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Selection Criteria for Conventional and Islamic Banks: An Empirical Analysis

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Abstract

The current study investigates the bank selection criteria used by the customers of both the conventional and Islamic banks of Pakistan. From six different cities, a sample of 1000 customers was selected in order to find out the factors influencing their selection of a bank. The results showed that “Security of Money” was considered as the most important factor in the selection of banks, both by the customers of conventional and Islamic banks. The results also revealed that the customers of Islamic banks ranked “Competence of Staff”, “Online Banking Facility”, and “Confidentiality of Information” as the second, third and fourth most important factors in the selection of their respective banks. On the other hand, the customers of conventional banks emphasized “Availability of ATM Machines”, “Quick Service”, and “Friendly Behavior of Staff” as the second, third and fourth most important factors in bank selection. Further, the customers of Islamic banks ranked “Shari’ah Compliance” as the seventh most important factor, while the customers of conventional banks ranked it as the twentieth important factor out of the total twenty-five factors. Thus, to retain the existing customers and to attract new ones, both Islamic and conventional banks need to focus on customer preferences when offering their products.

Keywords: bank selection, factor analysis, *Shari’ah* compliance

JEL Classification: G21; Z12

Introduction

Before the emergence of Islamic banks at the beginning of the 21st century, only conventional banks were there to fulfill the financial needs of customers in Pakistan. Most transactions of conventional banks are interest-based. On the other hand, Islamic banks offer banking services and products in a way that remains compliant with the *Shari’ah* principles and provides opportunities to the customers to transact in a banking system based on an Islamic ideology and values. *Shari’ah*, and thereby Islamic banking, do not allow interest based transactions, prohibit

Gharar (ambiguities), and do not allow financing and dealing in immoral or socially irresponsible activities and commodities. Islamic banking emphasizes justice and encourages profit sharing. To ensure that their activities comply with the *Shari'ah* principles, Islamic banks offer products on the basis of *Al-Musharakah* (partnership), *Al-Wadiah* (savings), *Murabahah* (purchase with cost plus pricing), *Al-Mudharabah* (profit sharing), *Al-Ijarah* (leasing), *Al-Bai Bithaman Ajil* (sale on deferred payment), *Qard Hassan* (benevolent loan), *Al-Takjiri* (renting that ends with ownership), *Al-Kafalah* (guarantee) and *Al-Ujr* (fee).

It is imperative to identify the bank selection criteria of the customers in order to identify the specific marketing strategies which help to retain the existing customers and also help to attract new ones (Kaynak & Kucukemiroglu, 1992). The level of competition among the banks has increased significantly due to the emergence of new financial institutions which offer apparently similar products. It is, therefore, important for the banks to delineate the factors that determine customer satisfaction. In their operations, banks must incorporate factors that influence customer behavior and patronage. Such factors have diverted successfully the banking industry from traditional banking to a more dynamic and vibrant model (Turnbull & Gibbs, 1989). Although Islamic banking has emerged as a viable alternative to conventional banking, interestingly with 97% Muslim population in Pakistan¹, Islamic banking has captured only a small fraction - about 16.6%² - of the total banking system by 2019. It is, therefore, important to explore the factors which determine the bank selection criteria of the customers.

Several research works are available regarding the bank selection criteria. However, an adequate study has not been undertaken in the context of the banking industry of Pakistan. Hence, the findings of this study will help the bank managers to formulate their marketing strategies and to provide guidelines for attracting customers by providing them the best services based on their choices. The study will also add to the body of existing literature by incorporating “*Shari'ah* Compliance” as a bank patronage factor. The specific objectives of the current study are as follows:

1. To find out which factors are considered more important in the selection of banks by the customers.
2. To find out the similarities and differences in terms of factors motivating the customers to choose between conventional and Islamic banks.

¹ <http://www.zackvision.com/weblog/2003/02/muslim-population/>

² This share is in terms of the number of deposits. However, in term of assets the share of Islamic banking is 14.9%.

3. To find out the relative importance of *Shari'ah* compliance for the customers.

Our analysis is based on a survey conducted in six different cities of Pakistan using a sample of 1000 customers of both conventional and Islamic banks. Customer perception and satisfaction regarding twenty-five different services provided by the banks were measured through a questionnaire.

The rest of the paper is organized as follows: Section 2 discusses the banking sector of Pakistan. Literature review is presented in Section 3. Data and methodology is given in Section 4. Section 5 discusses the results and Section 6 concludes the study.

