

## FACTORS AFFECTING THE INDIVIDUAL'S BEHAVIOR TOWARDS ISLAMIC BANKING IN PAKISTAN: AN EMPIRICAL STUDY

Nasir Imtiaz<sup>1</sup>, Ali Murtaza<sup>2</sup>, Muhammad Aamir Abaas<sup>3</sup>, Khizer Hayat<sup>4</sup>

Department of Business Administration,  
Government College University Faisalabad,  
PAKISTAN.

### ABSTRACT

*The purpose of this study is to check the influence of different factors on behavior of individuals towards Islamic banking in Pakistan. This paper was design check that on what basis individuals moves toward an Islamic bank and what they expect from them. Different variables used for the research and random sampling method used for the purpose of data collection. The results show that people choose an Islamic bank mostly due to religious views as well as due the banking services. Students have better understanding about Islamic banking. Old people, females, and students prefer Islamic banking in Islamic banking. There is need to work on awareness of Islamic banking. The limitation of this study is that it is conducted in specific geographical area of Pakistan.*

**Keywords:** Individual's behavior, Islamic Banking, Empirical study, Pakistan

### INTRODUCTION

Islamic banking is the fastest growing industry of banking sector not only in Pakistan but all over the world. Islamic banking started in 1975 with Dubai Islamic but at that time it was not very popular in the entire world now there are 300 Islamic banks working in more than 70 countries (EI-Qorchi, 2005). Islamic banking is interest free banking that restricts riba, and gharar (speculative income) and those activities which involve no risk and only fix profit on investment in case of profit and loss in both conditions. Islamic bank considered an ethical way of banking from the customer and Islamic point of view because in Islamic banking investor likely equal to know about the investment.

Islamic banking system has features that are not restricted by law and "sharia". Customer is the most important part of that market. Customer perception, attitude, demand pays important role in whole process of banking either conventional or Islamic (Tylor and Baker, 1994). The selections criteria of bank by the customer depend on his know how about bank and the experience of his reference group (Lee and Marlowe, 2003). Islamic Banks develop its strategies according to the customer expectations and demand which must not against the sharia also. Islamic banking product and services are an important consideration and knowledge about the market of Islamic finance influence the decision of the customer (Omer 1992). Most of the time customer patronizes the best options for him which are in the limits of sharia. It was found that customer motivation factor is his convenience also to select bank. The motivation factors include the location of bank and its products and services. Customer satisfaction is the most important thing in Islamic and conventional banking so that the banks give to customer highly satisfied values and use the concept of customer delight (Devline, 2002). It means the customer is more than satisfy he is delighted with the bank's products and services.

Here there is an important factor is the culture of the customer. It means the geographical area where from customer belongs. The culture of customer affects its attitude and behavior

towards Islamic banking. For example Pakistani Islamic bank's customer is different in preferences and behavior than the foreign Islamic bank's customer (Hegazy 1995).

## LITERATURE REVIEW

Kaynak and whitely (1999) analyse that the easiness of the bank is main factor of the inspiration for selection of a bank by the customer. Kennington (1996) and Almossaive (2001) find that the goodwill of bank create large impact on the customer's mind. This result is not only from the customer of Islamic bank but as well as conventional bank. Metwally (2002) find that the females, older people and public servants are more conscious about the Islamic way of financing and they are more interested to invest in an Islamic bank. Bley and Kuehn (2004) conclude that the Muslim students having more knowledge about Islamic banking that's why they prefer to deal with Islamic bank instead of conventional bank.

Ahmed and Haroon (2002) the find that religion is an important factor in Islamic banking. Muslims take Islamic banking as an ethical banking theory because it is interest free banking and interest is prohibited in Islam that's why they like Islamic banking system as compared to conventional banking. He also find that Islamic banking is not only popular in Muslims even non-Muslims having much information about the Islamic banking system.

Hamid and Nordin (2001) conclude that most of 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. Erol and El-bdour(1989) conclude that religion of a person is not a main factor that attract him towards Islamic banking the products and services are the main factor that attract the individuals towards any banking Islamic or conventional.

Omer (1992) finds that there is high level of unawareness between the customers towards Islamic banking. The customer who used the services of Islamic banks is only due to their religious views they don't like conventional banking ways and taking interest because it is against the Sharia therefore they use Islamic banking but only few customers do that. Hegazy (1995) show that the people use Islamic banking services due to their religious views and due to Islamic laws. But they also compare the products and services of the banks and then select the bank.

Edirs (1997) conclude that the most of business firms deal with the conventional banks. Islamic banking services used by them on very small scale in business industry and depends on the patronage factors. It includes the profit of business firm and individual's income. Most of the business firm's deal with multiple banks but the individuals deals mostly with one bank. Gerrard and Cunningham (1997) conclude that Muslims and non-Muslims are different from each other according to their behaviour and attitude. High profitability, religion, and interest free investment motivate the people to prefer Islamic banking system instead of conventional banking.

