

**Islamic and Conventional Banking:
Analysis of Patronage Behaviour and
Perceptions of Pakistani Customers**

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Abstract

A fresh wave emerged in the Islamic Banking and Financial industry of Pakistan since the year 2003 when the private sector took the pioneering initiative. At present, six full-fledged and twelve conventional banks are offering Islamic banking services through 367 branches, having 4.3 percent assets share of the whole banking and financial industry. Present study makes a comparative analysis of the behaviors of 600 customers of both Islamic and conventional banks. Key findings of the study shows: (1) Islamic banks are popular in relatively young, well educated and affluent class of the society. On the other hand, conventional banks are popular in relatively old, government employees and low income groups of the society, (2) Although, "religious principle" is the key element for bank selection strategy for many customers, however the performance of Islamic banks is also outstanding which attracts new Religio-liberal depositors too, (3) Majority of conventional banking customer use these banks for banking services, facilities or utility purposes, while Islamic banking customers use these banks mainly for investment and financing purposes, (4) Still many Islamic banking customers are

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not well aware about basic Islamic banking concepts; there is immense need for launching the 'Islamic Banking Awareness Programmes' for these customers. And finally, (5) Islamic banking customers were found at a higher satisfaction level as compared to conventional banks.

1. Introduction

Shari'ah compliant banking products and services have captured a noteworthy share in the present global financial market. Starting with Dubai Islamic Bank in 1975, according to recent reports there are more than 400 Islamic banking and financial Institutions operating in more than 75 countries at present. These institutions hold an estimated asset worth of more than One Trillion US dollars, and these assets are growing at estimated rate of 10-15% per annum. The principal motive behind this achievement may be attributed to the restoration of fundamental Islamic values in all over the world during the past four decades. Islamic banking and financial institutions, by their performance have proved that these institutions are better alternative to conventional banks. Islamic banks are fairly stable, profitable and well capitalized. Furthermore, Islamic banking and financial institutions are not restricted to Islamic countries or Muslim only, these institutions are operating in Muslim and non-Muslim countries and for Muslim and non-Muslim clients. Dubai, Kuala Lumpur, New York, London and Singapore are emerging hubs for Islamic banking and financial institutions.

Islamic banking is showing impressive growth both in the terms of banking numbers and business volumes in Pakistan. At present, there are 6 full-fledged Islamic and 12 conventional banks providing

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Islamic banking facilities in Pakistan. Islamic banking branch network has been spread to the small cities and suburban areas of the country. Islamic banks have total worth of Pak Rupees 235 billion rupees as their assets that is almost 4.5 percent share of overall banking industry. The creditable growth rate of assets and deposits is more than 60 percent per annum. These assets rose more than 18 times, from Pak Rupees 13 billion in 2003 to Pak rupees 235 billion in 2008. Total deposits rose more than 21 times, i.e., from 8 billion rupees in 2003 to 169 billion in 2008 and the growth in Finance & Investments was more than 16.6 times. State Bank of Pakistan estimates that by the year 2012, the assets share of Islamic Banking in the total banking sector of Pakistan will reach 12 percent [SBP, 2008: 153]. Islamic banks are providing all financial and investments services those are prevailing in conventional banking.

In comparison to other Islamic countries, i.e., Bahrain, Malaysia and Indonesia, Islamic banking in Pakistan showed an outstanding development in a short span of 6 years; it grasp 4.3% asset share of total banking and finance sector within a short time period of 6 years. While, Bahrain achieved 8.0 percent share of its banking industry in 30 years, Malaysia and Indonesia 13.0 percent over 25 years and 1.7 percent in 10 years respectively [SBP. 2008:153-167].

The significance of account holders' patronage, as one of the strongest elements behind the development and progress of Islamic banks, cannot be underestimated. Customers' continuous support is prelude for ensuring the success of this banking sector.

This paper, attempts to examine the attitude, perceptions and knowledge of account holders of Pakistan in a comparative manner, and attempts to find out the impediments in the current practices of

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Islamic banking from customers perspective, and will attempt to develop, according to the perceptions of customers, policy implications and suggestions for the further development of Islamic banking in Pakistan.

The objectives, realized through a self administered questionnaire, were as followings:

- How different the demographic profile of Islamic and conventional bank clients is, and what are the banking selection criterion in Islamic and conventional banking clients.
- For knowing the socio-religious contexts or factors that motivate or influence the customers to open an account (a fresh account or transfer their running account from conventional bank to) in Islamic bank and why does a conventional bank client prefer Islamic banks for their financial dealings?
- How conventional banking clients will response, if Islamic banking services provided near to their location? Are Islamic banks, in Pakistan, performing better than to conventional banks?
- For analyzing the awareness and about Islamic banking concepts, and to assess its influence for banks selection criterion of the clients. Furthermore, do customers agree about the conformity of Islamic banks *Shari'a* compliances?
- To assess the customers' satisfaction level with bank dealings in both type of banks.

