Satisfaction level of Islamic Banking Customers: A study of Pakistan

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Abstract

Pakistan is enriched with a financial institutions like stock exchanges, investment banks, mutual fund industry, banking industry, and other financial institutions. The concept of Islamic banking is old and rapidly growing. This study investigates the determinants of satisfaction among customers of Islamic Banks in Pakistan. Islamic banking has emerged globally as an alternative to conventional baking, yet it holds a lower market share in Pakistan. The sample size of respondents is 300, and data is collected from the maximum number of Islamic banks all over Pakistan. The research methodology is used quantitative cross-sectional, and data is analysed through SPSS. The data is parametric, and independent variables have linear relationships, so linear regression is the best option. It is concluded that quality of services and confidence in a bank have a significant relationship with the satisfaction of Islamic bank customers. The data from research can be applied in the Islamic banking industry of Pakistan, and it can be advantageous to understand the satisfaction level of customers of Islamic banking.

Keywords: *Islamic Banks, Commercial Banks, Satisfaction, Customers.*

JEL Classification: *C12, C14*

INTRODUCTION

Islamic banking has flourished over the past two decades worldwide. It was a niche Market of conventional banking earlier. Due to the compliance of its products and services with Islamic Shariah, it has enormous acceptance among Muslims and other countries globally. Over 180 Islamic banks and financial institutions worldwide have more than 8,000 branches (Tucker & Jubb, 2017). Being an Islamic country, Pakistan provides constitutional support to the Islamic banking system (H. N. Khan & Asghar, 2012). Currently, there are six specialised Islamic banks

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and sixteen conventional banks offering Islamic products through their specialised Islamic windows. At present, the share of Islamic banks is around 12 per cent in bank deposits and 13 Percent in branches in Pakistan. ("Islamic Banking Bulletin April-June 2017,").On the other h, conventional banks, over time, have shown remarkable growth. Although competing with established conventional banks is quite challenging, it has mammoth potential to grow, sustain, retain, and capture a hugconsiderablerket share in Pakistan. To capture a more significant share in the market, it is indispensable to have the capacity to quickly respond to Customer preferences by Continuous improvement in customer satisfaction (Grigoroudis, Tsitsiridi, & Zopounidis, 2013).

It is perceived that customer satisfaction has been an essential variable in searching why customers leave or work within a bank. Nowadays, the bank should know how to satisfy their customers, even though they feel satisfied. Competition inside the financial sector is getting stronger day by day. Every bank is trying to keep the maximum number of customers within itself so that the banking service menu is becoming broadly comparable. That is the main reason to understand customer satisfaction from different angles (Rose, and Marquis, 2006).

This research papemeasuresng the satisfaction level of Islamic bank customers, which fall in the category of specialised banks because they provide specific services to key customers. Commercial banks cater to most of the market share in the banking industry and fulfil customers' demands by providing services to them. The question arises why we need Islamic banks because Pakistan is a Muslim country. According to Islamic law, interest is illegal in Islam. Still unfortunately, our financial market is based on the noninterest rule, which is which main reason for introducing Islamic banks to reach the demand of customers who strictly follow Islamic law and want interest-free financial transactions.

Nowadays, colossal growth and increased competition in the financial services industry have made customer satisfaction indispensable. Every bank needs to improve its satisfaction with its isomers (Rasheed, Aimin, & Ahmed, 2012). Inclusion of customer satisfaction has become a driving force behind the revival and growth of their business. It guarantees long term association between customers and bankers (Bontis, Booker, & Serenko, 2007). At the same time, customer dissatisfaction is a significant reason behind customer turnover. Therefore, competition among rivals in the financial sector has created an environment that needs to understand customer satisfaction from different directions (Peter S Rose, 2006).

Previously Researchers have studied customer satisfaction in Islamic banking from various perspectives and places. Customer satisfaction between conventional and Islamic banks is compared based on the CARTER model in Malayasia (Osman, Ali, Zainuddin, Rashid, & Jusoff, 2009).

