

# Islamic Banking and Finance Review



The Impact of the Awareness, Understanding and Usage of Islamic Banking Products and Services on Customer Satisfaction with Islamic Banking in Pakistan

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# The Impact of the Awareness, Understanding and Usage of Islamic Banking Products and Services on Customer Satisfaction with Islamic Banking in Pakistan

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## Abstract

Pakistan's Islamic banking sector is growing rapidly despite the fact that it is going through a challenging phase of progress due to intense competition with the conventional banking sector. Keeping in view the growth of Islamic banking, the aim of this research is to investigate the influence of the level of awareness, understanding, and usage of the Islamic banking products and services on the satisfaction level of Islamic bank account holders. The research population comprised the customers of the full-fledged Islamic banks of Pakistan. Using the purposive sampling technique, 400 questionnaires were distributed among the customers. The response rate was 94%. Bootstrapping technique was used to analyze the data. The calculated results revealed that awareness and understanding have a significant positive influence on the satisfaction level of the customers. However, the usage of Islamic banking by account holders has no impact on their satisfaction level probably due to the provision of less innovative products and services as compared to conventional banks. Theoretically, the current research adds to the literature regarding the aforementioned aspects and relates them with customer satisfaction. It simultaneously draws attention to the variables essential for the progress of the Islamic banking system of Pakistan. The results also yield valuable information and guidelines for Islamic banks to formulate innovative strategies of product development and promotional policies to retain the existing customers and attract the potential ones. The current study broadens the scope of the literature available about Islamic banking; however, it does not consider the scenario of the conventional banking sector.

**Keywords:** awareness, customer satisfaction, Islamic Banking (IB), Pakistan, understanding, usage

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## Introduction

During the past few decades, the Islamic banking system has gained global popularity. It is considered as a very dynamic field which is emerging and continuously attracting millions of consumers. However, unlike other financial services sectors, Islamic banking is facing a lot of challenges due to the changing business environment, advancement in technology, economic disruption, and competition (Paul et al., [2016](#)). To keep up with fierce competition, every organization has to come up with innovative strategies in order to maintain its customer base, since the customers have many switching options. Keeping in view the customers' switching behavior, the banks are directing their energies to formulate policies and products aimed to enrich customer satisfaction and retention.

Pakistan is a developing Muslim country. For the first time, General Muhammad Zia-Ul-Haq initiated the concept of Islamic banking in the history of the country. It started with the intended removal of interest firstly from the financial institutions and then gradually, from all banking transactions. There was a gradual transition of conventional banking into Islamic banking during the years 1981-1985. Hence, by the end of 2017, there were 21 banks offering Islamic banking products and services, out of which 5 were full-fledged Islamic banks with 1,256 branches, countrywide. (Shaukat & Raisi, [2017](#)). Since conventional banks are more innovative as compared to Islamic banks, there is a direct competition between the two banking systems. Both types of banks offer parallel services and products for their customers, hence the competition among them intensifies (Iqbal & Molyneux, [2005](#)).

Numerous studies have been conducted in Pakistan and in other countries as well in the context of customer satisfaction with Islamic banks. The factors chosen for this study comprise the evaluation of the awareness, understanding and usage of Islamic banks and their impact on customer satisfaction. Although, many studies have covered this area individually (Bodibe et al., [2016](#); Islam & Rahman, [2017](#); Mohamad & Che Majid, [2016](#); Naser et al., [2013](#); Naser et al., [1999](#); Philip, [1997](#); Rammal & Zurbrugg, [2016b](#); Saini et al., [2011](#)), yet to the best of the researcher's knowledge this is the first study which investigates all relationships together in the context of the Pakistani Islamic banks.

Customer satisfaction means peaceful perception about the products and services (George & Kumar, [2014](#)). It becomes crucial for the management to satisfy the customers' demands since they have many other options. The extent of the use of Islamic banking by the customers depends upon two factors. The first factor involves how well-aware they are about Islamic banking. The second factor

pertains to the fact that how much they understand the services, products and systems of Islamic banks. Only then they can make the right buying decisions. Since customers are the main source of income of any financial institution, so their satisfaction is a priority for all such institutions. Islamic banks are also profit-making organizations and they profit from their customers. This is why in the current study customer satisfaction is considered as the dependent variable. On the contrary, the awareness, understanding and usage of the services and products of Islamic banks are considered as independent variables.

The awareness of a product constitutes the knowledge of its name, brand, characteristics, scope and qualities. Similarly, the awareness of a service means to have knowledge about how it works and what are its qualities (Shimp, [2010](#)). The awareness of a product or services allows one to understand its attributes and make the decision to purchase it. Therefore, the understanding of products / services is an essential aspect that may lead to a satisfied customer (Wahyuni, [2012](#)). In Pakistan, a significant proportion of the population does not have sufficient understanding regarding the Islamic banking products and services and their quality (Yaseen & Naqvi, [2018](#)). This is an essential area of concern given the fact that customer satisfaction levels are known to be highly dependent on the understanding of the customers about the various aspects of the services and products provided by Islamic banks such as their service quality, expectations, level of awareness, and misconceptions about them (Bouheni & Ammi, [2015](#); Wahyuni et al., [2013](#)).

