

# Customer satisfaction and awareness about Islamic banking system

Hassan Raza

University of the Punjab, Gujranwala campus

M. Azeem

[Azeem\\_pugc41@yahoo.com](mailto:Azeem_pugc41@yahoo.com)

University of Sargodha, Gujranwala Campus

## Abstract

The Islamic banking is not a new idea in the world. The Islamic banking has the fast growth in different Islamic and non-Islamic countries. This study examines the relationship between the customer satisfaction and awareness about Islamic banking in Pakistan and also examines the services and qualities of both conventional and Islamic banking based on different facilities offered by Islamic and conventional banks in Pakistan. In this study, the data was collected through the use of 49 items questionnaire with 4 main variables. The major findings of the study confirm that customers of both the banks are satisfied with their facilities offered by banks but the customer of both banks are not aware about the different financial services provided by Islamic banks.

**Keywords:** Islamic banking, Financial Services and Satisfaction.

## Introduction

From nearly 30 years ago when it was virtually unknown, Islamic banking has become one of the fastest growing sectors of International banking and capital market. Now a day there are more than 200 Islamic banks in more than 70 countries mostly in Islamic countries and many in western countries. These figures not include more than 50 insurance (Takaful) companies operating in 22 countries. These companies providing insurance facilities according to the guidance and sayings of Islam. Islamic mutual funds, houses investment, commodity trading companies are also create a strong place in the financial sectors in all over the world. On the other side on the level of urban and rural areas there are lot of small financial institution like cooperative credit societies, Small business institutions and public welfare societies operating there functions at local levels. Many people are interested in getting the information about Islamic banking and also have the question in their minds that how it differ from conventional banking.

An Islamic banking system or financial system is developing to provide financial services according the rules and regulations of Islam. However the Islamic rules and regulation for financial related matters are very helpful in achieving socio economic goal of Islam. These economic goals are included high rate of economic growth, employment, justice, equal distribution of wealth and stability of money.

Islamic finance has grown rapidly during the past several years both in terms of volume, loans and financial products that are available and range in body retail level. The main feature of financial instruments that are tailored to their system since the Islamic financial system Islamic law - sharia with conventional interest-based financing system important ways, need to Islamic finance specifically pay more attention to the issues raised. This chapter discussed a key insight from the perspective of agency theory, and explains how to provide a framework for the design of this literature can be employed insight rules for Islamic finance Islamic financial contracts and control system institutions. Benefits of agency theory concepts, results, uncertainties, risks and information systems are particularly germane to the discussion of compensation control issues in Islamic financial contracting.

An Islamic or interest-free banking system and the basic difference between conventional it is interest-based banking system, interest rates or if the latter is predetermined rate or other benchmark is a simple linear function, while the former, physical return on investment and loss are shared between creditors attended a formula which reflects their respective levels of the borrower. In Islamic finance, interest-bearing agreement, contract returns are affected by the change, often takes the form of partnership. Islamic banks provide savers with financial instruments which are derived from equity Mudaraba and Musharaka (discuss below). The disbursement arrangements, profits are shared between investors and basis. A predetermined concept of profit and loss sharing is a direct bank part of creditor concerns regarding the benefits of physical capital investment (Islamic Bank). Needless to say, traditional banks are also concerned about project's potential default on loans due to concerns about profit. However, traditional bank to receive payment of interest is called certain period of time, and the

condition is as long as it is called, bank whether your project is a particularly high-profit or does not directly affect is less than the rate of return. Interest-based system, in contrast, Islamic Bank body is to focus on return on investment, because its profit is directly associated with the real rate of return.

## **ISLAMIC FINANCIAL PRODUCTS**

### **Murabahah**

Murabahah is a particular kind of sale where the seller expressly mentions the cost of the sold commodity he has incurred, and sells it to another person by adding some profit or mark-up thereon.

### **Ijara**

Ijara (leasing) permits the client to purchase assets for subsequent leasing for a certain period of time and at a mutually agreed upon amount of rent.

### **Mudarabah**

Mudarabah is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The investment comes from the first partner who is called “rabb-ul-mal”, while the management and work is an exclusive responsibility of the other, who is called “mudarib”.