Customers of Islamic banks were found dissatisfied with the services of Islamic banks in Jordan (Naser, Jamal, & Al-Khatib, 1999). In Pakistan, (Awan & Shahzad Bukhari, 2011) found Religious perspectives less critical among the criteria for choosing Islamic Bank. Contrary, "Religious factors" and "Convenient location" were found to be important factors for customers' selection of Islamic banks in Pakistan (Abdul Rehman & Masood, 2012). In a study conducted in Iran, Among the attributes studied, service delivery and value proposition quality created customer satisfaction in Islamic banks (Estiri, Hosseini, Yazdani, & Javidan Nejad, 2011). A Six variable CARTER model comparative study among Islamic banks of Pakistan,

the United Kingdom and the United Arab Emirates was conducted. The results revealed similarities between the choices of Pakistani and British customers (Abdul Rehman, 2012). A review paper commented on methodologies and the strengths and weaknesses of the studies from the period1989-2013 in Islamic banking (Hafsa Orhan Åström, 2013). In a Malaysian study, customer satisfaction was positively related to image, services and the accessibility of the banks (Hamzah, Ishak, & Nor, 2015). In another research, Sharia compliance increased customer satisfaction in Islamic microfinance banks in Pakistan (S. Khan & Akhter, 2017). Another investigation measured the Impact of sharia compliance on customer satisfaction using the SERVQUAL model. A significant moderating effect of sharia compliance on customer satisfaction was found (Lutfullah, Muhammad Aitisam, & Aliya Mueen, 2016). Both agree, and the discrepancy is found between studies.

An Islamic Bank is a Financial institute that operates under the principles of Sharia'h laws (Ashraf, 2014). Sharia forbids usury and bans funding activities involving alcohol, pork, pornography, and speculative type of business, making it less volatile to global financial shocks and crises. The Islamic banking system Emerged as a new financial system coupled with current economic models Globally (Fazlan & Mohammad, 2007). The early experiment of Islamic banking started in Egypt in the early 1970s (Asutay, 2007). In Pakistan, initial efforts for Islamic banking were made in 1980 by the state bank of Pakistan through restructuring ordinance and rules for the banking system in the country (Khattak, 2010).

Islamic Banking in Pakistan gained pace when the State Bank of Pakistan (SBP) issued the first license for an Islamic bank to Meezan Bank Limited in 2003. Subsequently, four other commercial banks were issued full-fledged Islamic banking licenses and were allowed open Islamic subsidiaries or standalone branches in the private sector parallel to conventional Banking. So the dual banking model adopted is by Pakistan, where Banks are allowed to do Islamic commercial banking parallel to the conventional (Ilyas, 2014).

Currently, Islamic Banking has firm roots in Pakistan. Being an Islamic state, Pakistan provides constitutional support to the Islamic banking system (H. N. Khan & Asghar, 2012). Six specialised Islamic banks are operating in Pakistan. In addition, sixteen conventional banks offer Islamic products through their specialised Islamic windows. Currently, Islamic banks constitute around 12 per cent of bank deposits and 13 Percent of branches in Pakistan ("Islamic Banking Bulletin April-June 2017,"). The Global Islamic bank assets share of Pakistan is only 1.4 per cent, with Saudi Arabia participating with more than 50 per cent of global Islamic banking assets. Hence, Pakistan is an Islamic country steering to be a central market for Islamic banking with a much higher share of Islamic Banking locally and globally.

Historical Background of Islamic banks

Islam is taken from the Arabic language Salema, which means peace and purity. Islamic banking structure is based upon the philosophy of Islamic law, also familiar as Shariah and directed by Islamic concepts. There are two main ideologies behind Islamic banking: sharing of profit and loss situation and preventing the receiving interest payment. It is strictly prohibited in Islam to receive and offer loan payments. Different hadiths of the holy Quran narrate punishment regarding interest. Islamic banking has been started working in the year of 1970. The speed rate of development of Islamic banking worldwide and in Pakistan was initiated in 2002. Islamic banks are getting famous because products are interest-free, risk distribution activities and

well-built, rooted in Islam beliefs. Islamic banks work as welfare institutes to encourage trade and economic actions in accord with the organisation of Islam to offer a variety of Interest-free products and services. Islamic and commercial banks in Pakistan shaped intense competition among banks to appeal to and hold a more significant number of customers by providing quality service. Banks are now more focused on customers, which generated a new pressure on bank employees to bring more customers by setting targets (Khan, M. & Ahmad, S., 2013).

