
CUSTOMER PREFERENCES IN SELECTION OF ISLAMIC AND CONVENTIONAL BANKING IN PAKISTAN

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ABSTRACT

This study has analyzed the preferences of customers of both Islamic and conventional banking in Pakistan. The conventional banking is interest-based banking system whereas Islamic banking is based on profit and loss sharing. Islamic banks make investment only in halal business permitted by shariah. In this study, we collected primary data from 200 customers of both type of banking. The age groups of respondents were 23-42 years. The customers having bachelor qualification are in majority in the respondents of conventional banks and the customers having master qualification are in majority in Islamic banking. The most frequent income group of customers of conventional banks is income group of Rs. 20,001/- to Rs. 30,000/- and in Islamic banks is Rs. 30,001/- to Rs. 40,000/-. We have used 5-point Likert Scale to measure preferences of customers. According to our empirical results, we find that first category of customers of Islamic banks prefers Islamic banks for its prompt services. The second category of customers prefers Islamic banks for its highly standardized and simple process and quick delivery of services. Third category of customers prefers Islamic banks for safety and security. Similarly, first category of customers of conventional banks prefers conventional banks for its safe and secure transactions. The second category of customers prefers conventional banks for its fool proof procedures. Third category of customers prefers conventional banks because of well atmosphere.

Key Words: Islamic Bank, Halal, Profit & Loss Sharing, Conventional Bank, Interest, Customer Preferences, Product & Services, Banking Sector.

1.INTRODUCTION

The industrial revolution expanded trade to the entire world and banking played a vital role in its promotion. Today is the age of IT and internet which brought the tremendous revolution in every field of the life. With the use of IT and internet the banking facilitates not only the national trade but also international trade. A bank has its branches in the different countries which facilitates the customers to exchange goods and services throughout world. Due to banking services, international trade has increased to much an extent since World War second.

1.1 Types of Banking Systems

There are two types of banking system exist in the world specially in Muslims countries. First banking system is known as conventional banking system, this banking system is based on the pillars of interest (Riba) which is prohibited in Islam. The objective of conventional banking is to maximize profit even the borrowers suffer loss This banking system receives deposits from the depositors at low rate of interest and advance the loans to the needy at high rate of return. The difference between the rate of interest paying to depositors and receiving from lender is the profit of the bank. This banking system advances the loans to all types of business whether the business is against the principles of Islam or not.

Efforts are brought by some Islamic countries to have an Islamic banking system in which all the financial activities should be interest-free and the foundation of this banking system is erected on the pillar of Islamic principles. The main purpose of this banking system is to provide banking facilities to the customers under Shariah law. This banking system earns and pays halal profit. It is important to mention here that this banking system invest their funds in Halal (valid) business allowed by Islamic Shariah.

1.2 Riba

The aim behind Islamic banking is to provide a platform where interest free financial activities may be carried out. The investors in the conventional banking are guaranteed a pre-determined return after a specific span of time which is prohibited in Islam. There are a lot numbers of banks which are providing banking services to the customers and the majority of the services are based on the interest. On the other hand, Islamic banks provide almost similar banking services to the customers under the principles of the Islam. The rate of profit is not pre-determined and it is

calculated after finalization of accounts after one year. Because Almighty Allah has made trade halal and prohibited the interest. Therefore, Islamic banking follows the principles of Islam and avoids charging interest from their customers. Thus, Islamic banking system involves in business which is halal and permissible under Shariah. The Islamic banking is beneficial both for the Muslims and non Muslims because there is no element of interest. This is the reason that it is gaining popularity even among non-Muslim. The Islamic banking is guarantee of economic stability, price stability, inflation control, equal distribution of wealth and it is helpful to reduce inequalities.

1.3 Objective of Study

The objective of the study is stated as follow:

- To analyze the preferences of customers of both conventional and Islamic banks.
- To evaluates the preferences of customers of both banking systems on the basis of products, services, convenience, bank environment etc. offered by the both type of banking systems.

2. LITERATURE REVIEW

Wilson (1983:75) argued that an Islamic bank was set up in Egypt on July 25,1963 under the name of Mit-Ghamr Islamic bank by el-Naggar. This bank was established on the basis of a German banking model to facilitate the rural people of a developing Islamic country. The purpose of the bank was to mobilize saving of the people of Egypt and in return to provide halal (noble) profit to them. The profit was earned by investing in permissible business allowed by Islamic Shariah. El-Naggar carefully manage the bank activities by recruiting staff, having experience of banking. It became popular in short span of time.