The above discussion highlights a gap in the existing literature regarding the different determinants of customer satisfaction. Considering this fact, the current study aims to examine the influence of the customers' awareness, understanding, and usage of the products and services of Islamic banks on their satisfaction levels.

The current research is useful for various stakeholders including the directors, shareholders, bank managers, investors, policymakers, and strategists in discovering the factors involved in enhancing customer satisfaction with Islamic banks. The findings of this study have much value with respect to formulating better strategies for yielding more to customers. By investigating the customers' knowledge, bank managers and directors can focus more on their demands, since the customers constitute the major asset of any financial institution. If customers are dissatisfied from an organization then it may ultimately lead to its collapse. Hence, the primary objective of this research is to explore and regress the impact of the customers' awareness, understanding and usage of Islamic banking on their satisfaction with the services and products of Islamic banks in Pakistan.

## Literature Review

Islamic banking differs from conventional banking mainly due to the fact that the latter is interest based. Injustice and inequality, a vicious circle of poverty, and undue inflation are created in the society due to the involvement of interest in conventional banking (Iqbal & Mirakhor, [1999](#)). Islamic banks do not invest in gambling, the trading of alcohol, pork, tobacco, beverages and any other business activity that is harmful to the health of the people and the environment. On the contrary, conventional banks may invest in any type of trade or business which is unknown to the customers (Dusuki & Abdullah, [2007](#)). However, both systems of banking also offer similar facilities such as ATMs, cash withdrawals, transfers, account opening, debit/credit cards banking, and many more. The main aim of both banking systems is the economic prosperity and growth of a country (Riaz et al., [2017](#)). Due to the similar nature of both systems, customer satisfaction becomes crucial in acquiring the market share.

Customer satisfaction can be analyzed by determining the level of acceptability of the products and services, that is, whether it exceeds the customers' expectations or not. Customer satisfaction is the reaction to the discrepancy between the customers' expectations and what they actually receive. Since both types of banks sell similar financial products, their quality of service is critical in retaining customers and maintaining their customer base (Titko & Lace, [2010](#)). According to Awan and Azhar ([2014](#)), religion is not the sole reason for the customers to move towards Islamic banks, instead bank reputation, service quality, an efficient transaction system, the provision of ATMs, and cost-effective solutions all are valid reasons for the selection of Islamic banks. On the other hand, Amin and Isa ([2008](#)) found the concept of the Islamic banking system to be a new one and the lack of awareness regarding their services and products to be critical for their survival (Ahmad & Al-Aidaros, [2017](#); Gupta & Kinange, [2016](#); Masood et al., [2017](#); Okumus, [2013](#)).

There is also a lack of understanding among the customers of Islamic banks regarding the products and services offered to them. This lack of understanding is most commonly attributed to the use of Arabic terms such as *Musharaka*, *Mudarabah*, *Murabaha* and others. The customers are unable to understand and differentiate among the various products and services offered by Islamic banks. Hence, they are less attracted towards the use of these products and services (Rammal & Zurbruegg, [2016b](#)). Past studies showed that there is a high level of awareness regarding Islamic banks among the account holders but their level of understanding is very low. This is partly due to the difficulty posed in

understanding the Arabic terms of the products and services offered by the Islamic banking system (Bley & Kuehn, [2004](#); Hamid & Othman, [2009](#)). According to Abdullah et al. ([2012](#)), the customers' complete knowledge and information about the products of Islamic banks would lead to their enhanced satisfaction level. It would also ensure their loyalty towards the banks and their willingness to trust in the new products and services.

Bouheni and Ammi ([2015](#)) conducted a study on customer satisfaction, retention, and attitudes towards the liking and disliking of the Islamic banking system. Their findings revealed a significant relationship between the usage of Islamic banking and the extent of awareness among the customers. The results further revealed that the use of Islamic banks by the account holders is relatively higher for long-term transactions as compared to the short-term transactions. It means that the account holders prefer to use Islamic banks for saving and investment purposes; however, they prefer to execute the short-term transactions through conventional banks. The existing literature has identified numerous reasons and factors which influence the customers regarding their adoption of Islamic banking. For example, a better cost structure generally offered by Islamic banks was shown to have a significant and positive relationship with their adoption by the customers. In other words, if there are more beneficial economic features offered by Islamic banks, more people will be encouraged to avail their services (Maryam et al., [2019](#)).

