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Customer's Patronage in Selection Criteria of Islamic Banks in Pakistan

Aziza Naz

Researcher, Islamia University, Bahawalpur, Pakistan

Awais Farooq

Regional Coordinator, WMCS, Meezan Bank Ltd., Bahawalpur, Pakistan

Researcher, Islamia University, Bahawalpur, Pakistan

Abstract:

The purpose of this study is to examine those factors which help the consumers in the selection of Islamic banking sector. It is observed that Islamic banking sector is the most growing industry in Pakistan so, according to the customer's preferences the selection criteria for Islamic banks is proposed as Shariah compliance, Quality and Attractiveness of Offerings, Friendliness of bank personnel, Cost and benefit analysis and Awareness. It is also observed that there are many factors but these are the most important factors which patronage the customer toward Islamic banks.

Research Aim: The aim of this paper is to identify those factors which customers preferred in the selection of Islamic bank in Pakistan. These factors or preferences are such as Shariah compliance, Quality and Attractiveness of Offerings, Friendliness of bank personnel, Cost and benefit analysis and Awareness. These factors are in the customer's mind in the selection of Islamic bank.

Research finding: Shariah compliance, Quality and Attractiveness of Offerings, Friendliness of bank personnel, Cost and benefit analysis and Awareness about Islamic banking.

Methodology: This paper is qualitative nature in which we used literature survey technique for data collection, data is collected from different article, journals, publications and websites. We also used cross sectional technique for verification of data.

Keywords: *Islamic banking sector, Shariah compliance, Criteria for banking sector*

1. Introduction

Now a day Islamic banks is an emerging industry in all over the world especially in Muslims countries like Malaysia, Bahrain, Saudi Arabia and Pakistan. Islamic banking system focuses on the shariah compliance and prohibited those activities which involved in unethical practices such as risk involvement, gambling and insurance products. There are many factors which patronage the customer in the selection criteria of an Islamic bank such as shariah compliance, risk sharing, perfect location, online services, parking place, banks goodwill, supportive and friendly behavior of staff. Islamic bank is a growing industry so it can increase its market share to fulfill all above mentioned criteria of their potential customers. There is face to face competition of Islamic banks and conventional banking system if Islamic banks want to retain their customers then they should not fulfill the shariah compliance but also perform all those activities which facilitate the customers. Most Muslim prefer to select the Islamic banks because they think they are fulfilling shariah compliance while Non-Muslims preferred to select the conventional banks because they offered high interest rate on their deposits. Selection criteria may be differing on the basis of preferences such as youngster focus on the ATM and online services while the preferences of other peoples may be according to their convenience (Muhammad Imtiaz Subhani, 2012).

It is most important question for the banks to identify those factors which patronage of a customer in the selection of the Islamic banks. They can retain their customers through identify these factors and provide them best facilities as they needed. There is perfect competition among Islamic and conventional banks so customer will choose the bank on the basis of perceived benefits if customers think that Islamic banks provide those more benefits then they preferred Islamic banks (Aregbeyen, 2011).

It is most important reason to choose the Islamic banks because Islamic banks encourage the customers to invest in that investment which are risky but profitable and in this way funds are circulate in the society which is economical for the country. Islamic banks prohibited the interest and offer alternative opportunity to the customers like Mushaira Mudarabha and Ijrah which are according to the Shariah compliance. Islamic banks claim that they follow the Shariah compliance that's why they provide the true information to the customer and as well able to survive in recession when conventional banks face crises due to interest based activities (MUHAMMAD ASIF, 2012).

Pakistani customer patronage the Islamic banks due to offering of different accounts (A.Al-Wadia Current Account, B.Mudarabha Savings Account, C.Musharaka, D. Ijrah and E.Bai-Salam). They think that these accounts will secure their funds and they can receive as they needed. Islamic banking system is not only popular within Muslims customers due to its products and services but also in Non-Muslims customers. Islamic banking sector is now become the growing industry in the united nation and European countries as well

as developing countries where conventional banks are working successful and built a soft image among the customers due to their quality services (Farjana Mumu, 2012).

