



الاضواء **Al-Azva**
ISSN 2415-0444 ; E 1995-7904
Volume 35, Issue, 53, 2020
Published by Sheikh Zayed Islamic Centre,
University of the Punjab, Lahore, 54590 Pakistan

Empirical Investigation of Awareness Level of Customers about Islamic Banking in Pakistan

Muzammil Khurshid (*corresponding author*)

Assistant Prof., Department of Banking and Finance,
University of the Punjab, Gujranwala Campus, Gujranwala, Pakistan.

Ihsan ur Rehman Ghauri

Associate Prof., Institute of Islamic Studies,
University of the Punjab, Lahore, Pakistan

Muhammad Riaz Mahmood

Assistant Prof., Department of Islamic Studies,
University of Gujrat, Gujrat, Pakistan

KEYWORDS

Awareness; Islamic
Banking; Pakistan;
Sharia Board.

Date of Publication:
29-06-2021

Abstract

The present study seeks to check the awareness level of the people about the Islamic Banking in Pakistan. This study performs descriptive and frequency analysis by using a sample of 150 customers who were using both Islamic and conventional banking. A questionnaire was prepared and distributed to get the data from people of Gujranwala and Sialkot cities about the Islamic Banking by five point likert scale. The study found mixed results about the concept of Islamic banking among the customers in Pakistan. The study also pointed out that most of the people have no idea about Islamic Banking and Islamic Banks are also not promoting it in an effective and efficient way that can help them to understand the Islamic Banking. Another important finding of the study is that people are indifferent between services of Islamic banking and conventional banking and the study suggests that Sharia board should actively play its role to apply Islamic banking in Pakistan.

Introduction:

Islamic Banking is growing rapidly all over the world especially in the Muslim countries because it follows the Shariah laws. Islam prohibits interest (Riba) and the doctrine of Islamic Banking is also based upon interest free banking by following the teachings of Islam. There was a need of the hour to introduce Islamic Banking System that can provide interest free banking to Muslims. In this regard, Mit Ghamr bank was opened in in 1963 in Egypt⁽¹⁾⁽²⁾⁽³⁾. The establishment of this noble attempt could not fulfill the needs of Muslim customers due to non-professional management of the bank and their strategy. In 1980, another attempt was made by Malaysia to promote Islamic Banking system. Today, Islamic Banking has emerged all over the world and it has a considerable portion in the world economy. There are more than 300 Islamic Banks working in 70 countries of the world not only in Muslim majority countries.⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾

In Pakistan where the majority of the population is Muslim, a numerous efforts has been made to establish an Islamic Banking System that can satisfy the religious beliefs of the Muslims. In 1977, a Council of Islamic Ideology was established to provide a roadmap for interest-free economy. Council of Islamic Ideology presented many reports to make the economy interest free but all these efforts could not become fruitful due to the negligence of the governments⁽⁸⁾. The first serious attempt was made in the era of President Pervaiz Musharraf in 2001 when a full-fledged Islamic Bank, “Meezan Bank” was established. Recently, Islamic Financial Institutions have approximate assets of \$ 3.4 billion ⁽⁹⁾ that accounts for 4.8% of the banking sector of the Pakistan.

Undoubtedly, Islamic Banking is flourishing day by day in the Pakistan and many Islamic Banks are functioning like Albaraka Bank, Bank Islami, Bank Alfalah and Dubai Islamic Bank. Even though, many commercial banks have also opened their Islamic windows but still there is less attention of the people and academicians on this sector. There is a need to study the awareness level of the people regarding Islamic Banking in Pakistan. Therefore, the foremost and primary objective of the present study is to examine and check the awareness level of the people of Pakistan regarding the Islamic Banking. The study also intends to give some recommendations especially to the people of Gujranwala and Sialkot. This study is fruitful for general public, academicians, policy makers and Islamic banks which are working in Pakistan.

The study is organized as follows: the second section provides the literature review, the third portion discusses the methodology of the study, fourth part explains the results and last portion concludes the study and give important recommendations.