Banking Sector in Pakistan: An Overview

Pakistan has a well-developed financial sector including stock exchanges, insurance companies, national saving schemes, discount houses, investment banks, commercial banks, Islamic banks, brokerage houses, leasing companies and micro finance institutions. To regulate and run the banking system, the State Bank of Pakistan (SBP) was established in July 1948. The initiative for the establishment of the Islamic banking system was taken in 1977-78³. Interest-based transactions by banks were strictly forbidden in July 1985. In 1991, Federal *Shari'ah* Court challenged the banking system of Pakistan. The court declared the practice of conventional banking as un-Islamic and gave the verdict that all interest-based transactions taking place after 1992 would be ceased. An appeal was placed in the Supreme Court of Pakistan (SCP) against this decision. However, the court rejected the appeal in 1999 and directed the government to convert the existing conventional banking system into an Islamic one within a period of one year. A commission supervised by the Governor SBP was established for this purpose⁴. Both conventional and Islamic banks were allowed to operate in parallel in 2001⁵. Since then, Islamic banks have introduced various Islamic modes of finance such as *Ijarah*, *Mudarabah*, *Musharakah*, *Diminishing Musharakah*, *Murabaha*, *Bai' Salam*, *Bai' Muajjal* and *Istisna*.

In Pakistan, the number of banks (both conventional and Islamic) has been increasing since the year 2000. In 2002, the first Islamic bank, that is, Meezan Bank Limited obtained its license. It started its banking operations with five branches. Currently, there are a total of 35 scheduled banks with 13039 branches. Out of

³ “State Bank of Pakistan financial report FY02”

⁴ “Proceedings of 2nd International Conference on Business Management (ISBN: 978-969-9368-06-6)”

⁵ “Islamic Banking Bulletin Oct-Dec 2011”

these, five are full-fledged Islamic banks with 1214 branches⁶ and the remaining 30 are conventional banks with 11825 branches⁷. Further, 967 branches of 16 conventional banks operate on the basis of the *Shri'ah* compliant modes of financing. The total number of deposit accounts of all scheduled banks increased from 25.1631 million in 2009 to 49.0061 million in 2017. The number of the deposit accounts of Islamic banks increased from 1.1034 million in 2009 to 3.9762 million in 2017. Total amount deposited in all scheduled banks was 4137.6 billion rupees in 2009, which increased to 11592.1 billion rupees in 2017. On the other hand, the amount deposited in Islamic bank accounts increased from 314.9 billion rupees to 1594.653 billion in the same period. This indicates that the percentage of the deposited amount in Islamic bank accounts increased from 6.7% of the total deposited amount in the banking system in 2009 to 13.85% in 2017. The assets of all scheduled banks were 2.61 times higher in 2017 (24618.6 billion rupees) as compared to their assets in 2009 (9436.1 billion rupees). On the other hand, the assets of Islamic banks increased from 366 billion rupees in 2009 to 2883 billion rupees in 2017- an increase of 7.88 times.

Review of the Literature

There is a plethora of research regarding the customers' bank selection criteria. In this section, we review empirical studies that used different methodologies in different countries to find out the factors that influence the customers' decision to select a specific bank.

According to Anderson et al. (1976), "recommendation by friends" and "availability of credit" were ranked at the top by the customers among the fifteen bank selection criteria. A study by Javalgi et al. (1989) revealed that interest and loan availability are considered as the key factors in the selection of a bank. Erol et al. (1990) stated that "fast and efficient services" and "bank reputation" are the main factors that attract the customers towards a bank in Jordan. For Malaysia, Haron (2009) reported "fast and efficient services", "internal appearance of the bank", "interior comfort", "wide range of services offered", "speed of transactions" and "friendliness of bank staff" as the most important factors for the Muslim customers. On the other hand, "reception received at the bank" and "friendliness of bank personnel" were ranked at the top followed by "reputation and image of bank"

⁶Dubai Islamic Bank Pakistan Ltd (200 branches), Meezan Bank (571 branches), Albaraka Islamic Bank (173 branches), Bank Islami Pakistan Ltd (204 branches) and MCB Islamic Bank Ltd. (66 branches).

⁷This also includes 5 specialized banks namely, IDB Ltd., SME Bank Ltd., The Punjab Provincial Cooperative Bank Ltd, Zarai Taraqiat Bank Ltd., with total of 626 branches.

by the non-Muslim customers. Ta and Har (2000) found that “location”, “recommendation by friends”, “reputation of bank”, “availability of credit” and “friendliness of staff” are important factors in bank selection in Singapore. Sohail and Shanmugham (2003) revealed that “internet accessibility”, “awareness”, “attitude towards change”, “computer and internet access costs”, “trust in bank”, “security concerns”, “ease of use” and “convenience” are the major factors affecting the adoption of internet banking in Malaysia.

