



## Customer Satisfaction and Islamic Banking in Pakistan

### Abstract

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**Purpose-**The purpose of this research study is to focus on the customer satisfaction towards Islamic banking in Pakistan based on the different factors including service quality, product quality offered by Islamic banks, customer care level of Islamic banks, financial benefits given to its customers, competition with conventional banks, religion and market reputation. **Methodology-** This study will help to understand the level of satisfaction of customers regarding Islamic Banks. In this study data was collected with the help of structured questionnaire having sample size 120 from different cities of Pakistan. Different tests like T-test and Correlation were applied to check the effects of different factors or variables mentioned above, on the customer satisfaction regarding Islamic banking system in Pakistan. **Findings-** From the statistical analysis by applying different tests, it is concluded that there is a positive relationship between factors and customer satisfaction in Islamic banking in Pakistan, although there is less awareness towards Islamic products but overall reputation of this sector is vested on its interest free factor which is prohibited in Islam. Moreover the trend of Islamic mode of banking is grooming due to the Islamic republic in Pakistan. **Limitations-** Limitation of this study is that data is collected from fewer numbers of respondents due to the diversification of population for banking services. People are more inclined towards conventional banking, although these banks are providing Islamic banking services under separate windows but still less awareness about Islamic banking is the main problem of users. **Originality-** This research study provides Islamic bankers with the idea of increasing their reputation by conducting different awareness campaigns towards Islamic banking and to bring diversification to be more innovative regarding their services in competition to conventional banks.

### Introduction

Banking system, is a system of having a pool of money in safe vaults introduced in Jews period who were large bankers doing financial practices in the open market places. A part of capitalist economies gained momentum in the past few decades. With the injunction of Islamic banking system in the recent past period the current conventional banking system is under great ups and downs.

The purpose here is to study the customer satisfaction towards Islamic banks in Pakistan. The concept of Islamic banking is not new it is backed by when first Islamic banks were introduced in Malaysia during the period of 1970s to 1990s following the principles of SHARIAH which is given by Islam (Henry and Wilson, 2004; Iqbal and Mirakhor, 2007; Dusuki and Abdullah, 2007) to carry out their

businesses. Any kind of giving and taking interest is strictly prohibited in Islam which is normally called Riba.

Today Islamic banks are progressing at double rate (15-20% per annum) their business is based on sharing profit and losses on equal values and risk is not associated with any single party although they are providing the services like current accounts issue of credit cards and providing opportunities for investment like mudaraba and musharika, etc. but they are free from interest (Naser, 1999).

Pollard and Samers in 2007 have mentioned that different parts of the world like North America and in Europe, in order to attract the Muslims community different Islamic financial institutions and banks have initiated their working having a ratio of 25% and they are gaining reputation in Non-Muslims communities

like in Hindus and Chinese in Malaysia.

Furthermore, many countries have seen the success of the injunctions of Islamic banking culture such as, Tunisia that showed supportiveness to its economy and the financial sector, (Darrat, 1988).

Moreover, Pakistan an under-developed country having a muslim population of 86%, is now progressing in its banking industry with the injunctions of Islamic banking culture. During the period of 1950 to 1970, downfall was there in this sector of economy while after the nationalization process, the progress was insufficient for economic growth of the country and privatization resulted a turbulent downsizing in this industry. Now after period of 1992 with the introduction of first Islamic Bank named Meezan Islamic bank the progress in this sector has been seen and still the competition is being seen from the conventional banking sectors but the potential to grow in Islamic banking system is greater in Pakistan (Khan, 1986).

According to the report, majority of the population in Pakistan is Muslim and there is a large potential for growth for Islamic banks to meet customer satisfaction and increase the market reputation. They provide state of art services and they should have innovation regarding their products and services keep in view of SHARIAH principles and they have to meet the competition from conventional banks that also started providing the Islamic banking services under their separate windows.

Finally, purpose of the study is to explore how Islamic banks can satisfy their customers, retain their clientage and attract new potential customer by offering diverse and innovative products and services and let people become aware of Islamic banking system in Pakistan.

### Literature Review

21st century has bring many opportunities as well as many threats for the sector of banking because of the inception of practices of Islamic banking in many countries of the world like Pakistan, Bahrain, Malaysia and in Bangladesh and around all the non-Muslim part of the world.

