

## **Customer satisfaction with Islamic financial system and conventional banking: A comparison quality and services of performance.**

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### **Abstract**

The aim of this study is to examine and to evaluate the problems which people face during the financial market during choosing Islamic bank using the z-testing. The history of conventional banks of Pakistan is very good in comparison to the Islamic banks. Islamic banking was introduced in Pakistan in 1970 to meet the religious and economic needs of the people of Pakistan, wider steps have been taken in 1980 which was modified to accommodate transactions are not interest-based banking system in Pakistan. In 2002 al meezan investment bank changes itself into a complete Islamic commercial bank and transformed it's named as "meezan bank". Islamic banking industry in Pakistan is in its early stages; very few banks are operating in this sector which performs pure Islamic banking. In this research, we have tried to highpoint some of the problems that are producing problems for the progress of Islamic banking. This research will give the results of research carried out mainly with people who currently use conventional and Islamic banking and have Islamic banking knowledge

### **Keywords**

Customer Attraction, conventional banks, Islamic bank, customer satisfaction.

### **Introduction;**

**T**he role of financial sector in economic development of any nation is very high. A very near relationship exists between in financial and economic sector an effective financial sector is necessary to better usage of financial resources. Economic development can be achieved only by using the available resources in a better way and focus on improving the output performance.

Pakistan's financial sector includes local and foreign commercial banks, financial institutions, Islamic banks, investment banks, micro finance banks, stock exchanges and insurance companies. The purpose of this research is to examine why the people of Pakistan are not choosing Islamic banking as compared to conventional banking. We are living in Islamic country that's why the

people of this country are trying to follow the Islamic laws almost in every field of life. Pakistan made the name of Islam but very little peoples have Islamic bank system knowledge. Pakistan started interest free financial system from 1970 with very limited interest free products. The solid work was started during the time of zia-ul-haq government in 1980 when islamization of financial system and economy regularly started under government policy. It is running in a very slowly way as fast as conventional banking.

Islam is the complete code of conduct for the Muslims. However after long time, Muslims are trying to introduce the financial system without interest for the productive use of finance and satisfy consumer needs. A few bankers' idealistic, Islamic economists and shrah scholars started Islamic banking system as a universal banking in 1970. Islamic banks were established against "riba" which is forbidden in all methods and conditions.

Riba is roots of all economic problems. in order to control credit crisis started in 2007, the central banks of the European union, united stated and other advanced countries have scaled down interest rates near to zero and about all central banks of the world have drove trillion of dollars in money markets but even then the crisis is expanding day after day. So far 100 banks have failed in the United States and in other advanced countries. In 1984, there were 15,084 banks in the United States but now about 7000. It means nearly half of conventional banks have been closed as a result of financial crisis happened in the united states in different times. Asian development bank report, 2008 written by Claudio loser, an ex-imf director, estimates that "the value of global financial assets including stocks, bonds and currencies possibly fell by more than \$50 trillion in 2008, same to a year of world gross domestic product.

### **History of modern banking;**

'Banco', which means a shop counter in Italian, is the base from which the word bank is derived (martim1855). In early days, people engaged in money business would use a bench covered with green cloth for talking to their customers. The first state deposit bank, the bank of st.george was established in the year 1407 in republic of genoa (macesich 2000). A modern day bank is functionally described as; "a bank deals in loans. It receives deposits from people and gives loans to the needy. Securities issued by a bank are accepted by the people without any doubt and suspicion. A bank in this way creates money as well." ('abd al-Hamid et al. 1995) securities like currency notes, bonds, and bank cheques do not represent real money. Real money is the equivalent

gold which backs up these currency notes, bonds or cheques, which are in a way, various forms of receipts for this gold devised for tackling the commercial needs of the people. In early days, currency notes were issued when the equivalent amount of back up gold was available, but now this condition has been withdrawn. Now every country could print currency without any gold backup. Mawlānā mawdūdī has given, in his book, 'sad' (interest) an excellent account of this. Mawdūdī has divided the history of modern banking into three phases (mawdūdī 1987).