Omar and Orakwue (2006) showed that male customers considered “security of funds” and “efficient services” as the most important factors, while female customers ranked “speed of transaction” as the most important factor in Nigeria. Ahmad et al. (2008) found that customers preferred Islamic banking in Malaysia due to the religious factor and the other most influential factors for bank selection are “availability of ATM machines”, “fast and efficient services”, “availability of deposit cheque”, “friendliness of staff” and “variety of services offered”. Religious factor ranked as the fourth most important factor. Tan and Chua (2007) found social influence as the leading bank selection criteria. Their findings also suggested that in a multicultural society, the traditional banking system is not applicable. Yavas (1988) found bank experience, reputation and the quality of services as the main concerns of customers in the Gulf states, while “advertising” and “rate of return” remained the least important factors for the customers. Ali et al. (2009) measured customer satisfaction regarding the Islamic bank of Malaysia. “Compliance with *Shari’ah*” was found to be the most important factor in choosing an Islamic bank. The second and third most important factors were “reliability” and “tangibility”, respectively.

While conducting a survey of college students in Malaysia, Mokhlis (2009) reported that females are influenced mostly by “marketing”, “attractiveness of bank building”, “financial benefits” and “ATM services”. Rao and Sharma (2010) found “reliability” as the most important factor in the selection of a bank. “Responsiveness” and “convenience” were found as the other important factors with the same effect. Alferos and Christobale (2017) examined the selection criteria of banks by the Philippine graduate students. The results of the study revealed that the factors influencing the students’ bank selection criteria include the quality of their services, marketing, attractiveness, price of products and proximity. Oluwaseyitan et al. (2018) found “third-party influence” to be the most important factor affecting bank selection among international students studying in the public universities of Malaysia. “Convenient location” of the bank was found to be the second most important determinant, followed by “availability of ATM” and

“quality of services”, respectively. On the other hand, “financial benefits from saving” was ranked as the least important determinant.

In studies related to Pakistan, Rehman and Ahmed (2008) found that customers considered “customer services”, “convenience” and “online banking services” as more important factors. Hamid and Masood (2011) reported “*Shari’ah* compliance” as the most important factor affecting the decision of Islamic banks’ customers. According to Lee and Ullah (2011), the customers of Islamic banks also expect “convenience”, “technological advancement” and “security of money” from their banks in addition to “*Shari’ah* compliance”. Naz and Farooq (2016) revealed that “*Shari’ah* compliance” remains the most important factor for Muslims customers in Pakistan. Apart from this factor, “honesty”, “product variety”, “service facility”, “efficiency”, and “firm reputation” are the other important factors which attract Muslims as well as non-Muslim customers.

Data and Methodology

We collected data from 1000 customers of Islamic and conventional banks through a self-administered questionnaire. Using cluster sampling method, we randomly selected respondents from different banks. The survey covered six different cities namely Karachi, Islamabad, Malakand, Rawalpindi, Wah Cantt and Taxila. There are three sections of the said questionnaire. The questions in the first section are intended to collect the personal information of the respondent. The second section contains questions eliciting the targeted information about the bank accounts of the respondents. In the third section, the respondents are asked twenty-five questions intended to rank the listed variables on the Likert scale from 1 to 5 according to their importance in the selection of bank⁸. These variables include “Security of Your Money”, “Availability of Parking”, “Friendly Behavior of Staff”, “Accessibility of Public Transport”, “Convenient Location”, “Hours of Operation”, “Ease of Access to Account Information”, “Queue System”, “Online Banking Facility”, “Availability of ATM Machines”, “Attractiveness of Bank Building”, “Quick Service”, “Competence of Staff”, “Recommendation of Parents”, “Staff Knowledge about Islamic Banking”, “*Shari’ah* Compliance”, “Trustworthiness of Bank *Shari’ah* Board”, “Branch Outlook”, “No Commission Charged on Services”, “Reputation of Organization”, “Inter-branch Facilities”, “No Penalty for Late Payment”, “Variety of Services Offered”, “Confidentiality of Information”, and “Low Bank Charges”. Most of these variables have been used by (Erol & El-Bdour,

⁸1=Not at all important, 2= less important, 3= moderate, 4=important, 5= very important

1989; Erol et al., 1990; Haron et al., 1994; Gerrard & Cunningham, 1997; Metawa & Almosawi, 1998; Ahmad & Haron, 2002; Abbas et al., 2003) in their studies.

For empirical analysis, we used Friedman analysis and factor analysis. Friedman analysis is a non-parametric test suitable in the case of ordinal variables. With the help of Friedman analysis, we were able to find out the factors perceived as more or less important by the customers in the selection of banks. In factor analysis, a large number of variables which belong together are reduced to a smaller one (Cooper et al., 2006). Moreover, unobservable common factors are extracted on the basis of observable variables and are clustered into factors in this type of analysis. Each factor possesses a property which is commonly shared by a certain group of variables. This helps to understand that despite the similarities of the variables asked, the respondents are able to distinguish between them.