In this research, Primary data were collected through a well-designed Questionnaire by implementing Simple random sampling. The respondents were account holders of six central Islamic Bank Branches Pakistan from four Provinces of Pakistan. The sample consisted of 300 customers having Bank accounts (Naser et al., 1999). The validity of the research tool was confirmed through pre-testing under the guidance of experts in academia and the field. The Questionnaire was divided into seven parts. The first part included questions regarding the personal characteristics of customers; the second part consisted of Questions regarding Accessibility of services, the third part consisted of Questions regarding Customer's perception, the fourth part consisted of Questions regarding customers' Confidence in the bank, and Fifth part consisted of Questions regarding Religious, Sixth part consisted of Questions regarding Quality of services, and last part was about the satisfaction of customers about products and services of Islamic Banks in Pakistan. Five-point Likert scale (where "5" was declared as the "strongly agree" and "1" as the "strongly disagree") was used to get responses from the customers.

This study investigates the determinants of satisfaction among customers of Islamic Banks in Pakistan. Islamic banking has emerged globally as an alternative to conventional baking, yet it holds a lower market share in Pakistan.

In previous research, the sample size was small, and the limited sample size included the conventional banks to compare Islamic and conventional banks. In this study, 300 sample sizes are taken to study the customer's satisfaction with Islamic banks.

LITERATURE REVIEW

In the financial market, Islamic banking is getting reorganisation as Islamic banking is not a new concept. Still, the conventional banking sector is a well-known competitor of the Islamic banking sector. The Islamic banking customers are not well aware of Islamic banking services and products; customers should be given proper consideration; Islamic banks should place specific seminars to inform the Islamic bank customers about various services and products like Ijara financing and Mudarba financing. Most of the customers have adopted the commercial and the Islamic banking system. The Islamic banks do not offer suitable products for their customers as the commercial banking system offers them (Khattak, A. N. & Rehman, K., January 2010).

According to the research of Muhammad Azhar sheikh, data was analysed by him proved that economic profit, the financial status of banks, interest on deposits, powerful global perception, and network reputation variables were motivating customers towards commercial banks. It is found that variables which motivate customers in the direction of Islamic banks were: interest-free loans, the financial status of the bank, Islamic education, and Shariah information on Islam

and religious surroundings were variables which motivating the customers to the direction of Ithe Islamic banking industry (Shiekh, M. A., Taseen, U., Haider, S. A., & Naeem, M., 2006).

Customer satisfaction is a famous and old conccustomernos, not an easy task, and the service provider should deeply analyse the customers' expectations and requirements. Satisfaction is established in marketing, consumer research, economic psychology, business studies, welfare and general economics. Previous research has provided valuable Background for understanding customer satisfaction in Banks. Different models and their modified versions have been used to understand the complex relationship of customer satisfaction with underlying factors. The most familiar explanation gained from different research authors noted that satisfaction is an inner feeling that results from analysing and evaluating what has been received in opposition to what was expected (Armstrong and Kotler, 1996 & Oliver, 1997).

Bitner, and Zeithaiml (2003), detailed that satisfaction is the customer's evaluation of a service or product regarding whether that service or product has met their requirements and desired expectations. Kessler (1999) stated that more satisfaction demands an understanding of satisfaction and how it is to be tackled. It should be considered what factors or variables contribute to increasing customer or management satisfaction.