According to the founder el-Naggr a bank performed of three types of functions: -

- It creates and maintain an efficient link between supply and demand of capital.
- It behaves as an institution and educate people for more saving and develop bank mind of the people.
- It mobilizes idle funds for reducing the problem of capital formation.

Wilson (1983:76) reported that some loans were helpful for the cattle and to improve the irrigation. The bank provided loans for a variety of purposes which includes house repairing, construction of building, purchase of machinery for handicraft preparation, hand looms and

sewing machine etc. MGISB within three and half years gained 251000 customers and the deposits very high. Not only the number of the depositors increased but also the average deposit per depositor also increased. The number of branches of the bank was also increased.

After that Nasser Social Bank was established in 1971 in Egypt. Four years later, an Inter-governmental institution was established in 1975 In Jeddah (Saudi Arab) to speed up the social and economic development. Dubai Islamic Bank in Dubai (UAE) was established in 1975.

On August 14,1947 Pakistan emerged on the map of the world as a first Muslim country in the world which is got in the name of Islam. The purpose of creation of this country was not to get a piece of land for ruling, but was to get a country where Muslims are free to spend their lives according to the Holy Quran and sunnah and perform their religious obligations. So it was stipulated that all rules and regulation were enacted to run this country according to principles of Islam. On July1, 1948, while addressing the opening ceremony of the State Bank of Pakistan was established as a first central bank of Pakistan its founder, Hazarat Quaid-Azam-Muhammad Ali Jinnah stated that :

"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."

According to Awan (2009), Islamic banking is making progress and growing with high pace in the entire world especially in Muslims countries and Pakistan. The conventional banking is facing declining trend in the countries who were the founder and the champion of the interest based financial system. These developed countries tried at their level best to perform well in the period of financial crisis by reducing the interest rates at the level near to zero. Many years old interest based financial institutions failed to get the desired outcomes. With the emergence of Islamic banking system, it has become the best alternative of the conventional banking system especially for Muslims. With the passage of the time, it is also becoming popular among the non-Muslims.

According to Abdullah et al. (2012), the products of the Islamic banking are gaining popularity among the customers of the entire globe because it is providing a wide range of products and services to the entire globe. The study described that Islamic banking is also penetrating in the

non-Muslims customers. The non-Muslims have positive trend toward Islamic banking but more efforts are required to enhance the awareness of Islamic banking products and services.

Anderson et al (1976), identified the reasons of selection of a bank which includes the image of the bank in the mind of the customer and convenience is the dominant factor of the loyal customers. The bank reputation, friendliness of bank staff, recommendation of friends and family is also play an important role in the selection of a bank. The another factor which attribute for the selection of bank is wide range of products and service of the bank e.g. interest on loans, overdraft facility, low service charges, sufficient banking hours, ATM facilities and other facilities to operating the accounts.

According to Chong (2009), Islamic banking is based on unique principle to share the profit and loss. Unfortunately, the Islamic banking is not different from the conventional banking. This study found that a small portion of Islamic banking is based on profit and loss sharing and the deposits of the banks are also interest based and are similar to the conventional banking. The development of the Islamic banking system in the world give birth to Islam once again in the world unfortunately the profit and loss sharing principle is ignored and the banking rules and regulations are adopted from west.

According to Darrat (1988), there are two types of monetary systems one is interest based system influenced by west and the other is interest free monetary system which based on the principles of Islam. The empirical evidence shows that the efficiency of the Islamic interest free monetary system is high as compared to the efficiency of the interest based monetary system. On the following reasons: First, Interest free system shows a smooth speed of money. Second, a stable public demand. Third, only interest free monetary system provides better utilization of assets by the policy makers. The interest free system is guarantee of economic stability and it has a lot of merits. Therefore, we must pay a special attention to prepare professional who have command over the Islamic laws.

Denton and Chan (1991) reported the factors those influence on the bank selection that many banks performed better functions form others, the important strength of the bank is the professional and friendliness of staff. Some bank differentiates by providing unique and improved customer services. Bank patrons are also used as bank selection criteria. Convenience

in location, numbers of branches, Number of ATMs play a vital role in the bank selecting criteria. He reported that female is most interested with high rate of return and he also reported that female open the bank account in the bank where their parents have banks account. This study reveals that the age group 20-40 years selected the bank which have facilities of ATM and credit card because this age group use the bank facilities more frequently and the age group 40 years and above selected the bank which give higher rate of return. The single person interested to select the bank which has easy access and the bank provides credit card facility.

