after day and their commitment is strong with the Islamic banks.

**Keywords:** Islamic banking, Bank selection, Customer behavior.

### Introduction

In Pakistan Islamic bank first time introduce in 1977 Pakistan and others three countries (Egypt, Indonesia and Malaysia) has been trying to enact Islamic banking system at national level. The main purpose of Islamic financial system is a set of rules and laws according to shariah.in Islamic laws collection and payment of interest is strictly prohibited. The commercial purpose of Islamic banking is the same as conventional banking but in Islamic banking system work under in the principles of Islamic laws. In Pakistan first time Meezan Bank (2002) provides the services on Islamic principles. Now, in Pakistan there are approximately 6 Islamic and 13 conventional banks exist that are providing there services and satisfied the customers all over the Pakistan.

The main purpose of this study is to check the customer's awareness and satisfaction towards Islamic bank in Pakistan. Customer's satisfaction is a key to find out those factors which tells why customers leave or stay with a bank. The awareness of Islamic banking plays the vital role for its growth whereas service quality and product quality helps to determine the customer satisfaction.

### Overview of Pakistan's Islamic Banking Sector

In Pakistan over the past few years, Islamic banking sector has grown rapidly. Islamic financial system first time introduced in Pakistan 1977-1978. July 1979 .Elimination of interest from financial institution like NIT, ICP and HBFC. In 1985 Pak rupees was made interest free and deposit in current account continued to be accepted but it is free from interest or share in profit or loss was allowed on these accounts since 1985 the procedure was acknowledged however it was declared un-Islamic by the Federal Shariat Court (FSC) in 1991.

Some banks and government made apples in Shariat Appellate Bench of Supreme Court of Pakistan 1997 Al-Meezan Investment Bank was established under the principles of Islamic laws.In 1999 The Shariat Appellate Bench rejects the appeals and directs that laws involving interest banking come to an end. The government promote Islamic banking on parallel basis with conventional system as well as set up high level commission. March 20, 2002 the first Islamic banking license is issued to the Meezan Bank. 2003 Meezan Bank established its branches all over the Pakistan. Bank Alfalah Islamic banking was first time introduced in 2003.

In 2006 62 branches of Islamic banks in 21 cities. Islamic banks allowed its customers to raise its funds for financing of stocks of finished goods in 2008. In 2009 Islamic banks have 201 branches in 54 cities all over the Pakistan .These banks provides the value added services and products according to shariah both business and retail. These Bank also provides various Alternate Distribution Channels i.e. ATM Banking, Visa and MasterCard debit card, Utility Bills Payment through ATM and Internet Banking etc.

Customers choose Islamic bank because of religions motives. "Through Islamic banking system. Muslim's enjoys the banking services with Islamic principles because it fulfills the basic needs of Muslim's under the principles of Islam" Khan et al (2008)."Customers satisfaction is consider as an important factor of any organization strategy because revenue for any industry depend on its customers" Rehman (2010).

### Research Gap

The purpose of this study is to investigate the customer behavior towards Islamic banking by using their demographic profile and also check out which variables are mostly effect on customer's selection towards Islamic banks customer's select Islamic banks due to (religion, high profit, service quality, pricing aspects, mass

media, behavior of bank staff, friends advice to select Islamic bank, low service charges, parents advice).

That are the variables which help to study the customer behavior and also makes able to satisfy them after providing the quality products and quality services. Customer's satisfaction is necessary for the development of Islamic banks. To increase the revenue and shares of Islamic banks in Pakistan we should understand the customer's behavior.

### **Literature review**

Omer (1992) express that customers having no knowledge about Islamic banking they used Islamic services as well as Islamic products only because of their religion and that's why they don't prefer to use conventional banking services and the other reason to prefer Islamic banking services is the interest which is strictly prohibited in Islam but few customers do that.

Hegazy (1995) Customer select Islamic bank due to Islamic rules and laws but they make final decision after the comparison of services and products of both the bank then customers select the bank. Haron (1994) examine that some fundamental reasons to select bank are orderliness, speed, the quality of being friendly and also customer behavior but in his study they analyzed that the 40% respondents prefer Islamic banking because of Islamic rules and laws. Similar study organized by the Naser in Jordan and surveyed 206 customers but in his study gives it is examined that the 70% customers prefer Islamic banking services due to their religion.

Erol in 1989 and Erol, Kaynak in 1990 conduct study in Jordan where they noticeable three factors for Islamic banks that are reputation, efficient and confidentially which proves that the customers select any bank due to its products and services either it is Islamic or conventional bank religion is not the reason to choose Islamic bank.

Leeds (1992) argues that the service quality and professional attitude increase the customer satisfaction they also state that the customers moves towards other banks due to poor services. The relationship between the customers and staff are also included in service quality if the relationship between the bank staff and customer is good then it will increase the customer satisfaction towards the bank. McDougall (1996) state that the service quality having great influence on customer satisfaction. Bad services creates the bad image on customers and if the customers are dissatisfied so they automatically shift to another bank. Customers choose Islamic bank because of religions motives. Through Islamic banking system Muslim's enjoys the banking services with Islamic principles because it fulfills the basic needs of Muslim's under the principles of Islam by Khan et al (2008)

Al-Ajmi (2009) study in Bahrain argues that Customers chose Islamic banks not only the basis of Islamic laws, rules or value while there are so many factors which effects the customer's choice that factors may be economies factors, may be conveniences factors, may be the reputation of bank in society like social responsibility, behavior of professionals or managers with customers, financial strength, risk and return or may be chose Islamic bank due to guidance of friends and family. In order to increase the customers Islamic bank functions give rise profitability as compared to conventional banks but Islamic rules and laws must be kept in mind. It is so difficult and create test for Islamic banks to attract the customers who already use the products and services of conventional banks and satisfied with those banks.

Customer's satisfaction depends on reputation of bank, behavior of staff, low services charges and also location of bank. Researches prove that friendly environment, quick service and good communication system between staff and customers leads to increase the customer's satisfaction towards bank. Mirr (2011) states that if the customer is satisfied which help to enhance the loyalty and that is the main element of Islamic banking. The Islamic banks need to promote new methods develop strong marketing programs due to this the customers are able to know about the idea of Islamic banking and also understands its objectives.

### **CONCLUSION**

The observations and the literature presented in this study suggest that the concept of Islamic banking is one of the most emerging and the most out-bursting concepts in global economies. Numerous studies show that The Islamic banking is gaining wider acceptance and inspiration throughout the world especially in the areas occupied by Muslim communities which enlightens the fact that religion is the core attraction behind Islamic banking but recent studies debunk this only reason and acquiesce with the fact that is not only the religion that is attracting the people towards Islamic banking but it is basically the products and services provided by the banks weather Islamic or any conventional which attract the consumers towards banking. This research provides some important information on the development of Islamic banking in Pakistan. The result will help the relevant parties to further enhance the development of Islamic banking in Pakistan especially selection criteria preferred by consumer behavior. However, banks should take note of people's insufficient knowledge in Islamic banking system into consideration especially when promoting Islamic financial services.

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