

*Full Length Research Paper*

# Customer satisfaction and awareness of Islamic banking system in Pakistan

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The concept of Islamic banking is not new. Islamic banking is very easily getting recognition in the financial market. The conventional banking industry is a well established rival for the Islamic banking industry (IBI). Now for this competition, IBI must consider their customer's approach, satisfaction and awareness level towards it. This study analyzes the customer's satisfaction and awareness level towards the IBI. It further investigates the relationship between different demographic variables and the satisfaction and awareness of customers. A sample of 156 respondents from different cities of Pakistan was selected. For the analysis, the Kruskal-Wallis one-way ANOVA was adopted to check the relationship between demographic variables and satisfaction and awareness. The respondents expressed their satisfaction to some of the services and expressed dissatisfaction with few. Customers indicate that they are aware of different products but do not adopt these products.

**Key words:** Islamic banking, customer satisfaction, awareness, dissatisfaction, Kruskal-Wallis, conventional banking.

## INTRODUCTION

Islamic banking system has been introduced in the last quarter of the twentieth century, while the concept of Islamic banking system is old. The Islamic banking system (IBS) was introduced due to the reason that there was the need of financial institution for Muslim customers who could satisfy their needs and demands. Because the conventional banking industry is entirely based on the interest based system and that is prohibited in the Islamic shari'ah rules. So the Muslims need such institute which provides them the Islamic platform for their financial transactions. The Islamic finance is defined as a financial service or product principally implemented to comply with the main tenets of Shari'ah (or Islamic law). In turn, the main sources of Shari'ah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait and Worthington, 2007). IBS is purely based on the Islamic Shari'ah concept, which excluded the factor of interest. The customers of the Islamic banking system do not have exact knowledge about its return on their investment prior

to the actual return been incurred. The first step regarding the establishment of the Islamic banking system was taken in 1963s when "The Mit Ghamr saving bank" was established in Egypt that was in fact the first Islamic financial system experimented (Haroon and Ahmed, 1998). But that was not so successful because of the proper marketing and management strategy. After that the strong and successful steps were taken in the 1980s and onward, Malaysia was considered to be the first Islamic country which has given more consideration for the development of Islamic banking system. The idea of the Islamic banking system is not only been appreciated by Muslims but it has been adopted by the conventional banking industry, too. They have opened their independent Islamic operational windows, which are following the shari'ah rules and regulations. The growth rate of the Islamic banking industry in the market is about 15 to 20% per annum.

In Pakistan the first step regarding IBS implementation was taken in 1980, when State Bank of Pakistan made some changes in the rules and regulations of banking ordinance. With regard to this from 1st July 1985 all commercial banks were made interest free by introducing

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PLS system. That was not a successful experiment. After that in December, 2001 the first certificate had been issued to Meezan Investment bank as the first stand alone Islamic Bank in Pakistan. And now with the blessing of Allah in Pakistan till the end of 2007 there were six (6) full-fledged Islamic Banks. (Meezan Bank, Albarka Islamic Bank, Dubai Islamic Bank, Dawood Islamic Bank, Global Emirate Islamic Bank, Bank Islamic Pakistan).

The customers are the primary income source of any industry. Conventional banking system (CBS) and IBS both considered as rival systems working in same banking industry. The CBS is interest based banking system. That gives the surety to its customer about the return on its investment. The CBS established its market very early. Because the CBS was introduced in the middle of sixteenth century and for the establishment of any industry five centuries is immense time period. This certainly indicates that the IBS has to compete with the CBS.

Whenever Islamic banks or conventional banks offered any new product or service, then its success depends upon the customer satisfaction level towards that product or service. In this competition they must have to give extremely high consideration to its primary customers. They must have to produce such level of services and products to its customers that they could attract them and can satisfy them.

In order to get knowledge about the customer's satisfaction and their attitude towards Islamic banking products and its services; there are some studies conducted in a different region of the world in both in Islamic and non-Islamic countries. In 1999 a study that was conducted in Jordan by Nasir, Jamal and Khalid and in 2005 a study with the same objective was conducted by Saduman Okumus in Turkey where he mention the satisfaction level of the Turkish customers towards the Islamic banking system. This study follows the pattern of Sadmuman's study where the customer satisfaction level and their attitude towards Islamic banking in Pakistan are judged.

The research questions are:

- i. What are the main factors that derive the customer selection criteria for the IBS?
- ii. Why a customer used to adopt both (Islamic and conventional) banking system?
- iii. What is the satisfaction level of IBS customer?
- iv. Customer awareness about different products and services of the IBS?