1. Literature Review

The current study seeks to check the awareness level of the customers related to Islamic Banking by applying the statistical analysis. Awareness level about the Islamic Banking refers to the understanding about the Islamic Banking instruments. Numerous studies have been discussed the awareness level of customers about Islamic Banking in different regions of the world ⁽¹⁰⁾⁽¹¹⁾⁽¹²⁾⁽¹³⁾⁽¹⁴⁾⁽¹⁵⁾. In a few decades, Islamic Banking has excelled and expanded all over the world ⁽¹⁶⁾. The rules of Shariah Law are derived from the Holy Book that clearly mentions that interest is not allowed in Islam ⁽¹⁷⁾. People have less awareness about Islamic Banking products such as: “Mudarabah”, “Musharakah”, “Ijarah”, “Sukuk” etc ⁽¹⁸⁾. The awareness level regarding Islamic Banking products and services was found more in Pakistani customers as compared with Turkish customers but majority of the people were unaware about some of the Islamic Banking terms ⁽¹⁹⁾⁽²⁰⁾.

Some of the studies have been conducted in UAE, Malaysia and Indonesia on awareness about Islamic Banking and its products not focusing only Muslims but Non-Muslims too and concluded that Non-Muslims in Malaysia are also high awareness level about Islamic Banking its products ⁽²¹⁾. In Indonesia, people have the awareness about Islamic Banking but they have less knowledge regarding Islamic banks and their operation. Some people hold the Islamic Banking products but they do not aware about profit and loss concept ⁽²²⁾. In Singapore, Gerrard and Cunningham were in opinion that the people of Singapore do not have awareness about Islamic Banking System ⁽²³⁾. On the other hand, Ramdhony made a study on awareness level regarding Islamic Banking and concluded that pious people are mostly interested and have awareness of Islamic Banking ⁽²⁴⁾. A study made on awareness about Islamic finance and concluded that the Muslims are less aware about Islamic Banking due to the lack of education ⁽²⁵⁾. In India, a study was conducted to check the awareness and willingness to adopt Islamic Banking in Muslims by gathering data of 200 respondents and found that the people do not have much knowledge and awareness about the Islamic Banking ⁽²⁶⁾.

The above given existing literature found that Islamic Banking has been discussed and studied in different regions and different methodologies and techniques have been applied. Even though, some of the researchers are in view that this awareness gap among the customers is going to be low but people still do not have enough awareness about Islamic Banking ⁽²⁷⁾. Therefore, the present study is intends to fulfill this awareness gap.

2. Methodology

The primary and foremost purpose of the study is to check the awareness of customers related to Islamic Banking in Pakistan. In this study, the awareness level of the customers about Islamic Banking has been evaluated by applying the frequency analyses.

3.1 Sample

In the study, a sample of 150 customers was selected through convenience sampling. The respondents were selected from Gujranwala and Sialkot because the habitants of these cities were easily accessible for data gathering. Most of the customers had their account either in Islamic or conventional banks.

3.2 Measures

This study used primary data by using a questionnaire. The questionnaire was distributed among the 150 customers belong to the Gujranwala and Sialkot. The questionnaire was comprised of two main sections. The first part included the demographic statistics of the customers (Gender, Age and Income). The second part includes the questions related to awareness about the Islamic Banking derived from previous studies. The study used a five-point Likert scale where “1” shows “Strongly Disagree” and “5” presents “Strongly Agree”. Moreover, this study employs frequency analysis and descriptive analysis by using SPSS 20.

3.3 Procedure

The questionnaires were distributed and filled by the customers of different branches of the banks. The names of the Islamic banks were: Meezan Bank, Albaraka Bank, Bank Islami and Dubai Islamic Bank. The conventional banks were: Habib Bank, United Bank, Muslim Commercial Bank, National Bank of Pakistan, Allied Bank and The Bank of Punjab. The data was collected in three months and arranged in SPSS data sheet. In the questionnaire, the main questions were about the Islamic Banking awareness through different questions. Initially, the reliability of the data was checked through Cronbach Alpha. After confirming the reliability of the data descriptive analysis was made.