Ali and Zohou (2013) studied how customers viewed the service quality of Islamic and commercial banks in Pakistan and searched out factors of service quality that are more essential for bank customers. The result of research suggested that customer opinion is uppermost in the assertion aspect of Islamic banks and on the tangibles aspect of commercial banks; it was noticed that customer opinion is lowest in the specialised area of Islamic banks. Overall opinion concerning service quality is highest in Islamic banks, as suggested by their study. The research also suggests that Islamic banks should improve internet facilities and online banking services. Commercial banks can get better their services on the job, off the job, and in employees' job training. Commercial banks should also arrange some abroad training (Begum. S., 2013).

Customer view on product quality and service quality is vital because it relates to awareness. All organisations need to understand numerous customer views of product quality and service quality because of s perception affects consumer awareness (Othman & Owen, 2001).

Maulan, S., Hanafi, S. N. I. M., & Hamid, S. N. A. (2020). Conducted research on Identifying Service Quality Priority of Islamic Banks in Malaysia, Result of the study showed that service quality dimensions contribute significantly to customer.

Dusuki and Abdullah (2007) find out that courtesy and competence of employees and their ability to carry trust and confidence onto their customers (for example openness of staff, actively tackling the transactions; knowledge and experience of the bank personnel) are internal value to choosing a bank.

Similarly, religious beliefs were found to have an influence on the adoption of Islamic banking. For example, a study conducted in India confirmed the lesser utilization of the Islamic banking system by the non-Muslims due to its profit and loss sharing features which led to customer dissatisfaction. In contrast, there was greater utilisation of the Islamic banking services by the Muslims due to their religious beliefs centred on the avoidance of interest

which, in turn, resulted in their enhanced satisfaction (Kant & Jaiswal, 2017).

Factors such as the accessibility of the banks, convenient location, and rewards extended by the banks have been recognised as essential factors affecting the choice of a bank by customers (Hamzah, Ishak, & Nor, 2015).

Research Objectives

- To measure the level of customer satisfaction towards Islamic banks.
- To find out which factors contribute towards customer satisfaction.
- To measure the variation in factors contributing towards the customer cause and how much change in customer satisfaction.

Research Hypotheses

All five hypotheses are alternative hypotheses which show a positive relationship between dependent and independent variables.

H1: There is a significant relationship between customer satisfaction and quality of services.

H2: There is a significant relationship between customer satisfaction and customer perception.

H3: There is a significant relationship between customer satisfaction and confidence in the bank.

H4: There is a significant relationship between customer satisfaction and religious perspective.

H5: There is a significant relationship between customer satisfaction and accessibility of services.

Limitations of research

1. Respondents were reluctant while filling out the questionnaire. Maybe the reason is the leaking of confidential information in their perception.
2. Time was concise as this research needed more depth.
3. Resources were limited to conduct this research.
4. Sometimes, banks were not cooperative to cater for respondents.

RESEARCH METHODOLOGY

Research methodology is quantitative type. Furthermore, the type of research is utilised cross-sectional because it collects data at one time. Questionnaires were distributed; the type of questionnaire was the Likert scale in which open-ended questions were asked. The sampling technique is convenience sampling because of the shortage of time. Research data is analysed through SPSS, in which linear regression is run. Using linear regression means data is parametric and meets all linear regression assumptions. There is one Dependent variable, Customer satisfaction with Islamic banking and five Independent variables Qity of service,

Customer perception, Confidence in the bank, Religious perspective, and Accessibility of services.

Population of research

The research population is usually an extensive collection of individuals, so the population for this research is all customers of Islamic banks in Pakistan.

Questionnaire and instruments

The questionnaire contains 20 questions adopted from "Customer satisfaction and awareness of Islamic banking system in Pakistan" by Naveed Azeem Khattak and Kashif-Ur-Rehman. For each variable, there are 3 or 4 questions. The questionnaire was prepared in the light of two research papers. The first was conducted on the Jordanian Islamic banking customer satisfaction level Naser et al. (1999), and the other study was on Turkish Islamic banking customer satisfaction levels Saduman (2005).

Sample

Sample represents the whole population because it is challenging to observe every population, so the easy way is to take a sample from the population. In this research convenient sample size is used. The sample size is also adopted from the Jordanian Islamic banking customer's satisfaction level Naser et al. (1999) and Turkish Islamic banking customer satisfaction level Saduman (2005).