Islamic terminologies used in this paper are explained in the Appendix (Table 1)

## LITERATURE REVIEW

Customer satisfaction is one of the essential components of any organization's strategies, as the customer is the

ultimate source of income for any industry. Regarding the customer satisfaction, in the banking industry from the last one and half decade the bankers pay attention towards its customer satisfaction. That is all due to the competition in the banking industry and some banks consider the customer satisfaction as the principal component of their marketing strategy. That's why with the competition mostly the ultimate customer benefited. Now, many financial institutions are trying to increase the customer satisfaction and their retention toward the financial institution through improving the quality of the services and the products they offered to its customers, with this they are achieving their desired objective.

A study that was conducted in (2004) by Liang and Wang, found that for banks, their long term customers are more beneficial than the short term. This means, if the customer who have their account with the bank for more than two or three years are more beneficial for the bank then those who have an account with the bank for just one or half year. That is why more established customers have relatively high account then the new or unestablished customer (Liang and Wang, 2004).

A survey that was conducted by Loriec in (2003) showed that most bank customers use the face to face interaction with tellers or other bank staff while in the transaction. Their survey found that about 87% customers used to visit cashier, 83% visit ATM, 3% uses e-mail banking. This survey suggested that if the banks want to have best competition with their rivals then they must have to keep their management staff highly trained and professional, because they have to attract and satisfy their customer with direct interaction (Loriec, 2003).

A study was conducted in (1989) by Erol and El-Bdour on Jordan customers. They tried to find the attitude of Jordanian people towards interest free banking. Ultimately they got that religion is not the main factor for the selection of financial institution, but in fact there are some other factors too which are influencing the decision criteria of the customers and in this regard the main factor is the level of profitability, that is, returns on their investment ( Erol and El-Bdour, 1989).

Sudin et al. (1994) conducted a study on Malaysian customers. They determined the main factors that customers considered very important while selecting the financial institution. They found that there are three most essential criteria in the bank selection for Muslims, these are:

1. The provision of fast and efficient services.
2. The speed of the transaction.
3. The reputation and image of the bank. (Sudin et al., 1994).

A study was conducted in (1998) by Metawa and Almossawi on the Bahrain customers. They investigated the customer's attitude by taking a sample of 300 customers. They got to the point that there were two main factors involved: "1. Adherence to the Islamic principle,

2. and return rate” (Metawa and Almosawi, 1998).

A study was conducted by Gerrard and Cunningham (1997), where they investigated the awareness of the Singapore customer towards the Islamic banking products and its different services. They determined that there is a general lack of awareness of the customer regarding the IBS (Gerrard and Cunningham, 1997).

A study was conducted by Kamal Naser, Ahmed Jamal and Khalid Al-Khatib in (1999). They tried to get the degree of awareness of the customers towards the IBS products. They had taken a sample of 206 respondents and come to the conclusion that most of the customers have a little bit knowledge about the specific products such as Mudarabah and Murabaha. But most of them do not use these products (Naser et al., 1999).

In 1998 a study was conducted by Metawa and Almosawi on the Bahrain customer's perception and they found that “most of the Islamic bank customers are satisfied with Islamic banks' services. The factor with which the customers have shown dissatisfaction is the high cost of the services that has been charged by the Islamic banks. The religion was the most influential factor in the selection of Islamic banking system not the return on their investment. Most of the customers were aware from the fundamental products of Islamic banks but have no knowledge about the complex Islamic financial system (Metawa and Almosawi, 1998).

A study was conducted by Hegazy on the Egypt customer's attitude in (1995). He targeted the customers of Islamic bank. Finding of his study were that most customers chose banks due to their efficiency and speed of delivering banking services. (Hegazy, 1995). Another study was conducted in 2005 by H. Saduman Okumus on the platform of Turkey. This study basically covered the theoretical and practical aspect of the Turkish Islamic banking sector. With the sample of 161 respondents this study tried to know about the awareness and satisfaction of the Islamic banking customers towards the Islamic banking system. They came to the conclusion that numbers of customers are aware with few specific products like Musharakah and Mudarabah. But most of them were not enrolled in the dealing of these products (Saduman Okumus, 2005).

## **MATERIALS AND METHODS**

### **Sample**

In the study the sample size was 156, the respondent were selected from countries of different regions. For the study we have targeted respondents from major cities of Pakistan. (Islamabad, Rawalpindi, Peshawar, Lahore, Karachi). These cities were selected for the data collection due to certain reasons. Here we have easy access to people from different parts of the country, easily targeted different income group respondent. The target respondents were the account holders of the IBS. We have targeted respondent from different class of income. In the respondents we have 80 males and 76 females.

### **Measures**

The questionnaire was formed in the light of two research papers. One was conducted on the Jordanian Islamic banking customer's satisfaction level Naser et al. (1999) and the second study was on Turkish Islamic banking customer satisfaction level Saduman (2005).