3. Empirical Findings

This section demonstrates the results of the demographic statistics of the data which are Gender, Age and Income level of the respondents. The table represents that there are 44 female respondents with a percentage of 29.3% and 106 male respondents with a percentage of 70.7. The table shows that most of the respondents are male.

Table 1: Demographic Statistics

Demo. Variable	Characteristics	Frequency	%
Gender	Male	106	70.7
	Female	44	29.3
Age	18-24	40	26.6
	25-31	30	20.0
	32-38	52	34.7
	39 and above	28	18.7
Income	10-20k	85	57.0
	21-40k	35	23.0
	41-60k	19	13.0
	Above 60	11	7.0

The above table shows the age group of the customers. Out of 150 customers, 40 people fall between 18 to 24 years group with a percentage of 26.6%, while 30 respondents exist in the age group of 25-31 with a proportion of 20% . According to the table, most of the respondents lie in the age group of 32-38 with a percentage of 34.7%. Moving on the Income level of the customers, 85 people have an income level of 10-20k salary with a percentage of (57%), while 35 respondents with a percentage of 23% have a salary group of 21-40k. According to the table, 11 respondents have more than 60000 salary.

Table 2: Islamic banking conducted under Sharia law

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	30	20.0	20.0
	Disagree	19	12.7	32.7
	Neutral	14	9.3	42.0
	Agree	54	36.0	78.0
	Strongly agree	33	22.0	100.0
	Total	150	100.0	100.0

The following table represents the frequencies of “Islamic banking conducted under Sharia law”. It gives the proportion of the clients where 33 respondents strongly agree with the statement. There are 54 people agree with the statement. On the contrary, 30 people have an opinion of strongly disagree with a proportion of 20.0%, while 19 persons disagree with it that Islamic Banking is conducted under the Sharia laws and rules. Most of the respondents do not consider that Islamic banking is functioning under Sharia law in Pakistan.

Table 3: Islamic Banking can be an Alternative

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	16.7	16.7
	Disagree	30	20.0	36.7
	Neutral	26	17.3	54.0

Agree	44	29.3	29.3	83.3
Strongly agree	25	16.7	16.7	100.0
Total	150	100.0	100.0	

The above table shows the results of the statement that IB can be an alternate. The noteworthy point is that most of the people think that IB can be used as an alternate to conventional banking system in Pakistan. The table shows 44 respondents strongly agree with the statement along with a percentage of 29.3. On the other hand, 30 people disagree with a proportion of 20.0% with this statement.

Table 4: Interest is prohibited in Islamic banking

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	5	3.3	3.3	3.3
Disagree	10	6.7	6.7	10.0
Neutral	15	10.0	10.0	20.0
Agree	79	52.7	52.7	72.7
Strongly agree	41	27.3	27.3	100.0
Total	150	100.0	100.0	

The table highlights the results of the statement that Interest is prohibited in Islamic Banking. The findings are promising because most of the people have a view that interest is not allowed in Islam. According to the table, 79 customers agree with a percentage of 52.7%. On the other hand, only a few people disagree with this statement.

Table 5: Returns are based on profit sharing

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	35	23.3	23.3	23.3
Disagree	25	16.7	16.7	40.0
Neutral	17	11.3	11.3	51.3
Agree	16	10.7	10.7	62.0
Strongly agree	57	38.0	38.0	100.0
Total	150	100.0	100.0	

The table provides the results of the statement that Returns are based on profit sharing. According to the results, 57 respondents out of 150 strongly agree with this statement with a percentage of 38% whereas 35 people out of 150 are strongly disagreeing with it. It indicates that some people consider Islamic banks are not sharing profit according to the Sharia in Pakistan.

Table 6: Islamic banking has a potential to grow

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	4.7	4.7	4.7
	Disagree	8	5.3	5.3	10.0
	Neutral	16	10.7	10.7	20.7
	Agree	89	59.3	59.3	80.0
	Strongly agree	30	20.0	20.0	100.0
	Total	150	100.0	100.0	

According to the findings, Islamic Banking is growing in the Pakistan. It has a potential to grow and prosperous in the banking sector of Pakistan if the Islamic Banks function according to the Islamic Sharia and laws. There are 89 people out of 150 have a positive attitude toward the promotion of Islamic Banking, followed by 30 respondents with a view that Islamic Banking has a potential to grow in Pakistan. Only a few people do not consider this statement and keep a view that IB has no potential in Pakistan.

