

Factors Determining the Attitude of Customers towards Islamic Banking: A Study of Peshawar, Pakistan

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Abstract

This study aims to investigate the effects of those factors which are responsible to determine the attitude of the customers towards Islamic banking. This study is based on self developed 40 items questionnaire grouped in 7 main variables. 300 Questionnaire were distributed through convenience sampling among the customers out of which 265 questionnaires a good response rate of 88.33% was received. Correlation and regression test were applied to the collected data and research findings show that cost effectiveness, Service facilitation and intention to use has more significant effect on the attitude of the customers than other factors like religious compliance and social influence.

Keywords: Islamic banking, interest, Islamic Sharia, religious compliance

The instability of the interest based economic system and the continuous crisis in the global economies has resulted in major shifts in the global economic and financial horizons. One of the most important shifts in the global economies stems from the evolution of the Islamic banking system. The Islamic banking system is an interest free banking system that operates through pricing of goods and services instead of pricing of money in the economy. Acceptance of Islamic banking can be viewed from the fact that global conventional banks like HSBS, Standard Chartered Bank, Deutsche Bank, Citibank, etc have also set up separate Windows/Divisions to provide Islamic financial services. They are not only providing these services to the Muslims clients but also to the non-Muslims clients who are interested in profit and loss sharing (PLS) financial instruments. UK, France, China, Singapore and many other countries have developed special regulatory to facilitate the working of Islamic banking. (Awan, 2009).

There are many different factors which have contributed to the acceptance of the Islamic banking and are rapidly growing in the market. Some of these factors are economic factors which are supposed to be greatly influenced by the shift towards the interest free banking. These factors include the problem of the poverty which is very efficiently handled by the Islamic banking system and also the resistance to the economic crisis and downturns in the economies. In fact the Islamic banking system can serve as safeguard for eliminating the risk of

inflation, unemployment and downturns in the economy. The Islamic banking system ensures an efficient and effective utilization of resources in the economy and in true sense serves the purpose of mobilization of funds in the economy. Another important factor which had led to the speedy growth of the Islamic banking system in different parts of the world is the resistance of the Islamic banking to global financial crises. In the last crises of 2008, it was quite noticeable that the Islamic banking institutions were not as badly struck by the global credit crunch as the interest based financial institutions were stroked. The resistance of the Islamic banking system to global financial crises is another important aspect of the Islamic banking system which has drawn the attention of the banking customers to the Islamic banking market. The resistance provides the customers a sense of security for their funds. Apart from these financial and economic aspects of the Islamic banking system there are also certain social and religious aspects which have significantly influenced the acceptance of the Islamic banking in the Muslims banking customers in different parts of the world. These factors have been considerably discussed and worked upon to investigate their impacts on the growth of the Islamic banking in different parts of the world. However, there is still a need to identify certain other factors which may influence the acceptance of the Islamic banking. Also the strength of the influence is also necessary to assessed. This study analyzes the impact of religious, social cost effectiveness, Government support and services facilitation factors on the acceptance of Islamic banking in Peshawar, Pakistan. Correlation and regression has been used to show the relationship and effects of these factors on the attitude of the Islamic banking customers.

Objectives of the Research

To identify the influence of critical factors (Social influence, Religious, Cost effectiveness, Intention to use, Government support, and Service facilitation) on the attitude of Islamic banking customers.

Literature Review

Historical background

Banking system has been considered backbone of the economic system. Trade from local level to international level could not have been possible without the involvement of banks. But the problem with this system is that they are totally based on interest. Interest the main source of earning of present commercial banks is strictly prohibited in Islam. Any dealing which involves interest is strictly forbidden in Shari'a. Whole world is now facing the consequences of interest. Interest discourages business and economic activities and its evil effects on social and moral life the human being are now clear to everyone(Hossain, 2009).