The questionnaire was structured in six sections. Section one included the demographic information of the respondent (age, gender, religion, academic qualification, income, occupation). Section two of the questionnaire includes information about the respondent selected financial institution. (Islamic, conventional or both Islamic and conventional) section three collect the respondent knowledge about the different products of the Islamic banking system (e.g. Murabaha, Mudarabah, etc). Fourth section of the questionnaire collects information regarding the customers dealing with the Islamic banking system. Fifth section of the questionnaire collects information regarding these customers who were involved in the both banking system. Here we gather the reasons why they were involved in both type of financial institution. In the sixth and final section we got the customers satisfaction level towards IBS.

There were total 34 variables selected in order to know about the customers, “their knowledge level”. In these total variables only 9 variables were just to get information about the customer's awareness regarding the product and that was measured by just asking the customers either “aware about the product” or “not aware” or “they are aware but do not use the product”. The remaining 25 variables were studied on five point likert scale.

### **Procedure**

The questionnaires were filled by the account holder and other customers of the full-fledged Islamic banks and the different conventional banks with Islamic windows. The banks that were visited in different cities of Pakistan were Albarak Islamic bank, Mezan Islamic bank, Bank Islami Pakistan, Dawod Islamic bank, Global Emirates Islamic bank. Dubai Islamic bank was not included in the survey due to their internal policies. In the conventional banking Islamic branches the surveyed banks are Askari bank, Bank Alfalah, Soneri bank, Muslim commercial bank, United bank.

The basic query that was tried to be resolved was “to know about the awareness level, satisfaction of customers and the reasons behind dealing with Islamic banking of the Pakistani customers towards Islamic banking system. In order to resolve this query a survey was conducted in the Pakistan's major cities by distributing and filling questionnaire from the respondent. Actually these major cities were selected because in these cities we have the opportunities to interact with people of Pakistan's different territories. The questionnaires were designed by a set of questions that were derived from the prior literature.

The total time period that was consumed within three months (October to December, 2008). Most of the questionnaires were self administrated. A total of 190 questionnaires were distributed and in these the usable questionnaires were 156. So the sample size was 156.

In this study the customer awareness, reasons behind dealing with Islamic banking and their satisfaction level towards the Islamic banking products and its services was checked. For this we initially check the reliability of the data by applying Cronbach alpha. After that, we applied different descriptive test statistics. We found out that the relationship between demographic variables and the customer satisfaction level are the reasons behind dealing with the IBS. We first checked the normality of the data by testing their skewness. We got that the data was not normal, so we applied Kruskal-Wallis One-Way ANOVA. The same methodology was adopted by Naser et al. (1999) on the Jordanian customer's perception towards the Islamic banking system.

## **DATA ANALYSIS AND DISCUSSION**

In this study, customer awareness, reasons behind dealing with Islamic banking and their satisfaction level towards the Islamic banking products and its services are checked. For this, we initially check the reliability of the data by applying Cronbach's alpha. The Cronbach alpha results are 0.779. When we checked the reliability of the data, we applied descriptive statistics on the data, the test results are discussed below.

### **Profile of respondents**

In order to make analysis and to know about the customer satisfaction we have to know about the customers of the Islamic banking system. For this a demographic portion was added in the study. The personal profile of the respondent has been shown in Table 1. From this table we got that most of the respondent of the Islamic banking customers are in the age of 21 to 40 years. The percentage was about 84%. Most respondent were highly educated. Most of the customers are self employed and private sector employees.

### **Type of the banking services that has been used by the customers of Islamic banking system**

Now it is important to know about the customers of Islamic banking system that either hold account only in Islamic banks or using other conventional banks too, so we came to know that about 67% of the account holders are using the services of the other conventional banking system. That is a huge percentage. That is shown in Table 2 and we must have to know about the reasons behind this and why they have adopted the services of conventional banks along with Islamic banking system?

### **Reasons behind dealing with both banking systems**

There were some options given to the respondent to know the reasons why customers have adopted both banking system and we asked the question from customer using both banking services (Islamic and Conventional). We came to the result that most of the customers have adopted both banking system because of the facilities that has been offered by the IBS. Secondly the network of the Islamic banking has impact on the dealing with both Islamic and conventional banking system and customers are more concerned about the investment opportunities that have been provided to them by their bank. Most of the customers are both agreed and strongly agreed with that the IBS

does not provide them as much investment opportunities as they required. The summary of the results are given in Table 3

### **Reasons behind dealing with Islamic banking system**

It is important to know about the Islamic banking selection criteria. Why customers select Islamic banking system for their operation. To obtain information respondents were given certain options to be responded. Most of the responded were agreed and strongly agreed with few of the reasons like bank reputation, the effectiveness in the transaction, provision of privacy and confidentiality in the banking transaction with that of Islamic banking system and religion is also an important factor in the Islamic bank selection criteria and the result summary is given in Table 4:

