

Perceptions of Corporate Customers Towards Islamic Banking Products and Services in Pakistan

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The main objective of this study is to examine the perceptions of corporate customers towards Islamic banking products and services in Pakistan. The study discusses the three main parameters i) the usage of conventional and Islamic banking facilities, ii) respondents' understanding of Islamic banking system, and iii) their personal opinion on various aspects of Islamic banking products. A total of 100 structured questionnaires are conducted. The response rate of the study is 60%. The data is collected from corporate customers of six full-fledged commercial banks of Pakistan. Results are interpreted on the basis of frequency distribution at this stage. The results indicate that Islamic Banking products and services had a good potential within Pakistani corporate sector.

Key words: Islamic Banking, Corporate customers, Client, Perception, Frequency Distribution, Pakistan.

JEL Classification: E44; F36; G21

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1. Introduction

Islamic Finance is one of the fastest growing financial systems in the international financial system. Banking is the most developed part of the Islamic financial system. The state constitutions of Pakistan require its banking systems to be fully compatible with Islamic law. During the last three decades a large scale growth is observed in Islamic Banking sector not only within the Muslim countries but also round the globe. Factors that are usually accounted for its growth includes introduction of broad macroeconomic and structural reforms in the financial system, the liberalization of capital movements, privatization, the global integration of financial markets, and the introduction of innovative and new Islamic products. The rapid expansion of Islamic Banks as a viable form of financial intermediation reflects their ability to meet the changing patterns of demand by consumers and businesses. While the Islamic Financial Services industry represents approximately only 1% of global assets, it has been growing by more than 20% annually since 2000. At the end of 2007, the combined revenue of International Islamic Financial Services is estimated to amount USD 53 billion, while Islamic Profits totaled USD 15 billion and is expected to more than double to USD 32 billion over the next 5 years. It is estimated that by 2012, Islamic assets will reach about USD 1600 billion, with revenues of USD 120 billion. (IFSB, 2007)

Islamic banking is growing and drawing attention of institutions the world over. First significant attempt to Islamize the economy of Pakistan was made in 1980's through converting the then existing banking system into an interest free banking system, which is still somehow operating in Pakistan. The re-launch of Islamic Banking in Pakistan was initiated after the judgment made by Federal Shariah Court, effectively from 2002. Significant efforts have been made in this area by State Bank Of Pakistan , with reasonable support from the federal ministries of Finance, commerce and Law. In Jan 2002, SBP gave first Islamic Banking License to Meezan Bank Limited. The SBP

established the Islamic Banking Department on 15 Sep, 2003. The growth in Islamic Banking is phenomenal over a period of last 7/8 years. At present there are more than 600 Islamic Banking Branches throughout Pakistan and 19 Islamic Banking institutions are offering Islamic commercial banking services. (Ansari, 2010) Islamic banking is barely 30 years old in Pakistan but the overall performance of the Islamic banks in Pakistan is gradually increasing in terms of market share, deposits mobilization, and financing portfolio. The size of Islamic banks is a fraction of that of conventional banks and they are in an evolutionary and transitory phase. Islamic banks are struggling against conventional banking and non-banking financial institutions. To survive in this strategic rivalry, Islamic banks must understand and use the customer satisfaction issues under existing privileges given by Islamic Shari`ah (McIver and Naylor, 1986).

Since the corporate customers are the key players in the economy, the main objectives of this study are to highlight the perception of Pakistani corporate customers towards Islamic banking products and services, to review the growth of Islamic banking in Pakistan and to offer suggestions for improvement based on evidences provided by literature studies.

The remainder of the paper has been organized in the following way. Section 11 provides literature review. Research Methodology is discussed in section III. The findings and analysis are explained in section IV, the conclusion is presented in the final section.

2. Literature Review

Perception is the act of discerning, realizing, and becoming aware of through the senses (Albrecht, 2003). The customer perception is often identified by their level of satisfaction towards particular products or services. Customer Satisfaction is usually measured in terms of service quality and service features offered by an institution. Due to increase in demand, various researches are done for measurement of

customer's satisfaction. Turnbull (1983) was among the first researchers who studied perception of corporate customers towards their banks. He found that large corporations prefer foreign banks more as compared to the local banks. He also examined that size played an important role in maintaining split banking practices. Rosenblatt et al. (1988) determined the two factors that influenced the decision making of corporate customers. First is the banks with better branching networks and second is their quality service rather than innovative products. The findings of Turnbull and Gibs (1989) showed that the corporate customers perceived that quality of services was an important factor in establishing a relationship. Among the other factors that can influence selection process were quality of staff, bank manager attitude's and price of service .Physical appearance of the bank has no impact on selection process. Tyler and Stanley (1999) found reliability, assurance, empathy, responsiveness and pro-activity as key elements of perceived quality by large corporations.