Islamic Banking in Pakistan

Pakistan came into existence only in the name of Islam. On 1st July 1948 opening ceremony of the State bank of Pakistan the words of Quaid-e-Azam Muhammad Ali Jinnah were the foundation of Islamic banking concept in Pakistan

“I shall watch with keenness the work of your organization in evolving banking system practices compatible with Islamic ideas of social and economic life. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice.” (Akhtar, 2007).

But during first two decades no steps were taken to remove the interest from the conventional banking system as it was not an easy task because throughout the world interest free banking was not in practice at large, moreover Pakistan was facing deficiency of experts in every field. During 70's steps were taken for removal of interest from the economy. As earlier said it was not an easy task. In 1979 Interest free transactions were started by the National Investment Trust (N.I.T), Investment Corporation of Pakistan (ICP), and House Building Finance Corporation (HBFC). (Akhtar, 2007)

Different commercial banks including National bank in 1984 were permitted to lend money on mark up basis instead of interest, which was a new name of interest. Participation term certificates and Mudarabah transactions were also allowed but all this practice was declared non Islamic and totally interest based in November 1991 by the Federal Shariat court So the full Bench of Supreme Court of Pakistan ordered the removal of interest from the economy until June 30,1992. The main reasons for this unsuccessful attempt were lack of skilled personnel and necessary infrastructure as well as the general public was totally unaware about the Islamic principles (Akhter, Raza, Oranzab, & Akram, 2011)

Government and some other commercial banks made appeals in the Shariat Appellate Bench but this appeal was rejected in 1999 and ordered to cease all laws regarding interest based banking up to 30 June 2001. In January 2000 Government constituted Commission for Transformation of Financial System (CTFS) to transform present Fiscal system in accordance with the Shari'a also Two Task forces and committees were set up for this purpose. In 2001 State bank of Pakistan set up criteria for the establishment of Islamic banks in private sector, Islamic branches and counters in existing commercial banks. Meezan Bank was the first Islamic bank in the history of Pakistan licensed by the state bank in 2002. Since then the progress rate of Islamic banking has shown a rapid growth. Now in Pakistan 5 full-fledged Islamic banks are operating. Total branch network consist of 1783. In Pakistan, investment in Islamic banking reached up to 392.4 billion as of September

2015(State bank of Pakistan).Government of Pakistan is trying to increase this level. More than 1100 institutions have been providing Islamic banking services throughout the world. There is expectation that size of this industry will increase up to US\$1.3 trillion in coming future (Saeed, 2010).

Religious factor

Attitude of customers are normally influenced by their believes and religion is the base for believe. Interaction with the religious community and subjective norms were found to be the most powerful factor in selection of Halal products. (Mukhtar & Butt, 2012). Hin,Wei,Bohari and Adam(2011) conducted study on Muslims and Non-Muslim students to measure their attitude towards Islamic banking found that Muslims students mostly prefer Islamic banking only due to religious factor.

Social Influence

Influence from the relative, friends and family, was given much more importance by the customers in selection of Islamic bank (Marimuthu, et al., 2010).In south East Asia study on the adoption of Islamic mobile phone banking results shows that muslims normally think about the norms and values of their society when they have to make decision regarding the acceptance or rejection of any system or product but the Non-muslims only consider the perceived utilization of the product.(Sun, Goh, Fam, & Xue, 2012).

Cost Effectiveness

Marimuthu et al(2010) Observed that while selecting a bank Cost-benefit was the top priority for the customers. Another study in Bangladesh regarding the customers demographic effecting the selection criteria also revealed the main factors for selection of a bank were corporal efficiency, core banking services and cost effectiveness. Less importance was given to the religion for the selection of an Islamic bank. (Rashid & Hassan, 2009).Customers are more conscios about the charges of the services than any other factor towards the selection of bank in Pakistan(Hayat & Shahzad, 2011).

Intention to Use

Farooq, Ahmad and Jamil (2010) conducted a research in Peshawar to analyze the bank customers profile found that most of the businessmen are not using the banking services as the element of interest in forbidden in Islam rather they are using the most risky and illegal system of Havala.