Before 1970, Islamic banking was almost unknown, in early years of twenty first century Islamic banking has become a reality that cannot

be ignored and by the end of 2004 the size of Islamic banking industry reached to a billion. The total value of shari'ah compliant accounts worldwide are almost us dollar 500 billion and is growing at an average rate of 10-15%.

Islamic banks are trying to make as many customer as possible in order to compete with the interest base conventional banks therefore they are producing the wide range of the products as they are the best substitute against the products which the conventional banks provide.

In Pakistan, Islamic banks providing many services and product so as to compete with the conventional banks and to attract the future customer and potential customer (Persurman, 1985).

By using the SERVQUAL model and observing the quality of service, they have found ten feature of service of quality and sum up them into redefined five dimensions.

One of the important factors of the strategies of the organizations is satisfaction of the customers, because customers are source of revenue for any industry regarding the satisfaction of the customers. Bankers are paying attention regarding satisfaction of the customers from last one and half decade because of competitive market (Khattak and Rehman, 2010).

It was noted that customer satisfaction enhanced as the result of service quality and professional behavior and it become a cause to decrease in the erosion of customer (Leeds, 1992).

As the awareness level of the customer of the banks is enhanced, the contract between the quality of the services and satisfaction of the customer has become crucial (Chander, 2002).

It is reported that the quality of service is a key factor of customer satisfaction (Yavas, 1997).

There exist 6 banks performing full fledge Islamic banking and almost 13 conventional banks has started their Islamic windows operations (SBP, 2006).

It is found that satisfaction means meeting the expectation of the customer regarding services and products (Oliver, 1980).

If the performance, which is perceived with the

expectation of the customer regarding services they will satisfied (Oliver, 1997).

Generally satisfaction is conceptualized into two basic concepts

- Transaction specific.
- Cumulative satisfaction. (Nguyen and Leblanc, 1998)

Evaluation of the customer from their reaction and experience regarding a specific encounter with the service is known as 'transaction specific satisfaction' (Bolton and Drew, 1991; Boshoff and Grey, 2004; Boulding, Kalra, Staelin & Zeithaml, 1993, Cronin and Taylor, 1992, 1994).

Commutative satisfaction is overall evaluations of customers regarding experience of consumption to date (Fornell, 1992).

Current market place has made the consumer more demanding towards all products and service because of this increasing demand customer expectation are continuously increasing (Parasuraman, 1998).

Service quality is one of the best tactics to increase the customer loyalty (Wong and Shoal, 2003).

In different organization especially Islamic banks, Islamic banking has making progress since last 40 years. Muslims and non-Muslims both are showing interest in Islamic banking (Iqbal and Molyneux, 2005).

Researchers link customer satisfaction and accounting based measures of financial performance (Bolton, 1998; Rust, Zahoric, Keiningam, 1994, 1995), return on investment (Anderson, Lehmann and Forneel, 1994; Rust, Anderson and Forneel, 1997; Zeithaml, 2000). Previous study shows the relationship between customer satisfaction and share holders wealth (Ittner and Larcker, 1996).

There is a direct relationship between customer satisfaction and customer retention which has been researched and proved by a growing body of empirical work (Enderson and Slevin, 1993; Bearden and Teel 1983; Boltan 1998; Boltan and Drew, 1991; Boulding, 1993; Mittal and Kamakura, 2001; Oliver, 1980; Oliver and Swan, 1989 and Yil, 1991).

## Problem Statement

The study examines the different dimensions of customer satisfaction with respect to the Islamic banking practices in Pakistan.

## Research Questions

RQ1: What is the impact of religion regarding selection of banking sector?

RQ2: How the service quality affects the customer satisfaction in Islamic banking?

RQ3: Is there any impact of product quality on the choice of Islamic banking service?

RQ4: What is the major difference between the Islamic banking and conventional banking system?

RQ5: Whether the Islamic banks are more conscious about their customer care?

RQ6: What are the major financial benefits which are in line as compared to the conventional banks?

RQ7: Whether reputation is the major part of selecting the banking services?