Similarly, religious beliefs were found to have an influence on the adoption of Islamic banking. For example, a study conducted in India confirmed the lesser utilization of the Islamic banking system by the non-Muslims due to its profit and loss sharing features which led to customer dissatisfaction. In contrast, there was greater utilization of the Islamic banking services by the Muslims due to their religious beliefs centered on the avoidance of interest which, in turn, resulted in their enhanced satisfaction (Kant & Jaiswal, [2017](#)).

### **Theoretical Framework**

The current study is based on various theoretical assumptions that may influence customer satisfaction levels. These assumptions are rooted in different theories including the Hierarchy of Effects theory, Innovation Adoption theory, and the Diffusion of Innovation theory. According to the Hierarchy of Effects theory by Lavidge and Stenier ([1961](#)), the knowledge of a particular product or service leads to thinking and such thinking then leads to the liking or disliking of the product. Thus, if the customers like the product they purchase it. This is also known as the Think, Feel, and Do model. In the context of the current study, "think"

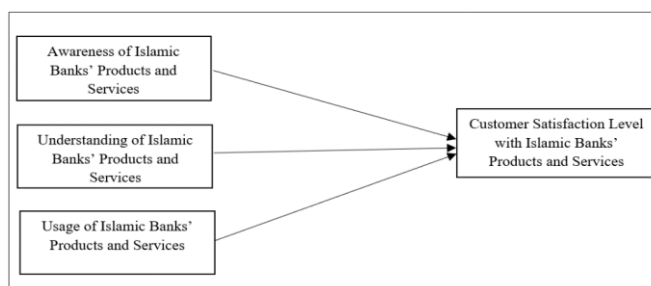
represents the level of awareness of a particular product or service, “feel” represents the level of its understanding and knowledge and “do” represents that the particular product or service is in use or in the buying stage. If the outcome of that product or service is according to the customers’ expectations, then they remain satisfied with the quality of the product or the efficiency of the service. Consequently, the customers strive to buy that product repeatedly.

According to Rogers (1962), customers’ expectations from a product are rooted in their innovative mind. If the manufacturer is successful in creating a product that matches the consumers’ expectations, the satisfaction level is achieved. However, if the product doesn’t match the consumers’ mindset, then the manufacturer keeps on innovating with different promotional strategies to change the consumers’ perceptions and prompt them to adopt it. The current study is based on the same principle. Islamic banks are evolving rapidly with the introduction of new products and services. In order to get these adopted by the customers, they play with their potential consumers’ minds using different innovative promotional strategies. These strategies create awareness of the products among the customers leading to their adoption. According to Orr (2003), the extent of the usage of a specific product or service depends upon five mental states of a consumer. These are awareness, persuasion, decision, implementation, and confirmation. If the customers have full awareness, knowledge, information and understanding of the language of Islamic banks, then they will develop their liking of a product or service accordingly. The customers’ decision to use or purchase a particular product or to avail a particular service depends upon the knowledge and information of the product / service as well as their understanding of the language of Islamic banks. If they buy a particular product again and again, then it means that the required satisfaction level of the consumers is achieved (Orr, 2003).

## Conceptual Framework

**Figure 1**

### *Conceptual Framework*



The conceptual framework for the current study is represented in *Figure 1* which depicts awareness, understanding, and usage as independent variables, whereas the dependent variable is customer satisfaction.

### **Research Hypotheses**

- H<sub>01</sub>: There is no impact of the customers' awareness on their level of satisfaction with Islamic banks' products and services.
- H<sub>02</sub>: There is no influence of the customers' understanding on their level of satisfaction with Islamic banks' products and services.
- H<sub>03</sub>: There is no effect of the usage of Islamic banks' products and services by the customers on their level of satisfaction with these products and services.

### **Research Methodology**

To document the influence of the awareness, understanding and usage of Islamic banks' products and services on customer satisfaction, this research specifically employed the descriptive survey research design used in previous studies (Awan & Azhar, [2014](#); Khattak, [2010](#); Rammal & Zurbruegg, [2016a](#)). In social sciences, statistical analysis has been an essential part of research for more than a century. With the advancement of technology, the application of statistical methods has expanded dramatically. In the scenario of working with a complex model and a small sample size, PLS-SEM statistical power gives accurate results (Hair Jr et al., [2016](#)).

PLS-SEM is evolving as a statistical modeling technique (Chin, [2010](#); Haenlein & Kaplan, [2004](#); Hair et al., [2013](#); Hair Jr et al., [2016](#); Henseler et al., [2015](#)). Therefore, PLS-SEM and SPSS were used in the current study. Purposive sampling technique was used to conduct this research. The sample was selected by approaching the customers of the Islamic banks of Pakistan. The target cities for this study were Lahore and Faisalabad due to the time and cost constraints. Primary data was collected via questionnaire. For the purpose of data collection, 400 questionnaires were distributed to the account holders of Islamic banks. Of these 400 questionnaires, 377 were returned which depicts 94% response rate.