### **Musharakah**

Musharakah is a relationship established by the parties through a mutual contract. Therefore, it goes without saying that all the necessary ingredients of a valid contract must be present here also. The kind of musharakah is,

Shirkat-ul-milk: it means joint ownership of two or more persons in a particular property.

Shirkat-ul-aqd: it means a partnership affected by a mutual contract. Shirkat-ul-amwal means that where all the partners invest some capital into a commercial enterprise. Shirkat-ul-a'mal where all the partners jointly undertake to render some services for their customers, and the fee charged from them is distributed among them according to an agreed ratio. Shirkat-ul-wujooh which the partners have no investment at all. All they do is that they purchase the commodities on a deferred price and sell them al spot. The profit so earned is distributed between them at an agreed ratio.

### **Muqarada**

Muqarada (bonds) allows a bank to issue Islamic bonds to finance a specific project. Investors who buy muqarada bonds take a share of the profits generated by the project as well as assuming the risks of losses.

### **Salam**

Salam literally means ‘futures’. A buyer pays in advance for a designated quantity and quality of a certain commodity to be delivered at a certain agreed date and price. It is limited to fungible commodities and is mostly used for the purpose of agricultural products by providing needed capital prior to delivery.

**Istisnaa:** Istisnaa is a contract in which a party demands the production of a commodity according to certain specifications and then the delivery of it from another party, with payment dates and price specified in the contract.

Customer awareness and customer satisfaction about Islamic banking is depends upon the knowledge provision and performance of Islamic banking products.

The main purpose of this research is to understand survival and growth of Islamic banking in Pakistan. The main objectives of this study is to measure the customer awareness of the people towards Islamic Banking, its products, services, its objectives, compliance with Shariah, financial services and customer services and customer attitude based on this awareness.

## Lecture review

The main objective of Islamic law is to promote the welfare of mankind, justices, protection of religious life and prosperity. Islamic system provides the facility to promote the Islamic finance and financial market. (Habib Ahmad 2006). The all form of interest are totally prohibited in Islam and Muslim are more eager to lead their lives according to Islamic laws. The interest based system is leading the economy to the path of crisis and also effect the whole society. (Ahmad 2008). The basic purpose of the Islamic banking to promote the Islamic value not only profit maximization. And promote the society is the better way to investment and generate the high profits. (Frooq .al .all 2010). 21st century has bring many opportunities as well as many threats for the sector of banking because of the inception of practices of Islamic banking in many countries of the world like Pakistan, Bahrain, Malaysia and in Bangladesh and around all the non-Muslim part of the world. Before 1970, Islamic banking was almost unknown, in early years of twenty first century Islamic banking has become a reality that cannot be ignored and by the end of 2004 the size of Islamic banking industry reached to a billion. The total value of shari'ah compliant accounts worldwide are almost us dollar 500 billion and is growing at an average rate of 10-15%. Islamic banks are trying to make as many customer as possible in order to compete with the interest base conventional banks therefore they are producing the wide range of the products as they are the best substitute against the products which the conventional banks provide. In Pakistan, Islamic banks providing many services and product so as to compete with the conventional banks and to attract the future customer and potential customer (Persurman, 1985). Islamic banking based on Shariah law whereas conventional banking is based on profit maximization, lending and borrowing, findings revealed that in term of cost efficiency and Islamic bank performs better than conventional bank where as in terms of technical efficiency conventional bank give tough time to Islamic bank Shahid et al. (2010). The comparison of Islamic banking and conventional banking system in Pakistan showed that conventional banks are on declining stage due to the financial crises at global level. Whereas Islamic banking has emerged as a strong financial system then conventional banking on the basis of assets, financing, profitability and efficiency etc and maintain consistent growth, Awan (2009). Keeping in view the growth, development and prospects of Islamic banking of Pakistan in terms of assets, funds and deposits, Islamic banking with the efforts of bank in Pakistan (SBP) is also playing an active role with the banks which deals with corporate social responsibility, Akram, Rafique and Alam (2011). Islamic banking is rapidly getting recognition in financial market and people are adopting it because it is according to Islamic shariah rules and regulations. Manzoor, Aqeel and Abdul Sattar (2010) investigated motivational, economic, socio- psychological and religious factors that there are greater opportunities in Pakistan for development and growth of Islamic banking system. With an impressing growth of Islamic banking in this contemporary world how Islamic banking compete with conventional banks in regard of customer attitudes and products, Awan and Bukhari (2011). Khattak and Kashif-Ur-Rehman (2010) examined the degree of satisfaction and customer's awareness towards the products and services of Islamic banking of Pakistan and people are not well aware of some specific Islamic financial products i.e. Murabaha, Ijara etc. The root of Shariah corporate governance comes from Islamic banking and finance. Results have proved that entity in any sector especially in Muslim countries have to follow Shariah corporate governance for their long term sustainability, Muneeza and Hassan (2011).