**Literature review;**

Compares Islamic and conventional banking in the nineties and included 12 banks into his study sample. He studied the growth of Islamic banking industry during 1990-98 to measure annual growth rates for some key variables of Islamic banks like total equity, total deposits, total investment, total assets and total revenue. then he used ratio analysis like capital assets ratio, liquidity ratio, deployment ratio, cost/income ratio, profitability ratio, return on asset and return on equity ratio and concluded that both return on assets (roa) and return on equity (roe) for the islamic banks are substantially higher than the conventional banks and the two ratios are respectively 2.3 and 22.6 percent for the islamic banks as against 1.35 and 15 percent for conventional banks. He concluded that the profit ratio of Islamic banks compare favorably with international standards, it should be noted that conventional banks' depositors are guaranteed their principal amounts and hence bear less risk than Islamic banks' depositors. Therefore, the depositors of Islamic banks would genuinely expect a higher rate of return to compensate for extra risk (munawar iqbal 2001 and 2004). Outcomes from the data are very satisfactory, the performances of Islamic banking are very much better than conventional banking. Islamic banks outperform conventional banks in assets, deposits, financing, investments, efficiency, and quality of services and recovery of loans. It predicts the bright future of Islamic banking in Pakistan (ghafoor, 2005).

Now in Pakistan six full-fledged Islamic banks are working in different cities of the country and 13 conventional banks have started partial Islamic banking practices by starting a various number of branches exclusively engaged in Islamic banking practices (sbp, 2006). Islamic banking in Pakistan has been growing steadily for the past ten years. Its market share in the overall banking industry has increased from 1 percent in the year 2001 to more than 7 percent by January 2011 (samad, 2004).

An increase in the service quality and professional behavior resulted a greater customer satisfaction and reduced customer's erosion (Leeds, 1992). Patrick and kangni (2010) found that Islamic banking customers have been increasing and being accepted by non-muslims because of the just principles that does not put a burden on the customers compared to conventional banking.

Islamic banking schemes perform better compared with the pure Islamic banks. Islamic banking has increased their dominance in the market especially in financing or loan. Due to the increase in financing and loan from Islamic banks, credit risks have a greater exposure. Islamic banks need to take care and monitor these risks closely. The reason Islamic banks could sustain and provide better performance is because the administrators of Islamic banks have a positive attitude toward research and its value in the area of commodity murabaha. (Valli and mokhtarul 2004)

The customers have knowledge about the Islamic banking but some customers did not have any know how about the Islamic banking. They cannot differentiate between Islamic and conventional bank. They are not conscious about the way of banking either it is Islamic or conventional. Dusuki and Abdullah (2007) also find that for Muslims religious views are the important and main factor that stimulates the individuals to go on Islamic banking system instead of conventional banking. Alajmi (2009) show that religious factor May or may not important the main thing is potential profit taken by the investor. Hamid and nor din (2001)

Bashir and Hassan (2004) research study is a comprehensive piece of literature covering every aspect of examining profitability of Islamic banks. Similar to Bashir (2000), Bashir and Hassan (2004) studied the determinants of Islamic baking profitability between 1994 and 2001 for 21 countries. Their findings show that Islamic banks have a better capital asset ratio as compared to commercial banks which means that Islamic banks are well capitalized also; their paper used internal and external banks characteristics to determine profitability as well as economic measures, financial structure variables, and country variables. They used net-non interest margin (nim), which is non-interest income to the bank such as, bank fees, service charges and foreign exchange to identify profitability. Other profitability indicators adopted were before tax profit divided by total assets, return on assets (roa), and return on equity (roe). They studied 43 Islamic banks. Results obtained by Bashir and Hassan (2004), were similar to the Bashir (2000) results, which found a positive relationship between capital and profitability but a negative relationship between loans and profitability. Bashir and Hassan also found total assets to have a negative relationship with profitability which amazingly means that smaller banks are more profitable. In addition,

during an economic boom, banks profitability seems to improve because there are fewer non-performing loans. Inflation, on the other hand, does not have any effect on Islamic bank profitability. The results also indicate that overhead expenses for Islamic banks have a positive relation with profitability which means if expenses increase; profitability also increases.