Three hundred customers of Islamic banks were selected, and 350 questionnaires were distributed to analyse the responses. In various research on Islamic banking, their sample was taken from 100 to 300 for by looking into the literature review, 300 was decided.

Sample frame

Name of banks
Bank Islami Pakistan Limited
Meezan Bank
Al Baraka Bank
Burj Bank
Dubai Islamic Bank
Dawood Islamic bank

Conceptual framework

A conceptual framework is a graphical representation of research; in this graph, the effect of independent variables is measured on the dependent variable.
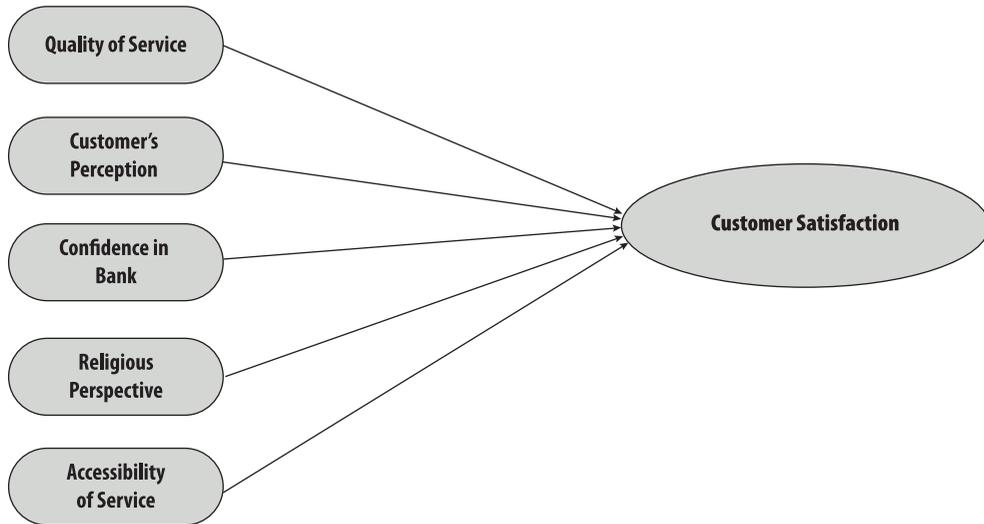
Figure 1: *Factor affecting customer satisfaction*
Adopted from *(Saduman, 2005).*

Pilot study

A pilot study is a pilot test conducted before the data is analysed. It is assumed that the appropriate sample size for the pilot should be 30, so in this research, 30 questionnaires were taken into account. A pilot study is conducted through SPSS in which a reliability test is undergone.

Statistical tools, kurtosis and Skewness, were employed to test the data's distribution, symmetry, and normality. Cronbach's Alpha for all items was executed for reliability testing. At the same time, linear regression was used to find the relationship between variables. The relationship between the independent and dependent variables must be linear for linear regression. Thus, the linear regression model for this research is given:

$S = \beta_0 + \beta_i A + \beta_i C + \beta_i P + \beta_i Q + \beta_i R + E$ (1)

$S = \beta_0(0.411) + \beta_i A(0.024) + \beta_i C(0.583) + \beta_i P(.044) + \beta_i Q(0.168) + \beta_i R(0.084) + E$

B_0 = Constant

β_i = coefficients

A = Accessibility

C = Confidence in bank

P = Customer perception

Q = Quality of service

R = Religious perspective

S = Satisfaction (Dependent variable)

$\mathcal{E}$ = Error term

RESULTS AND DISCUSSION

Table 1: *Reliability Statistics*

	Cronbach's Alpha	N of Items
Combine	0.928	26
Quality of service	0.702	5
Customers Perception	0.736	4
Confidence in bank	0.763	4
Religious perspective	0.732	5
Accessibility of service	0.813	4
Satisfaction	0.937	4

Cronbach's alpha shows internal consistency of variables, and it should be 0.75 or higher (Ling, Fern, Boon, & Huat, 2015); in table 1combined, Cronbach's alpha is 0.928, which represents higher internal consistency of variables. The individual alphas are also in the acceptable range. The lowest alphas of Quality ofalphace is 0.702, which is also acceptable by literature reference (Taber, 2017). Values of Cronbach's alpha are given in table.1.