### **Customer awareness towards Islamic banking products and its services**

A study that was conducted in Singapore in 1997 by Gerrard and Cunningham concluded that most of the Muslims are aware of the fundamental concepts of the Islamic finance. But they are not aware of the specific Islamic financial products such as Murabaha, Ijara etc. that study was conducted in a non-Islamic country so in this study it is tried to get the customers awareness level towards Islamic banking products of the Islamic country. But the study result shows that the customers have no knowledge about the specific Islamic products such as Murabaha financing, Ijara financing, Musharakah financing. The result of the customers awareness regarding different products and services are shown in Table 5.

### **Degree of customer satisfaction towards Islamic banking system**

In this study, different aspects of customer satisfaction level are explored, by providing different options to customers to respond, by this we were able to get the customer satisfaction level towards the Islamic banking system. From the results we have gotten, most of the customers are satisfied from the Islamic banking system. Result shows that people are satisfied from the management proficiency, their efficiency in the transaction completion and the working hours of the bank. The results showed that about 60 to 70% of the respondents are either satisfied or strongly satisfied from the banking services provision. The result can be seen in Table 6.

**Table 1.** Respondents' profile.

| Variables      | Frequency | Percentage | Variables                     | Frequency | Percentage |
|----------------|-----------|------------|-------------------------------|-----------|------------|
| <b>Age</b>     |           |            | <b>Academic qualification</b> |           |            |
| 20 or less     | 8         | 5.1        | Less than high school         | 8         | 5.1        |
| 21-30 years    | 75        | 48.1       | High school                   | 25        | 16         |
| 31-40 years    | 56        | 35.9       | Bachelor degree               | 60        | 38.5       |
| 41 - 50 years  | 9         | 5.8        | Master                        | 43        | 27.6       |
| 51 or More     | 8         | 5.1        | Professional                  | 20        | 12.8       |
| <b>Gender</b>  |           |            | <b>Religion</b>               |           |            |
| Male           | 80        | 51.3       | Muslim                        | 154       | 98.7       |
| Female         | 76        | 48.7       | Non-Muslim                    | 2         | 1.3        |
| <b>Income</b>  |           |            | <b>Occupation</b>             |           |            |
| 5001-10000     | 28        | 17.9       | Self employed                 | 59        | 37.8       |
| 10001-15000    | 19        | 12.2       | Private sector employee       | 69        | 44.2       |
| 15001-20000    | 35        | 22.4       | Govt. sector employee         | 23        | 14.7       |
| 20001-30000    | 25        | 16         | Retired.                      | 5         | 3.2        |
| 30001 or above | 49        | 31.4       |                               |           |            |

**Table 2.** Customer selected banking system.

| Value                               | Frequency | Percentage |
|-------------------------------------|-----------|------------|
| Islamic bank only                   | 44        | 28.2       |
| Conventional bank only              | 8         | 5.1        |
| Both Islamic and conventional banks | 104       | 66.7       |

**Table 3.** Customer's reasons behind dealing with both Islamic and conventional banking system.

| Value                                       | Strongly agree |      | Agree     |      | Neutral   |      | Disagree  |      | Strongly disagree |     |
|---|----------------|------|-----------|------|-----------|------|-----------|------|-------------------|-----|
|   | Frequency      | %    | Frequency | %    | Frequency | %    | Frequency | %    | Frequency         | %   |
| Limited banking facilities offered by IBS   | 23             | 14.7 | 69        | 44.2 | 34        | 21.8 | 22        | 14.1 | 8                 | 5.1 |
| Wide range of services offered by IBS       | 10             | 6.4  | 83        | 53.2 | 27        | 17.3 | 23        | 14.7 | 13                | 8.3 |
| Investment diversification opportunity      | 40             | 25.6 | 27        | 17.3 | 55        | 35.3 | 32        | 20.5 | 2                 | 1.3 |
| Network reason                              | 18             | 11.5 | 47        | 30.1 | 48        | 30.8 | 41        | 26.3 | 2                 | 1.3 |
| Low investment opportunities offered by IBS | 9              | 5.8  | 69        | 38.5 | 56        | 35.9 | 19        | 12.2 | 12                | 7.7 |

### Relationship between awareness of the customers and demographic variables

In order to find out the relationship between different independent variables, first the normality of the data was checked when it was confirmed that the data is normal then we applied respective non-parametric test. We

adopted Kruskal-Wills test. From the result we came to know, there is significant relationship among the academic qualification, the awareness of different products and the different age group people to have differed in their awareness of the Islamic banking products, such as in the current account system, like letter of credit. Table 7 shows the results in summary.