Erol and el-Bdour (1989) said that it is a new phenomenon to apply Islamic principles in the modern business. West principles are materialistic and Islamic thinking is based on the principles of Islam. He says that current movement of Islamic banking system is a framework based on the Islamic laws to spread the interest free banking to the entire world. The objective of Islamic banking system is to adopt Islamic principles in the application of commerce, trade and provide all types of banking facilities to customers. They should also promote the financial companies which also actually do business which are acceptable in Islam. He emphasized that the services offered by Islamic banks must not be the copy of the conventional banks. It must do business on the basis of profit and loss sharing and develop interest free financing modes.

Gerrard and Cunningham (1997) conducted a study to find about the awareness of Islamic Banking in Singapore and he found that there was lake of awareness about Islamic banking. Many people have the opinion that people deposit their money for religious and profitability, many of the opinion that the increase in the number of branches of Islamic banks will increase the use of the Islamic financial product and services. Some people are very religious they used to deposit their savings in the Islamic banks even if there is no return on their savings. The another cause of selection of Islamic banking is that there is no predetermine rate of interest on the loans. Majority of the Muslims are not aware of the products and services of the Islamic banking. A massive advertisement campaign must be started to give awareness to the customers i.e. Muslims and Non-Muslims.

Hanif (2011) found that Islamic banking is performing the function of modern conventional banks based on Shariah compliance to some an extent and it addresses all the needs of the

current age to do business successfully. It is also found that the Islamic banking is not copy of conventional banking.

Khan *et al.* (2015) conducted study to test the behavior of bank customers in Bangladesh. He found that majority of the customer of Islamic bank fall between 25 to 35 years old. He further found that the customers of the Islamic banks are well educated and have strong relation with the Islamic bank. He argues that the Islamic banks put an awareness programs for deposit of savings but unfortunately they do not put their efforts to start awareness programs for loans and financial facilities. The customers of the Islamic banking are satisfied with the Islamic banks and they ranked Islamic banking at No.1 because it is based on religion and the bank services are preference No.2. The saving bonds are popular in age group of 25-35. The customers beyond the age group 25 do not consider the rate of return for selection of bank. The customers of lower income group select the bank on the recommendation of friends and relatives.

Kaynak *et al.* (1991) described bank selection criteria on the basis of age, gender, education and background of the customer. He found that male customers are more cautious in selection of bank. They give importance to the worth of bank, services of bank, counseling, location and influenced by the friends. On the other hand, women do not give more importance to such criteria.

Metawa and Almosawi (1998) designed a study to measure the behavior of the customers of bank in Bahrain. It was found in the study, majority of the customers are educated and more than 80% are fall between the age group 25-50 year. This age group is interested in different bank facilities like, car financing, house loans and loans on other durable goods. 75% of customers of age group 35 above used the products and services of the bank. More than 50% customers are maintaining their current account for the last 6 years. More than 84% customers of age group 25-35 selected the Islamic bank on the basis that it is an Islamic Sharia. The customers of Islamic banks in Bahrain satisfied with the banking services and have the investment accounts more than 70%. Islamic laws are dominated in the selection of a bank. The awareness about the products of the Islamic banking is very high and majority of the customer are satisfied with the product and services of the Islamic banks.

Kamal et al. (1999) argue that momentum of Islamic banking is increasing with the passage of time. It is also found that some international conventional banks operating in the Muslims countries are opening Islamic branches which follow the principles of Shriah. They also argue that the competition facing by the Islamic banks is very high because Islamic banks was facing completion not only from the commercial or conventional banks. The study shows that majority of the customers were satisfied with the products and services of Islamic banks while some customers were dissatisfied about products and services of the Islamic banks. The respondents showed their awareness for Islamic principles and they are aware of Murahaha, Musharaka and Mudaraba.

Tan and Chua, (1986) identify the reasons of selection of a bank which includes location, influence of friends, good will of bank, friendly bank atmosphere, better services at low cost, sufficient banking hours, ATM facilities and other facilities to operating the accounts.