## Sample

In the study the sample size was 100. For the study we have targeted respondents from Punjab Province Pakistan. This Province was selected for the data collection due to certain reasons. Here we have easy access to people from different parts of the Punjab, easily targeted different income group respondent. The target respondents were the account holders of the Islamic and conventional banks. We have targeted respondent from different class of income. In the respondents we have 59 males and 36 females. The questioner was formed in the light of two research paper, one was the Jordanian Islamic banking customer's satisfaction level naser et al. (1999) and the second study was conduct on Turkish Islamic banking customer satisfaction level saduman(2005). The questioner was structured into six parts. First part includes the demographic information of the respondent (age, gender, academic qualification, income, occupation). Second part of the questioner includes the information about the respondent select the banking system (Islamic bank, conventional bank, both Islamic and conventional bank). The third part of the questioner includes checking the customer knowledge about different product of Islamic banking. The forth parts includes the checking the respondent reason behind dealing with the Islamic banking. The fifth parts include the checking the respondent awareness level about Islamic banking system. The last parts includes the checking the respondent satisfaction level about Islamic banking system. The questioner was filled by the account holder of different Islamic and conventional banks. The basic query that was tried to be resolved was "to know about the awareness level, satisfaction level of customer reasons behind dealing with the Islamic banking". To resolve this query a survey was conducted in the

Pakistan's city by distributing and filling questioner from the respondent. In this study checking the customer's awareness level, reasons behind dealing with Islamic banking and satisfaction level of customer's towards the Islamic banking products and its services. For this purpose check the reliability of the data by applying Cronbach alpha. We found out the relationship between demographic variables and the customer satisfaction level is the reason behind dealing with the Islamic banking system. We first checked the normality of the data by resting their skewness. We got the data was not normal, so we applied Kruskal-Wallis One-way ANOVA. The same methodology was adopted by Naser et al. (1999) on the Jordanian customer's perception towards the Islamic banking system.

### Data analysis and discussion

In this study, customer awareness, customer's satisfaction level and the reason behind dealing with the Islamic banking system checked. When we check the reliability of the data, we applied descriptive statistics statistic on the data, the result was discussed below.

### Respondent profile

The personal profile of the respondent show the mostly respondent belong to the age group of above 29 year. Mostly people are belonging to the private sector. More respondent are the highly educated.

Variable	Frequency	Percentage	Variable	Frequency	Percentage
<b>Age</b>			<b>Profession</b>		
Less than 22 year	17	17.9	Student	25	26.3
22-29 year	39	41.1	Govt.Employee	25	26.3
Above 29 year	39	41.1	Pvt.Employee	34	35.8
			Self Business	11	11.6
<b>Gender</b>					
Male	59	62.1			
Female	36	37.9			
<b>Income</b>			<b>Academic Qualification</b>		
5001-10000	22	23.2	Intermediate	14	14.7
10001-15000	19	20	Graduate	39	41.1
15001-20000	9	9.5	Master	42	44.2
20001-25000	11	11.6			
More than 25000	14	14.7			

### Type of banking services use by customer

The selection of banking system is important. Mostly people are using the different banking system. In our article the mostly respondent are using the both the Islamic and conventional banking system. And that are the 42%.