**Table 4.** Customer reasons behind dealing with Islamic banking system.

| Value                        | Strongly agree |      | Agree     |      | Neutral   |      | Disagree  |      | Strongly disagree |      |
|------------------------------|----------------|------|-----------|------|-----------|------|-----------|------|-------------------|------|
|                              | Frequency      | %    | Frequency | %    | Frequency | %    | Frequency | %    | Frequency         | %    |
| Religious                    | 16             | 10.3 | 66        | 42.3 | 35        | 22.4 | 14        | 9    | 25                | 16   |
| Profitability                | 12             | 7.7  | 54        | 34.6 | 43        | 27.6 | 29        | 18.6 | 18                | 11.5 |
| Feasible location            | 17             | 10.9 | 55        | 35.3 | 46        | 29.5 | 24        | 15.4 | 14                | 9    |
| Services charges             | 31             | 19.9 | 49        | 31.4 | 25        | 16   | 33        | 21.2 | 18                | 11.5 |
| Effectiveness in transaction | 24             | 15.4 | 53        | 34   | 43        | 27.6 | 21        | 13.5 | 15                | 9.6  |
| Wide services range          | 10             | 6.4  | 49        | 31.4 | 40        | 25.6 | 42        | 26.9 | 15                | 9.6  |
| Bank reputation              | 12             | 7.7  | 76        | 48.7 | 35        | 22.4 | 24        | 15.4 | 9                 | 5.8  |
| Shari'ah rules obedience     | 22             | 14.1 | 45        | 28.8 | 54        | 34.6 | 26        | 16.7 | 9                 | 5.8  |
| Provision of investment opp. | 8              | 5.1  | 51        | 32.7 | 61        | 39.1 | 19        | 12.2 | 17                | 10.9 |
| Credit card provision        | 8              | 5.1  | 38        | 24.4 | 53        | 34   | 39        | 25   | 18                | 11.5 |
| Loan availability            | 9              | 5.8  | 48        | 30.8 | 53        | 34   | 33        | 21.2 | 13                | 8.3  |
| Privacy/confidentiality      | 25             | 16   | 68        | 43.6 | 27        | 17.3 | 26        | 16.7 | 10                | 6.4  |

**Table 5.** Customer awareness level towards Islamic banking.

| Product            | Not aware of it |      | Aware but do not use it |      | Aware and use it |      |
|--------------------|-----------------|------|-------------------------|------|------------------|------|
|                    | Frequency       | %    | Frequency               | %    | Frequency        | %    |
| Current account    | 21              | 13.5 | 31                      | 19.9 | 104              | 66.7 |
| Time deposit A/C   | 29              | 18.6 | 37                      | 23.7 | 90               | 57.7 |
| Mudarabah          | 54              | 34.6 | 62                      | 39.7 | 40               | 25.6 |
| Musharakah         | 74              | 47.4 | 60                      | 38.5 | 22               | 14.1 |
| Ijara financing    | 68              | 43.6 | 58                      | 37.2 | 30               | 19.2 |
| Traveler's cheques | 4               | 26.9 | 65                      | 41.7 | 49               | 31.4 |
| Overdraft          | 39              | 25   | 81                      | 51.9 | 36               | 23.1 |
| Letter of credit   | 49              | 31.4 | 73                      | 46.8 | 34               | 21.8 |
| Murabaha financing | 71              | 45.5 | 73                      | 46.8 | 34               | 21.8 |

### Relationship between reasons behind dealing with Islamic banking and demographic variables

To find out the relationship between the reasons why customers are dealing with the Islamic banking and the demographic variables, we have applied Kruskal-Wills test, which shows that there is significant relationship between different age group people and the reasons like profitability, different range of the services, bank reputation, the obedience of the Shari'ah rules, investment opportunities been provided by the bank and the level of confidentiality of the bank. This shows that different age group people has different opinion on the bank location. This means there is significant difference among them. Different income level groups have different perception or reasons behind dealing with Islamic banking as there is significant difference in almost all reasons accepted services charges and confidentiality. The occupation too has significant relationship with that reasons of dealing with Islamic banking and in their selection the services charges and bank reputation has high significance. The

results are shown in Table 8.