The momentum of Islamic banking is increasing with the passage of time. It is increasing not only in Pakistan but also in the many countries of the world. The customers prefer Islamic banking because it is based on the Islamic laws. The interest free products and services are the unique distinction of the Islamic banks which guarantee: -

- Economic Stability
- Low inflation
- Equal distribution of wealth in the society
- Reduce income inequality in the society
- Reduce class differences
- Improve the circulation of money
- Brings prosperity in every field of life
- Helpful to reduce the prices of the commodities because it will eliminate the financial expenses which are added to the cost of the production of the commodity.

2.1 Distinction of this Study

This study is very important because the preference of customers of both banking systems are analyzed which will guide to the top management of both type of banking system for decision making to focus the customers on the basis of Gender, age, education level, occupation and

income level. This study is also helpful for the top management of both banking sector to analyze the preferences of customers on the basis of products and services offered by them. In short, the distinction of this study is to focus the preferences of customers.

2.4 Hypothesis

For comparison of Customer preferences in selection of Islamic and Conventional Banking, we will test following Hypothesis

H₀: Customers prefer both type of banking systems equally.

H_{A1}: Customers do not prefer both type of banking systems.

H_{A2}: Customers prefer Islamic Banking more than Conventional Banking.

3. RESEARCH METHODOLOGY

3.1 Data and Type

This study is conducted to examine the preferences of customers towards the Islamic and conventional banking systems. The aim of the study is to analyze whether the customers are attracting towards Islamic banking and if attracting in real term what are its reasons. For this purpose, we selected 10 banks, 5 Islamic banks and the rest of 5 banks are conventional. We used the stratified random sampling method for collection of data and we use SPSS 21 software for the analysis of data. This study is based on the primary data which was collected through a structured questionnaire.

3.2 Data Collection Method

A questionnaire was developed after literature review and consultation with the many managers of the different banks in order to judge the preference of the existing customers of the both banking systems. The data was collected by the authors personally from the target customers. The respondents were fully explained the questionnaire and objective of study before recording their response. Total 200 respondents from 30 branches of both Islamic and conventional banks were selected for this research study. We divide the respondents into two groups: first dealing with Islamic banks and the second dealing with conventional banks in order to measure their preferences. We selected following Islamic and conventional banks for this research study: -

3.3 Selected Islamic Banks

- Al Baraka Bank (Pakistan) Limited

- BankIslami Pakistan Limited
- Burj Bank Limited
- Dubai Islamic Bank Pakistan Limited
- Meezan Bank Limited

3.4 Selected Conventional Banks

- Askari Bank Limited
- Bank Al Habib Limited
- Summit Bank Limited
- Faysal Bank Limited
- Soneri Bank Limited

4. DATA ANALYSIS

A questionnaire was designed in English to collect data regarding the preference of the existing customers of the Islamic and conventional banks. The questionnaire may be divided into two parts, the first part is demographic study of the customers e.g. period of maintaining s bank account, Gender, Marital Status, Age, Education level, Occupation and Monthly income and the other part contains 20 questions.

4.1 Demographic Statistics

Table 1: Gender of Respondent

Gender	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Male	76	69	76%	69%	145	72.5%
Female	24	31	24%	31%	55	27.5%
Total	100	100	100%	100%	200	100%

Table 1 shows the percentage of gender, 145 (72.5%) respondents are male and 55 (27.5%) are female of both banking systems.

Table 2: Period of maintaining account

Period of maintaining	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional	Islamic	Conventional	Islamic		

account	Banks	Banks	Banks	Banks		
Less than one year	16	14	16%	14%	30	15%
1 to 3 years	30	29	30%	29%	59	29.5%
4 to 6 years	23	44	23%	44%	67	33.5%
7 to 9 years	18	12	18%	12%	30	15%
10 years and above	13	1	13%	1%	14	7%
Total	100	100	100%	100%	200	100%

Table 2 shows the period of maintaining account of both banking system. 67 (33.5%) respondents are maintaining bank account for the last 4 to 6 years.

Table 3: Marital Status of Respondents

Marital Status	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Unmarried	37	32	37%	32%	69	34.5%
Married	63	68	63%	68%	131	65.5%
	100	100	100%	100%	200	100%

Table 3 shows Marital Status of respondents. 69 (34.5%) respondents are unmarried and 131 (65.5%) are married.