Table 7: Returns are high in Islamic banking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	66	44.0	44.0	44.0
	Disagree	42	28.0	28.0	72.0
	Neutral	8	5.3	5.3	77.3
	Agree	20	13.3	13.3	90.7
	Strongly agree	14	9.3	9.3	100.0
	Total	150	100.0	100.0	

The table represents the results of the statement that returns are high in IB. According to the table, most of the customers have a view that Islamic Banking do not provide high returns. There are 66 respondents strongly disagree with the statement with a percentage of 44% that Islamic Banks do not provide high returns as compare with conventional banks whereas 20 people out of 150 are strongly agree with it.

Table 8: Islamic Banking provide low cost products and services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	39	26.0	26.0	26.0
	Disagree	48	32.0	32.0	58.0
	Neutral	26	17.3	17.3	75.3
	Agree	22	14.7	14.7	90.0
	Strongly agree	15	10.0	10.0	100.0
	Total	150	100.0	100.0	

According to the table, many customers assume that products of Islamic banks are expensive because 48 respondents have a view that Islamic Banking do not provide low cost products with a percentage of 32%. Moreover, there are 39 respondents strongly disagree with the statement and they provide high cost products as compared with conventional banks. In contrast, 22 people out of 150 are strongly agree with it.

Table 9: Islamic banking available to Muslims and non-Muslims

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	12	8.0	8.0	8.0
Disagree	11	7.3	7.3	15.3
Neutral	14	9.3	9.3	24.7
Agree	60	40.0	40.0	64.7
Strongly agree	53	35.3	35.3	100.0
Total	150	100.0	100.0	

The table depicts that many customers assume that Islamic banking is available irrespective of religion because 60 respondents out of 150 have a view that Islamic Banking is available to Muslim and non-Muslim people. Moreover, 53 people with a percentage of 35.3% have same opinion. Nevertheless, there are 12 respondents who strongly disagree with the statement and they oppose this statement.

Table 10: Aware of Islamic banking products.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	96	64.0	64.0	64.0
Disagree	15	10.0	10.0	74.0
Agree	30	20.0	20.0	94.0
Strongly agree	9	6.0	6.0	100.0
Total	150	100.0	100.0	

The table shows the results of awareness about the products of Islamic Banking. The results are shocking related to the awareness level about Islamic Banking and its products. There are 96 respondents who strongly disagree with the statement that indicates that most of the people have no idea about the products of Islamic Banking in Pakistan. On the other side, 30 people out of 150 are strongly agree with it and have awareness about it.

Table 11: Islamic Banking is Different from Conventional Banking.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	9	6.0	6.0	6.0
Disagree	78	52.0	52.0	58.0
Neutral	31	20.7	20.7	78.7
Agree	5	3.3	3.3	82.0
Strongly agree	27	18.0	18.0	100.0
Total	150	100.0	100.0	

The table gives the findings of the question that Islamic Banking is different from conventional banking. According to the table, most of the people strongly disagree with the statement that Islamic Banking differs from conventional banking because there 78 people who do not consider it different. On the other hand, 27 people out of 150 are strongly agree with it and have an opinion that Islamic Banking has something unique from conventional banking.