Results

Using Friedman analysis, Table 1 reports the ranking of all 25 variables by the customers of conventional and Islamic banks according to their importance in the selection of banks.

Table 1

Ranking of Banking Selection Criteria

	Conventional Banks	Mean Rank	Islamic Banks	Mean Ranks
1	Security of Your Money	16.06	Security of Your Money	14.23
2	Availability of ATM Machines	14.43	Competence of Staff	13.90
3	Quick Service	14.33	Online Banking Facility	13.89
4	Friendly Behavior of Staff	14.28	Confidentiality of Information	13.84
5	Online Banking Facility	14.18	Quick Service	13.78
6	Confidentiality of Information	14.16	Reputation of Organization	13.64
7	Accessibility with Public Transport	13.91	<i>Shari'ah</i> Compliance	13.62
8	Ease of Access to Account Info	13.88	Trustworthiness of Bank's <i>Shari'ah</i> Board	13.36
9	Competence of Staff	13.74	Friendly Behavior of Staff	13.36

	Conventional Banks	Mean Rank	Islamic Banks	Mean Ranks
10	Hours of Operation	13.57	Staff Knowledge about Islamic Banking	13.33
11	Reputation of Organization	13.36	Availability of ATM Machines	13.17
12	Convenient Location	13.32	Hours of Operation	13.09
13	Queue System	13.00	Accessibility with Public Transport	12.90
14	Inter-branch Facilities	12.73	Ease of Access to Account Information	12.86
15	Trustworthiness of Bank <i>Shari'ah</i> Board	12.62	Recommendation of Parents	12.78
16	Recommendation of Parents	12.33	Branch Outlook	12.69
17	Staff Knowledge about Islamic Banking	12.04	Inter-branch Facilities	12.37
18	Variety of Services Offered	11.99	Variety of Services Offered	12.36
19	Low Bank Charges	11.99	Availability of Parking	12.34
20	<i>Shari'ah</i> Compliance	11.86	Convenient Location	12.33
21	No Penalty for Late Payment	11.54	No Penalty for Late Payment	12.31
22	Attractiveness of Bank Building	11.53	No Commission Charged on Services	12.29
23	Branch Outlook	11.52	Low Bank Charges	12.28
24	No Commission Charged on Services	11.43	Attractiveness of Bank Building	12.25
25	Availability of Parking	11.20	Queue System	12.02
	Chi-Square	199.12	Chi-Square	191.75
	Df	24	Df	24
	Probability	0.000	Probability	0.000

Chi-square shows that the ranking of the variables, according to their importance, is statistically significant for both conventional and Islamic banks. This implies that the same rank and variation among the 25 variables are likely to hold for the whole population.

The ranking of the variables revealed that the customers of conventional banks are more concerned about the security of their money and regard “security of your money” as the most important factor in the selection of their respective bank. Consistent with the findings of Haron (1992), “availability of ATM machines” was ranked as the second most important factor. However, according to the findings of Rehman and Ahmad (2008), “availability of ATM machines” was ranked as the seventh most important variable. The third rank of “quick service” indicates that the customers of conventional banks are more conscious about their time spent in the provision of services. Almost similar results were obtained by Haron et al. (1994), who ranked “quick service” at the fourth position. “Friendliness of bank staff” was ranked fourth, followed by “online banking facility”, “confidentiality of information”, “accessibility with public transport” and “ease of access to account information”. “Availability of parking” was ranked as the least important factor by the customers of conventional banks. This finding contradicts Kaynak and Kucukemiroglu (1992), who found “availability of parking” as the second most important factor in the selection of bank. The second least important factor was “commission charged on services” negating the results of (Haron et al., 1994; Saunders et al., 2007), who ranked “commission charged on services” among the top ten most important factors. Our results are in line with the findings of (Erol et al., 1990). The third least important factor for the customers of conventional banks was “branch outlook” which confirms the results of Saunders et al. (2007), who ranked the appearance of the bank as among the least important factors. However, it contradicts the findings of Erol et al. (1990), who ranked the appearance of bank building as among the most important patronage factors. “*Shari’ah* compliance” was among the least important factors (ranked as 20th) showing that the customers of conventional banks do not value *Shari’ah* compliance in bank selection.

Similar to conventional banks, the customers of Islamic banks also ranked “security of your money” as the most important criteria in bank selection. It reveals that when a customer opens an account, the security of their money is the main criterion for the selection of bank. “Competence of staff” was ranked as the second most important factor by the customers of Islamic banks. Methawa and Almosawi (1998) reached similar results and concluded that the future of Islamic banking depends upon the competency of staff. Islamic banks must train and develop their staff. Moreover, adequate knowledge of Islamic banking instruments combined with professionalism, ethics and responsibility towards customers and organizations will enhance the efficiency and smooth running of the Islamic banking system.