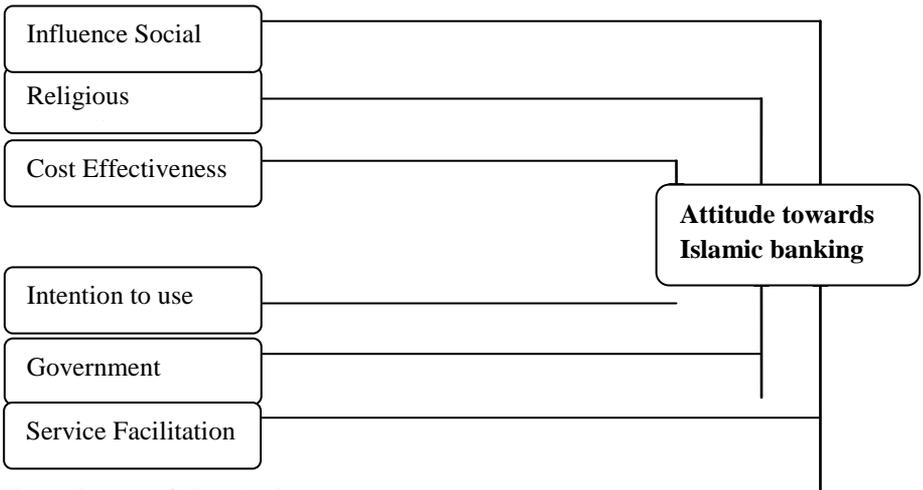
Government Support

Amin et al(2011) conducted a study in Malaysia to measure the influence of different factors influencing the attitude of customers towards selection of Islamic bank. They found Government support an insignificant factor.

Services Facilitation

Hamid, Yaakub, Mujani, Sharizam and Jusoff (2011) study proved that Service facilitation and front desk staff interaction have great influence on the customers towards the selection of bank. Another study conducted by Hin,Wei,Bohari and Adam (2011) in Malaysia to check the relationship between bank selection and service quality revealed a positive relationship of service quality to the bank selection. Higher the services quality, higher the response from the customers will be.

Theoretical Framework:



Hypotheses of the study

H1: Social influence has significant effect on customer’s attitude towards using Islamic bank.

H2: Religious Compliance has significant effect on customer’s attitude towards Islamic bank.

H3: Cost Effectiveness has significant effect on customer’s attitude towards using Islamic bank.

H4: Intention to use has significant effect on customer’s attitude towards Islamic bank.

H5; Government Support has significant effect on customer’s attitude towards Islamic bank.

H6: Service Facilitation has significant effect on customer’s attitude towards Islamic bank.

Research Methodology

Population and Sample

The study is based on primary data collected from 300 customers of different Islamic banks such as Meezan Bank, Dubai Islamic Bank, Dawood Islamic Bank, and Al Baraka Islamic Bank in Peshawar through convenience sampling method. A good response rate of 265 out of 300 was received which is 88.33% of total distributed questionnaires. Partially filled questionnaires were left aside to avoid the element of biasness.

Data Analysis

Correlation and regression analysis has been used to check the association and impact of different variables on the attitude of the customers

Data Analysis and Results

Correlation Analysis

The correlation values of attitude towards Islamic bank with social influence, religious compliance, cost effectiveness, intention to use, government support and service facilitation is 0.267, .485, .507, .594, .216 and .325 respectively. The correlational value of social influence with Religious compliance, cost effectiveness, intention to use, government support and service facilitation is .492, .317, .217, .551 and .406 respectively, all the relationships are positive and highly significant. The correlational value of religious compliance with cost effectiveness, intention to use, government support and service facilitation is .444, .582, .206 and .146. All the relationships are positive and highly significant. The correlational value of cost effectiveness with intention to use, government support and service facilitation is .341, .362 and .238 as all the relationships are positive and highly significant. The correlational values of intention to use with government support and service facilitation is -.029 and .072 representing that there is negative relationship of intention to use with government support but highly insignificant while the relationship of intention to use and service facilitation is positive but highly insignificant. The correlational value of government support with service facilitation is .426 representing the relationship is positive but highly significant.