Normality of the data

The Normality and symmetry of data are tested through the statistical and graphical methods. The statistical normality is checked through skewness and kurtosis.

Table 2: *Skewness and Kurtosis*

Statistics						
	Quality of service	Customer perception	Confidence in bank	Religious perspective	Satisfaction	Accessibility
Skewness	.605	.880	.646	-.459	.120	.563
Kurtosis	.255	.550	.476	-.114	-.277	.186

There are few strict directorial rules about how much non-normality proposes an issue. It is suggested that absolute values of univariate skewness indices more than 3.0 showed to label skewed data sets. In the above table, all values are in the range of skewness and kurtosis, so the model is a good fit (Chou & Bentler, 1995).
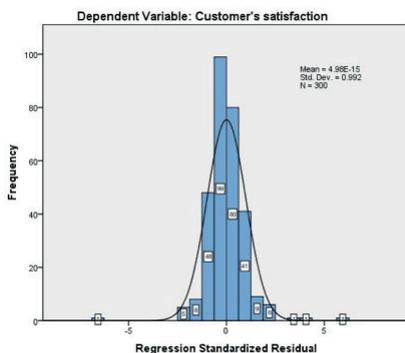
Graphs for Normality

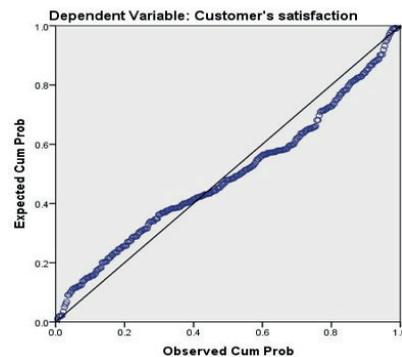**Figure 2:** *Normal Histogram of survey data*

Figure 3: *Normal Q-Q plot of survey data*

The graphical testing of the normality of data is done with Histogram and Q-Q plot. As shown in the figure.2 Histogram above is the bell-shaped pattern of the curve showing the normal distribution of data with a good model fit. In Q-Q Plot, the Data points lie closer to the diagonal line showing that data are typically distributed (Julie Pallant, 2013). As shown in figure.3 in the standard QQ plot above.

Coefficient of determination

Table 3: *Coefficient of determination*

Model	R Square	Adjusted R Square	Durbin-Watson
1	.625	.619	2.125

The coefficient of determination (R^2) is also used to determine the model's goodness of fit. Higher the value of R^2 value, the better. As can be seen from the above table of model summary, the value of R^2 is 0.625, which means that 62 per cent of the total variance of customer satisfaction is explained by independent variables, which is impressive (Lin et al., 2017). The value of Durbin-Watson's test for autocorrelation is less than two, which is acceptable. The Durbin-Watson value entails that there is autocorrelation in residuals of regression variables. As the Durbin-Watson value is near 2, we can conclude that variables are not highly correlated, making multiple regression suitable for the present study.

The adjusted R-squared is an enhanced form of R-squared. In the above table Adjusted R-square is 0.841, which is less than one and a significant ratio (Jullie Pallant, 2005).

Autocorrelation should not be present when conducting the linear regression. One of the most common tests for autocorrelation, often stated in statistical software, is the Durbin-Watson test. Durbin-Watson test is for the occurrence of autocorrelation in the errors of a regression model.

A rule of thumb is that Durbin-Watson values in the range of 1.5 to 2.5 are comparatively average. Values other than this range could be riskier (Hair, 2006). In this research, Durbin-Watson is 2.125, in the normal range.