Table 4: Age Group of Respondent

Age Group	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
18-22 Years	12	4	12%	4%	16	8%
23-27	23	26	23%	26%	49	24.5%

Years						
28-32 Years	26	24	26%	24%	50	25%
33-37 Years	15	22	15%	22%	37	18.5%
38-42 Years	10	18	10%	18%	28	14%
43-47 Years	7	4	7%	4%	11	5.5%
48-52 Years	3	0	3%	0%	3	1.5%
53-57 Years	4	1	4%	1%	5	2.5%
58 & Above Years	0	1	0%	1%	1	0.5%
Total	100	100	100%	100%	200	100%

Table 4 shows the Age Group of both banking system. 49 (24.5%), 50 (25%) and 37 (18.5%) respondents having the age group 23-27, 28-32 and 33-37 years respectively. 136 (68%) respondents having the age group 23-37.

Table 5: Education Level of Respondents

Education Level	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Primary	0	1	0%	1%	1	0.5%
Middle	3	3	3%	3%	6	3%
Metric	11	11	11%	11%	22	11%

Intermediate	14	18	14%	18%	32	16%
Graduation	45	33	45%	33%	78	39%
Master	22	31	22%	31%	53	26.5%
M.Phil/MS	3	3	3%	3%	6	3%
PhD	1	0	1%	0%	1	0.5%
Others	1	0	1%	0%	1	0.5%
Total	100	100	100%	100%	200	100%

The table 5 shows Education Level of both banking system. 78 (39 %) respondents are graduates and 53(26.5%) respondents have master qualification. It means that the customers of banks are well-educated and have awareness about banking products and services.

Table 6: Occupation

Occupation	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Student	9	4	9%	4%	13	6.5%
Businessman	30	31	30%	31%	61	30.5%
Services (Govt.)	29	17	29%	17%	46	23%
Services (Pvt.)	20	42	20%	42%	62	31%
Housewife	8	5	8%	5%	13	6.5%
Others	4	1	4%	1%	5	2.5%
Total	100	100	100%	100%	200	100%

The table 6 shows the occupation of both banking system. As per above data, 61 (30.5 percent) respondents are businessmen.

Table 7: Monthly Income

Monthly Income	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Under Rs.10,000/-	10	6	10%	6%	16	8%
Rs.10,001/- to Rs.20,000/-	20	18	20%	18%	38	19%
Rs.20,001/- to Rs.30,000/-	24	20	24%	20%	44	22%
Rs.30,001/- to Rs.40,000/-	7	28	7%	28%	35	17.5%
Rs.40,001/- to Rs.50,000/-	11	4	11%	4%	15	7.5%
Rs.50,001/- to Rs.60,000/-	11	10	11%	10%	21	10.5%
Rs.60,001/- and Above	17	14	17%	14%	31	15.5%
Total	100	100	100%	100%	200	100%

Table 7 shows Monthly Income of the customers of both banking system. 44 (22 %) respondents have the monthly income from Rs. 20,001/- to Rs. 30,000/- per month.

Table 8 The bank provides wide range of services

The bank provides wide range of services	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	6	3	6%	3%	9	4.5%
Disagree	15	5	15%	5%	20	10%
Uncertain	23	34	23%	34%	57	28.5%
Agree	35	26	35%	26%	61	30.5%
Strongly Agree	21	32	21%	32%	53	26.5%
Total	100	100	100%	100%	200	100%

Table 8 shows that 57% respondents agree and strongly agree with the statement that “banks provide wide range of services”.

9 The bank provides innovative product and services

The bank provides innovative product and services	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	0	1	0%	1%	1	1%
Disagree	8	4	8%	4%	12	6%
Uncertain	24	32	24%	32%	56	28%
Agree	44	31	44%	31%	75	37.5%
Strongly	24	32	24%	32%	56	28%

Agree						
Total	100	100	100%	100%	200	100%

The data given in Table 9 reveals that 66.5% respondents strongly agree with the statement that “banks provides innovative product and services to their customers”.

Table 10 The bank manages availability of all kind of services in every branch of the bank.

The bank provides same kind of services in every branch .	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	1	1	1%	1%	2	1%
Disagree	12	6	12%	6%	18	9%
Uncertain	19	29	19%	29%	48	24%
Agree	33	28	33%	28%	61	30.5%
Strongly Agree	35	36	35%	36%	71	35.5%
Total	100	100	100%	100%	200	100%

The analysis of Table 10 reveals that 66% respondents agree and strongly agree with the statement that “banks ensure availability of all kind of services in every branch of the bank”.