Table . *Correlation Analysis*

	ATIB	SI	RC	CE	IU	GS	SF
ATIB	1						
SI	.267**	1					
RC	.485**	.492**	1				
CE	.507**	.317**	.444**	1			
IU	.594**	.217**	.582**	.341**	1		
GS	.216**	.551**	.206**	.362**	-.029	1	
SF	.325**	.406**	.146*	.238**	.072	.426**	1

Regression Analysis

Regression analysis was run to evaluate which factors significantly impact attitude towards Islamic banking. The table of model summary R represents the relationship between variables, R square explains the variance in the dependent variable because of the variance in the independent variable. F change represents the statistical significance of the model with significance level (p value <.05). The value of r is .716 representing that there is 71.6% relationship between independent and dependent variables. The value of R square is .512 representing the 51.2% variance in the dependent variable is explained by the variation in the independent variables. The value of F change is 45.121 which is greater than 3.78 at 5% significance level with significance level = .000 (P<.05) representing that model is statistically highly significant

Table 1. *Model Summary*

R	R-Square	F	Sig
.716	.512	45.121	.000

Table . *Coefficients*

	Unstandardized Coefficients			Sig.
	B	Std. Error	t	
(Constant)	.896	.217	4.136	.000
SI	-.105	.067	-1.582	.115
RC	.114	.066	1.737	.084
CE	.295	.060	4.919	.000
IU	.381	.047	8.110	.000
GS	.073	.059	1.241	.216
SF	.157	.035	4.507	.000

The table of coefficients represents the Beta value which means percentage in the dependent variable because of one unit increase in the independent variable. The t value enables the researcher to decide upon the acceptance or rejection of hypotheses with significance value less than .05. the Beta values for social influence, religious compliance, cost effectiveness, intention to use, government support and service facilitation are -.105, .114, .295, .381, .073 and .157 representing the percentage of each variable in the dependent variable with the increase by one unit in the independent variable. The t value for social influence is -1.582, p=.115 shows that social influence had insignificant impact on attitude towards Islamic banking. The t value for religious compliance is 1.737 with p=.084 which represents that religious compliance had insignificant impact of attitude towards Islamic banking. The t value for cost effectiveness is 4.919 with p=.000 representing that cost effectiveness had significant impact of attitude towards Islamic banking. The t value for intention to use is 8.110 with p=.000 representing that

intention to use has significant impact on attitude towards Islamic banking. The t value for government support is 1.241 with $p=.216$ representing that government support had insignificant impact on attitude towards Islamic banking. The t value for service facilitation is 4.507 with $p=.000$ representing that service facilitation had significant impact on attitude towards Islamic banking.

Conclusion

The study was aimed to find out the impact of attitude of customers towards Islamic banking. The researcher has tried to find out whether customers are inclined towards the Islamic banking or not. The other reason could be that what factors have contributed towards the developing attitude of customers towards Islamic banking.

The results of the study have indicated that social influence had insignificant impact on attitude towards Islamic banking. So hypotheses H1 was rejected. Religious compliance was also found to have insignificant impact on attitude towards Islamic banking. In the light of this result hypotheses H2 was rejected. Cost effectiveness had significant impact on attitude towards Islamic banking, in connection to this findings hypotheses H3 was rejected. The factor intention to use was found to have highly significant impact on attitude towards Islamic banking, so a hypothesis H4 was accepted. Government support had insignificant impact on attitude towards Islamic banking, in the light of this result the hypotheses H5 was rejected. The result of service facilitation was also found to have highly significant impact on attitude towards Islamic banking, so a hypotheses H6 was also accepted.

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