## Theoretical Framework

7 different variables and 8 demographic variables were used for the research study that such as religion of the respondent, service quality, product quality, comparison between Islamic and non-Islamic banking system, customer care, financial benefits and then bank reputation. These 7 variables were considered to be the dimensions of customer satisfaction.

## Methodology

A structure questionnaire was constructed to collect the necessary data from various respondents to answer the research questions that are being framed to check the relationship among various variables of our study.

There were two sections of the survey questionnaire:

1. Demographic factors

## 2. Questions related to customer satisfaction

### Respondent's Demographic Profile:

As the demographic factors consist of questions relating to the personal information, so the first part of the questionnaire comprised of the respondent's age, gender, salary etc. Furthermore, the second part included those questions that clearly support the relationship among various variables. Non-probability random sampling was adopted to collect the responses of various respondents having sample size of 120. This size is relatively small but deemed to be good according to various researchers. The reason for choosing such a design was due to the inclusion of only Muslim customers only. It is also important to discuss that the data was collected from those persons who have their accounts in both conventional and Islamic banks.

All the questionnaires were collected from respondents and then screened for errors such as missing responses to purities our results of research study. SPSS version 16 was used to extract results. The sample consisted of adult males and females having good education. According to the sample 90% respondents were male and 10% were female. Age group of (18-24 years) was 23.3% of the total samples, 56.7% were between (25-34) years, and 20% respondents were above 35 year. Age group of 25-34 years was dominant age group according to the descriptive results in terms of the age distribution as shown in demographic profile. Descriptive results showed that 56.7% of the respondents were married and 43.3% were single. Most of the respondents were private employees as they consisted of 60% of the sample size, students, government employees and businessmen were 14.2%, 2.5% and 10% respectively. 13.3% respondents had activity other than the activities stated above. 62.5% respondents have post graduate degree, 9.2% have complete their matriculation, 24.2% respondents had an education under graduate, only 0.8% of respondents were diploma holders, 3.3% respondents had educational degree other than the degrees stated above. Religion of 100% respondents was Islam as the population consists of Muslims only. 41.5% of the respondents had salary ranging between Rs.15001-30000, 17.9%

had a salary bracket of Rs. 30001-45000, 26.4% of the population of the sample had salary below Rs.15000 and 14.2% of the sample had salary above Rs. 45000. 66.7% of the respondents had their account in Islamic banks only and 31.7% had account in both Islamic and conventional banks.

Seven major dimensions were used to measure customer satisfaction. The independent sample t-test was conducted to measure the customer satisfaction between males and females regarding Islamic banking. The results of data show that there is no significant difference in the opinion of males and females in five categories among seven regarding Islamic banking satisfaction, these five categories are "religion of the respondents", "service quality of the bank", "product quality of the bank", "customer care of the bank", "bank reputation" two categories there is a significant difference in the opinion of the males and females regarding customer satisfaction in Islamic banking, these two categories are comparison between the Islamic and conventional banking and financial benefits provided by the Islamic banks.

### Limitations:

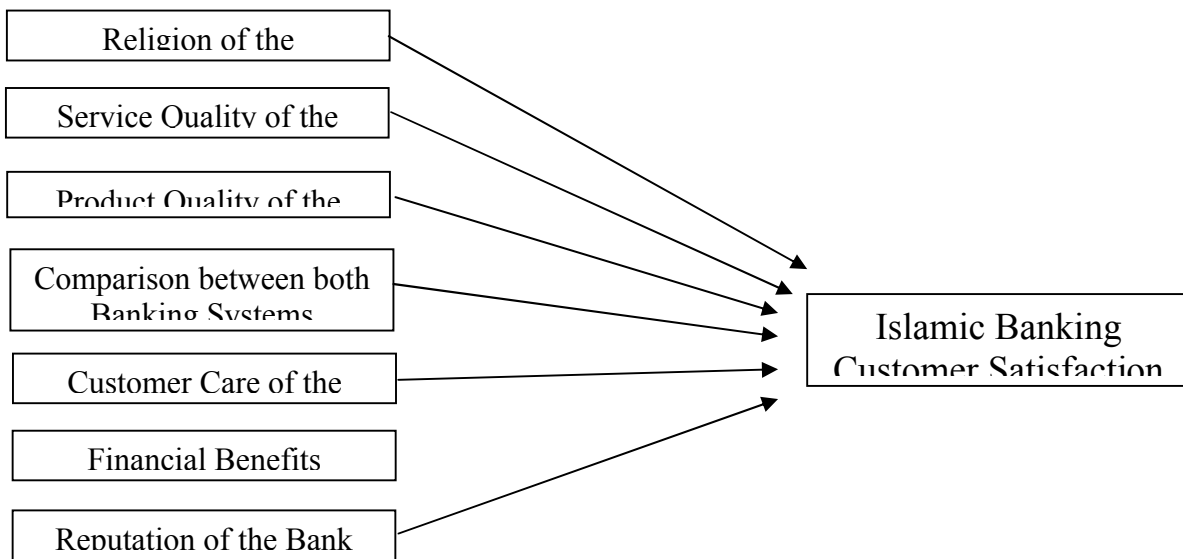
The limitations of the current research study are that the responses of non-Muslims were not considered. Furthermore to scarce resources, the research was restricted to some cities of Pakistan. Besides this, researchers tried to get responses only from those respondents who have some knowledge about Islamic banking and its products.