### Relationship between customers' satisfaction level and demographic variables

In order to know about the relationship between the customer satisfaction level and the demographic aspects we applied Kruskal-wills test. The results are shown in Table 9. Which demonstrates that all the customers having different demographic status has given his opinion. We got that the income level and the satisfaction variables mostly have significant relationship. That could be observed in the result summary in Table 9 and there are some other variables which has some significant relationship such as age and bank's personals knowledge about the Islamic banking, efficiency and the speed of the transaction, some general facilities like parking etc and the bank working hours and there is too significant relationship between gender and proficiency and the management, some general facilities like parking etc, the

**Table 6.** Customer's satisfaction towards Islamic banking system.

| Variable                   | Strongly satisfied |      | Satisfied |      | Neutral   |      | Dissatisfied |      | Strongly dissatisfied |      |
|----------------------------|--------------------|------|-----------|------|-----------|------|--------------|------|-----------------------|------|
|                            | Frequency          | %    | Frequency | %    | Frequency | %    | Frequency    | %    | Frequency             | %    |
| Management proficiency     | 25                 | 16   | 68        | 43.5 | 33        | 21.2 | 8            | 5.1  | 22                    | 14.1 |
| Bank's personal knowledge  | 16                 | 10.3 | 58        | 37.2 | 48        | 30.8 | 31           | 19.9 | 3                     | 1.9  |
| Cost of services           | 14                 | 9    | 55        | 35.3 | 50        | 32.1 | 31           | 19.9 | 6                     | 3.8  |
| Efficiency of transactions | 8                  | 5.1  | 67        | 42.9 | 45        | 28.8 | 32           | 20.5 | 3                     | 1.9  |
| Facilities of parking      | 20                 | 12.8 | 48        | 30.8 | 49        | 31.4 | 25           | 16   | 14                    | 9    |
| Advertising campaign       | 12                 | 7.7  | 49        | 31.4 | 51        | 32.7 | 31           | 19.9 | 13                    | 8.3  |
| Working hours              | 19                 | 12.2 | 72        | 46.2 | 36        | 23.1 | 19           | 12.2 | 10                    | 6.4  |
| Financial counseling       | 26                 | 16.7 | 43        | 27.6 | 36        | 23.1 | 34           | 21.8 | 17                    | 10.9 |

**Table 7.** Customer awareness and demographic variables.

| Variable           | Age            |          | Gender         |         | Religion       |          | Income         |         | Academic qualification |         | Occupation     |         |
|--------------------|----------------|----------|----------------|---------|----------------|----------|----------------|---------|------------------------|---------|----------------|---------|
|                    | X <sup>2</sup> | Sig      | X <sup>2</sup> | Sig     | X <sup>2</sup> | Sig      | X <sup>2</sup> | Sig     | X <sup>2</sup>         | Sig     | X <sup>2</sup> | Sig     |
| Current account    | 15.203         | 0.004*   | 5.237          | 0.022** | 2.465          | 0.116    | 15.635         | 0.004*  | 7.391                  | 0.117   | .252           | 0.969   |
| Time deposit A/C   | 33.718         | 0.000*   | 10.503         | 0.001*  | 1.171          | 0.279    | 5.230          | 0.265   | 17.414                 | 0.002*  | 5.975          | 0.113   |
| Mudarabah          | 4.637          | 0.327    | 2.277          | 0.131   | 2.938          | 0.087*** | 3.268          | 0.514   | 32.379                 | 0.000*  | 16.516         | 0.001*  |
| Musharakah         | 13.921         | 0.008*   | 0.335          | 0.563   | 2.002          | 0.157    | 7.702          | 0.103   | 34.130                 | 0.000*  | 8.228          | 0.042** |
| Ijara financing    | 3.772          | 0.438    | 0.709          | 0.400   | 2.238          | 0.135    | 14.654         | 0.005*  | 13.305                 | 0.010*  | 1.885          | 0.597   |
| Travelers cheques  | 5.261          | 0.262    | 0.305          | 0.580   | 3.677          | 0.055*** | 10.899         | 0.028** | 24.056                 | 0.000*  | 3.196          | 0.362   |
| Overdraft          | 7.122          | 0.130    | 0.107          | 0.744   | 4.082          | 0.043**  | 2.901          | 0.574   | 12.607                 | 0.013** | 2.301          | 0.512   |
| Letter of credit   | 8.917          | 0.063*** | 1.580          | 0.209   | 3.318          | 0.069*** | 39.631         | 0.000*  | 12.216                 | 0.016** | 11.362         | 0.010*  |
| Murabaha financing | 5.706          | 0.222    | 2.189          | 0.139   | 1.848          | 0.174    | 26.089         | 0.000*  | 30.544                 | 0.000*  | 10.903         | 0.012** |

(\*significant at 1%, \*\*significant at 5%, \*\*\*significant at 10%)

bank working hours. Academic qualification too has some significant relationship with the satisfaction variables like cost of the services, efficiency in the transaction completion, the advertising complain of the Islamic banking and the banking hours of the bank.

## CONCLUSION AND SUGGESTIONS

This study is conducted in order to get information

about the IBS customers their usage and awareness of the different products and services of the Islamic banking system and to know about the customer satisfaction level towards the Islamic banking system.