Table 4: *Coefficient*

Model		Unstandardised Coefficient	Sig.	Collinearity Statistics	
				Tolerance	VIF
	(Constant)	.411	.027		
	Quality of service	.168	.005	.402	2.486
	Customer perception	.044	.545	.149	6.712
1	Confidence in bank	.583	.000	.246	4.066
	Religious perspective	.084	.078	.633	1.580
	Accessibility	.024	.754	.173	5.778

No multicollinearity

A value of variance inflation factor more significant than 10 indicates multicollinearity is present, and the assumption is violated if it is less than ten, then there is no correlation. VIF and Tolerance were checked for multicollinearity diagnostics. All VIFs should be between 1 to 10, and Tolerance should be > 0.25 (Hair et al., 1999). All VIFs are within the range, and in the

Tolerance section, accessibility and customer perception are not within the range.

Hypothesis Decision of quality of services

Since p-value = 0.005 ≤ 0.05, the null hypothesis is rejected.

Conclusion

At the α = 0.05 level of significance, there is enough evidence to conclude a significant relationship between customer satisfaction and quality of services.

Hypothesis Decision of customer perception

Since p-value = 0.545 ≥ 0.05, the null hypothesis is accepted.

Conclusion

At the α = 0.05 level of significance, there is enough evidence to conclude no relationship between customer satisfaction and customer perception.

Hypothesis Decision of confidence in the bank

Since p-value = 0.00 ≤ 0.05, the null hypothesis is rejected.

Conclusion

At the α = 0.05 level of significance, there is enough evidence to conclude a significant relationship between customer satisfaction and confidence in the banks.

Hypothesis Decision of religious perspective

Since p-value = 0.078 ≥ 0.05, the null hypothesis is accepted.

Conclusion

At the α = 0.05 level of significance, there is enough evidence to conclude no relationship between customer satisfaction and religious perspective.

Hypothesis Decision of accessibility of service

Since p-value = 0.754 ≥ 0.05, the null hypothesis is accepted.

Conclusion

At the α = 0.05 level of significance, there is enough evidence to conclude that there is no relationship between customer satisfaction and accessibility of service.

In the above table, VIF stands for variance inflation factor. Its value should be less than 10; if not, there is multicollinearity. All variance inflation factor values are under ten in the above table, so there is no multicollinearity.

Tolerance is associated with each independent variable and ranges from zero to one (Allison, 1999). Allison Notes in his book that there is not a strict cutoff for tolerance but suggests

a tolerance of below 0.40 is cause for concern. Weisburd & Britt state that anything under 0.20 suggests serious multicollinearity in a model.

B coefficients

The b coefficients state how many units customer satisfaction rises for a single unit rise in each predictor. Like so, a 1-point increment in the quality of service corresponds to 0.168 points rise in the customer satisfaction 1-point rise in customer perception corresponds to 0.044 points rise in the customer satisfaction, 1-point rise in the confidence in banks corresponds to 0.583 points rise in the customer satisfaction, 1-point rise on the religious perspective corresponds to 0.084 points rise on the customer satisfaction, 1-point rise on the accessibility corresponds to 0.024 points rise on the customer satisfaction.

CONCLUSION AND RECOMMENDATIONS

This research was conducted to know whether the customers are satisfied with Islamic banks. Various variables like Quality of services, Customer perception, Confidence in the bank, Religious perspective and Accessibility of services, these variables were analysed through parametric test linear regression, and it was found that quality of services and confidence in the bank have a significant relationship with satisfaction of Islamic bank customer. The result showed that most customers were not satisfied with Islamic banks. The government of Pakistan is working to make better performance of Islamic banks. Still, there is space where Government needs to work to make products and services better for customers.

Future recommendations

The results are limited to the sample of 300 customers of Islamic banks. The sample size can be increased by adding different countries. Data can be collected from the bank's management to identify the problem for future research deeply.

Implications

This research has many significant inferences for the academic, Islamic banks, and policymakers. Academically, this study has added new knowledge on customer satisfaction of Islamic banks. For Islamic banks, it has added on which factors they should work on more, and for the policymakers' side, it has added that they should bring more vivid policy, especially for Islamic banks.

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