2. Literature Review

Islamic banking system totally based on shariah compliance and provides services to customers by following rules and regulations which are mentioned in the Islamic banking act 1983 (Central Bank of Malaysia, 2006). The BankIslam Malaysia Berhad was the first Islamic bank and its paid up capital was RM 80 Million. The bank not only fulfills the shariah compliance as well as follows those regulations which are also imposed on the conventional banks. The growth of BIMB is remarkable which influenced the government to expand the Islamic banks operations so customer may entertain with its best services. This is the success of BIMB that it has more than 80 branches with 1200 workers which facilitating not only the Muslims customers but also attracting the non-Muslims (Bank Islam, 2011).

There is a strict competition between Islamic banks and conventional banks if Islamic banks want to sustain their competitive advantage then they should focus on the marketing activities and creates awareness among the Muslim as well as non-Muslim customers. They should conduct a study to know the behavior of the customers and fulfill their need (Naser and Moutinho (1997). According to another study conducted in Singapore it is found that there is lack of Islamic banks awareness not only in the Muslim as well as non-Muslims communities (Gerrard and Cunningham (1997).

The preference of a customer toward selection in the Islamic banks would be different on the basis of demographic and geographic factors. For example, convenience or location may be the crucial factor for someone in the selection of the Islamic banks while other focus on the basis of its other factors such as marital status age gender income and cultural background(Anderson *et al.*, 1976; Laroche and Taylor, 1988). However, according to the Singapore respondent's personal relation and culture orientation is the essential factor in the selection of the Islamic banks rather than convenience. They are not focusing on the convenience and their main concern with the staff behavior (Tan and Chua (1986). According to a survey of Turkish male customers they preferred different factors in the selection of Islamic banks as bank image and reputation business hours, parking and wide range and efficient services (Kaynak *et al.*

Now a day there is perfect competition between conventional and Islamic banking sectors so, variety of services are emerged to compete their competitors as well as satisfy their customer's needs. Now Islamic banks are focusing on their infrastructure and information technology to get the competitive advantage and capture the markets shares (Zineldin, 1996). Islamic banking follows the shariah compliance which prohibited the interest and protects the borrowers. The risk sharing principal gives a sustainable competitive advantage on its competitors and realizes the customers that it works for their benefits. There is a great challenge for the Islamic banks to compete the conventional banks but its main variable that influence the customers mind is its profit sharing principal and shariah compliance which create a sound image in the customer's mind Naser and Moutinho (1997).

There are basically two theories which create sustainable competitive advantage segmentation and positioning. In segmentation we divide the market into different groups of people who have same response toward the product and in positioning an organization create image in the customer's mind that they are distinguish from their customers. According to marketing theory and practice both market segmentation and positioning are fundamental issues (Zineldin, 1996).

A study conducted in the Bangladesh which identifies those variables who attract the customers to select in the Islamic banking sectors. In this survey it is found those variables which customers give high preferences in the selection criteria of a bank. There a face to face competition between conventional banks and Islamic banks which offer the customers to choose the banks according to their convenience and their preferences. Now, if Islamic banks compete to the conventional banks then they will provide all those facilities which are providing the conventional banks. These variables are different according to the customer's preferences but normally customers choose banks on certain variables as online services, ATM facility location of banks, speedy and efficient services, staff interaction and management capable to give them financial advice regarding their investment. These are the variables that motivate the customer to choose those banks which provide them better services so, if Islamic banks provide all these facilities to their customers in the Bangladesh then they will prefer the Islamic banks rather than conventional banks(Rashid & Hassan, 2009).

A study is conducted to know the customers' behavior regarding the variables and preferences in the selection of Islamic banks in Malaysia. They examined that customers know the banking concepts and practices, and personal preferences toward Islamic banks and also found that best services are the important variable in the selection of Islamic bank. Similarly, a study is conducted in Pakistan and they found that Islamic banking industry is a growing industry in the Pakistan because people know the Islamic banking concepts and they know the usage of both banks conventional as well as Islamic and their preferences to the Islamic banks due to the shariah compliance and profit risk sharing principle (Rustam *et al.* (2011)

The function of this paper is to identify those factors which help the youngsters to select the banks. Youngster's selection criteria of bank may be different from elders. Youngsters prefer to select those banks that provide them security against their savings, ATM service, benefit against savings, better services, online service etc. they also consider other factor like location of bank, attractiveness and parking facility(Mokhlis, Salleh , & Nik Mat , 2011).