Value	Frequency	Percentage
Islamic banking only	21	22.1
Conventional Banking only	34	35.8
Both Islamic and Conventional Banking	40	42.1

### Reason behind dealing with both banking system

They were some option given to the respondent to selecting the banking system. The facilities offered by Islamic banks, the investment diversification opportunities, network reason etc. mostly of the respondent agree and strongly that the Islamic banking provide the wide range of services and the network are the sole much strong with the conventional banks. The table 3 shows the results.

Values	S.Agree		Agree		Neutral		Disagree		S.Disagree	
	Frq	%	Frq.	%	Frq.	%	Frq.	%	Frq	%
Limited banking facilities offered by IBS	29	30.5	39	41.1	10	10.5	14	14.7	3	3.2
Wide range of services offered by IBS	16	16.8	43	45.3	16	16.8	12	12.6	8	8.4
Investment diversification Opportunity	20	21.1	38	40	19	20	13	13.7	4	4.2
Network reason	12	12.6	33	34.7	29	30.5	15	15.8	6	6.3
Low investment opportunities offered by IBS	13	13.7	30	31.6	18	18.9	26	27.4	8	8.4

### Customer reasons dealing with Islamic banking system

Why customer are dealing with the Islamic banking system. Mostly are the respondent agree and strongly agree that use of Islamic bank due to religious. And mostly are using due to other factor of e.g. services charges, effectiveness in transaction, provision of investment opportunities, loan availability.

Values	S.Agree		Agree		Neutral		Disagree		S.Disagree	
	Frq	%	Frq.	%	Frq.	%	Frq.	%	Frq	%
Religious	46	48.4	39	41.1	7	7.4	3	3.2	0	0
Profitability	28	29.5	38	40	21	22.1	5	5.3	3	3.2
Feasible location	21	22.1	27	28.4	31	32.6	12	12.6	4	4.2
Services charges	32	33.7	16	16.8	33	34.7	13	13.7	1	1.1
Effectiveness in transaction	9	9.5	44	46.3	25	26.3	13	13.7	4	4.2
Wide services range	9	9.5	33	34.7	25	26.3	19	20	9	9.5
Bank reputation	22	23.2	31	32.6	24	25.3	14	14.7	4	4.2
Shari'ah rules obedience	32	33.7	35	36.8	11	11.6	9	9.5	8	8.4
Provision of investment opp	14	14.7	19	20	32	33.7	19	20	11	11.6
Credit card provision	35	36.8	17	17.9	29	30.5	9	9.5	5	5.3
Loan availability	12	12.6	44	46.3	24	25.3	11	11.6	4	4.2
Privacy/confidentiality	31	32.6	23	24.2	25	26.3	11	11.6	5	5.3

### Customer awareness level about Islamic banking

In this variable we check the customer awareness level about Islamic banking system. This study was conducted in the Islamic country and many of the people are not known about the Islamic banking products like mudaraba, musharaka, ijara, salam etc. in our result mostly of the respondent are not known about the Islamic banking products. Mostly are known about the current account, time deposit account but not aware about the mudaraba, musharaka, etc.

Values	Not aware of it		Aware but not use		Aware and use it	
	Frq	%	Frq.	%	Frq.	%
Current account	34	35.8	17	17.9	44	46.3
Time deposit A/C	31	32.6	41	43.2	23	24.2
Mudarabah	41	43.2	47	49.5	7	7.4
Musharakah	34	35.8	57	60	4	4.2
Ijara financing	39	41.1	45	47.4	11	11.6
Traveler's cheques	32	33.7	46	48.4	17	17.9
Overdraft	48	50.5	34	35.8	13	13.7
Letter of credit	35	36.8	46	48.4	14	14.7
Murabaha financing	26	27.4	49	51.6	20	21.1

### Customer satisfaction toward Islamic banking system

In this study, different aspects of customer satisfaction level are explored, by providing different options to customers to respond, by this we are able to get the customer satisfaction level toward the Islamic banking system. Mostly are the people agree and strongly agree with the management proficiency and the efficiency in the transaction. Working hours of the Islamic banking are not satisfied with the customer.