Table 11: The bank provides services as promised

The bank provides services as promised	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		

Strongly Disagree	4	1	4%	1%	5	2.5%
Disagree	8	4	8%	4%	12	6%
Uncertain	25	33	25%	33%	58	29%
Agree	38	32	38%	32%	70	35%
Strongly Agree	25	30	25%	30%	55	27.5%
Total	100	100	100%	100%	200	100%

Table 11 highlights that 62.5% respondents strongly agree with the statement that “banks provide services as they promised”.

Table 12: The bank provides Prompt services to customers

The bank provides prompt services to customers.	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	4	0	4%	0%	4	2%
Disagree	10	4	10%	4%	14	7%
Uncertain	22	17	22%	17%	39	19.5%
Agree	36	44	36%	44%	80	40%
Strongly Agree	28	35	28%	35%	63	31.5%
Total	100	100	100%	100%	200	100%

Table 11 reveals that 71.5% respondents strongly agree with the statement that “banks provide prompt services to their customers”.

Table 12: The bank services procedure is very simple

The bank’s services procedure is very simple.	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	0	2	0%	2%	2	1%
Disagree	4	2	4%	2%	6	3%
Uncertain	29	20	29%	20%	49	24.5%
Agree	28	38	28%	38%	66	33%
Strongly Agree	39	38	39%	38%	77	38.5%
Total	100	100	100%	100%	200	100%

Table 12 reveals that 71.5% respondents agree and strongly agree with the statement that “banks having a highly standardized and simplified process to deliver the services”.

Table 13: The procedures and processes adopted by the bank are perfectly fool proof

The procedures adopted by the bank are perfectly fool proof	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	0	2	0%	2%	2	1%

Disagree	5	4	5%	4%	9	4.5%
Uncertain	22	28	22%	28%	50	25%
Agree	33	38	33%	38%	71	35.5%
Strongly Agree	40	28	40%	28%	68	34%
Total	100	100	100%	100%	200	100%

Table 13 shows that 71.5% respondents agree and strongly agree with the statement that “banks adopted fool proof system”.

Table 14: You feel safe and secure in making transactions with bank

You feel secure in making transactions with bank	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	1	0	1%	0%	1	1%
Disagree	5	5	5%	5%	10	5%
Uncertain	20	20	20%	20%	40	20%
Agree	38	39	38%	39%	77	38.5%
Strongly Agree	36	36	36%	36%	72	36%
Total	100	100	100%	100%	200	100%

Table 14 indicates that 74.5% respondents agree and strongly agree with the statement that “the customers feel safe and secure in making transactions”.

Table 15: Bank is upgrading technology.

Bank is upgrading with the	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		

arrival of new technology.						
Strongly Disagree	3	2	3%	2%	5	2.5%
Disagree	4	6	4%	6%	10	5%
Uncertain	23	28	23%	28%	51	25.5%
Agree	43	37	43%	37%	80	40%
Strongly Agree	27	27	27%	27%	54	27%
Total	100	100	100%	100%	200	100%

Table 15 reveals that 67% respondents agree and strongly agree “the banks are upgrading their working environment by inducting new technology”.

Table 16: The atmosphere of the bank is very well (Sitting arrangement, cooling etc.)

The atmosphere of the bank is good (Sitting arrangement, cooling etc.).	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	2	2	2%	2%	4	2%
Disagree	5	8	5%	8%	13	6.5%
Uncertain	21	24	21%	24%	45	22.5%
Agree	37	36	37%	36%	73	36.5%
Strongly Agree	35	30	35%	30%	65	32.5%
Total	100	100	100%	100%	200	100%

Table 16 highlight that 67% respondents agree and strongly agree with the statement that “the atmosphere of the bank is very conducive (Sitting arrangement, cooling etc.)”.

Table 17: Convenient branch location

Convenient branch location	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	2	3	2%	3%	5	2.5%
Disagree	5	6	5%	6%	11	5.5%
Uncertain	23	24	23%	24%	47	23.5%
Agree	44	30	44%	30%	74	37%
Strongly Agree	26	37	26%	37%	63	31.5%
Total	100	100	100%	100%	200	100%

Table 18 reveals that 68.5% respondents agree and strongly agree with the statement that “the customers give preference to convenient branch location”.