Most of the youngsters who are the students of university or college prefer to select those banks that open their accounts free of cost and provide them cash incentives against their saving accounts and offer discount in their service charges. If bankers want to attract or retain these youngsters they offer them different schemes like loyalty rewards and gifts against their retention with the banks (Mokhlis, Salleh , & Nik Mat , 2011).

In South Africa the bank selection criteria of people are that banks should have good image and status in banking sector and the bank provide high quality service to their customers no matter what the charges they take from customers on the provision of different product and services (Coetzee, van Zyl, & Tait, 2012).

There is tough competition in Nigerian banking sectors and banks provide many services to their customers. The Nigerian customer's selection criteria of bank based on different factors that the research identifies these are the followings: security of funds, location of bank near to their home, 24 hours availability of ATM facilities, online transactions, good behavior of bank staff with customers, innovative product and services, low service charges, high interest rate on savings, quick service, transaction alert service on their phones and regular contact with customers these criteria's are very important for the selection of bank(Omo Aregbeyen, 2011).

2.1. Selection Criteria for Islamic bank

There are some factors in the theoretical model which patronage the customers in the selection of Islamic banks. Different researcher had defined the different selection criteria of Islamic banks according to their results which are obtained from respondents in different countries. Here is some variable are identifying which are studied in the literature review. These factors are presented tin theoretical framework and further more discussed in detail study.