Our study shows that most of the customers of the IBS are highly educated. Secondly the trend of the customer in the sense of age, majority of the customer are in the age of 21 to 40 years and most of the customers are of the middle income level. This result is similar to a study that was conducted

by Saduman Okumus in 2005 on the Turkey customers, which provided the same results.

Our findings suggest that most of the Islamic banking customers have adopted both banking system, as about 67% of the customers have account in other CBS too. This shows that IBS is lacking many of the feature and the requirement that their customer wants.

Our study indicates that the customer's awareness level towards Islamic banking products is good in some of the general products such as current

**Table 8.** Relationship between demographic variables and reasons behind dealing with Islamic banking system

| Variables                | Age            |          | Gender         |          | Religion       |          | Income         |          | Academic qualification |          | Occupation     |          |
|--------------------------|----------------|----------|----------------|----------|----------------|----------|----------------|----------|------------------------|----------|----------------|----------|
|                          | X <sup>2</sup> | Sig.     | X <sup>2</sup> | Sig.     | X <sup>2</sup> | sig      | X <sup>2</sup> | Sig.     | X <sup>2</sup>         | Sig.     | X <sup>2</sup> | Sig.     |
| Religious                | 6.663          | 0.155    | 1.178          | 0.278    | 0.506          | 0.477    | 10.83          | 0.029**  | 7.92                   | 0.095*** | 6.47           | 0.09***  |
| Profitability            | 24.866         | 0.000*   | 0.883          | 0.347    | 1.625          | 0.202    | 17.92          | 0.001*   | 6.847                  | 0.144    | 2.53           | 0.47     |
| Location feasibility     | 12.315         | 0.015**  | 0.527          | 0.468    | 0.310          | 0.578    | 9.086          | 0.059*** | 10.53                  | 0.032**  | 5.15           | 0.161    |
| Services charges         | 3.304          | 0.508    | 3.559          | 0.059*** | 0.531          | 0.466    | 5.464          | 0.243    | 17.18                  | 0.002*   | 19.00          | 0.000*   |
| Transaction efficiency   | 4.644          | 0.326    | 5.914          | 0.091*** | 2.933          | 0.087*** | 17.68          | 0.001*   | 4.25                   | 0.374    | 7.317          | 0.062*** |
| Range of services        | 9.814          | 0.044**  | 2.862          | 0.091*** | 0.001          | 0.974    | 11.98          | 0.017**  | 2.05                   | 0.727    | 0.401          | 0.940    |
| Bank reputation          | 9.245          | 0.055*** | 0.971          | 0.325    | 0.864          | 0.353    | 9.847          | 0.043**  | 13.87                  | 0.008*   | 12.87          | 0.005*   |
| Shari'ah rules obedience | 12.958         | 0.011**  | 0.878          | 0.349    | 1.202          | 0.273    | 27.29          | 0.000*   | 14.19                  | 0.007*   | 9.39           | 0.024**  |
| Investment opportunities | 8.216          | 0.084*** | 1.707          | 0.191    | 0.146          | 0.703    | 12.41          | 0.014**  | 2.734                  | 0.60     | 4.89           | 0.18     |
| Credit card provision    | 12.976         | 0.011**  | 2.704          | 0.100*** | 2.779          | 0.098*** | 25.63          | 0.000*   | 2.66                   | 0.616    | 9.66           | 0.022**  |
| Loan availability        | 4.195          | 0.380    | 0.080          | 0.778    | 0.033          | 0.857    | 13.04          | 0.011**  | 8.52                   | 0.074*** | 3.92           | 0.269    |
| Confidentiality          | 9.462          | 0.051*** | 18.846         | 0.000*   | 0.893          | 0.345    | 7.15           | 0.128    | 7.4                    | 0.115    | 6.61           | 0.086*** |

Significant at; \*1%, \*\*5% and \*\*\*10%.