### **Objectives of the research;**

The objectives of this research are:

To know the reasons why the people switching to conventional banking from Islamic banking and identify variable among religion, high profit, low service charges, influence of friends and family, service quality and mass media.

To identify the problems which people surface in market?

To give recommendation for increase efficiency of Islamic banks.

### **Methodology;**

The research is conducted to find out the problems of Islamic banking system that stop the growth of Islamic banks. The study is based on both secondary and primary data; account holders of Islamic banking were selected who the customers of conventional were banking at the same time. Data is collected by both sources of data that is secondary and primary sources.

Primary data includes the results of the questionnaires, informal discussion observations at the bank with customers.

secondary sources of the data include; al barka bank, bank al-falah ltd, habib bank ltd, united bank ltd, articles on islamic banking in newspaper, books, journals, internet web sites and other publications, , reports of meezan, bank sbp reports.

### **Primary data;**

A total of 100 questionnaires were distributed among respondents to collect information. Among them 50 questionnaires were completed and useable for data analysis. 50 % is the response rate that is reasonable for analysis of data to calculate their responses one structured questionnaire was developed to record the responses. Personal contact approach is also used to collect the information from the respondent and the researchers clarified the questionnaire and the objective of the research by telling its purpose to respondent.

### **Hypotheses;**

H<sub>0</sub>: Quality and service of Islamic banks are not better than conventional banks.

H<sub>1</sub>: Quality and service of Islamic banks are better than conventional banks.

H<sub>0</sub>: interest factor (riba) is not the reason to shift to Islamic banking.

H<sub>2</sub>: interest factor (riba) is the reason to shift to Islamic banking.

**Variables;**

In this research study the first statement satisfaction of customers are dependent variable and quality and service is independent variable. In second statement shift to another bank is dependent variable and riba or interest is independent variable

**Hypothesis testing;**

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Table1: quality of service (Islamicvs. conventional banking)