Since this study is exploratory in nature a sample survey of customer in both kinds of banks was considered the most appropriate method for data collection. Direct approach to the bank clients, for interviewing and asking their views and comments was considered as

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a best medium for studying customers' behavior. Two different kinds of questionnaires (one for Islamic banking customers and the other for conventional banking) were designed to for comparative analysis. Both, account holders and non accountholders, clients were asked to fill the questionnaire from five major cities of the country. Banking customers were selected randomly and the replies were obtained from four major cities of Pakistan; Karachi, Lahore, Islamabad, and Gujranwala.*

Besides the significant uniqueness, there were following limitations in this study:

1. Even though, more than six hundred clients were interviewed, this would mean that the data is providing only a small approximation of the entire banking clients of the country. We obtained 300 responses from each kind of banking system, i.e., small sample size for such study.
2. Some respondents, who, in our observations, had no or little knowledge about the banking concepts and financial dealings, also answered the questions; hence the replies of some questions may be based on their own expectations and judgments and may not reflect the actual picture about the banking practices.
3. Some Islamic banking customers had financial dealings in conventional banks and some conventional banking clients had financial dealings with Islamic banks branches, so they showed a mixed attitude towards both banking systems.
4. Finally this exploratory study is only a medium of knowledge and serves as an indicator about the bank clients' behaviour. Therefore,

* The original data was collected in year 2005-6, as part of Ph.D. research of the author, and was applied in his Ph.D. Dissertation.

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the results should be taken only as indicative and perceptive rather than conclusive purposes. It is hoped that further studies will be done to draw more definitive realities.

2. Literature Review

A number of empirical studies unveil the Islamic banking aspects from different dimensions and views. From operational aspects, Iqbal and Molyneux [2005] examined the operational performance of Islamic banks from 1970s to date, in general. They revealed that Islamic banks are fairly stable, profitable and well capitalized. Alam [2000] did a case study on Islamic bank Bangladesh, which brought into consideration that the bank successively proceed in both sides of balance sheet and is popular in all segments of the society. In Malaysian experience of Islamic banking, Abdus Samad and Kabir Hassan [1999] examined the performance of Malaysian Islamic bank according to the terms of profitability, liquidity, insolvency and economic participation paradigms. The study results that Islamic banks perform equal economic functions as compared to conventional banks.

Lodhi and Kalim [2005] conducted an interview based study on Islamic banking in Pakistan: a strategic management approach to explore the practical rout for developing Islamic Banking in Pakistan. The study suggests that there is need for “knowledge sharing” on Islamic banking concepts and there is a need of “research and development” for developing Islamic banking products and services.

Norafifah Ahmed and Sudin Haron [2002], while examining the perceptions of Corporate Customers towards Islamic Banking products and services in Malaysia, found that Malaysian corporate sector believed that Islamic banking system had a good potential as

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an alternative to conventional system. And Islamic banking products and service have not done enough in educating customers and marketing their products. Finally, corporate customers consider cost of services as the most important factor for selecting a bank.

For 'Bank Selection' criterion for UK in Muslim banking clients, Omer [1992], and for three Arab countries (i.e., Kuwait, Saudi Arabia and Egypt) Metwally [1996] found that religion is the principle motivation for dealing in Islamic financial institutions. Metwally also found that many Islamic banking clients considers that Islamic banks did not significantly differ from conventional banks in the term of products, services and costs. While, Erol and El-Bdour [1989] found that fast and efficient services, bank reputation and goodwill are more important factors than religion for selecting banking institution in Jordanian customers. Kaynak and Whiteley [1999] for Australian banking clients, reveal that convenient access is one of the primary motivations for customers to prefer the bank. Some studies (see, for further facts, Almosawi [2001], Kenninton *et al.* [1996] observe that environment, location, banking services and quality, staff behaviour, interaction and dealings are important criterion for bank selection.

Regarding the level of understanding, awareness and knowledge of Islamic financial principles, Omer [2002] found that many UK Muslim bank clients do not have adequate knowledge about *Shari'ah*-compliant financial products and services.

There are many studies examining the customers' satisfaction and contentment with banks from different aspects. For instance, Ahmad and Naser [2002] found that there is strong relationship between the core and relational dimension of services quality and satisfaction in case with Abu Dhabi Commercial Bank in UAE. Luiz

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and Smith [2000] examined that customer attitude towards human and automated banking have a mediating effect on relationship between the need for easier and fast banking services and perceived satisfaction.

What was missing in above studies is a comparative analytical study of the behaviour of Islamic and conventional bank clients in an atmosphere where both Islamic and conventional banking are working. Pakistan, also recognized as pioneer country in Islamic banking theory and practices, has dual banking systems; hence examining the behaviour of Pakistani bank customer became imperative and will fulfill the above need.

We applied two self-administered questionnaires for obtaining the perceptions of 600 hundred bank clients from both categories of banks. We developed tabulated diagrams, distributed in different sections, and applied statistical formulae, for examining the different aspects one by one. Each table is divided into two major parts, i.e., left and right. The left side of the table shows the response of Islamic banking customers and right side shows the responses of conventional banking customers. The objected issue is given in numeric order then 1st and 2nd columns represent the number of replies and its percentage respectively. On right side of each table, the replies of the conventional banking customers are tabulated. We applied explanatory approach for examining the issues throughout the study; however, statistical techniques for examining the issues in details are also applied. We used Regression formulae (*linear probability*) model for examining the outcomes in details.