“Online banking facility” was ranked as the third most important bank selection criteria followed by “confidentiality of information”, “quick service”, “reputation

of organization” and “*Shari’ah* compliance”. It is important to note that the customers of Islamic banks ranked “*Shari’ah* compliance” as the seventh most important factor. This finding is in line with (Nayyab et al., 2011; Awan & Bukhari, 2011). It indicates that Islamic banks should not take for granted the expectations of their customers by assuming that they are prompted to deal with the banks solely based on their religious consciousness, rather they should also ensure the security of money, competence of staff, online banking facilities, confidentiality of information, provision of quick service and the reputation of the bank in order to satisfy and attract customers. “Queue system” was ranked as the least important factor by the customers of Islamic banks. This contradicts the results of Omar and Orakwue (2006), who found “queue system” as an important determinant for Nigerian banks. The second and third least important factors ranked by the customers of Islamic banks were “attractiveness of bank building” and “low commission charged on services”, respectively. These least important factors were followed by “no penalty for late payment”, “convenient location”, “availability of parking” and “variety of services offered”.

The above stated results of Friedman analysis showed that the customers are able to distinguish between the various factors used for bank selection. In order to understand which variables form components, we carried out factor analysis. However, before presenting the results of factor analysis, we tested data adequacy and data appropriateness using the KMO test and Bartlett’s test as given in Table 2 below.

Table 2

KMO and Bartlett’s Test

KMO Measure of Sampling Adequacy	0.95
Bartlett's Test of Sphericity	Chi-Square 11619.4
	Sig. 0.000

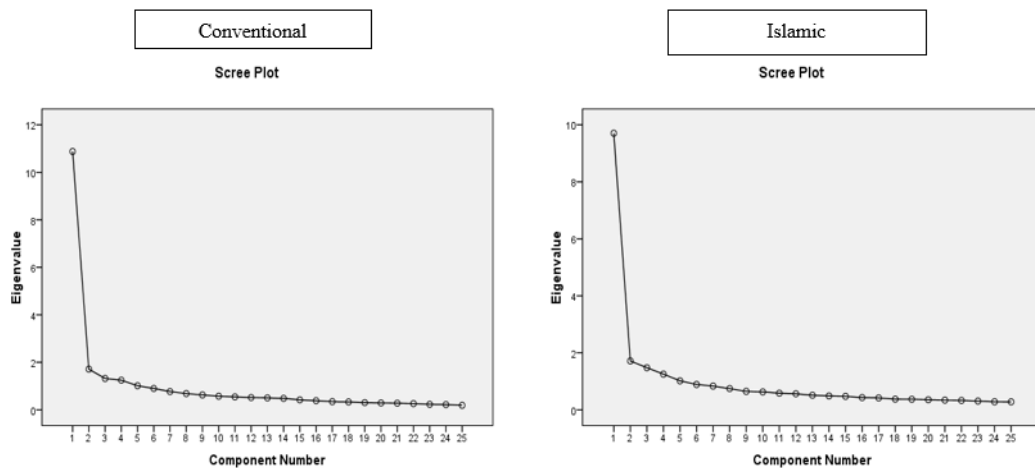
For data adequacy, the KMO statistics should be greater than 0.7. In our case, it is 0.95 which indicates that the data is adequate for factor analysis. Moreover, Bartlett’s test of Sphericity was used to test whether the data was inappropriate or appropriate for the model. Our results indicated that the value of Chi-Square (11619.4) was significant and thus, we concluded that the data is appropriate for factor analysis.

An optimal number of components (factors) can be selected with the help of scree plot or eigenvalues. Generally, factors lying on the steep slope of the scree

plot and with eigenvalues greater than 1 are selected. Scree plots and eigenvalues for both conventional and Islamic banks are given below in Figure 1 and Table 3, respectively.

Figure 1

Scree Plots



The first five factors show variation in the line and afterwards, scree line runs almost parallel to the X-axis. This shows that the first five factors explain the variation in the line and therefore, should be selected for further analysis. Furthermore, the eigenvalues of each factor are reported below in Table 3.