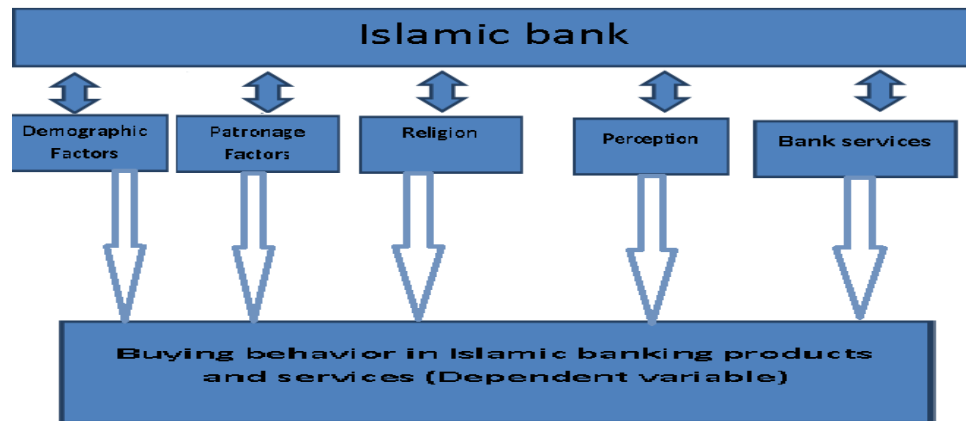
De Mooji (2004) identified that culture is also an important factor that affect the consumer standards for selection of a financial institution. The attitude of customer in Malaysia is different from the Pakistani customers that affect the decision of customer to use the Islamic banking products and services. 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. Al Ajmi (2009) show that religious factor may or may not important the main thing is potential profit taken by the investor.

## METHODOLOGY

To analyze the factors that affect the individual's behavior towards Islamic banking we interviewed the individuals belongs to different fields and having the interaction with Islamic banking and 25 consumers of each below mentioned banks are selected for interview. The interviews was analyzed with SPSS and found that the factors that are proposed in model are highly impacting factors. The names of Islamic banks from which consumers the data was collected are

1. Dubai Islamic bank
2. Al Baraka bank
3. Al-Falah bank Islamic branch
4. Meezan bank

## THEORETICAL FRAMEWORK



## RESULTS AND DISCUSSION

The model shows the results that religion is primary and main factor of motivation to choose an Islamic banking system. The results shows that there are different other factors except religion consider by the individuals when they are entering in banking sector. The individual person considers the banking reputation, service quality, quick response and his facility to approach the bank at any level. The customer needs easiness and satisfaction in banking services. Mostly students consider the Islamic way of banking as an ethical way of banking because they go to start their professional life and take the interest free banking very seriously.

The results shows that people don't know that ley concept of Islamic banking they consider it as conventional banking. Most of the customer satisfied from Islamic banking but they consider it as a complex way of banking. They likely to take the return on investment either it are in case of interest or profit. The comparison between Islamic and conventional banking consider at very low level due to many reasons like time, knowledge, personal attention etc. The customers already dealing with Islamic banks have still confusion in their mind about the Islamic banking system in Pakistan because banks not providing them proper information and guidelines to choose the Islamic way of banking.

The people who work for the benefit of society choose Islamic banking because they think that it creates a balance of money the in society and did not take any benefit of poor but they are very less people who think like that. Most of people in Pakistan choose the Islamic

banking system because of interest free banking due to concept of Haram in Islam. Religion and banking services have most significant impact on individual's mind as well as on the whole society. The other factors are less important from these two factors.

It is found from the research that the people consider the Islamic banking as same to the conventional banking. This is because bank may not provide them the proper information about their funds or they are dissatisfied from the bank services. Most of the female and older people prefer Islamic banking because they are conscious about their religion and the restrictions in their religion they try to avoid these kind of things like interest, Riba etc.

### **LIMITATION OF THE STUDY**

First limitation on this research is its sample size. The sample size is small and collected from a specific geographical area due to lack of resources and it is not representing the whole population of Pakistan.

Data collected from different peoples having different professions some of them may hide their actual behavior and attitude towards Islamic Banking. Random sampling use the data collection and results may be differing on the basis of sample size and sampling technique.

### **CONCLUSION AND RECOMMENDATIONS**

Islamic banking is important like conventional banking. In banking sector Islamic banking pays important role in business world as well as in individual customers. Most of the business firms use conventional banking system because there is no chance of loss and it returns a fix amount in case of interest. The ultimate purpose of business is to earn profit and they earn from profit from their deposits and take profit which is interest on deposit. Most of the corporations prefer conventional banking as an easy way of dealing with the banks. Corporations don't have time to think about the Islamic banking system and its products and services.