3. Analysis of the Responses

1. Demographic Summary

Demographic profile is an important tool for learning the customers' profile and the features of geography where the study is being conducted. Five demographic profile descriptors used in the study were: Age, Gender, Education, Income and Profession, because all these intercepts are essential traits for a good demographic configuration. The demographic findings are presented in table 3 in the appendix. The outcomes show very interesting and distinct features about the customers' profile. Our findings in this study are similar to the Saad, A. & Almosawi [1998], that Islamic banking customers are relatively young and well educated. In details our finding are as followings:

- The "Age" description shows that as compared to conventional banks, Islamic banking customers were relatively young, more than 75 percent of Islamic banking customers were less than 50 years of age while in conventional banking the ratio was 45 percent. The justification behind this attribute might be credited to the short history of Islamic banking which started in 2003 and had only 25 branches till 31 December 2004. (The lowest class in age factor is 18; it is because less than 18 year old cannot have his independent bank account).
- The "Gender" description of both banks realized an appalling scene of banking sector in Pakistan; male customers were holding the dominant share in both banks. This outcome, probably, shows that both kind of banking systems not yet recognized the significance of women's economic power in the society and fail to recognize their vital role for the development of banking and financial institutions.

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There is urgent need to develop accurate strategies to attract female customer in the banking industry.

- The “Education” intercepts shows that Islamic banks are more popular in relatively highly educated peoples, the sum of intermediate (college) and university graduate respondents was almost 95 percent, while in conventional banks this proportion was 64.3 percent only. This intercept is also co-linked with “age” and “profession” intercepts, which indicates that majority of the conventional banks’ customers are relatively old aged (more than 50 years), government employees (including retired persons), receiving salaries and pensions from conventional banks from these ex-government owned banks).
- The “Profession” description shows that conventional banks provide services and facilities at larger scale as compared to Islamic banks. Students and government employees mainly use conventional banks. This outcome shows an unenthusiastic social attitude of Islamic banks in this factor. The rationale behind this result may be attributed to the short history, as mentioned earlier too, that Islamic banks are relatively new established and are in evolutionary process in Pakistan.
- The “Income” intercepts shows that Islamic banks are more attractive for relatively high income, affluent, class of the society. More than 50% of the clients had monthly income more than PRS 15000, being considered as a relatively prosper class of the society. While, in conventional banks this proportion was only 2.67%. This upshot shows that Islamic banks, as compared to conventional banks, are not popular in all classes of the society. This result indicate that Islamic banks should focus lower and middle income group of the society as their target, because it is an social responsibility of the

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Islamic bank to provide its services to relatively poor peoples in preference.

2. Nature of Bank-Client Relationship

Bank-Customer relationship is formed on the demographic profile of the customers and type and variety of banking services. A prudent bank management should offer bank service according to the environment and the demographic profile of the customers. In a society, where a specific race or community (for instance, Muslims) is living, the bank services should be in accordance to the needs and demand of the customers, i.e. *Shari'ah* compliant. We selected three intercepts for examining the bank-customer relationship such as (i) Nature or purpose of transaction with bank, (ii) Having account with bank or not, and (iii) Type of Account (in term of period). Table 4, explores the result of these intercepts.

Statistical Analysis of the study shows that age, education and income has significant affect on the replies. Relatively young, highly educated and higher monthly income clients have larger share of account holdings in Islamic bank.

- The "Nature or Purpose" of transaction intercept shows a closer allocation of clients' replies i. e, 63.7 percent of Islamic banking customers use Islamic banks for investment purpose, while only 12.6 percent utilize Islamic banks for borrowing purpose. Furthermore, 23.6 percent of Islamic banking clients use Islamic banks for services (utility bill paying, bills collection, pension receiving). On the other hand, in conventional banks these proportions are 59.3, 14.3, and 26.4 percents respectively. These outcomes show that for Islamic bank have upper hand in investments while conventional banks are in borrowings. For services conventional banks are in better position.

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Such reason can be explained by two inter-related facts. First, till 1990s all conventional banks were government owned and government as well as corporate transactions were being done with these banks and still present many retired pensioners are getting their beneficiaries through these banks. Second, conventional bank have wide branch-network, both domestic and abroad, and clients' recognition with these banks since very long.

- "Having Account" intercepts shows that 96.3 percent of Islamic banking customers are regular clients (have accounts) of the bank, while in conventional banks this proportion is 77.7percent. The outcomes show that Islamic banks have exposed superior development in attracting new customers (clients) and have grasped a significant share of the customer in banking market of Pakistan. On the other hand, conventional banks still have a larger proportion in service sector; they are providing services to their non-clients. This outcome also show that there is a room for Islamic banks to attract more customers by extending their services to a wider population and to develop variety of services, which in results will not only increase the profit of the banks but also will increase the number of clients in future.
- "Having Account and its Period of length" attributes shows a mix trend in the term of period. Both banking clients showed a risk avert attitude in long term transactions criterion. Clients preferred short or medium term transactions or accounts.