Table 3

Eigenvalues

Conventional banks				Islamic banks			
Component	Eigen values	% of Variance	% Cumulative	Component	Eigen values	% of Variance	% Cumulative
1	10.88	43.51	43.51	1	9.71	38.82	38.82
2	1.71	6.85	50.36	2	1.72	6.86	45.68
3	1.32	5.27	55.63	3	1.48	5.91	51.59
4	1.25	4.99	60.62	4	1.25	5.01	56.60
5	1.01	4.05	64.67	5	1.02	4.07	60.66
6	0.90	3.60	68.27	6	0.89	3.56	64.22
7	0.77	3.07	71.34	7	0.83	3.33	67.54
8	0.68	2.73	74.08	8	0.74	2.98	70.52

Conventional banks				Islamic banks			
Component	Eigen values	% of Variance	% Cumulative	Component	Eigen values	% of Variance	% Cumulative
9	0.62	2.50	76.57	9	0.65	2.59	73.10
10	0.57	2.28	78.86	10	0.63	2.51	75.62
11	0.55	2.18	81.04	11	0.58	2.33	77.95
12	0.52	2.07	83.11	12	0.56	2.25	80.20
13	0.50	2.01	85.12	13	0.51	2.04	82.24
14	0.48	1.92	87.04	14	0.49	1.95	84.19
15	0.42	1.67	88.71	15	0.47	1.89	86.08
16	0.38	1.53	90.24	16	0.43	1.72	87.80
17	0.34	1.37	91.62	17	0.42	1.67	89.47
18	0.33	1.32	92.94	18	0.37	1.49	90.96
19	0.30	1.20	94.14	19	0.37	1.48	92.44
20	0.29	1.15	95.29	20	0.35	1.41	93.85
21	0.28	1.12	96.41	21	0.34	1.36	95.21
22	0.26	1.04	97.45	22	0.33	1.31	96.53
23	0.23	0.92	98.37	23	0.31	1.23	97.75
24	0.22	0.88	99.25	24	0.28	1.13	98.88
25	0.19	0.75	100.00	25	0.28	1.12	100.00

Twenty-five variables were examined using factor analysis. Initially, there were as many factors as the variables. In correlation analysis, the sum of eigenvalues equals the number of components⁹. We selected the first five factors with eigenvalues greater than one. These five factors explained 64.67% and 60.66% of variability in the original 25 variables in the case of conventional and Islamic banks, respectively. Moreover, they also depicted 35.33% and 39.34% loss of information in the case of these banks, respectively. These 25 variables can be rearranged into five groups which belong to the same category.

To check whether some correlation among factors exists or not, factor analysis uses the rotated component matrix. It shows that the variables in groups belong to particular factors. Variables are grouped into those factors where their correlation coefficient or factor loading is high. The results are summarized in Table 4.

⁹ This analysis is executed using correlation matrix. Variables are standardized and each variable has a variance equal to one.

Based on the correlation of variables with the factors given in Table 4, we formed five factors for both conventional and Islamic banks as shown below in Table 5.

Table 4*Rotated Component Matrix*

		Rotated Component Matrix (Conventional banks)					Rotated Component Matrix (Islamic banks)				
		Factors					Factors				
		1	2	3	4	5	1	2	3	4	5
1	Convenient Location	0.7	0.2	0.2	0.0	0.3	0.8	0.2	0.2	0.1	0.2
2	Availability of Parking	0.3	0.1	0.4	0.1	0.7	0.8	0.1	0.2	0.1	0.1
3	Accessibility with Public Transport	0.6	0.3	0.1	0.2	0.3	0.8	0.2	0.1	0.2	0.2
4	Security of Your Money	0.6	0.3	0.0	0.3	0.2	0.6	0.3	0.1	0.3	0.3
5	Friendly Behavior of Staff	0.3	0.3	-0.1	0.6	0.4	0.5	0.3	0.1	0.4	0.2
6	Ease of Access to Account Information	0.4	0.7	0.1	0.1	0.1	0.0	0.1	0.0	0.6	0.5
7	Hours of Operation	0.5	0.6	0.2	0.1	0.1	0.3	0.1	0.2	0.2	0.6
8	Queue System	0.2	0.2	0.1	0.5	0.4	0.3	0.1	0.1	0.7	0.0
9	Availability of ATM Machines	0.5	0.0	0.1	0.4	0.4	0.2	0.2	0.1	0.7	0.0
10	Online Banking Facility	0.7	-0.1	0.1	0.3	0.1	0.4	0.3	0.2	0.5	0.0
11	Quick Service	0.6	0.1	0.3	0.6	0.1	0.3	0.6	0.2	0.4	0.1
12	Attractiveness of Bank Building	0.2	0.1	0.7	0.1	0.2	0.2	0.1	0.7	0.1	0.2
13	Competence of Staff	0.3	0.2	0.3	0.7	0.0	0.3	0.7	0.2	0.2	0.2
14	Staff Knowledge about Islamic Banking	0.1	0.3	0.4	0.6	0.2	0.2	0.8	0.2	0.0	0.2