4. Conclusion

The basic aim of this study is to investigate the awareness of customers regarding to Islamic Banking in Pakistan. In this study, the awareness level of the customers about Islamic Banking has been analyzed by doing the frequency analyses. In the study, a sample of 150 respondents was used to gather the data. A country where more the 95% people are Muslim, the study found that most of the people are lacking the awareness related to Islamic Banking. The study concludes that people do not understand the Islamic Banking products and services. That is why, they feel hesitation in adopting the Islamic Banking and they prefer to use conventional banking in Pakistan. It indicates that Islamic Banks are not paying attention to promote their products and services. The results of this study are similar with previous studies ⁽²⁸⁾⁽²⁹⁾⁽³⁰⁾⁽³¹⁾⁽³²⁾⁽³³⁾⁽³⁴⁾⁽³⁵⁾. The study implies that the management of Islamic Banks can play an important role to narrow down the gap of Islamic Banking awareness in the Pakistan by using social media, broadcasting media etc. The analysis shows that most of the people are not aware with the Islamic Banking and its products which highlight the performance of different institutions of the Pakistan to promote the Islamic Banking. As we know Pakistan is a majority Muslim country but the analysis shows the diverse results about the awareness of Islamic Banking. In such a situation, the responsibility of the government of Pakistan has increased to play its active role.

The study suggests that Shariah Board should be functional and actively play its role to promote the Islamic Banking in Pakistan. It is also suggested that Shariah Board should also clarify the policies and methods related to Islamic banking in Pakistan. There is a dire need to take effective measures that can increase the awareness level among the people of Pakistan about Islamic Banking. Moreover, Islamic banks need to promote Islamic Banking products through different campaigns to educate the people about Islamic Banking in Pakistan. The future study can be made on comparative analysis of Islamic and conventional banking system in Pakistan. This study can also be extended by gathering data from different other major cities of the Pakistan like Lahore, Karachi and Islamabad.

References

1. Venardos, A.M., (2006). Islamic banking and finance in south East Asia: its development and future. World Scientific Publishing Co. Pte. Ltd, Singapore.
2. Aburime, U.T. and Alo, F. (2009), "Islamic banking: theories, practices and insights for Nigeria", *International Review of Business Research Papers*, Vol. 5 No. 1, pp. 321-339.
3. Mouawad, S. (2009), "The development of Islamic finance: Egypt as a case study", *Journal of Money Laundering*, Vol. 12 No. 1, pp. 74.
4. Lee, K. and Ullah, S. (2007), "Integration of Islamic and conventional finance", *International Review of Business Research Papers*, Vol. 3, No. 5, pp. 241-65.
5. Lee, K. and Ullah, S. (2008), "Inter-bank cooperation between Islamic and conventional – the case of Pakistan", *International Review of Business Research Papers*, Vol. 4 No. 4, pp. 1-26.
6. Henry, C. M. and Wilson, R. (2004). *The Politics of Islamic Finance*, Edinburgh University Press. Edinburgh.
7. Cihak, M. (2007), "Systemic loss: a measure of financial stability", *Journal of Economics and Finance*, Vol. 57 No. 1, pp. 5-26.
8. Khan, I. Khan, M. and Tahir, M. (2017) "Performance comparison of Islamic and conventional banks: empirical evidence from Pakistan", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 Issue: 3, pp.419-433.
9. Said, P. and Ahmad, I. et al. (2009), *Islamic Banking Bulletin*, Vol. 4, State Bank of Pakistan, Karachi, p. 22.
10. Kamali, M.H. (2016), "Islam and sustainable development". *Islam and Civilisational Renewal (ICR)*, Vol. 7 No. 1, pp. 8-26, available at: www.icrjournal.org/icr/index.php/icr/article/viewFile/529/490 (accessed 19 August 2016).
11. Maghrebi, N. and Mirakhor, A. (2015), "Risk sharing and shared prosperity in Islamic finance", *Journal of Islamic Economic Studies*, Vol. 23, pp. 85-117.
12. Nawi, F.A.M., Yazid, A.S. and Mohammed, M.O. (2013), "A critical literature review for Islamic banks selection criteria in Malaysia", *International Business Research*, Vol. 6 No. 6, pp. 143-151.
13. Wan Ibrahim, W.H. and Ismail, A.G. (2015), "Conventional bank and Islamic banking as institutions: similarities and differences", *Humanomics*, Vol. 31 No. 3, pp. 272-298.
14. Amin, M., Isa, Z. and Fontaine, R. (2011), "The role of customer satisfaction in enhancing customer loyalty in Malaysian Islamic banks", *The Service Industries Journal*, Vol. 31 Nos 9/10, pp. 1519-32.
15. Gait, A. and Worthington, A. (2008), "An empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic

- methods of finance”, *International Journal of Social Economics*, Vol. 35 No. 11, pp. 783-808.
16. El-Hawari, D., W. Grais and Z. Iqbal, 2004. Regulating Islamic financial institutions: The nature of the regulated. World Bank Policy Research Working Paper.
 17. Suleman, M., 2001. Corporate Governance in Islamic Banks. *Society and Economy*, 22(3).
 18. Thambiah, S., Eze, U. C., Santhapparaj, A. J., & Arumugam, K. (2011). Customers’ perception on Islamic retail banking: A comparative analysis between the urban and rural regions of Malaysia. *International Journal of Business and Management*, 6(1), 187-198.
 19. Khattak, N. A., Rehman, K. U. (2010). Customer satisfaction and awareness of Islamic banking system in Pakistan. *African Journal of Business Management*, 4(5), 662-671.
 20. Okumus, H. S. (2005). Interest-free banking in Turkey: a study of customer satisfaction and bank selection criteria. *Journal of Economic Cooperation* 26(4), 51-86.
 21. Run, E. C. & Yeo, D. S. L. (n.d.). Awareness, understanding and behaviour of Islamic banking: Results of a special study. *IBBM*.
 22. Rammal, H. & Zurbruegg, R. (2007). Awareness of Islamic banking products among Muslims: The case of Australia. *Journal of Financial Services Marketing* 12(1), 65-74.
 23. Gerrard P, Cunningham JB (1997). “Islamic banking: a study in Singapore”, *International Journal of Bank Marketing*. 15(6): 204-216.
 24. Ramdhony, D. (2013) “Islamic Banking Awareness Attitudes and Bank Selection Criteria”. *International Journal of Humanities and Applied Sciences (IJHAS)*, 29-35.
 25. Yunusa, M. and Nordin, N.B. (2015), “Religious challenges of Islamic banking in Nigeria”, *International Journal of Academic Research in Business and Social Sciences*, Vol. 5 No. 4, pp. 46-66.
 26. Islam, J. Rahman, Z. (2017) "Awareness and willingness towards Islamic banking among Muslims: An Indian perspective", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 Issue: 1, pp.92-101.
 27. Lee, P. and Dutta, J. (2007), *Islamic Banking and Finance Law*, Pearson Malaysia, Kuala Lumpur.
 28. Sheikh, R. and Ahammad, M.F. (2013), “The feasibility of establishing Islamic banks in the UK: the case of Nottingham”, *International Journal of Social Entrepreneurship and Innovation*, Vol. 2 No. 1, pp. 67-82.
 29. Masvood, Y. and Choudary, Y.L. (2015), “Islamic banking-a cross cultural patronage study among the students in Chennai”, *Asian Social Science*, Vol. 11 No. 4, pp. 310-318.
 30. Kolsi, M.C. and Zehri, F. (2014), “Islamic banks and conventional banks within the recent global financial crisis: empirical evidence from the GCC

-
- region”, *International Journal of Financial Services Management*, Vol. 7 Nos 3/4, pp. 196-218.
31. Kamarulzaman, Y. and Madun, A. (2013), “Marketing Islamic banking products: Malaysian perspective”, *Business Strategy Series*, Vol. 1, pp. 60-66.
 32. Haque, I., Lone, F.A. and Thakur, G.H. (2009), “Islamic banking in India: what more needed?”, *Journal of Islamic Economics, Banking and Finance*, Vol. 5 No. 3, pp. 75-86.
 33. Kartal, F. (2012), “Interest-free banking in the world and a financial analysis of the Turkey experience”, *International Research Journal of Finance and Economics*, Vol. 93, July, pp. 183-201.
 34. Yahya, M.H., Muhammad, J. and Abdul Hadi, A.R. (2012), “A comparative study on the level of efficiency between Islamic and conventional banking systems in Malaysia”, *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 5 No. 1, pp 48-62.
 35. Naser, A.L. and Al-Khatib, K. (1999). Islamic banking: A study of customer satisfaction and preferences in Jordan. *International Journal of Bank Marketing*, 17:135-150.