

Islamic Vs Conventional Banks in Pakistan

(A case study of Bahawalpur)

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Abstract: *This study examines the satisfactory level of the customers of Islamic banks and conventional banks in Pakistan means which bank's customers are more satisfied by the facilities provided by the both banks. In this study, it is found that economic benefits, financial position of banks, latest facilities, and interest on deposits, strong global image and reputation are the factors that are motivating customers towards conventional banks. Interest free loan, financial position of bank, Islamic teaching and Shariah, knowledge of Islam and religious environment are the factors that are motivating customers towards Islamic Banks. Findings showed that the customers of the both banks are satisfied with the facilities that are provided by the both banks but customers of conventional banks are more satisfied than the customers of Islamic banks. SPSS 13.0 is used for data analysis.*

Keywords: *Islamic Banking, Conventional Banking, Motivational Factors, Customer's Satisfaction, Bahawalpur*

Introduction

In the current global environment the banks are performing multiple functions to provide a variety of products and services and providing the latest facilities to their customers. In Pakistan, Islamic banks and conventional banks are facilitating their customers. Due to unstable policies and uncertainty, Pakistani banking sector has experienced very unstable environment since 1950. In 1974 Pakistani banking sector dominated, nationalized bank showed very poor performance due to inferior products and services that resulted into the privatization of banking sector in 1992. In 2002 Meezan Islamic bank was registered as first full fledged Islamic bank by the state of Pakistan. In Pakistani banking sector Islamic banks are new entrant, this requires a complete and comparative study to check the

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performance of islamic banks with the conventional banks regarding their facilities that they are providing to their customers and customers satisfaction. Since 1990 the service industry in Pakistan and in the global environment particularly the banking sector are growing this creates a competitive environment in the country. The entrance of the islamic bank in the country affects the monetary system by adjusting the demand and supply forces for money. Islamic banks are insures more stable financial sector then the conventional banks (Khan, 2008). By the other study, in Tunisia it is verified that islamic banking system showed excellent performing sector by supporting financial sector. In Iran there is another study which shows mixed result both in favor of islamic bank and in conventional banks that they both support and stabilized monetary system (Yousefi, Abizadeh, and McCormick, 1997).

Islamic banks and conventional banks both create competition among banks to satisfied customers and fulfill their expectations and long term benefits for the economy. The conventional banks and the islamic banks are differentiated commonly on the basis of their goals, Riba and risk sharing practices. Islamic bank follows the Shari law given by the Quran and Sunnah. As Pakistan is a Muslim country and having the population of 96% of the Muslims. Islamic banks have different kinds of opportunities to meet the multiple challenges as strong reaction from public to meet their requirements. Islamic bank and conventional banks are also differentiated as interest free banks and interest based banks.

This study tries to explore the performance of islamic banks and the conventional banks competitively by the facilities (products and services) they are providing to their customer and satisfactory level of the customers. It also tries to find the factors that are motivating customers to the islamic banks and the factors that are motivating customers to the conventional banks in Pakistan. This study is also important because the islamic banks are growing in term of size and structure in rate of 114% per annum (SBP, 2006).

Literature Review

In Pakistan, islamic banks are endeavoring to capture the maximum numbers of customers to compete with the conventional banks by facilitating their customers a large number of products and services as an alternative for interest base products. Banks are

providing a large number of products and services and facing a tough competition to attract potential customers. Perception, quality of services, availability of services, confidence in bank and social and religious factors are playing a motivational role towards islamic banks. (Haque, Osman, Zaki, Hj, Ismais, 2009). This study determines the factors that influence the customers towards islamic banks in Malaysia.

There is an impact of demographic disparities on the bank selection criteria applied by diversify customer to islamic bank in Bangladesh. (Rashid and Hassan 2009).

Banks are needed to better understand their customer and to continuously evaluate their service quality in order to maintain their market share (Jabnoun and Hussein 2002). To check the performance of interest free banks and interest base banks with respect to liquidity risk, credit risk and profitability during the period 1992 to 2001. This study is the comparison of interest base banks and interest free banks in Bahrain (Abdus Samad 2004). Izah (2007) has conducted a research to examine the level of service quality in Malaysian commercial banking industry for the perspective of banks customers. This study also examines customer's expectations and perceptions of service quality provided by the commercial banks in Malaysia.

In another study to measure market power of islamic banks and conventional banks have been done. To measure market power Lerner indices on a sample of banks from 17 countries in which islamic and conventional banks coexist over the period of 2000 to 2007. Comparison of Lerner indices shows no significant difference between Islamic and conventional banks but Lerner indices even shows that islamic banks have a lower market power than the conventional banks. (Weill 2009).

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 banks showed excellent growth rate of 114% per annum and it has captured a reasonable market shares. It is a positive sign in the development and success in the economy.

An increase in the service quality and professional behavior resulted a greater customer satisfaction and reduced customer's erosion (Leeds, 1992).