Erol and El-Bdour (1989) discovered that the most important criteria by customers while selecting Islamic Banks were the provision of fast and efficient services, banks reputation and image, and confidentiality. Haron et al. (1994) found three important criteria perceived by Muslims in Malaysia while selecting their banks. These were the provision of fast and efficient service, the speed of transaction, and the friendly bank personnel. Gerrerd and Cunningham (1997) considered "parking space" and "interior facilities" as important issues related to customer satisfaction. Metawa and Almosawi (1998) investigated the banking behavior of Islamic banking customers in Oman by collecting data from 300 customers. They aimed to find out the awareness and satisfaction level among customers of Islamic banks by considering demographic data. The findings showed that the most of customers are highly satisfied with the products and services of Islamic Banks. They suggested that banker should develop professionalism and competency to maintain profitable relations with customers. Naser et al. (1999) found that among the most important

service features used to measure customer satisfaction are convenience, competitiveness and location of service provider.

Othman and Othman (2001) studied the development of service quality and perception of customers towards Islamic Banking. They tested the famous service quality model "CARTER" during their survey of customers of Kuwait Finance House (KFH). Carter model has six quality and perception dimensions explicitly "C" for compliance, "A" for assurance, "R" for reliability, "T" for tangibles, "E" for empathy and "R" for responsiveness. They argued that to be successful in Islamic Banking, The Islamic Banks have to address the importance of knowledge building programs on customers, training for employees in both generic and specialized format, communicating the customers regarding new service offerings, cost-benefit aspect of services purchased by customers, and positive word of mouth etc. Ahmed & Haron (2002) Reported that financial decision making authority in Malaysia corporate sectors believed that the Islamic banking system had a good potential as an alternative to conventional system. However the providers of Islamic Banking products & services have not done enough in educating customers and marketing their products. This study highlights the important factor perceived by corporate customers in selecting their bank is the cost of service and products.

Rexha et al. (2003) proposed a model that demonstrates the factor impacting on corporate customer's client commitment towards their banks. The study has shown the positive relationship between Customer satisfaction, trust and bank commitment. The study further demonstrated that satisfaction of corporate clients with their banks does not impact directly on the propensity to use electronic banking by the corporate clients. However as satisfaction has significant impact on both trust and commitment, and both of these constructs impact on the corporate client's propensity to use electronic banking.

Dusuki and Abdullah (2007) discovered that competency and courtesy

of employees and their ability to convey trust and confidence onto their customers (E.g., Friendliness of staff, efficiency and effectiveness in handling transactions, knowledge and experience of bank personnel) are intrinsic to choosing a bank. Rashid et al. (2008) studied quality perception of customers towards domestic Islamic Banks in Bangladesh. They found that Higher demand of Islamic banking products and services requires existence of superior quality in service, efficiency in system, strict compliance to Islamic Shari`ah and satisfactory community service through job creation and ensuring consistency in service provisions. Further they suggested that Corporal Efficiency is a collective effort system, technology, process and efficient management. Efficient management can turn dissatisfied customer making a repeat purchase. However during their study they observed that managers of Islamic banks in general have lack of enthusiasm and missing “helping” attitude. The study further demonstrated that faster transaction system, less cost of banking, and efficient counter management can add value to everyday volume of transactions and simultaneously increase customer satisfaction.

Ahmed et al. (2010) reported that service quality significantly influence the customer satisfaction in case of Islamic & Conventional Banking while the magnitude of effect is greater in Islamic Banking as compared to conventional Banking. Ahmed et al (2011, a) examined the perception of satisfaction among the bank customers in the existence of two banking systems in Pakistan that is, Islamic & Conventional banking systems. The results showed that customers of Islamic Banks are more satisfied as compared to customers of conventional banks. In another study of Ahmed et al (2011, b) they investigated the relationship among service quality, customer satisfaction & performance of Islamic Banks. The study identified the positive impact of service quality on customer satisfaction but a gap is identified between customer satisfaction and performance of Islamic Banks. They suggested that managers should improve the quality of service to retain their customers as satisfied customers for long-term

benefits. Similarly arrangements should be made to enhance awareness among customers and employees of the banks for increasing the performance of Islamic Banks.