		Rotated Component Matrix (Conventional banks) Factors					Rotated Component Matrix (Islamic banks) Factors				
		1	2	3	4	5	1	2	3	4	5
		15	Trustworthiness of the Bank's <i>Shari'ah</i> Board	0.0	0.6	0.4	0.4	0.2	0.2	0.3	0.3
16	<i>Shari'ah</i> Compliance	-0.1	0.7	0.2	0.2	0.2	0.2	0.4	0.2	-0.1	0.5
17	Recommendation of Parents	0.6	0.2	0.4	0.0	0.0	0.2	0.4	0.5	0.1	0.0
18	Branch Outlook	0.2	0.2	0.2	0.1	0.8	0.5	0.3	0.1	0.2	0.2
19	Reputation of Organization	0.3	0.2	0.5	0.4	-0.1	0.3	0.6	0.2	0.2	0.2
20	No Commission Charged on Services	0.2	0.3	0.6	0.1	0.3	0.1	0.1	0.8	0.2	0.1
21	No Penalty for Late Payment	0.0	0.3	0.7	0.3	0.3	0.2	0.1	0.6	-0.1	0.4
22	Confidentiality of Information	0.4	0.6	0.2	0.2	0.0	0.2	0.1	0.3	0.2	0.7
23	Inter-branch Facilities	0.5	0.6	0.2	0.2	0.2	0.0	0.0	0.2	0.6	0.5
24	Variety of Services Offered	0.5	0.2	0.6	0.1	0.0	0.1	0.3	0.6	0.2	0.2
25	Low Bank Charges	0.5	0.2	0.5	0.2	0.1	0.0	0.4	0.5	0.4	0.1

Table 5
Factors of Conventional and Islamic Banks

		Conventional banks		Islamic banks			
Factors	Attributes	Rotated Loadings	Variance Explained	Factors	Attributes	Rotated Loadings	Variance Explained
Factor 1	Convenient Location	0.71	43%	Factor 1	Convenient Location	0.8	43.50%
	Accessibility with Public Transport	0.58			Availability of Parking	0.8	

Conventional banks				Islamic banks				
Factors	Attributes	Rotated Loadings	Variance Explained	Factors	Attributes	Rotated Loadings	Variance Explained	
Factor 2	Security of Your Money	0.64	6%	Factor 2	Accessibility with Public Transport	0.8	6.80%	
	Hours of Operation	0.54			Security of Your Money	0.6		
	Availability of ATM Machines	0.53			Friendly Behaviour of Staff	0.5		
	Online Banking Facility	0.71			Branch Outlook	0.5		
	Recommendation of Parents	0.62			Quick Service	0.6		
	Low Banking Charges	0.52			Competence of Staff	0.7		
	Ease of Access to Account Information	0.69			Staff Knowledge about Islamic Banking	0.8		
	Trustworthiness of the Bank's <i>Shari'ah</i> Board	0.64			Reputation of Organization	0.6		
	<i>Shari'ah</i> Compliance	0.72			Factor 3	Attractiveness of Bank Building		0.7
	Confidentiality of Information	0.56			5.30%	Recommendation of Parents		0.5
Factor 3	Inter-branch Facilities	0.60	5%	Factor 3	No Commission Charged on Services	0.8		
	Attractiveness of Bank Building	0.69			No Penalty for Late Payment	0.6		

Conventional banks				Islamic banks			
Factors	Attributes	Rotated Loadings	Variance Explained	Factors	Attributes	Rotated Loadings	Variance Explained
	Reputation of Organization	0.45			Variety of Services Offered	0.6	
	No Commission Charged on Services	0.61			Low Bank Charges	0.5	
	No Penalty for Late Payments	0.68		Factor 4	Ease of Access to Account Info	0.6	5%
	Variety of Services Offered	0.55			Queue System	0.7	
Factor 4	Friendly Behaviour of Staff	0.58	4%		Availability of ATM Machines	0.7	
	Queue System	0.50			Online Banking Facility	0.5	
	Quick Service	0.58			Inter-branch Facilities	0.6	
	Competence of Staff	0.70		Factor 5	Hours of Operation	0.6	4%
	Knowledge about Islamic Banking	0.62			Trustworthiness of the Bank's <i>Shari'ah</i> Board	0.6	
Factor 5	Availability of Parking	0.69	4%		<i>Shari'ah</i> Compliance	0.5	
	Branch Outlook	0.77			Confidentiality of Information	0.7	

Table 5 reports the five factors of both conventional and Islamic banks which customers consider important in their bank selection. These factors are representative of the original twenty-five variables and can be used as the substitute of these variables. These factors along with their names are discussed below.