In case of individual consumer the user most of the consumers take the Islamic banking as an ethical way of banking and said that the Islamic banking system is a complete ethical banking theory. Religious norms and beliefs are the key concept in Islamic banking in case of individual customers. Most of the customer adopts Islamic banking way due their religion like Islam because interest prohibited in Islam. It is still undecided that whom other religions who have prohibited interest except Islam.

The conventional banks use a term "Interest". Interest is fix return on investment either in case of profit or loss from depositor money and there is no portion of profit for the depositor. But in case of Islamic banking there is a sharing of profit and loss and no fix return on deposit. The people who did not ignore ethics in their life either they are Muslim or non-Muslim they prefer the banking like Islamic banking because they consider it as an ethical way of banking which did not take interest from lending money. The interest of lending money is totally considered as unethical because it is equal to take benefit from poor people by forcing.

Banking products and services are the other important factors in case of Islamic banking. Individual customer focuses on the religious view as well his own benefit. Customer take the information about the product and services of the Islamic bank and according to his own benefit the customer invest in an Islamic banking system.

Mostly people choose Islamic way of banking due to their religious views. It is observed after the research that mostly elder people, females of a home and students of the colleges prefer

Islamic banking. Here there is another factor is the knowledge of Islamic banking. Most of the students have much knowledge about Islamic banking.

There is more need to work on Islamic banking. Islamic banking is best for banking sector as well as for the customer in case of lending and borrowing of money, and it is correct from the Islamic point of view.

As a result of research some measures recommended to improve the Islamic banking in Pakistan:

- i. The employees of an Islamic bank must be clear about the concepts of Islamic banking system, if they have complete know how about their bank then they can easily motivate the customers.
- ii. There is need to aware the people about the products and services of an Islamic bank. Because it is observed that people have poor knowledge of Islamic banking system.
- iii. Islamic banking industry must conduct its SWOT analysis like other industries, there is need to use its strength to gain any opportunity, and to remove weaknesses and threats.
- iv. There is need to place the Islamic bank at convenient point from where customer easily access the bank.
- v. There is need to provide the customer not only the level of satisfaction but the level of delighted. Customer should not only satisfy from bank's services but should be delighted.

**REFERENCES**

- Kaynak, E. & Whiteley, A. (1999). Retail bank marketing in Western Australia, *International Journal of Bank Marketing*, 17(5), pp. 221-32.
- Kennington, C., Hill, J. & Rakowska, A. (1996). Consumer selection criteria for banks in Poland", *International Journal of Bank Marketing*, 14(4), pp. 12-21.
- Almossawi, M. (2001). Bank selection criteria employed by college students in Bahrain: an empirical analysis, *International Journal of Bank Marketing*, 19(3), pp. 115-25.
- Metwally, M. (2002). The impact of demographic factors on consumers' selection of a particular bank within a dual banking system: a case study, *Journal of International Marketing and Marketing Research*, Vol. 27 No. 1, pp. 35-44.
- Bley, J. & Kuehn, K. (2004). Conventional versus Islamic finance: student knowledge and perception in the United Arab Emirates, *International Journal of Islamic Financial Services*, 5(4), pp. 17-30.
- Ahmad, N. & Haron, S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services, *International Journal of Islamic Financial Services*, 3(4), pp. 13-29.
- Hamid, A. & Nordin, N. (2001). A study on Islamic banking education and strategy for the new millennium-Malaysian experience, *International Journal of Islamic Financial Services*, 2(4), pp. 3-11.
- Erol, C. & El-Bdour, R. (1989). Attitudes, behaviour and patronage factors of bank customers towards Islamic banks, *International Journal of Bank Marketing*, 7(6), pp. 31-7.
- Omer, H. (1992). The implication of Islamic beliefs and practice on Islamic financial institutions in the UK, PhD dissertation, Loughborough University, Loughborough.
- Hegazy, I. (1995). An empirical comparative study between Islamic and commercial banks' selection criteria in Egypt, *International Journal of Commerce and Management*, 5(3), pp. 46-61.
- Edris, T. (1997). Services considered important to business customers and determinants of bank selection in Kuwait: a segmentation analysis, *International Journal of Bank Marketing*, 15(4), pp. 126-34.
- Cui, G. (1997). Marketing strategies in a multi-ethnic environment, *Journal of Marketing Theory and Practice*, 5(1), pp. 122-34.
- De Mooji, M. (2004). Consumer Behavior and Culture: Consequences for Global Marketing and Advertising, Sage, Thousand Oaks, CA.
- Dusuki, A. W. & Abdullah, N. I. (2007). Why do Malaysian customers patronise Islamic banks?" *International Journal of Bank Marketing*, 25(3), pp. 142-60.
- Al-Ajmi, J., Hussain, H. A. & Al-Saleh, N. (2009). Clients of conventional and Islamic banks in Bahrain, *Economics*, 36, pp. 1086-112.