Different researchers have set different criteria's for the measurement of customer perception. The above studies have given useful insight of factors contributing to customers' satisfaction towards provision of products and services of Islamic banks. However, the customers' attitude and perception towards Islamic banking products are still lacking. This study offers a critical analysis of corporate customer's perception.

3. Research Methodology

Perception of corporate customers has been measured and based upon previous study of Malaysian corporate customers (Ahmed & Haron, 2002). The information related to corporate customer perception was gathered through a questionnaire. A structured questionnaire consisting of all close-ended type of questions was conducted among the respondents. The questionnaire contained four sections; in the first section questions were asked about respondent's background generally. The second section of the questionnaire was designed to measure the overall knowledge of the respondents in Islamic banking system. The questions asked in this section included those that measured the respondents' level of understanding of the concepts and principles of Islamic banking. The questionnaire in the third section was designed to determine the role of respondents in the decision-making process of the bank selection. The final section of the questionnaire seeks respondent's perceptions on some general matters.

3.1. Sample

The respondents participating in this research include the existing corporate customers of National Bank of Pakistan, Allied Bank

Limited, Askari Bank Limited, Bank Alfalah Limited, Dubai Islamic Bank, and Dawood Islamic Bank Limited of Pakistan, who hold responsible position in their organizations. A total of 100 respondents were randomly selected who visited the sampling locations during the chosen time interval. Out of 100 questionnaires sent to all participants, 60 were returned. The number of responses is enough and sufficient statistically for reliability. No further attempt was made to increase the samples due to shortage of resources. For Data analysis, simple frequencies of responses were calculated. Relative percentile frequencies were found for analysis of respondents demographically, their knowledge in Islamic Banking, their role in administrative matters, and their opinions regarding potential of Islamic banking products they see in Pakistan.

4. Analysis and Findings

4.1. Profile of Respondents

The first section of the questionnaire was designed to gather information about the respondent's personal background. The profile of respondents in Table 1 showed that 100% respondents were Muslim. Considering age wise, about 77% of the respondents were less than 50 years old; with majority of them have both university and professional qualifications. Among the respondents, about 36% of respondents had been working in the existing companies for more than 10 years. 38% of the respondents hold present position within the organization less than five year ago.

Table 1

Demographic Factors

Demographic Factors	N	%
1. Age		
<30 years	17	28%
30-39 years	17	28%
40-49 years	13	22%
50 and above	13	22%
Total	60	100%
2. Qualification		
University / College	20	33%
Professional	15	25%
Both University / Professional	25	42%
Total	60	100%
3. Years in the present position		
<1years	7	11.66%
1-5 years	23	38.33%
6-10 years	13	21.66%
more than 10 years	17	28.33%
Total	60	100%
4. Years in present organization		
< 1 years	7	11.66%
1-5 years	20	33.33%
6-10 years	11	18.33%
more than 10 years	22	36.66%
Total	60	100%

4.2. Knowledge in Islamic Banking

The second section of questionnaire was designed to measure the overall knowledge of the respondents in Islamic Banking System. As profile of respondents showed that all the respondents were Muslim, that why they have some knowledge about Islamic Banking products and services. They agree that Islamic Banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practice by conventional banking system. 55% of

the respondents indicated their willingness on introduction of Islamic Banking System as a replacement to Conventional Banking System. About 68% of the respondents believed that Islamic banks and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment. 53% of respondents consider that profit sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system. From the responses collected, it was examined that 33% of the respondents understand Islamic banking partially (see, Table 2).

Table 2

Salient Features of Islamic Banking

Features of Islamic Banking	N	%
1. Islamic banking system was introduced because Muslims are prohibited from associating themselves with the element of interest practice by conventional banking system.		
Absolutely untrue	6	10%
Untrue	2	3.4%
Not sure	4	6.6%
True	33	55%
Absolutely true	15	25%
Total	60	100%
2. Both Islamic and conventional banks must adopt profit maximization principle in order to survive in this competitive business environment.		
Absolutely untrue	3	5%
Untrue	4	6.7%
Not sure	2	3.3%
True	41	68.3%
Absolutely true	10	16.7%
Total	60	100%

3. The profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system.		
Absolutely untrue	1	1.6%
Untrue	3	5%
Not sure	9	15%
True	32	53.4%
Absolutely true	15	25%
Total	60	100%
4. How do you rate your level of overall knowledge in the Islamic banking system?		
Very knowledgeable	9	15%
Knowledgeable	20	33.4%
Understand partially	20	33.3%
Limited knowledge	8	13.3%
No knowledge at all	3	5%
Total	60	100%

4.3. Role of Respondents

The third section of the questionnaire analyzed the administrative matters. The findings in the Table 3 indicate that 33.4% of the respondents had no authority at all in organization account opening. 35% of the respondents make recommendation with the influential power while opening an account and 5% have no influential powers. Among the rest of respondents 16% of the respondents have authority to make decision of account opening while 16.6% of the respondents took part in decision making process. In case of applying new or additional facilities and terminating the relationships with the bank, similar results were found.