3. Awareness and Knowledge about Banking Concept

Knowing banking customers' awareness and knowledge, about the services and products they are using, is an important undertaking in a banking industry. For knowing the awareness of our

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respondents we asked 5 inter-linked questions. Table 5, shows the proportion of respondents that are aware and have knowledge about the different concepts of banking. We examined that customers' own education level, both traditional and non-traditional is also a strong predictor of awareness. Again in statistical analysis it was observed that intercepts of "Age", "Education" and "Income" have relatively significant affect on the replies while, the intercept "Profession" has relatively insignificant affect on the replies. Our finding here were similar to those of Kalim & Lodhi [2006] and Abdul Hamid & Nordin N. [2001], that Islamic banking clients are well aware about Islamic banking concepts and there is need of educating Islamic banking concepts at a wider level. In detail the outcomes were as following:

- Although, customers in both banking systems were aware of the Islamic banking term, the positive numbers were obviously high (96 percent) in Islamic banking respondents as compared to conventional banking (i.e., 87.7 percent). There were 11 respondents who, although having transactions with Islamic banks, were not aware with the Islamic banking concepts. This result states that Islamic banking concepts are still not yet explained to all customers. These results are mostly similar to findings of Naser *et al.* [1999] and partially similar to Omer [1992]. Furthermore, in conventional banking too many aware about the term Islamic banking and presence of Islamic banking in Pakistan.
- Surprisingly, on the legitimacy criterion of Islamic banks many customers were not agreeing about the confirmation of Islamic banks with *Shari'a* compliance. 14 percent of the Islamic banking customers were replied 'No' or 'Do not Know' on the question that *Do you agree that Islamic banks operate according to Shari'a compliance?* These findings are similar to the Abdul Hamid and Nordin [2001], they

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found in a study that in Malaysia majority of the Islamic banking customer cannot differentiate between Islamic and conventional banking products.

- While, on asking the knowledge about the term *Riba*, 9 customers (or 3 percent of total) of Islamic banking clients were not well aware. While this number was 26 in conventional banks.
- All of our respondents, who had investment accounts in both banking system (as shown in question 12), replied that they are receiving incomes on their investment account. On asking the 'nature of the receiving', 95.8% of Islamic banking investment account holders and 29.2 percent of conventional banking investment account holders consider this amount as profit. 70.8 percent of conventional banking investment account holders and 4.18 percent of Islamic banking account holders consider this amount as *Riba*, which might point out some objections on the *Shari'a* legitimacy criterion of Islamic banking.

The above results show that there is urgent need for developing the "awareness and knowledge" on the Islamic banking concepts in general public and in Islamic banking customers particularly.

4. Patronage: Loyalty and Constancy with Bank

In present changing world, a specific mission oriented bank, e.g. Islamic bank, cannot rely on religious factors and a conventional bank cannot be protected by the government through market mechanism. The continuous support of the client cannot be underestimated, because these are the clients who play the key role for the success or failure of any service providing firm or institution. Thus the customer satisfaction is an important issue for consumer behaviour analysis.

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It is envisaged that the rate of interest on deposits does not matter to a majority of Muslim bank clients. They desire a legitimate or permissible return on their investments no matter this return is low or high as compared to conventional bank's interest rate or inflation [Radiah A. 1993 and Hassan, M. 2007]. Pakistan had dual banking system where conventional banks are working in besides the Islamic banks; this is because the country was under the colonial rule for more than one century. Another important noteworthy point in this regards that many Muslims have their savings in conventional banks, which is because of the absence of Islamic banks for several years and partially because of the lack of knowledge that bank interest falls within the definition of *Riba*. In broader term, the Muslim population (market) can be divided into three segments: (i) the strict or pious Muslims who totally avoid the interest-based or conventional banks majority of these peoples are plying the key role for the success of Islamic banks, (ii) the less devoted or less strict Muslims who hold account both in Islamic and conventional banks; and (iii) the least strict Muslims who have accounts only at conventional banks no matter the Islamic bank is available in their surroundings.

We asked 7 questions (question no. 14-20, in table 6) to examine the customers' satisfaction and to evaluate the loyalty with their bank.

Statistical analysis shows that Islamic banking customers have relatively supportive mindset and have higher level of satisfactions as compared to conventional banks. Furthermore, Islamic banking customers have showed a risk-taking attitude in distinction to conventional banks.

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- On asking... *Would you continue dealing with this bank even, in case the bank does not distribute any profit for 3 consecutive years?* The investment account holders in Islamic bank showed relatively faithful and devoted response, 88.5% or 169 out of 178 replied in 'Yes' for this estimation, while in conventional banking the response was 52.2 percent.
- In next question we asked...*Is you have an opportunity to open an account with Islamic bank, would you transfer your account to Islamic bank?* More than 70% of conventional banking clients showed positive reply.
- And almost 60 percent of them said 'Banking free of *Riba*' would be the probable reason for this transfer.
- This result shows that majority of Islamic banking investors are of risk taker. The reason behind this consent may be the philosophy of Islamic investment that the investor must participate in risk and loss. On the other hand there were significant respondents who are not willing to continue investments with Islamic bank in the case of risk or they are of risk avert group of investors.
- The segment of results of above question shows that Islamic banks have relatively lower bank/services charges. This lower bank charges may gave these banks an advantage over their counterpart banks, but the numbers of peoples using this bank for services are very limited.
- This question also shows demonstrative connection of clients with Islamic banks. Even in the case of higher bank charges peoples are willing to continue their dealings with Islamic bank.
- There was high percentage of respondents who said they are satisfied with Islamic bank during their bank transactions as compared to conventional banks. 43.7 percent of Islamic banking customers were

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of the view that they were satisfied with Islamic banking performance as compare to 35.3 percent of conventional banking clients. The element behind this attitude might be because of religious background, as reflected from previous questions. of the Islamic banking, and better performance of Islamic bank. This distinct operational strategy provides an advantage to the Islamic bank over the conventional bank.