Factor 1

Factor 1 for conventional banks describes the relationship among the variables “convenient location”, “accessibility with public transport”, “security of your money”, “hours of operation”, “availability of ATM machines”, “online banking facility”, “recommendation of parents”, and “low bank charges”. The nature of the loaded variables suggests that these are *convenience and family oriented* customers. This is in line with Erol and El-Badur (1989), who found in their analysis for Jordan that convenience and image oriented customers are grouped in Factor 1. This factor is considered as the most important factor in the selection of bank which explains 43% of the total variation. In the case of Islamic banking, Factor 1 consists of “convenient location”, “availability of parking”, “accessibility with public transport”, “security of your money”, “friendly behavior of staff” and “branch outlook”. Factor 1 indicates that the customers of Islamic banks are *convenience oriented and desire the security of their assets*.

Factor 2

For conventional banks, Factor 2 includes “easy access to account information”, “trustworthiness of *Shari’ah* board”, and “*Shari’ah* compliance”. These variables result in zero attraction for the customers of conventional banks because *Shari’ah* board and *Shari’ah* compliance are not the prerequisites of conventional banks. However, this is the result of less knowledge regarding the *Shari’ah* compliance of banks. Other variables are “confidentiality of information” and “inter-branch facilities” which are related to *the reliability* of the bank. This factor explains 6% of the total variation. For Islamic banks, Factor 2 consists of “quick service”, “competence of staff”, “staff knowledge about Islamic banking”, and “reputation of organization”. This group of factors is related with *human resource management* in Islamic banking.

Factor 3

Factor 3 of conventional banks represents the *financial strength* of the bank, that is, how sound and well-reputed the bank is by its appearance and what is the amount of charges applied on different services? Are the rates of payment by the particular bank good enough to attract depositors? This factor explains 5% of the total variation. Factor 3 of Islamic banks contains seven variables including “attractiveness of bank building”, “branch outlook”, “recommendation of parents”, “no commission charged on services”, “no penalty for late payment”, “variety of services offered”, and “low banking charges”. This factor is *about image and charges oriented* customers and explains 5.3% of the total variation.

Factor 4

Factor 4 explains the behavior and response of the staff in processing any transaction in conventional banks. It consists of five variables including “friendly behavior of staff”, “queue system”, “quick service”, “competence of staff” and “staff knowledge about Islamic banking”. This factor is labeled as *human resource management*. Factor 4 in Islamic banking consists of “ease of access to account information”, “queue system”, “availability of ATM machines”, “online banking facilities” and “inter-branch facilities” which explains *technology related services*.

Factor 5

Factor 5 in conventional banks consists of two variables: “availability of parking” and “branch outlook”. This group of factors is labeled as *convenient location*. In Islamic banks, Factor 5 consists of four variables including “hours of operation”, “trustworthiness of the bank’s *Shari’ah* board”, “*Shari’ah* compliance”, and “confidentiality of information”. This factor can be labelled as the importance of *Shari’ah* compliance. These results are consistent with the previous studies of (Anderson et al., 1976; Methawa & Almosawi, 1998; Ta and Har, 2000).

Conclusion and Policy Implications

This study explored the variables which customers perceive as important and influential in the selection of banks. The findings of the study revealed that customers consider “security of your money”, “availability of ATM machines”, “competence and friendly behavior of staff”, “confidentiality of information”, “provision of quick service”, and “online banking” as the most important factors. On the other hand, “availability of parking”, “queue system”, “attractiveness of bank building”, and “no commission charged on services” are among the least important factors in the selection of banks. Our findings also revealed significant differences in the bank selection criteria of the customers of conventional and Islamic banks. This affirms that it is difficult for Islamic bank managers to attract conventional bank customers. Therefore, banks need to establish a different strategy for both kinds of customers by keeping in view their choices.

- Both conventional and Islamic banks should ensure the security of money in order to attract new customers and to retain the existing ones.
- Islamic banks should not take for granted the expectations of their customers by assuming that they are prompted to deal with the banks solely based on their religious consciousness, rather they should also ensure the security of money, competence of the staff, online banking facilities, confidentiality of

information, provision of quick service and reputation of the bank in order to satisfy and attract the customers.

- Since Islamic banks compete against conventional banks which offer almost the same products and services provided by Islamic banks, so it can be a very good initiative for conventional banks to provide some Islamic products and services to attract a fraction of the customers of Islamic banks. This technique was adopted in the Middle East (Shook & Hassan, 1988).
- It was also revealed that the customers of conventional banks are more satisfied with the services provided by their banks as compared to the customers of Islamic banks. Therefore, the managers of Islamic banks need to improve the quality of services provided in order to increase the level of satisfaction of their customers and to compete with their opponents.

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