Table 3

Administrative Matters

Administrative Matters	N	%
Under normal circumstances, what is your role in the following		
1. Opening an account with new bank.		
Recommendation with influential power.	21	35%
Recommendation with no influential power.	3	5%
Authorize to make decision.	10	16.6%
Take part in decision-making.	6	10%
No authority at all.	20	33.4%
Total	60	100%
2. Applying new financing facilities.		
Recommendation with influential power	20	33.3%
Recommendation with no influential power.	3	5%
Authorize to make decision.	7	11.7%
Take part in decision-making.	14	23.3%
No authority at all.	16	26.7%
Total	60	100%
3. Applying additional financing facilities.		
Recommendation with influential power.	23	38.3%
Recommendation with no influential power.	4	6.7%
Authorize to make decision.	8	8.3%
Take part in decision-making.	7	16.7%
No authority at all	18	30%
Total	60	100%
4. Terminating a relationship with the existing bank.		
Recommendation with influential power.	9	15%
Recommendation with no influential power.	3	5%
Authorize to make decision.	16	26.6%
Take part in decision-making.	10	16.7%
No authority at all.	22	36.7%
Total	60	100%

4.4. Potentiality of Islamic Banking

The final section of questionnaire seeks respondent's perception on some general matters. The answers of this section could be used by Islamic Banking products and service provider in their effort to win

these customers. As indicated by Table 4, few respondents believed that religion is the only reason for customers selecting Islamic banks. However 63.3% of the respondents perceived that religion and economics were the patronage factors in the selection of Islamic Banking System. 50% of the respondent's believed that Islamic Banking products and services had good potential in the Pakistani Corporate sector to be accepted by customers. Similar types of result were found when perception of corporate customers was analyzed in Malaysia. However in Bangladesh Religion is still the prime reason for Islamic Bank selection. The majority of respondents consider that Islamic Banking products available in Pakistan are similar to the products of conventional banks except that banks used different names in highlighting those products. This perception might be due to lack of effective marketing and promotion of Islamic banking products in corporate sector. As 40% of the respondents believed that Islamic Banks have not done enough in marketing their products.

Table 4

Personal Opinions

Personal Opinions	N	%
1. The main reason why people select Islamic banking products.		
Strictly religion	9	15%
Economics (profit & cost elements)	2	3.3%
Both religion and economics	38	63.3%
Other reasons	6	10%
No idea.	5	8.4%
Total	60	100%
2. The potentially of Islamic banking products in the Pakistani corporate sector.		
A very good potential		
A good potential	15	25%
Some potential	15	25%
No potential	16	26.7%
No potential at all	7	11.7%
No idea	7	11.6%
Total	60	100%

3. Is it true the Islamic banking products available in Malaysia are similar to the products of conventional banks except that the banks use different names in highlighting those products?		
Absolutely true	19	31.7%
True	27	45%
Partly true	12	20%
Untrue	1	1.6%
Absolutely untrue	1	1.7%
Total	60	100%
4. Do you think that Islamic banks have done enough in marketing their products to corporate sector?		
More than enough	11	18.3%
Enough	11	18.3%
Just Enough	5	8.4%
Not enough	24	40%
Not enough at all	9	15%
Total	60	100%

5. Conclusion

The findings of the study suggest that Islamic Banking products and services had a good potential within Pakistan corporate sector. Profit-sharing principle is the only principle that can replace the element of interest in the operations of Islamic banking system. Majority corporate customers have limited knowledge in relation to Islamic banking products within Pakistan. This is due to the reason that Islamic banks have not done enough in marketing their products and services. There is a need for educating customers about Islamic banking products and their Importance. Majority respondents perceived religion and economics as the patronage factors in Islamic Bank selection by customers. The most important one was cost & benefit to the company, followed by service delivery, size and reputation of the bank, convenience, and friendliness of bank personnel.

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