Better	equal	lower	don't know
15%	45%	30%	10%

Significance: 95% confidence interval

P = 45%

Q= 1-P = 1-.45 = 65%

n = 50

Level of significance =5% =0.05

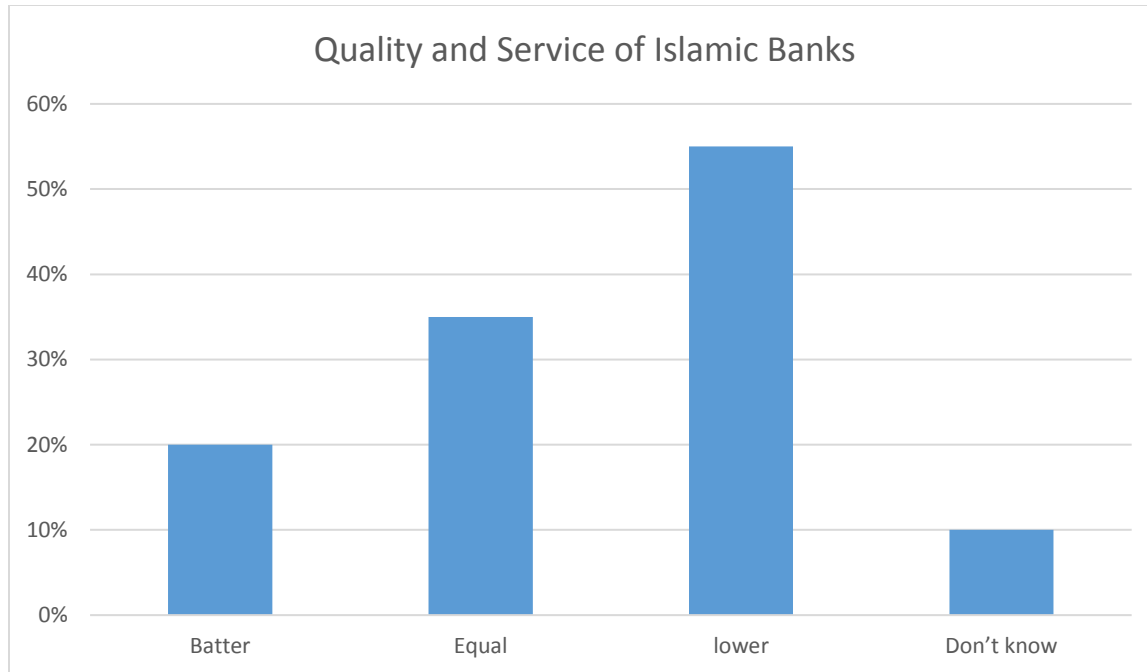
Tail = 2

Test statistics =  $z = \frac{\hat{P} - P_0}{\sqrt{\frac{P_0(1-P_0)}{n}}} = -3$

In this table 45% peoples say that services of conventional banking and Islamic bank are similar. only 15% peoples believe that services of conventional banking and islamic banking system is batter and 30% people concur that services of islamic banking is not good as much quality as conventional banking.

**Conclusion of Z test;**

The calculated value of Z test is accepted vale. We accept Ho. Therefor Islamic banks are not batter than conventional banks.



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**Second hypothesis testing;**

H<sub>0</sub>: Interest factor (riba) is the reason to shift to other banking.

H<sub>2</sub>: Interest factor (riba) is not the reason to shift to other banking.

Table 2: reason to switch from conventional to Islamic banking.