There is another research which proves that customers decision to save in islamic banking are influenced by economic factors such as receiving the economic benefits, quick services, online facilities, and easy reachable locations and healthy financial system. To save in islamic banks customers are influenced by religious factors such as obeying religious orders, having good understanding on islamic principles and knowledge on islamic banking(Khoirunissa, 2003).

Methodology

This study investigates the level of satisfaction of bank's customers regarding facilities provided by the islamic banks and the conventional banks in Bahawalpur (Pakistan). The population in this study consists of the all customers of the islamic banks and the conventional banks that are operating in Bahawalpur. A sample of 85 bank's customers is selected for this study by stratified random sampling technique. The stratification has been done based on the nature of the bank for example islamic banks and conventional banks. A total of 100 questionnaires were distributed among respondents to collect information. Among them 85 questionnaires were completed and useable for data analysis. 85% is the response rate that is reasonable for analysis of data. From the conventional banks, those customers are selected who have fixed deposit account and saving account in the bank. The respondents are selected from both banks. To evaluate their responses, two different structured questionnaires were developed to record the responses. A personal contact approach is also used to collect the information from the respondent and the researchers explained the questionnaire and the objective of the study by telling its purpose. Six banks were selected for the survey in Bahawalpur two of them were islamic banks and the others were conventional banks. Meezan islamic bank and Bank Islami Pakistan limited were selected from the islamic banks, and MCB bank limited, Bank Alfalah limited, United bank limited and Allied bank limited were selected from the conventional banks. We used structured questionnaires in English to collect the data from customers of islamic banks and conventional banks.

In this study to determine the factors that are influencing customers towards conventional banks are supposed to be better products and services, financial position of banks, latest facilities, interest on deposits, strong global image and reputation and economic benefits.

It is also supposed that there are factors that are motivating customers towards Islamic banks. These factors are interest free loan, financial position of bank, Islamic teaching and Shariah, knowledge on Islam and religious environment in the city, financial position of bank, economic benefits and better facilities. These motivating factors are selected after detailed interview of the two bank managers; one Islamic bank manager and second conventional bank manager. To evaluate the satisfactory level of the customer towards the facilities provided by the banks, 15 questions were asked in the questionnaires and they are ranked as: 1=strongly disagree to 5=strongly agree. Customer satisfaction is judged by the satisfactory level through the rank. The SPSS 13.0 version used to interpret and evaluate the data.

Sample Frame:

Islamic Banks	No. of Customers Selected
Meezan Islamic Bank	25
Bank Islami Pakistan Limited	19
Conventional Banks	
MCB Bank Limited	12
United Bank Limited	10
Allied Bank Limited	09
Bank Alfalah Limited	10
Total Sample Size	85

Findings

By using Descriptive statistic technique frequencies distributions are used to determine the demographics characteristics of the respondents and to examine the satisfaction of the customers of islamic and conventional banks.

Demographics of the respondent reflect that the male customer is grater than the female customers. In case of islamic bank 68.2% are male customer while 31.8% are female customers represented In case of conventional banks 82.9% are males and 17.1% are female customers. Female customers are more incline towards islamic banks. Married customers (54.5%) are more inclined towards islamic bank rather then the unmarried customers (45.5). Customers who have the qualification of Maters are more inclined towards Islamic banks with 40.9% while the graduate customers are more inclined towards conventional banks with 46.3%.Businessmen give more preference towards conventional banks with 31.4% and government employees give more preference towards islamic banks with 43.2%. More demographic detail is given in the appendix.

Through the analysis of data it is proved that economic benefits, financial position of banks, interest on deposits, strong global image and network reputation are the factors that are motivating customers towards conventional banks. From those 85 respondents 66% showed that they preferred conventional banks because they provide economic benefits in the form of profit and Interest. From those 85 respondents 70.2% agreed that the conventional banks provide better products and services.92.7% from those 85 respondents agreed that they have more faith on the conventional banks that their money is saved because conventional banks have more strong financial position. 78.0% respondents agreed that conventional banks are providing better and latest facilities rather than other banks that are why I am saving in conventional bank, and 97.6% respondents said that conventional bank pay interest on deposit and charged interest on loan that's why we preferred conventional banks, while 87.8% respondents preferred conventional Banks because they have better Image and reputation rather than other banks.

It is proved that there are factors that are motivating customers towards islamic banks are interest free loan, financial position of bank, Islamic teaching and Shariah, knowledge on Islam and religious environment in the city are the factors that are motivating customers towards islamic banks.

84.1% respondents said that they receive economic benefits by saving in Islamic Bank in the form of profit sharing, 90.9% respondents agreed that islamic bank provides interest free loan and no interest pays on deposit that motivate me to save in islamic bank, while 84.1% respondents agreed that as a Muslim I prefer Islamic Bank and it does not oppose Islamic teachings.