Values	S.Agree		Agree		Neutral		Disagree		S.Disagree	
	Frq	%	Frq.	%	Frq.	%	Frq.	%	Frq	%
Management proficiency	27	28.4	45	47.4	14	14.7	7	7.4	2	2.1
Bank's personal knowledge	9	9.5	47	49.5	28	29.5	9	9.5	2	2.1
Cost of services	15	15.8	25	26.3	37	38.9	16	16.8	2	2.1
Efficiency of transactions	10	10.5	35	36.8	29	30.5	18	18.9	3	3.2
Facilities of parking	11	11.6	33	34.7	30	31.6	13	13.7	8	8.4
Advertising campaign	10	10.5	22	23.2	28	29.5	22	23.2	13	13.7
Working hours	10	10.5	37	38.9	22	23.2	19	20	7	7.4
Financial counseling	12	12.6	25	26.3	34	35.8	16	16.8	8	8.4

### The relationship between the customer satisfaction and the demographic variable

In order to find out the relationship between different independent variables, first the normality of the data was checked when it was confirmed that the data is normal then we applied respective non-parametric test. We adopted Kruskal-Wallis test. The result shows that the significance relationship between the qualification of

respondent and efficiency in transactions and advertising campaign. The other all demographic variable like age, gender, income, education and qualification are the insignificance relationship with the management proficiency, bank's personal knowledge, cost of services, facilities of parking, working hours, financial counseling.

values	Gender		Age		Education		Income		Profession	
	X <sup>2</sup>	sig								
Management proficiency	.305	.581	2.705	.259	1.84	.397	4.589	.332	2.18	.535
Bank's personal knowledge	.453	.501	1.143	.565	.442	.802	5.354	.253	1.90	.59
Cost of services	.710	.400	1.322	.516	7.22	.027	2.713	.607	.689	.876
Efficiency of transactions	.093	.760	2.340	.310	4.708	.095	5.001	.287	17.29	.001
Facilities of parking	2.788	.095	4.793	.091	1.243	.537	8.849	.065	10.97	.012
Advertising campaign	2.258	.133	1.054	.590	1.751	.417	10.261	.036	16.64	.001
Working hours	.011	.917	.840	.657	2.025	.363	5.69	.223	2.82	.42
Financial counseling	.228	.633	4.468	.107	7.471	.024	.353	.986	1.66	.645

#### The relationship between the reason behind dealing with the Islamic banking and demographic variable

To find out the relationship between the demographic variable and the customer reason behind dealing with the Islamic banks. To find out the relationship we apply the Kruskal-Wills test. The results show that is an insignificance relation between the different age group of people with the religion, profitability, feasible location, wide services range, bank reputation. This means that the different age group people have the different opinion. And the different income group of people has the different opinion about the reason behind dealing with the Islamic banks.

Values	Gender		Age		Education		Income		Profession	
	X <sup>2</sup>	Sig								
Religious	.230	.632	2.002	.367	3.94	.139	3.001	.55	5.24	.155
Profitability	2.913	.088	3.129	.209	1.95	.376	1.38	.84	3.522	.318
Feasible location	.232	.630	2.183	.336	.017	.991	1.522	.823	.91	.82
Services charges	5.128	.024	2.5	.287	.404	.817	5.99	.200	2.39	.49
Effectiveness in transaction	.402	.526	1.77	.412	.374	.83	3.951	.413	6.94	.074
Wide services range	.711	.399	.85	.65	.821	.66	3.148	.533	2.11	.54
Bank reputation	6.47	.011	1.69	.42	.775	.679	5.424	.246	8.26	.041
Shari'ah rules obedience	.90	.34	2.41	.299	1.337	.512	3.019	.55	2.115	.549
Provision of investment opp	.051	.822	2.61	.270	.981	.612	5.095	.278	8.264	0.41
Credit card provision	2.573	.109	4.389	.111	.296	.862	13.359	.010	1.302	.729
Loan availability	.808	.369	1.448	.485	1.614	.446	1.462	.833	4.59	.204
Privacy/confidentiality	.607	.436	.471	.790	.470	.791	7.682	.104	.856	.836

### The relationship between the awareness level of customer and the demographic variable

In order to find out the relationship between the demographic variable and the awareness level of the customer, firstly the normality of the data was checked and when it was confirms that the data are normal. Then we apply the respective non-parametric test. We select the Kruskal-wills test. The result shows that the there is insignificance relationship between the gender, age, qualification, income, profession with the current account, time deposit account, mudaraba, musharaka, ijara financing, murabaha financing. The awareness level of the customer shows the insignificance relationship between the demographic variable.