riba	products/ dealings	branches	others
55%	25%	15%	5%

$P = 55\%$

$Q = 1 - P = 1 - .55 = .45$

$n = 50$

Level of significance = 5% = 0.05

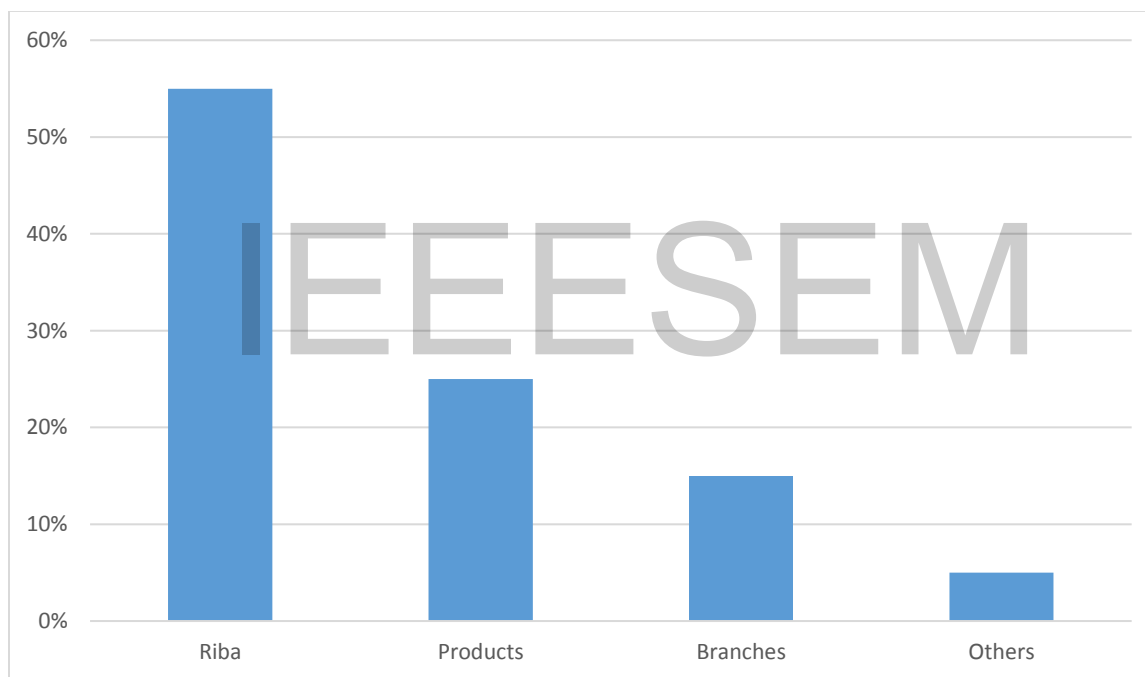
Tail = 2

Test statistics = 
$$Z = \frac{\hat{P} - P_0}{\sqrt{\frac{P_0(1-P_0)}{n}}} = -5$$

In this model data to be supposed to believe that they have shift from Islamic banking to conventional banking due to interest (riba) factor, or else it would be measured that the riba is not the major intention for a person to shift from Islamic banking to conventional banking. So the 5% significance level we don't have sufficient data to wind up that interest is the important reason for a person to change. Therefore we will accept the hypothesis. From the over chart appearance it can be completed that greater part of the sample size have shift due to the riba/ interest factor.

### Conclusion of Z test;

The calculated value of Z test is accepted vale. We accept Ho. Therefor Interest factor is main reasons to shift the Islamic banks.



### How do you know about Islamic banking?

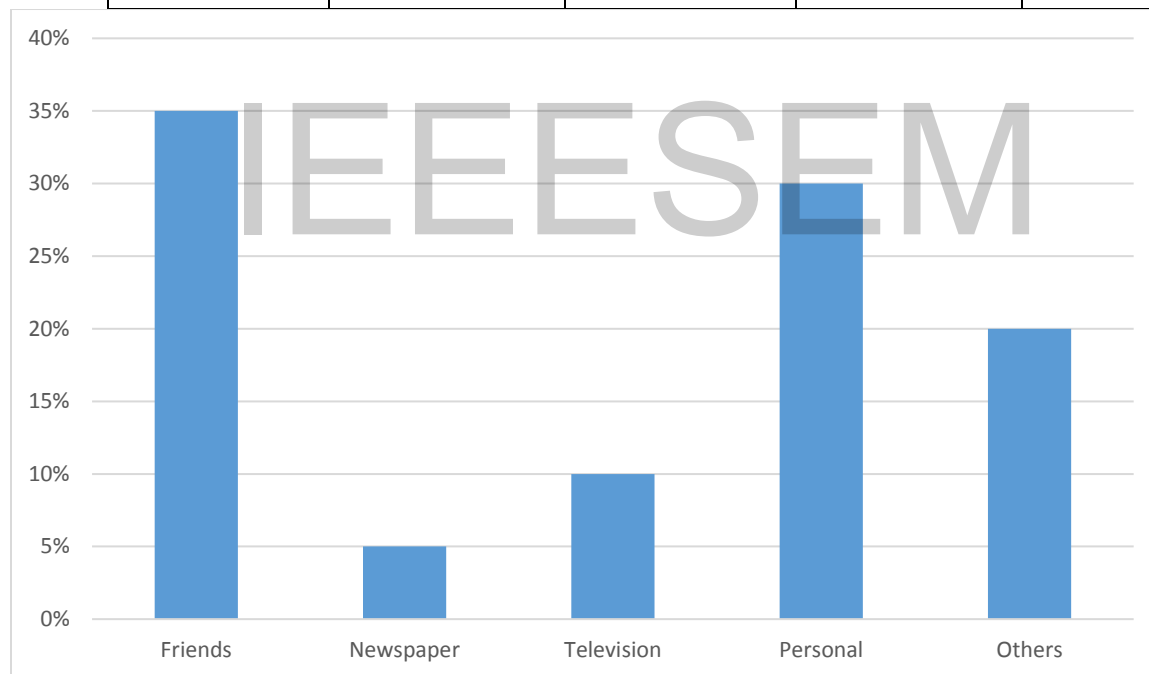
Important issue the Islamic banks are not the use of media. Even the Muslims are not known of the fact that the Islamic banking is being practiced in the world. The banks have not ever used an effective media to advertise their activities. Many people in the non-muslims and Muslims world do not know what Islamic banking actually is. Even basic concept is not clear. A main issue here is that the shariah councils or boards of individual Islamic banks could not actually define what is Islamic banking and acceptable way to do business.