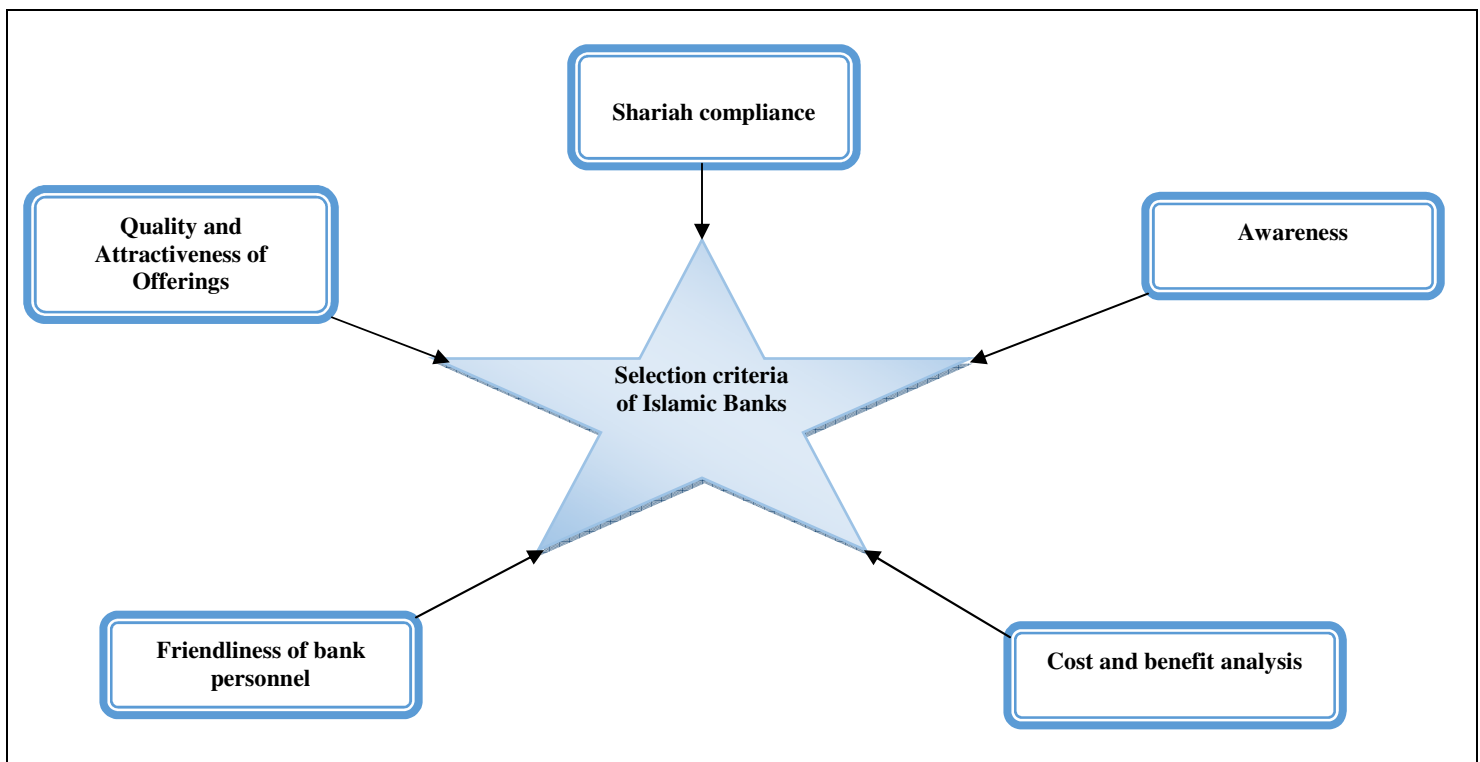


Figure 1: Theoretical Framework

2.1.1. Shariah Compliance

It is found that customer's patronage toward Islamic banks because they think Islamic banks will fulfill the shariah compliance in all the activities. According to shariah compliance an Islamic bank follow all the rules and regulation and provide services as interest free loan and shariah complaint services (Haron et al., 1994; Metawa& Al-Mossawi, 1998; Ahmad &Haron, 2002; Khan, Hassan &Shahid). A study conducted in the Bangladesh and it is found that religious factor is an above average factor from all the factor in the selection of Islamic banking sector (Khan et al. (2007). it is found in the Malaysia where multi religious people are living that shariah compliance is only important factor for the Muslims customers not for the non-Muslims customers so that the point Islamic banks should follow the shariah compliance to attract the customers (Rashid and Hassan (2008).

2.1.2. Quality and Attractiveness of Offerings

It is studied that when customer patronage in the selection criteria of Islamic banks then its main concern is not due to religious factor but he alsochooses the banks on the basis of their quality services. So Islamic banking services should be better than the commercial bank then customers prefer the Islamic bank instead of commercial banks (Haron et al., 1994). It is also found when a study conducted in Pakistan that that customer has a focus on the services quality either he is an Islamic bank's customer or conventional bank's customers but the level of satisfaction is high in Islamic banks rather than conventional banks (Ahmed, Rehman and + (2010).It is found that mostly customers are satisfied with the services of Islamic banks if Islamic bank want a competitive edge then they should be competent in the services and built relationship with the customers to attract and satisfied them (Metawa and Almoosawi (1998).

2.1.3. Friendliness of Bank Personnel

It is considered that while selecting the criteria for Islamic banks religious factor is one of the most important factor but there are also many other factors which patronage the customers toward the Islamic banks. Friend and family consultation is most important factor in the selection criteria of Islamic banks but it placed on third important factor for the Muslim customers in the selection criteria of Islamic banks. Religious factor is only a strategy to attract more customers than the conventional banks (Haron et al., (1994).

2.1.4. Cost and Benefit Analysis

It is found during a studied conducted in Malaysia that customers were satisfied with convenience of location fast online services, reception received, parking facilities, online services, and shariah compliance. Customers focus only those services which give more benefits than its cost and remaining factor has low importance for him as advertising overdraft and individual needs (Tan (2009). It is also identified that banking decisions are influenced by interest rates; one of the top five determinants factors (Khazeh and Decker (1992). it is also found that profit or interest rate which is offering Islamic banks for people maintaining the good relationship with Islamic banks (Gerrad and Cunningham (1997).