To judge the satisfaction of the customers mean that which bank's customers are more satisfied either islamic banks or conventional banks 15 questions related to the facilities that are providing by the both banks were asked. Questions were ranked 1=strongly disagree to 5=strongly agree. Results showed that the customers of both the banks either they are from islamic banks or conventional banks are satisfied with the facilities provided by the banks but the customers of conventional banks are more satisfied than the customers of islamic banks.

There are number are studies that reported the positive relationship between service quality and customer satisfaction. (Levesque and McDougall, 1996; Yavas et al., 1997; Bahia and Nantel, 2000; Arasli et al., 2005; Al-Hawari and Ward, 2006; In this study it is find out that satisfactory level of the customers of both banks is high mean that there is a positive relationship between facilities provided by banks and customer satisfaction.

Conclusion and Recommendations

The result of this study showed that the customers of both the banks either they were from islamic banks or conventional banks were satisfied with the facilities provided by the banks but the customers of conventional banks were more satisfied than the customers of islamic banks. Through the analysis of data it is proved that economic benefits, financial position of banks, interest on deposits, strong global image and network reputation were the factors that were motivating customers towards conventional banks. It is proved that factors which motivating customers towards islamic banks were: interest free loan, financial position of bank, Islamic teaching and Shariah, knowledge on Islam and religious environment in the city were the factors which motivating customers towards islamic banks.

Bankers can attract more customers by launching effective marketing campaigns to enhance awareness towards quality of their services. It helps to enhance the

understanding of bank customers about service quality regarding islamic and conventional banks in Pakistan. Bank managers should take quality initiatives to improve their products by considering demographic characteristics of the customers.

Limitations

Time and budget constraints restricted us to the city of Bahawalpur which is a limitation to our study. It is recommended that the study may be conducted in the whole country, Pakistan.

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Appendix:**Satisfaction of Customers**

Facilities of Banks	Islamic Banks	Conventional Banks
Fast and efficient counter services	66%	82.9%
Speed and efficiency of transactions	61.3%	87.8%
Interior comfort of Branches	56.8%	58.5%
Experienced management team	75%	82.9%
Availability of financial advice	77.3%	92.7%
Faster document processing	63.6%	90.2%
Knowledge on customer's business	54.5%	80.4%
Sufficient time for transaction	79.6%	90.2%
Convenient branch location	50%	90.2%
Awareness program on services	56.8%	68.3%
Competitive Product Offerings	63.6%	80.4%
Uniform services in all branches	56.9%	80.5%
Confidence in Bank's management	68%	82.7%
Bank size in assets and capital	63.6%	43.9%
Lower service charge	59.1%	26.8%

Demographic Analysis:

For Islamic Bank

Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	30	68.2	68.2	68.2
	Female	14	31.8	31.8	100.0
	Total	44	100.0	100.0	

Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	24	54.5	54.5	54.5
	Unmarried	20	45.5	45.5	100.0
	Total	44	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	23	52.3	52.3	52.3
	30-40	15	34.1	34.1	86.4
	40-50	6	13.6	13.6	100.0
	Total	44	100.0	100.0	

Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Intermediate	6	13.6	13.6	13.6
	Graduate	19	43.2	43.2	56.8
	Masters	18	40.9	40.9	97.7
	Above Masters	1	2.3	2.3	100.0
	Total	44	100.0	100.0	

Profession

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Student	8	18.2	18.2	18.2
	Govt. Employee	19	43.2	43.2	61.4
	Private Employee	11	25.0	25.0	86.4
	Businessmen	6	13.6	13.6	100.0
	Total	44	100.0	100.0	

Level of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than10000	11	25.0	25.0	25.0
	10000 - 20000	12	27.3	27.3	52.3
	20000 - 30000	11	25.0	25.0	77.3
	Above 30000	10	22.7	22.7	100.0
	Total	44	100.0	100.0	

For Conventional Banks**Sex**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	34	82.9	82.9	82.9
	Female	7	17.1	17.1	100.0
	Total	41	100.0	100.0	

Marital Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	21	51.2	51.2	51.2
	Unmarried	20	48.8	48.8	100.0
	Total	41	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	18	43.9	43.9	43.9
	30-40	15	36.6	36.6	80.5
	40-50	8	19.5	19.5	100.0
	Total	41	100.0	100.0	

Profession

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Student	6	14.6	14.6	14.6
	Govt. Employee	13	31.7	31.7	46.3
	Private Employee	8	19.5	19.5	65.9
	Businessmen	14	34.1	34.1	100.0
	Total	41	100.0	100.0	

Level of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than10000	5	12.2	12.2	12.2
	10000 - 20000	13	31.7	31.7	43.9
	20000 - 30000	11	26.8	26.8	70.7
	Above 30000	12	29.3	29.3	100.0
	Total	41	100.0	100.0	

Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Intermediate	8	19.5	19.5	19.5
	Graduate	19	46.3	46.3	65.9
	Masters	12	29.3	29.3	95.1
	Above Masters	2	4.9	4.9	100.0
	Total	41	100.0	100.0	