**Table 9.** Relationship between customer satisfaction and the demographic variable.

|                            | Age            |         | Gender         |          | Religion       |         | Income         |          | Academic qualification |          | occupation     |          |
|----------------------------|----------------|---------|----------------|----------|----------------|---------|----------------|----------|------------------------|----------|----------------|----------|
|                            | X <sup>2</sup> | Sig.    | X <sup>2</sup> | Sig.     | X <sup>2</sup> | Sig.    | X <sup>2</sup> | Sig.     | X <sup>2</sup>         | Sig.     | X <sup>2</sup> | Sig.     |
| Management proficiency     | 4.797          | 0.309   | 6.482          | 0.011**  | 1.094          | 0.296   | 17.575         | 0.001*   | 7.660                  | 0.105    | 7.782          | 0.051*** |
| Bank's personal knowledge  | 17.684         | 0.001*  | 0.705          | 0.401    | 0.436          | 0.509   | 12.751         | 0.013**  | 4.455                  | 0.348    | 2.499          | 0.476    |
| Cost of services           | 3.612          | 0.461   | 1.232          | 0.267    | 0.278          | 0.598   | 30.679         | 0.000*   | 14.731                 | 0.005*   | 13.986         | 0.003*   |
| Efficiency of transactions | 7.088          | 0.131   | 2.673          | 0.102    | 1.409          | 0.235   | 8.471          | 0.076*** | 11.543                 | 0.021**  | 13.501         | 0.004*   |
| Facilities of parking, etc | 12.988         | 0.011** | 3.650          | 0.056*** | 4.920          | 0.027** | 0.578          | 0.965    | 5.161                  | 0.271    | 4.185          | 0.242    |
| Advertising campaign       | 4.643          | 0.326   | 0.017          | 0.897    | 0.078          | 0.781   | 21.795         | 0.000*   | 11.525                 | 0.021**  | 4.883          | 0.181    |
| Working hours              | 7.579          | 0.108   | 4.620          | 0.032**  | 5.260          | 0.022** | 16.977         | 0.002*   | 9.318                  | 0.054*** | 1.278          | 0.734    |
| Financial counseling       | 14.695         | 0.005*  | 1.733          | 0.188    | 0.085          | 0.771   | 5.048          | 0.282    | 5.446                  | 0.244    | 0.965          | 0.810    |

Significant at; \*1%, \*\*5% and \*\*\*10%.

accounts, time deposit account. But most of the customers are unaware of the different Islamic financial products such as Murabaha, Ijara.

Regarding the Islamic banking selection criteria most of the customers have adopted Islamic

banking due to the religious reasons, but there are some other factors that motivate the customers for the adoption of the Islamic banking system such as, bank efficiency in the transaction, their confidentiality to its customers, its working hours

etc.

The results suggest that over all IBS customers are mostly satisfied with the Islamic banking services been provided to them and the banking efficiency in their transactions.



## Suggestions

The study suggests that IBS have to consider some of the factors for their successes in Islamic countries like Pakistan. The study shows that most of the customers are not aware of the different Islamic banking products such as Ijara financing, Murabaha financing. It means that Islamic banking industry have to give consideration to providing awareness to their customers. They have to arrange certain seminars to inform the IBS customers about different products and services. Secondly, most of the customers have adopted both banking system. That is because the IBS do not provide as much efficient products for their customers as the conventional banking system provides to its customers. So they must have to consider on the product provision to its customers, another reason is the network of the Islamic banking system. They have to give more consideration on their network. Because from the study we got that most of the customers are conscious about the branch location. There is high potential in the success of Islamic banking industry if the Islamic banking industry extends their network with customer demanded product.

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## APPENDIX

Table 1. Islamic terminologies.

| Islamic terminology | Explanation   |
|---------------------|---|
| Shari'ah            | "The path." The term for Islamic Law.   |
| Hadith              | An account any saying by or action attributed to the Prophet Mohammad (P.B.U.H)   |
| Sunna,              | The example of the Prophet Muhammad as contained in his <i>hadiths</i> , or sayings, including his actions and silent approval of actions done in his presence.   |
| Ijtihad             | Using independent thought to create a new Islamic legal opinion for an issue that has no clear answer in the two main sources of Islam.   |
| Islam               | "Surrendering to Allah (God) and attaining peace." The Arabic name for the religion taught by Muhammad.   |
| Muslim              | "A person who is surrendering to God and finding peace." A follower of the religion of Islam.   |
| Qur'an              | "The Reading or Recital." It is the name of the Islamic Holy Book. Muslims believe it is the direct word of God, delivered to Muhammad by an angel in small portions from the years 610 to 623 C.E. Also spelled <i>Koran</i> .   |
| Musharakah :        | An Islamic financing technique whereby all the partners share in equity as well as management. The profits can be distributed among them in accordance with agreed ratios. However, losses must be shared according to the share in equity.   |
| Mudarabah :         | An agreement between two or more persons whereby one or more of them provide finance, while the others provide entrepreneurship and management to carry on any business venture whether trade, industry or service, with the objective of earning profits. The profit is shared by them in an agreed proportion. The loss is borne only by the financiers in proportion to their share in total capital. The entrepreneur's loss lies in not getting any reward for his/her services. |
| Ijma                | " <i>Ijma</i> is the unanimity of all <i>Fuqaha Mujtahiddeen</i> of one era on a single <i>Shariah</i> ruling.  |
| Qiyas               | The analogy of qiyas involved defining laws from a known injunction to a new injunction   |