5. Banking Client communiqué and Bank Performance

Information and communication plays vital role for the popularity and recognition of all kind of business, banks need a better communiqué for maintaining a sound banks-client relationship. Because, banks clients have no direct access to check the performance of banking business except annual banking and financial publications and audit reports, periodical notices and details of clients' account maintenance and bank's performance announcements, brochures and pamphlets helps to keep the client properly informed and to maintain the bank confidence on the client.

Wilson (1995) stresses that Islamic banking is no longer a business entity serving religious obligations, the customers of Islamic banking rather include a wide array of people cutting across various religions. In our contemporary world Islamic banks have to compete with conventional ones, even the competition between Islamic banks is increasing, on different basis. Islamic banks have to render better services on compatible, relatively low, charges and have to disburse higher profit as compared to other banks. We asked following two questions to evaluate these issues.

Whether this bank inform you properly about your transactions or

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not? Almost, 95 percent of Islamic banking clients replied in yes, while near to 5 percent replied in negative. The results in counterpart banking were almost 74 and 26 percents respectively. The result shows that the management of Islamic banks is informing its clients regularly, these outcomes further reveals that, now a day, investors are careful and examine their transactions with bank.

- *Do Islamic Banks distribute higher profit as compared to conventional banks?* Almost 81percent of Islamic banks said yes. Responses of this question also show a significant advantage of Islamic banks over the conventional ones. That is one of the reasons for higher popularity.

6. Customers appraisal of Islamic banking progress

Developing strategic policies in accordance of the clients' opinions and suggestions is the emblem of a proficient management, because working according to the needs and demands of the clients is not a choice but a necessitate of present business environment. Blackwell, Engel and Kollat [1969] are of the assertion that understanding the client and developing the strategies according to his motivation and behavior is not an option but an absolute necessity for competitive survival. It helps the management to know where their organization is standing, what clients consider them, how the organization is being recognized and what clients deserve from them. We asked four questions in regards to above matters, the replies of the clients were as followings:

- Majority of clients' recognize Islamic banking as socially acceptable Just banking system, while as many as 44 were considering these banks as banking without *Riba* only. And 33 respondents were of the opinion that Islamic banking is not different on the operation

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practicum, the only difference is in the title of the banking system, i.e. they use Islamic terms, but do the same business as the conventional bank do. This outcome also support our hypothesis that Islamic banking concepts are not yet well understood by the majority of the population in Pakistan and Islamic banks have to do more in this realm.

- Although, many clients were agree on the true character of Islamic banking that it is a third and new system between capital and socialism, but still there are many who are, either not well taught or have reservations on the true nature of Islamic banking.
- Many clients predict that Islamic banks can be more helpful for economic development, societal balance and human prosperity. It is also verdict from the injunction of *Shari'ah* rules that Islamic financial institutions are obliged to play dynamic role for promoting poise wealth distribution, human prosperity and balanced economic development.
- More than 85 percent of respondents in this study consider that Islamic banking has achieved 'good' in past three years' experiences however, 15 percent of total or 45 respondents consider that Islamic banks have to do more and thought that Islamic banking has not yet achieved what they were expecting or what should be achieved. There is still a vast syndrome for Islamic banks to explore their abilities.

4. Conclusion and some policy Implication

This study provides useful information to both academia and researcher on Islamic banking of Pakistan. After scrutinizing the answers of following points can be summed-up for the development of

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Islamic banking in Pakistan.

- a. Islamic banking is more popular in young, highly educated and high monthly household income group of the society. The reason, partially, might be the short history of Islamic banking in Pakistan, which re-launched in the year 2002-03. Islamic banking as well as conventional banking has neglected the important potential of female class of the society. There is immense need for Islamic banking to develop strategies for targeting female as their customer.
- b. Clients use Islamic banks for investment purposes more as compared to borrowings or other bank services i.e., pension receiving, utility bill paying etc facilities. On the other hand, customers use conventional banks more for bank services and other facilities. And investors, in Islamic banking, prefer investments for short-term which shows a risk avert behaviour of the investors. This provides an exceptional opportunity for Islamic banks to invest in underserved, neglected and high risky business.
- c. Still there some clients who are not well aware about the basic concepts and products and services of Islami banking. These results indicate that provider of Islamic banking products and services have not done enough work in educating customers and marketing their products. Furthermore, there are many clients who are not confident about the commencement of Islamic banks' operations according to the *Shari'ah* and had reservations about the commitment of Islamic banks with *Shari'ah*. There is an urgent need to cover these issues.
- d. The study shows that account holders of commercial banks will transfer their financial assets to Islamic banks if Islamic banking services provided nearby their surrounding area. So, Islamic banks should not neglect to provide the alternative banking facilities to these conventional banking clients.

