

## **Preference of Islamic Banking in Pakistan**

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### **Abstract.**

The primary objective of this study is to ensure the factors for preference of Islamic banking. The genre of the study is quantitative in nature and to identify that the Islamic banking in Pakistan has enhanced in Pakistan recently. To conduct the research correlation techniques and questionnaire has used. The questionnaire was sent to 100 respondents and almost every one responded. The responses were measured at likert scale, with response 1 as strongly disagree to response 5 for strongly disagree. The analysis was done through measures of central tendency.

The factors identified in the study that account for Islamic banking are Sharia compliance, customer satisfaction. Besides, reputation of the organization and service quality is also important. The study will support to those ones who are willing to have account in Islamic banking.

**Keywords**— Islamic banking, shariah compliance, profitability of Islamic banking sector

### **INTRODUCTION**

In 1970, the Islamic banking started and it has been on rise globally (1). It is estimated that Islamic banking may be rise to 4.0 trillion \$. Most of the countries have developed monitoring body to oversee the progress of Islamic banking such France, UK, China etc. International expansion of the Islamic banking industry including Pakistan has accelerated since 2002 (3). Nowadays, many people are diverted to Islamic banking and profit and loss sharing institution are in their consideration (4).

The main reason for the study is study is to determine why Islamic banking is getting better response especially in Muslim countries and why conventional financial institution have losing their weight in those countries. A massive research is being done on this subject that ranging from differences in conventional and Islamic banking. This little information about the researches and books that are being published shows the increasing curiosity of the researchers in the Islamic finance

Islamic banking was only operation in some Muslim countries but it getting recognition internationally and it has increased over decades. It is spreading its operation across the world getting its objectives. Individuals all over the world prefer Islamic banks. This research is carried out to find out the factors that affect the individual's perception of preference, this study is only limited to Pakistan scenario.

## **RESEARCH OBJECTIVE**

Some specific objectives are as follows:

- To identify the preference of people for Islamic banking than conventional banking.
- To identify the awareness of people in Islamic banking.
- Measures of profitability
- Measures of satisfaction of customers and service that is provided to them.

## **RESEARCH HYPOTHESES**

H1: Preferences of customers effect banks customer base

H2: Profitability of a bank increases customer retention rate

H3: Awareness about Islamic banking would retain new customers

H4: Shariah compliance retains new customers

H5: Employee-customer positive interaction and service

Quality increases customer loyalty

## **LITERATURE REVIEW**

According to study, Islamic banking activities are expanding around the globe (5). One of the main reasons is that to bring muslims of world together and bring some change in the model of the world trade. It has been found that there is trend to develop an Islamic economic system in every muslim nations to activate Shariah Law as legislation entity (6).

Market analysis based on the total assets that were made public in the financial statement gave the evidence that conventional banks are dominant in the GCC countries. But over the time conventional banks market share is decreasing over Islamic banks (7). As the data suggest the total assets of conventional banks were 87.91% in the year 2000, which has decreased to 85.84% in 2005 with 40.64% growth rate (7). While the total assets of Islamic banks increased by 2.07% which were from 12.09% in 2000 to 14.16% in 2005 and had a growth rate of 50.53%. the data indicates that conventional banks dominated the GCC countries in the past but as the time is passing by and keeping in view the current data statistics Islamic banks are growing at a much rapid pace that of conventional banks

It is stated that to guarantee the Islamic banking sectors long-term growth and success we will have to overcome the lack of knowledge people have about Islamic banking [8]. We will have to select the places that we target and make them aware of the Islamic banking concepts by taking these positive steps and by entering more markets of friendly Islamic banking products would enter in the competitiveness with conventional products. By helping and making it easy for them to grasp the products that are being offered by the Islamic banks will help customers in making better choices (8). The consumers have additional benefits of insuring that the services that are being provided either by conventional or by Islamic bank, do they give

proportionate value to the customers. This is one of the most important part of a growing financial services sector.

Conventional banking has increased net financing and have higher profitability. The liquidity ratio that Islamic banks have could be because of the financings done with a limitation that is the financing must be Shariah compliant. It is suggested the customer are important but only reliability of religious perception does not fulfill the need of customer (9). There are many factors play an important role in the process to attract customers toward them towards either banking systems and most banking customers would not want to continue transactions , unless the services of the banks are according to demand of the customers (10).

