
Examination of Sharia based Islamic banking Practices and Brand attractiveness of Islamic banking in Pakistan: Customers ‘Perspective

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Abstract

The objective of this study is to identify factors that attract the university students to Islamic bank as compare to conventional banks in Pakistan. Several variables selected after having studied the literature. Among those variables the most important ones are interest free banking, benefits available, service quality, and infrastructure of banks and staff friendliness. But benefits offered are assumed to be constant for this research. In order to undertake the study 100 questionnaires were distributed among the students of Business schools. The response rate was 86 percent. The qualitative research was done to accomplish the study. For the purpose of analysis, descriptive statistical measures and correlation techniques were applied. After getting inside the results, it has been discovered that service quality, Interest free banking and staff friendliness are the variables that attracts the university students to Islamic banks the most. The Islamic bank should improve these factors to increase their share in the market.

Key Words: Students, Banks, University, Islamic

Introduction

The banking sector plays a vital role in an economy, both at micro and macro level. For the last 3 decades Islamic banking has been competing neck to neck with conventional banking. People have shown great interest in Islamic banking. It is a positive gesture for Islamic banks but, still

they need some information to deal with their customer. They need information about the ways through which they can attract peoples towards Islamic banking brands. The criteria for preferring the Islamic banking brand is studied in this paper. It has been inquired that 'what are the factors which people prefer while selecting an Islamic bank. Brand preference means, which brand the customer will prefer when prices remain the same. It shows the strength of brand in the minds of customers. In Islamic banking, all the activities are performed according to the laws of Sharia. This study is made on the students of university which have many needs to have a bank account. Islamic banks must focus on the needs of their customers, better financial services; location, family influence, staff friendliness and reputation are some of the major factors in selecting an Islamic bank. In this study it is assumed that prices are constant and above mentioned factors have positive relationship with acceptance of Islamic bank.

This qualitative research examined all the necessary factors that influence the choice of Islamic banking and eventually provides guidelines to the Islamic banks. This study may be useful for Islamic banks to attract their customers and to formulate the marketing strategies.

Although conventional banking is still showing better trend but Islamic banks also have a great potential for growth. Many people are reluctant to have an account in bank due to a major factor of interest which is haram in Islam. Teenagers and adults are the future of Islamic banking. So Islamic banks need to improve their services and must understand their customers 'needs to attract them. In this study we are going to study the main factors which have an effect on customers mind while selecting an Islamic bank.

Review of Literature

In this era, Islamic banking has shown upward trend both in Muslim and non-Muslim countries. It differs from conventional banking in this way that it is based on sharia principles. People have a clear need to maintain their accounts. Literature so far gathered shows factors that people consider while selecting a bank. The primary factors of selecting a bank are price and reputation (Carolyn, 1996)^[1]. Convenience is also another very important factor of selecting an Islamic bank. (Haron et al., 1994)^[2].

Religion, Service delivery, relative's Influence and Cost benefits are also regarded important determinants of selecting a bank (Maran, 2010)^[3]. Choi et al., (2001) says that service quality cannot be a key tool of creating the value unless it accompanies by forward looking strategies and more innovative approach^[4].

Anderson (1976) said that one important selection criterion is friendliness of staff^[5]. Having Good understanding of Islamic banks has also been considered to be a factor that influence the selection criteria (Delta, 2003)^[6]. Better financial and banking services^[6] and brand reputation are the main factors that influence the selection of customers (khaliq, 2010)^[7]. Farjana (2012)

identified service, location and physical factors are the key determinants of preference of Islamic banking ^[8].

The literature collected brings to light on the following factors service quality, reputation, physical factors, relative’s influence, staff friendliness and economic benefits as the key factors of selecting an Islamic bank. This is the criteria that attracts people towards Islamic banking.

Methods and Measures:

In order to study the research problem, empirical evidence was collected through questionnaire from students of Business schools in Lahore. For the purpose of analysis acceptance of Islamic banking is taken as dependent variable which is also dichotomous variable. Descriptive statistical techniques and correlation techniques have been applied to check the validity of the research.