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Appendix

Table 1 Network of Islamic Banks and Islamic Banking Branches

Type	Name of Bank	No. Branches		
		Dec-2006	Dec-2007	Sep-2008
Full-Fledged Islamic Bank	Al-Baraka Islamic Bank	11	18	20
	Bank Islami Pakistan Limited	10	36	40
	Dubai Islamic Bank Pakistan	10	17	21
	Dawood Islamic Bank	0	5	14
	Emirates Global Islamic Bank	6	10	25
	Meezan Islamic Bank	62	100	117
	Sub total	99	186	237

Islamic and Conventional Banking

Islamic Banking Branches of Commercial Banks	Askari Commercial Bank	6	14	14
	ABN Amro Bank	1	3	-
	Bank Al-Habib	3	4	4
	Bank Al-Falah	23	32	35
	Bank of Khyber	5	17	17
	Habib Metropolitan Bank	4	4	4
	Habib Bank Limited	1	1	1
	MCB Bank Limited	6	8	8
	National Bank of Pakistan	1	3	3
	Soneri Bank Limited	2	4	4
	Standard Chartered Bank	3	8	8
	Royal Bank of Scotland	-	-	3
	United Bank Limited	1	5	5
	Sub total	58	103	106
Sub Islamic banking Branches of Islamic Banks	Bank Islami Pakistan			10
	Dawood Islamic Bank			1
	Dubai Islamic Bank Pakistan			2
	Meezan Bank Ltd			11
	Sub Total			24
	Total	157	289	367

Islamic and Conventional Banking

Table 2 Progress of Islamic Banks and their market share in Pakistan (Rs. billions)

Description	Jun-08	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	235	206	119	72	44	13
% of Banking Industry	4.3%	4.0%	2.8%	2.0%	1.5%	0.5%
Deposits	169	147	84	50	30	8
% of Banking Industry	4.0%	3.8%	2.6%	1.8%	1.3%	0.4%
Financing & Investment	166	138	73	48	30	10
% of Banking Industry	4.1%	3.5%	2.3%	1.7%	1.3%	0.5%

Islamic Banking Bulletins SBP 2008.

Table 3 Demographic Profile of Islamic and conventional banking customers

1. Age Group	Islamic Bank		Conventional Bank	
	No. of Replies	%	No. of Replies	%
A 18—30	28	9.3	18	6
B. 31—40yr	72	24	52	17.33
C. 41—50 yrs	126	42	66	22
D. 51—60 yrs	59	19.7	60	20
E. 61 and above	15	5	104	34.67

Islamic and Conventional Banking

<i>2. Gender</i>	No. of Replies	%	No. of Replies	%
A. Male	300	100	300	100
B. Female	0		0	
<i>3. Education</i>	No. of Replies	%	No. of Replies	%
High School	16	5.3	116	38.7
Intermediate	91	30.3	82	27.3
Graduate	193	64.3	102	34.0
D. Ph.D.	0	0	0	0
<i>4. Profession</i>	No. of Replies	%	No. of Replies	%
Student	0	0	20	6.67
Govt. employee	6	2	196	65.33
Private employee	113	37.67	64	21.33
Self business	187	62.33	20	6.67
<i>5. Monthly Incomes</i>	No. of Replies	%	No. of Replies	%
5000—8000 Rs.	10	3.0	190	63.33
8001—10000 Rs.	17	5.67	67	22.33
10001—12000 Rs.	29	9.67	24	8.0
12001—15000 Rs.	93	31.0	11	3.67
More than 15000	151	50.3	8	2.67

Islamic and Conventional Banking

Table 4 Type and Nature of Bank-Customer Relationship

Islamic Bank			Conventional bank	
	No. of Replies	%	No. of Replies	%
<i>6. For What Purpose do you use this bank</i>				
Investment/Savings	191	63.6	178	59.3
Borrowings	38	12.6	43	14.3
Others ¹	71	23.6	79	26.3
<i>7. Do you have Account with this bank</i>				
Yes	289	96.3	233	77.67
No	11	3.67	67	22.33
<i>8. Type of Account</i> (289 Response of Islamic Bank and 233 Reponses of conventional banks, the client who said "Yes" in above question)				
Short-term	187	64.7	122	52.36
Medium-term	65	22.5	84	36.05
Long-term	37	12.8	27	11.58

¹ Include Pension receiving, remittances, bank services, etc...

Islamic and Conventional Banking

Table 5 Customers Awareness and Knowledge about Banking Concept

Islamic Bank			Conventional bank	
	No. of Replies	%	No. of Replies	%
<i>9. Do you understand the key concepts of Islamic banking</i>				
Yes	289	96.3	263	87.67
No	11	3.7	37	12.33
<i>10. Do you agree that Islamic Bank operates under the Shari'a compliance?</i>				
A. Yes	256	85.3	234	78
B. No	14	4.7	21	7
C. Don't know	30	10	45	15
<i>11. Do you know the term RIBA?</i>				
Yes	291	97	274	91.33
No	9	3	26	8.67
<i>12. Is this bank paying you any amount on your deposits²</i>				
Yes	191	100	178	100
No	0	0	0	0
<i>13. If Yes to the question above, what do you consider that payment?³</i>				

² This question was limited to those who replied 'Yes' in Question 6. Investment/deposit account holders of both banks 191 replies from Islamic bank and 178 replies from conventional bank.