It is stated that Islamic banking is fastest growing sectors and it has big contribution in the global financial market .In simple, words, conventional banking following the debt-based principal and the burden on risk is transferred to the customer while Islamic banking is done on Asset based principal.. The characteristics of Islamic banks make them much more related to the real economy. Islamic banks are well capitalized and they are using their resources is much better way, Islamic banks aren't cost effective in their operations. The profitability ratios of Islamic banks can be in fortunate comparison with the international standards. In should be kept in mind that depositor of the Islamic banks demands a higher rate of return because they are sharing more risk than that of conventional banks (11).

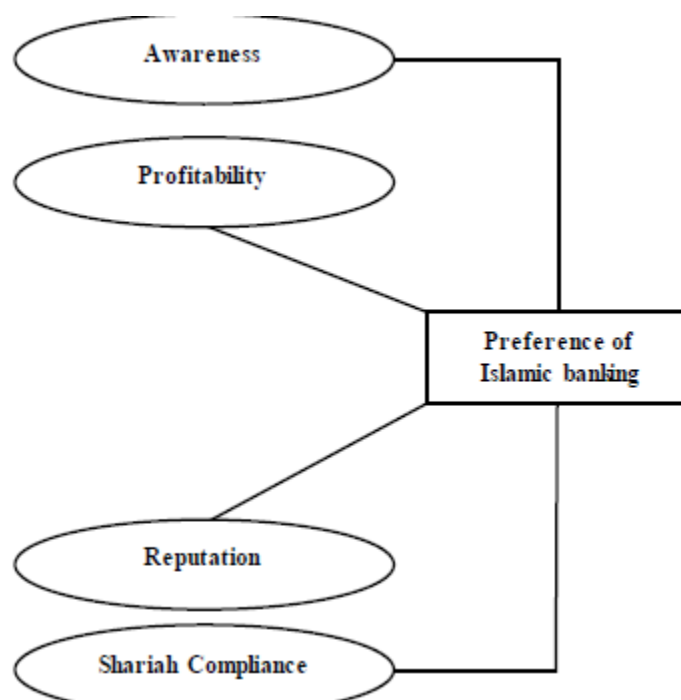
#### **RESEARCH DESIGN AND METHODOLOGY**

The research was conducted by exploratory research and it was quantative in nature. A correlation technique was used and a questionnaire was prepared to seek the responses.

The questionnaire was designed on a Likert scale that is the respondent has 5 options to choose from that is 1: Strongly Agree, 2: Agree, 3: Neutral, 4: Disagree, 5: Strongly Disagree. The questionnaire was distributed to 100. Out of the 100 respondents the full 100% replied. SPSS tools were used to acquire the results from the data received. The tests that were used to obtain the results are Measures of Central Tendency, Correlation Analysis and Regression Analysis.

#### **ANALYSIS OF DEPENDENT AND INDEPENDENT VARIABLES**

The research study carried out to identify the factors that impact the individual's perception. The framework below shows the dependent and independent variables to be tested.



**Summary**

Model	R	R square	Adjusted R square	Std.Error of the Estimate		
1	.738 a	0.545	.520	.62076		

a.Predictors ( constant), Shariah Compliance Reputation, awareness, profitability, customer satisfaction and service quality

	Unstandardized co-efficient	Standardized co-efficient		
Model	B	Std.Error	Beta	Sig
Constant)	-.660	.348	-	.061
Awareness	.461	.092	.384	.000
Profitability	.488	.134	.333	.000
Reputation	-.016	.129	-.009	.903
Shariah compliance	.267	.090	.225	.004
Customer Satisfaction and service quality	.095	.089	.089	.288
a. Dependent variable: preference				

## DISCUSSION AND CONCLUSION

The research was conducted through exploratory research design and it is quantitative in nature. The main reason for conducting the research is why Islamic banking getting popularity in Pakistan. The research design to accomplish this result is correlation research design and tool used to carry out this research is questionnaire. The questionnaire was designed on a Likert scale. The questionnaire was distributed to 100 respondents the target sample size was of 150 but due to uncertainty and other complications some questionnaires weren't distributed. Out of the 100 respondents the full 100% replied. The ratio of female respondents to male respondents was relatively very low.

The tabulation shows that there is positive relationship with awareness, profitability, customer service and shariah compliance and quality of service. The Analysis of independent variable i.e. Awareness, profitability, Shariah Compliance with dependent variable i.e. preference to Islamic banking Depict positive relationship. Profitability having perfect positive relationship with awareness, preference, reputation, Shariah compliance and customer satisfaction and service quality. Reputation has relationship with awareness, preference and Shariah compliance, and Shariah compliance has positive relationship with awareness.

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