Findings:

In this table, it was recorded that Mode pf dependent variable acceptance was 1 which means ’Yes’. The mode of all other independent variables was 2 i.e. ’No’ except interest free and service quality.

Statistics

	Acceptance	Reputation	Convenience	Parking	Infrastructure	Family Influence	Staff Friendliness	Interest free	service quality	Technology
N Valid	86	86	86	85	86	86	85	85	85	86
Missing	0	0	0	1	0	0	1	1	1	0
Mode	1	2	2	2	2	2	2	1	1	2

The responses against independent variable acceptance of Islamic banking has been showed

Acceptance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	72	83.7	83.7	83.7
No	14	16.3	16.3	100.0

Acceptance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	72	83.7	83.7	83.7
	No	14	16.3	16.3	100.0
	Total	86	100.0	100.0	

In the below table, demonstrates the response of the variable reputation which is an independent variable. It can be seen that 34.5 percent people said Yes to the question while 65.1 percent people answered No to this question.

Reputation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	34.9	34.9	34.9
	No	56	65.1	65.1	100.0
	Total	86	100.0	100.0	

In the below table gives information about the variable convenience on choosing Islamic banking. It can be seen that 18.6 % people said Yes to the question. On the other hand 70 people responded No to the question which is 81.4 %.

Convenience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	18.6	18.6	18.6
	No	70	81.4	81.4	100.0
	Total	86	100.0	100.0	

In the below table, results of variable parking have been showed. One respondent didn't answer this question. Among 85 people 95.3 percent people answered that they didn't prefer Islamic bank because of parking.

Parking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	4	4.7	4.7	4.7
	No	81	94.2	95.3	100.0
	Total	85	98.8	100.0	
Missing	-99	1	1.2		
Total		86	100.0		

In the below table, responses of variable Infrastructure have been showed. Among 86 people 26 said they prefer Islamic bank because of Infrastructure. Whereas 60 respondents said they are least concerned with the Infrastructure while selecting any bank.

Infrastructure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	30.2	30.2	30.2
	No	60	69.8	69.8	100.0
	Total	86	100.0	100.0	

In the following table, 17.4 percent attracts towards Islamic banks because of family influence.

Family Influence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	15	17.4	17.4	17.4
	No	71	82.6	82.6	100.0
	Total	86	100.0	100.0	

In the following table, an independent variable staff friendliness has been presented. Only 41.9 % people prefer Islamic banking due to this factor.

Staff friendliness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	36	41.9	42.4	42.4
	No	49	57.0	57.6	100.0
	Total	85	98.8	100.0	
Missing	-99	1	1.2		
Total		86	100.0		

In the following table, reason to select Islamic bank is taken. And 87.2 % people said that they prefer Islamic banking because of Interest free banking.

Interest free

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	75	87.2	88.2	88.2
	No	10	11.6	11.8	100.0
	Total	85	98.8	100.0	
Missing	-99	1	1.2		
Total		86	100.0		

Service Quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	51	59.3	60.0	60.0

No	34	39.5	40.0	100.0
Total	85	98.8	100.0	
Missing -99	1	1.2		
Total	86	100.0		

Technology

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	31	36.0	36.0	36.0
No	55	64.0	64.0	100.0
Total	86	100.0	100.0	

Discussions

After analyzing the results, it has been revealed that the most important factor in selecting an Islamic bank is Interest free banking with 87.2 %. Second factor is service quality with 59.3%. Third and fourth factors are Staff friendliness and Technological advancement with 41% and 36 % respectively. Fifth and sixth factors that can have Influence in selecting an Islamic bank are reputation and Infrastructure with 34% and 30% respectively. All other factors are less important and may not have a significant impact on attractiveness of people towards Islamic banking.

Conclusion

It can be concluded that there are other factors as well that influence the customer's preference of Islamic banking. Besides benefits available from banks customers most importantly prefer Interest free banking and service quality. Along with these two independent variables friendliness of staff with customers and their technology can also matters a lot. But the significant variables were only interest free banking and service quality. The Islamic banks need to focus on these variables in order to attract more and more customers.

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