2.1.5. Awareness

Zineldin (1995) describe that traditional marketing activities have less important while functional qualities have more important in the selection of bank. He is also identified that error free account efficient management and quality services are important determinants in the selection of Islamic banks rather than convenience of location advertising and best decision banking and price. Word of mouth as proved by Devlin and Gerrard (2004) and personal contact are also influencing criteria's. While in 2011 Nerteh and Owusu-Frimpong showed that Behavior and attitude of staff dealing with customers are also one of the important criterion.

2.2. Problem Statement

Now the emergence of more financial institutions there is a perfect competition amongst financial institutions and customers have variety of choice for in the selection of Islamic banks. Now Muslims customers have a choice to choose an Islamic bank and secure their investment on the basis of shariah compliance while non-Muslims also have choice to choose conventional banks or Islamic banks according to their preference. Due to the strict competition Islamic banks should focus on such variables as banks image and reputation, profit risk sharing, friends and family consultation, online services, friendly behavior and interaction of staff, shariah compliance services quality which attract the customers in the selection of Islamic banks.

2.2.1. Research Limitations

Research is limited to a society where religion Islam prevails. In such a society, a consumer shifts towards Islamic banking due to his/her Islamic beliefs. In a non-Islamic society, the factors may be changed. Their preferences may be changed according to their beliefs and preferences.

2.3. Suggestions and Recommendations

On the basis research, researcher has proposed the following recommendations:

- Islamic banks should focus on creating awareness by mass advertising.
- Location of Islamic banks should be convenient for customers.
- A positive word of mouth and friend & family's advice attracts many customers. So Islamic banks should focus on customer satisfaction that produces positive word of mouth.

3. Discussion & Conclusion

Islamic finance has successfully secured and durable financial system since its emergence. There are currently more than 300 Islamic financial institutions (IFIs) worldwide. The Islamic finance industry has gain much importance among Muslim countries as well as non-Muslim countries around the globe. Today, Malaysian model of Islamic banking has become one of the advances banking system in world. It is evident that the latest figures of market shares of Islamic deposits and financing stand at 15.6 percent and 11.6 percent of the industry's total respectively. In 2000, total assets of Islamic banking were 6.9 percent, while deposits were 7.4 percent and financing were 5.3 percent.

Comprehensive review of literature suggests that, customer's preferences regarding in the selection of Islamic banks is very important to identify. This is because; perception preference and characteristics of customers are changing day by day due to dynamic banking industry and perfect competition amongst conventional and non-conventional banks. According to holiday (1996), it is very hot topic in banking industry research to identify customer's preferences, needs and perception regarding selection criteria in banks. There is perfect competition amongst conventional and non-conventional banks so, if Islamic banks want to penetrate the market then they should be performed better than conventional banks and developed better system to identify the customer's preferences and selection criteria regarding Islamic banks. Some other researchers also explored that there is very strict competition between conventional and non-conventional banks so Islamic banks should perform better services and products than conventional banks and should support them in the selection criteria of Islamic banks regarding their perception and preferences (Haron, Ahmad & Planisek, 1994; Dusuki & Abdullah, 2006).

In 2011, Rustam, Bibi, Zaman, Rustam and Zhid-ul-haq suggested that new conceptual model for selection criteria of Islamic banks should be included accepting of Islamic banks concepts, Shariah compliance, best services Quality and Attractiveness of Offerings, Friendliness of bank personnel, Cost and benefit analysis and Awareness and willingness to deal with Islamic banks.

The most important principle of this study is to identify those factors which patronage the customers in the selection criteria of Islamic banks in Pakistan. There are many determinants which patronage the customers in the selection of Islamic banks such as Shariah compliance, Quality and Attractiveness of Offerings, Friendliness of bank personnel, Cost and benefit analysis and Awareness but shariah compliance is the most significant factor for the Muslims customers in Pakistan. Some other prominent factors are honesty, product variety, service facility, efficiency, and how much they are agree to deal with Islamic banks and firm reputation which attract the Muslim as well as non-Muslim customers. It is observed that Muslim customers are more comfortable dealing with Islamic banks compared to the conventional banks.

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