### Conclusion:

It can be concluded that there exists a positive relationship between customer satisfaction and Islamic banking in Pakistan. To measure this relationship, SPSS 16 was used. Moreover, 21 items were accumulated into 7 variables that include religion of the respondent, service as well as product quality, customer care of the bank, financial benefits on the investor's investment and the market reputation of the bank in the industry. 7 demographic factors were also examined. At the end, we found that there is a highly significant positive relationship among the variables identifying customer satisfaction in relation to Islamic banking in Pakistan. The results show that most of the customers of Islamic banking are male and our sample consists of 90% males and just 10% females. In

our sample, most of our respondents have aged 25-34 which shows that young adult have more attraction towards Islamic banking, having their married life and doing private jobs having their salaries up to 30,000 to 45,000 in various organizations. Most of them have post graduate degree which shows that literate persons are more interested to join the Islamic banking system. It is also observe that there is no significant difference exists in the opinion of males and females regarding the perception of customer satisfaction in Islamic banking.

**Dimensions of Customer Satisfaction**



*Descriptive Statistics*

<b>Description</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative (%)</b>
<b>Gender</b>			
Male	108	90	100
Female	12	10	10
<b>Age</b>			
18-24	28	23.3	23.3
25-34	68	56.7	80.0
Above35	24	20.0	100.0
<b>Marital Status</b>			
Married	68	56.7	100
Single	52	43.3	43.3
<b>Activity</b>			
Student	17	14.2	14.2
Govt. Employee	3	2.5	16.7
Pvt. Employee	72	60.0	76.7
Businessman	13	10.0	86.7
Others	16	13.3	100.0
<b>Education</b>			
Higher Secondary	11	9.2	9.2
Diploma	1	0.8	10.0
Under Graduate	29	24.2	34.2
Post Graduate	75	62.5	96.7
Others	4	3.3	100.0
<b>Religion</b>			
Muslims	120	100.0	100.0
<b>Income levels</b>			
Below 15000	28	23.3	26.4
15001-30000	44	36.7	67.9
30001-45000	19	15.8	85.8
Above 45000	15	12.5	100.0
<b>Accounts Info.</b>			
Only in Conventional	2	1.7	1.7
Only in Islamic	80	66.7	68.3
Both	38	31.7	100.0

## Independent Sample 't' test

Dimensions	Male		Female		t	Sig.
	Mean	SD	Mean	SD		
Religion of the Respondent	1.98	.410	2.0	.426	0.148	.893
Service Quality of the Bank	1.42	.532	1.50	.522	0.516	.975
Product Quality of the Bank	1.64	.571	1.83	.577	1.118	.170
Customer Care of Bank	1.65	.616	1.50	.522	-8.01	.504
Comparison between banking systems	1.43	.599	1.17	.389	-1.462	.002*
Financial Benefits	2.58	1.051	2.50	.522	-2.270	.024*
Bank Reputation	1.61	.841	1.58	.669	-1.110	.635
Customer Satisfaction	2.44	.687	2.42	.515	-0.090	.220

\*Significant at .05 level

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