friends	newspaper	television	personal	Others
35%	5%	10%	30%	20%

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If we look at the results of our study, it is pretty clear that the majority of the people recognize about the Islamic banking through their friends or personal reference. From the response of about 35% peoples aware about Islamic banking through their friend. While 30% people from aware Islamic banking through the personal references.

**Secondary resources;**

This study is mostly based on the historical data. The population for this study is the all Islamic and conventional banks that operate inside Pakistan. The sample size is involved of complete Islamic and 6 conventional banks. The Islamic banks selected are al Islamic bank, meezan bank, and burej bank Dawood Islamic bank, bank Islamic Pakistan and Dubai Islamic bank. The conventional banks are bop, HBL, nib, and Faisal bank, MCB and Alfalah bank. To compare and measure the performance of Islamic and conventional banks five past year data is used. The financial data of all Islamic and conventional banks were taken from the sbp website.

### **Conclusion;**

Through the analysis of data it is proved that economic benefits, interest on deposits financial position of banks, strong global image and inflation are the factors that are motivating customers towards conventional banks. Public awareness is also very big problem in Pakistan. For deliver the message of Islamic banking system create awareness about the prohibition of riba.

Islamic banks very closely effect to the pricing policies of the government. They cannot get benefit from hidden inputs and costs, which raise the level of prices by certain business persons without any defence. On the other hand, Islamic banks as financial institutions more directly affected the failure of the projects they finance.

In Pakistan marketing channels are very expensive so Islamic banks are not use this system. But some financial institutions market their products. However convention banks are so aggressive in clear the mind and understand the customer about their products. But Islamic banks are so opposite.

Islamic banks could not convey proper awareness of financing options offered by Islamic financial institutions. Peoples are also unable to understand the process, procedures of sharia and its implications methods. In Pakistan literacy rate is also very high. Banks are unable to understand the people that what is Islamic banks and how it works. It's very difficult to migrate from conventional to Islamic as they have already settled processes needs with the riba based banking. Islamic banks always face challenge to provide the processes needs with riba free banking produce. Those peoples understand the conventional banks system and also know how it works.

In case of Islamic bank 70% are male customer and 30% are female customers however in conventional banks 82.9% are males and 17.1% are female customers. Female customers are more take interest in Islamic banks. married customers (55%) are more than the unmarried customers

(45%). businessmen give more preference to conventional banks and government employees are also give more preference towards islamic banks. problems of investment in long term projects to transference to an interest-free system. first of all must build an institutional framework that can deliver enough financing for long growth. formation of islamic development banks along with commercial islamic banks will become important when moving an interest free economy.

### **Recommendations;**

The strategy maker should be focus on the awareness, since the people in Pakistan and still in different Islamic countries around the world consider that Islamic banking as the same to conventional; the difference is of name only and nothing else. They think that conventional bank is say interest and Islamic bank sharing profit and loss among its customers. The focal point should be on this subject that makes awareness all of them that there is enormous spread between conventional and Islamic banking. A general awareness is necessary to create clear the dissimilarity between Islamic and conventional banking.

It's happened with good training programs are working by the Islamic banking institutions. Islamic banks should be focus to give proper training seminars to the team members so that they may work in a better way. Islamic banks have good growing rate in branches network but they need more investment to fulfill the need of the market. Focused on research and developed for made sustainable short term liquidity products. Islamic banks should introduce new Islamic financial products that can be easily compared and competed with the products of conventional banking so that they may attract the new clients. Government support and sincerity should be necessary. progressive marketing to ensure that islamic banking system fulfill needs in quickest possible time and to remove conflict from misperceptions and qualms from the mind of a general customer.

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