³ This question was limited to the respondents of question 12, (191 replies from

Islamic and Conventional Banking

Riba on savings	8	4.2	126	70.8
Profit on investments	183	95.8	52	29.2

Table 6 Customers Satisfaction and Loyalty with Bank

Islamic Bank			Conventional Bank	
	No. of Replies	%	No. of Replies	%
<i>14. Would you continue dealing with this bank even, in case the bank does not distribute any profit for 3 consecutive years⁴?</i>				
Yes	169	88.5	93	52.2
No	22	11.5	85	47.8
<i>15. If you have an opportunity to open an account with Islamic bank, would you transfer your account to Islamic bank?</i>				
Yes	N/A		211	70.4
No	N/A		10	3.3
No reply	N/A		79	26.3
<i>16. Would you please tell the reason for that transfer?</i>				

Islamic and 178 from conventional bank).

⁵ This question was also limited to the investment account holders of the both banks, (191 responses were from Islamic bank and 178 respondents from conventional bank).

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Riba	N/A		126	59.8
Higher Profit	N/A		52	26.6
Other	N/A		33	15.6
<i>17. Would you continue to deal with Islamic bank even the risk on investment is higher than the conventional bank?⁶</i>				
Yes	169	88.5	154	86.5
No	22	11.5	24	13.5
<i>18. In your opinion how much are the services charges of this bank as compared to other type of bank?</i>				
High	24	8.0	81	27.0
Same	218	72.7	175	58.3
Low	58	19.3	44	14.7
<i>19. Would you continue to deal with your bank even if its services charges are higher than the conventional banks?</i>				
Yes	231	77.0	194	64.7
No	13	4.3	17	5.7
No reply	56	18.7	89	29.6
<i>20. How would you rate your level of satisfaction with this bank during your transactions?</i>				

⁶ This question was limited to the investment account holder of both banks (191 respondents from Islamic and 178 from conventional bank, as shown in Question 6)

Islamic and Conventional Banking

Satisfy	189	63.0	106	35.3
Not satisfy	46	15.3	126	42.0
Don't know	65	21.7	68	22.7

Table 7 Banking Client communiqué and Bank performance

Islamic Bank			Conventional Bank	
	No. of Replies	%	No. of Replies	%
<i>21. Does this Bank inform you properly about your transactions? (300 responses from each bank)</i>				
Yes	284	94.7	221	73.7
No	16	5.3	79	26.3
<i>22. Does Islamic bank distribute higher profits as compared to conventional bank? (267 Islamic clients and 178 conventional bank)</i>				
Yes	216	80.9	153	85.9
No	0	0	0	0
Do not know	51	19.1	25	14.1

Table 8 Clients' Opinion and Views on Islamic Banking Industry

Islamic Bank			Conventional Bank	
	No. of Replies	%	No. of Replies	%

Islamic and Conventional Banking

23. Your view on the following phenomena that Islamic Banking is ...				
Banking without RIBA only	44	8.7	N/A	
A socially acceptable Just Banking System	223	74.3	N/A	
Same as conventional banking with different name only	33	11	N/A	
24. "Islamic Banking is a third and new system between capitalism and socialism"				
Agree	242	80.67	231	77
Disagree	33	11.0	7	2.33
Don't know	25	8.33	62	20.67
25. Islamic Banks can contribute more to the societal balance, human prosperity and welfare.				
Agree	226	75.4	234	89
Disagree	13	4.33	6	2.3
Don't know	61	20.33	23	8.7
26. How would you evaluate the development of Islamic Banks have achieved in the past 3 years in Pakistan?				
Good	255	85%	N/A	N/A
Bad	18	6%	N/A	N/A
Don't know	27	9%	N/A	N/A

Islamic and Conventional Banking

Statistical Analysis of Islamic Banking Customers' Perceptions

Q: DO you have account with this Bank (Islamic Bank)?

SUMMARY OUTPUT.

Regression Statistics		Analysis of Variance			
Multiple R	0.982608232		Df	SS	Significance F
R Square	0.965518937	Regression	4	279.0349729	1.7397E-214
Adjusted R Square	0.961791089	Residual	296	9.965027066	
Standard Error	0.183481966	Total	300	289	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	-0.009339664	0.014665257	-0.63685647	0.524710555
Education	0.06315192	0.033374381	1.892227439	0.059436411
Profession	0.114849229	0.021905378	5.242969596	3.0117E-07
Income	0.094962966	0.016621543	5.713246084	2.70013E-08

Islamic and Conventional Banking

Q: For what purpose do you use this bank?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.981544091		df	SS	Significance F
R Square	0.963428803	Regression	4	1870.978736	1.0230E-210
Adjusted R Square	0.959679771	Residual	296	71.02126402	
Standard Error	0.489833342	Total	300	1942	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.182571959	0.03915116	4.663257999	4.7166E-06
Education	0.51941541	0.089098047	5.829705912	1.45073E-08
Profession	0.138308115	0.058479776	2.365058901	0.018672046
Income	0.017765873	0.044373767	0.400368835	0.689173677

Islamic and Conventional Banking

Q: Do you know (understand) the key operational aspects of Islamic Banking?