Table 19: The bank provides uniform services at all branches

The bank provides uniform services at all branches	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	7	2	7%	2%	9	4.55%
Disagree	8	8	8%	8%	16	8%
Uncertain	27	24	27%	24%	51	25.5%
Agree	43	37	43%	37%	80	40%
Strongly Agree	15	29	15%	29%	44	22%
Total	100	100	100%	100%	200	100%

Table 19 reveals that 62% respondents agree and strongly agree with the statement that “the bank provides uniform services in all branches”.

Table 20: The bank charges comparative low service charges

The bank charges comparative low service charges	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	4	0	4%	0%	4	2%
Disagree	7	5	7%	5%	12	6%
Uncertain	25	26	25%	26%	51	25.5%
Agree	49	44	49%	44%	93	46.5%
Strongly Agree	15	25	15%	25%	40	20%
Total	100	100	100%	100%	200	100%

The data in table 20 reveals that 62% respondents prefer the bank which charges comparatively low service charges.

Table 21: The Bank Network is very well

The Bank Network is very well	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	2	4	2%	4%	6	3%
Disagree	11	12	11%	12%	23	11.5%
Uncertain	30	23	30%	23%	53	26.5%
Agree	37	31	37%	31%	68	34%
Strongly Agree	20	30	20%	30%	50	25%
Total	100	100	100%	100%	200	100%

The analysis of table 21 reveals that 69% respondents agree and strongly agree with the statement that “the bank Network is very well”.

Table 22: Employees are professional

Employees are professional	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	2	3	2%	3%	5	2.5%
Disagree	5	6	5%	6%	11	5.5%
Uncertain	21	29	21%	29%	50	25%
Agree	43	35	43%	35%	78	39%
Strongly Agree	29	27	29%	27%	56	28%
Total	100	100	100%	100%	200	100%

Table 23 reveals that 67% respondents agree and strongly agree with the statement that “the bank having professional employees”.

Table 23: The bank staff behaves friendly

The bank staff behaves friendly	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	3	0	3%	0%	3	1.5%
Disagree	6	6	6%	6%	12	6%

Uncertain	21	26	21%	26%	47	23.5%
Agree	39	40	39%	40%	79	39.5%
Strongly Agree	31	28	31%	28%	59	29.5%
Total	100	100	100%	100%	200	100%

Table 23 reveals that 69% respondents agree and strongly agree with the statement that “the bank having social and friendly behavior staff”.

Table 24: Employees treat equally to all the customers

Employees treat equally to all customers	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	4	2	4%	2%	6	3%
Disagree	8	8	8%	8%	16	8%
Uncertain	26	27	26%	27%	53	26.5%
Agree	31	28	31%	28%	59	29.5%
Strongly Agree	31	35	31%	35%	66	33%
Total	100	100	100%	100%	200	100%

Table 24 reveals that 62.5% respondents agree and strongly agree with the statement that “the bank having the employees who treat equally to all the customers”.

Table 25: Employees of the bank are competent to provide services to the customers

Employees of the bank are competent to	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		

provide services to the customers						
Strongly Disagree	1	1	1%	1%	2	1%
Disagree	6	5	6%	5%	11	5.5%
Uncertain	23	30	23%	30%	53	26.5%
Agree	36	33	36%	33%	69	34.5%
Strongly Agree	34	31	34%	31%	65	32.5%
Total	100	100	100%	100%	200	100%

Table 25 reveals that 67% respondents agree and strongly agree with the statement that “banks possess competent employees to provide services to the customers”.

Table 26: Adequate staff is available to provide services to customers.

Adequate staff is available to provide services to customers.	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	1	4	1%	4%	5	2.5%
Disagree	10	6	10%	6%	16	8%
Uncertain	25	24	25%	24%	49	24.5%
Agree	37	35	37%	35%	72	36%
Strongly Agree	27	31	27%	31%	58	29%

Total	100	100	100%	100%	200	100%
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Table 25 indicates that 65% respondents agree and strongly agree with the contention that “banks have adequate staff to provide services to customers”.

Table 27: Advice from friends and relatives

Advice from friends and relatives	Frequency		Percentage		Consolidated Frequency	Consolidated Percentage
	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks		
Strongly Disagree	9	5	9%	5%	14	7%
Disagree	11	5	11%	5%	16	8%
Uncertain	30	24	30%	24%	54	27%
Agree	31	36	31%	36%	67	33.5%
Strongly Agree	19	30	19%	30%	49	24.5%
Total	100	100	100%	100%	200	100%

Table 27 reveals that 58% respondents agree and strongly agree “the customers get advice from friends and relatives about banking services.”