Values	Gender		Age		Income		Education		Profession	
	X <sup>2</sup>	sig								
Current account	1.180	.277	4.230	.121	11.254	.024	.702	.704	9.063	.028
Time deposit A/C	2.094	.148	.850	.654	9.694	.046	1.011	.603	3.457	.326
Mudarabah	.149	.699	2.081	.353	7.070	.132	5.54	.063	.482	.923
Musharakah	1.978	.160	.144	.930	2.990	.559	.199	.905	.160	.984
Ijara financing	2.368	.124	2.144	.342	2.519	.641	.387	.824	.138	.987
Traveler's cheques	4.073	.044	.221	.895	7.893	.096	.917	.632	3.55	.314
Overdraft	.017	.896	.574	.750	9.004	.061	.146	.930	3.728	.292
Letter of credit	.336	.562	.504	.777	8.990	.061	1.369	.504	2.206	.531
Murabaha financing	.280	.596	1.685	.431	2.120	.714	1.634	.442	5.144	.162

### Conclusion

This study conducted in order to get the information about the Islamic banking customer their usage and awareness of different products and services of the Islamic banking system. And to check the customer satisfaction level towards the Islamic banking system. The study shows that the respondent of the questioner are highly educated. The age group of the respondent is 22 to above 30 years and there are belong to the middle income level. Our finding suggest that most of Islamic banking customer have adopted the both banking system, Islamic and conventional banking. Our study concludes that the customer's awareness level towards Islamic banking products is not good. Some people known about the current account, time deposit account but most of the people are not known about the major Islamic banking products like mudaraba, musharaka, ijara etc. regarding the Islamic banking selection criteria most of the customer have adopted Islamic banking due to the religious, but there are some other factor that motivate the customers for the adoption of Islamic banking system. The result shows that the overall Islamic banking customers are mostly satisfied with the banking services. The study shows that most of the customers are not aware of the different Islamic banking products such as Ijara financing, Murabaha financing. It is having the meaning that Islamic banking industry has to give consideration to providing awareness to their customers. They have to arrange certain seminars and talk shows on different televisions to inform the IBS customers about different products and services. Most of the customers have adopted both banking system. That is because the IBS do not provide as much efficient products for their customers as the conventional banking system provides to its customers. So they must have to consider on the product provision to its customers. Another reason is the network of the Islamic banking system that they have to give more consideration on their network and marketing of Islamic banking products.

### References

Brown K (2003). "Islamic banking comparative analysis", the Arab banks Rev. 5(2). Customer satisfaction towards Islamic banking in Malaysia: a study using CARTER model.

Erol C, El-Bodur (1989). "Attitude, behavior and patronage factor of bank customers towards Islamic banks", *Int. J. Bank Mark.* 7: 6. Gerrard P, Cunningham JB (1997). "Islamic banking: a study in Singapore", *Int. J. Bank Mark.* 15(6): 204-216.

Haron S, Ahmad N (2000). "The effects of conventional interest rates and rate of Profit on funds deposited with Islamic banking system in Malaysia", *Int. J. Islamic Fin. Serv.* 3(4): 1-7.

Hegazy L (1995). "An Empirical Comparative Study between Islamic and Commercial Banks' Selection Criteria in Egypt." *Int. J. Commer Manage.* 5: 3.

Jamal A, Naser K (2002). "Customer satisfaction and retail management: an assessment of some of the key antecedents of customer satisfaction in retail banking", *Int. J. Bank Mark.* 20(4): 146-160 Laing C, Wang W (2004). "Attribute benefits, customer satisfaction and behavioral loyalty-an integrative research of financial services industry in Taiwan", *J. Serv. Res.* 4(1): 57-91.

Metawa S, Almosawi M (1998). "Banking Behavior of Islamic Bank Customers: Perspectives and Implications." *Int. J. Bank Mark.* 7(16): 299-315.