SUMMARY OUT PUT

Regression Statistics		Analysis of Variance			
Multiple R	0.981008446		df	SS	Significance F
R Square	0.962377572	Regression	4	272.3528527	6.6836E-209
Adjusted R Square	0.958617885	Residual	296	10.64714726	
Standard Error	0.189657829	Total	300	283	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.012722423	0.015158878	0.839272067	0.401993956
Education	0.097573841	0.034497738	2.828412761	0.004997262
Profession	0.022370094	0.022642696	0.987960715	0.32397878
Income	0.133815698	0.017181012	7.788580911	1.15058E-13

Islamic and Conventional Banking

Q: In your view how much are this banks' services charges as compare to other conventional banks

SUMMARY OUT PUT

Regression Statistics		Analysis of Variance			
Multiple R	0.441086249		Df	SS	Significance F
R Square	0.194557079	Regression	4	16.34279461	3.73038E-13
Adjusted R Square	0.183015427	Residual	296	67.65720539	
Standard Error	0.478091665	Total	300	84	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	-0.123228232	0.038212677	-3.22479978	0.00140165
Education	0.060736435	0.086962299	0.698422606	0.485461281
Profession	-0.248801539	0.057077971	-4.35897655	1.8049E-05
Income	0.286139058	0.043310094	6.606752178	1.82275E-10

Islamic and Conventional Banking

Q: Does This Bank inform you properly about your transaction?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.964441084		Df	SS	Significance F
R Square	0.930146604	Regression	4	264.1616357	2.8615E-169
Adjusted R Square	0.926060252	Residual	296	19.83836433	
Standard Error	0.258885112	Total	300	284	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	-0.056671142	0.020692043	-2.73878918	0.006540453
Education	0.038174447	0.047089808	0.810673249	0.418204649
Profession	0.226747073	0.03090754	7.336302938	2.12137E-12
Income	0.041557471	0.023452278	1.772001496	0.077422988

Islamic and Conventional Banking

Q: Do you know the term (word) Riba?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.983062128		df	SS	Significance F
R Square	0.966411148	Regression	4	281.225644	3.6418E-216
Adjusted R Square	0.962692342	Residual	296	9.774356019	
Standard Error	0.181718114	Total	300	291	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	-0.011675787	0.014524277	-0.80388078	0.42211094
Education	0.031308676	0.033053546	0.947210811	0.344303996
Profession	0.144138711	0.021694796	6.643930082	1.46401E-10
Income	0.092247299	0.016461757	5.603733602	4.80136E-08

Islamic and Conventional Banking

Statistical Analysis of Conventional Banking Customers' Perceptions

Q: Do you have Account with this Bank?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.926756863		df	SS	Significance F
R Square	0.858878283	Regression	4	200.1186399	3.0564E-124
Adjusted R Square	0.854069617	Residual	296	32.88136007	
Standard Error	0.333295178	Total	300	233	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.044739315	0.019392954	2.30698808	0.021745639
Edu	0.468140326	0.035624843	13.14083912	2.19541E-31
Profesion	-0.095872115	0.075138995	-1.27593023	0.202980496
Income	-0.056773161	0.0485736	-1.16880693	0.243421854

Islamic and Conventional Banking

Q: Do you know the existence o Islamic Banks in Pakistan?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.968007345		df	SS	Significance F
R Square	0.93703822	Regression	4	266.1188546	6.3749E-176
Adjusted R Square	0.933021716	Residual	296	17.8811454	
Standard Error	0.245782984	Total	300	284	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.151593488	0.014301012	10.60019337	1.81349E-22
Edu	0.35043173	0.026270947	13.33913559	4.18209E-32
Profesion	-0.124290601	0.055410002	-2.24310768	0.025629568
Income	-0.00901562	0.035819793	-0.25169381	0.801452397

Islamic and Conventional Banking

Q: Do you know (understand) the key operational Aspects of Islamic Banking?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.943072972		df	SS	Significance F
R Square	0.889386631	Regression	4	233.9086841	7.7648E-140
Adjusted R Square	0.884887172	Residual	296	29.09131593	
Standard Error	0.31349876	Total	300	263	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.107594711	0.018241089	5.898480505	1.00083E-08
Edu	0.398899976	0.033508868	11.90431082	5.79451E-27
Profesion	-0.112588871	0.070676035	-1.59302755	0.112221271
Income	-0.02868049	0.04568852	-0.62773952	0.530658563

Islamic and Conventional Banking

Q: Do you know (understand) the term Riba?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.955013268		df	SS	Significance F
R Square	0.912050342	Regression	4	249.9017936	1.6179E-154
Adjusted R Square	0.907780582	Residual	296	24.0982064	
Standard Error	0.285329388	Total	300	274	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.130641689	0.01660204	7.869014346	6.77319E-14
Edu	0.373511847	0.030497935	12.24711943	3.55225E-28
Profesion	-0.118718349	0.064325453	-1.84558899	0.06595046
income	-0.018379844	0.041583187	-0.44200181	0.658810648

Islamic and Conventional Banking

Q: Does this bank inform you properly about your bank transactions?

SUMMARY OUTPUT

Regression Statistics		Analysis of Variance			
Multiple R	0.930423952		df	SS	Significance F
R Square	0.86568873	Regression	4	191.3172094	2.0827E-127
Adjusted R Square	0.860949089	Residual	296	29.68279064	
Standard Error	0.316669699	Total	300	221	
Observations	300				

	Coefficients	Standard Error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
Age	0.356356064	0.018425592	19.3402774	1.90121E-54
Edu	0.06004592	0.033847799	1.773997774	0.077091482
Profesion	-0.643623988	0.071390901	-9.01549051	2.5073E-17
income	0.494700808	0.046150645	10.71926104	7.19083E-23