Table 28 Over all proportion between Islamic Banks and Conventional Banks

Banks	Agreed+ Strongly Agreed	Total response (Agreed+ Strongly Disagreed+ Disagreed)	Proportion	Difference Proportion	P-value (\neq)	\neq P-value ($>$)
Islamic	1325	1481	0.89	0.032	0.007	0.004

Conventional	1312	1521	0.86			
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In table 26 we have consolidated the response of all the respondents' preferences of all questions that are asked from statement 1 to statement 20 and find their proportion, the proportion of Islamic and conventional banks respondents are 0.89 and 0.86 respectively and the P-value (\neq) is 0.007 which is less than 0.05 it means the proportion of the respondents of two banking systems is not the same. The P-value ($>$) 0.004 means proportion of Islamic banks are highly successful as compared to conventional banks in attracting customers. Thus, customers of the Islamic banking systems prefer the services of the Islamic banks.

5.CONCLUSIONS

With the passage of time, the importance of banking sector increasing day by day. Almost all type of industry depends on the service of the banks. The banking sector is introducing new products and services which are compatible to the new age of information technology, not only in the developed countries but also in Pakistan. Many conventional banks are operating in Pakistan. In 2002 Meezan bank started Islamic banking in Pakistan opened new horizon in financial sector. It is the first mover in Islamic banking industry which introduced new products and services of Islamic banking in Pakistan. Later, five more full-fledged Islamic banks were allowed to operate and in this way a new state of completion between conventional and Islamic banking was started. Now the branch network of Islamic banks has exceeded 1400. This steep growth has motivated us to conduct a research study on Islamic banks. We selected five Islamic and five conventional banks of equal size for our analysis. We developed a questionnaire containing 20 questions to measure the preferences of 200 customers of both conventional and Islamic banks.

Our analysis show that percentage of married customers, who choose Islamic banking, is greater than those of non-married customers. We have also found that age group of respondents (23-27) prefer Islamic banking while the age group (28-32) prefer conventional banking. If we sum up all age groups 23-42, the 90% respondents of Islamic banking fall in this age group and 74% respondents of this age group belongs to conventional banks. The preferences of customers on

the basis of occupation describes that people having private jobs prefer Islamic banking while majority of businessmen prefer conventional banking services because having old relationship with conventional banks. The customers having income group 30,001/- to 40,000/- prefer Islamic banking. Furthermore, female customers also prefer Islamic banking services.

6.RECOMMENDATIONS

It is recommended for the Islamic banks to launch a comprehensive advertisement campaign to attract business community because this is the class who use the banking products and services frequently. They must be convinced that Islamic banks are providing the same banking products and services within the preview of Islamic principles.

Female customers prefer Islamic banking. Efforts must be made to attract more female customers by establishing separate counters for lady customers. The growing customers attraction to Islamic banks are forcing conventional banks to open Islamic branches to attract customers and to maintain the loyalty of existing customers. Efforts must be made to transform conventional banks into Islamic banks because Riba is prohibited in Islam. Pakistan is the only country in the world which is got in the name of Islam. Therefore, all the rule and regulations in this country must be adherence to the teaching of Islam.

7.LIMITATIONS OF THIS STUDY

The limitation of this study is that the sample size of the study is 200 and the data is collected form Multan region. In this study the preferences of the customers of Islamic banks and conventional banks which have almost the same size of bank are judged. The big conventional banks are not included in this study. Another limitation of this study is that it has measure the response of the customers of five Islamic banks while it did not tough those customers who have been availing services from the Islamic branches of conventional banks, which are operating side by side Islamic banks.

8.PRACTICAL IMPLICATIONS

This study has realistic implication for the policy makers and management of the banks. This study is helpful; to understand the preferences of the customers. So the policy maker of both conventional and Islamic banks may decide whether the customers prefer the products and services of Islamic bank or conventional banks. The policy maker may take decision to transform

conventional banking into Islamic banking. It is also helpful to the management of Islamic banks to capture female customers because they are more than 50% of the total population of Pakistan and female also prefer Islamic banking. The conventional banks should make the arrangements to introduce such product and services which are based on the principles of profit and loss sharing because Pakistan is a Muslim country having more than 96% Muslim population.

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