An adopted questionnaire was used in this research. It was categorized into five sections. Section A was based on the demographic information. Section B was designed for the evaluation of the awareness level of the respondents of this study. Section C determined the understanding of the respondents about the Islamic banking system. Section D assessed the usage of Islamic banks by the account holders and lastly, Section E was aimed to know the satisfaction level of the account holders with Islamic banks by estimating their knowledge and understanding. Data



was analyzed using SPSS and PLS-SEM. Descriptive analysis was performed using SPSS, while the reliability and validity was calculated by applying the PLS algorithm. To test the hypotheses, PLS-SEM Bootstrapping technique was used. At the end, IMPA model was applied to access the most critical factor(s) for the dependent variable.

## Results and Discussion

The consistency of the instrument was checked to confirm its reliability for data analysis. Reliability is defined as the consistency of the instrument. It means that a given questionnaire provides the same results at different times in different situations (Karim & Affif, 2005). To calculate the magnitude of the reliability and the validity of the instrument, PLS algorithm was run and the estimated construct discriminant validity was reported.

### Discriminant Validity

If there is no association and significant correlation among the variables of a research, then discriminant validity exists in the model. To measure the discriminant validity, correlation was observed among the construct items (Qazi & Ali, 2017). For measuring the discriminant validity, the heterotrait-monotrait ratio (HTMT) of correlation was considered (Hair & Hult, 2016; Henseler et al., 2015).

**Table 1**  
*Discriminant Validity*

Construct	HTMT Correlations
Awareness>Understanding	0.719
Awareness>Usage	0.752
Awareness>Satisfaction	0.794
Understanding>Usage	0.798
Understanding> Satisfaction	0.820
Usage> Satisfaction	0.711

Table 1 shows that the instrument has discriminant validity as the value of correlation for all constructs is below the standard value, that is, 0.90 (Hair & Hult, 2016).

### Descriptive Analysis

The demographic characteristics and the profile of the respondents showed the following results regarding their age, gender, marital status, income level,

employment, and account type. Table 2 below offers a complete summary of the results for the chosen variables.

**Table 2**

*Demographic Analysis*

Demographic Characteristics	Frequency	Percentages
<b>Age of the respondents (in years)</b>		
Less than 25	13	3.4%
25-35	173	45.9%
36-45	130	34.5%
Above 46	61	16.2%
<b>Gender of the respondents</b>		
Male	296	78.5%
Female	81	21.5%
<b>Marital status of the respondents</b>		
Married	233	61.8%
Unmarried	144	38.1%
<b>Religion of the respondents</b>		
Muslims	377	100%
Non-Muslims	0	0
<b>Educational level of the respondents</b>		
Secondary School	14	3.7
Intermediate	19	5.0
Bachelor's Degree	149	39.5
Master's Degree	186	49.3
Others	9	2.4
<b>Occupation of the respondents</b>		
Students	14	3.7
Government Employees	120	31.8
Private Employee	85	22.5
Self-Employed	154	40.8
Retirees	4	1.06
<b>Monthly income of the respondents</b>		
Less than 15000 Rs	23	6.1
15001 Rs-30000 Rs	54	14.3
30001 Rs-45000 Rs	137	36.3
45001 Rs or above	163	43.2

Demographic Characteristics	Frequency	Percentages
Type of the account		
Current account	21	5.6
Saving account	138	36.6
Long-term deposit accounts	218	57.8

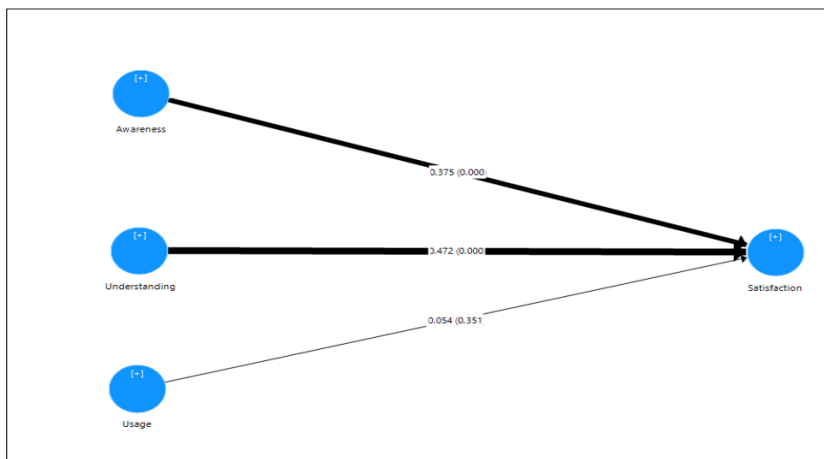
Table 2 shows that most respondents were 25-35 years of age. It reveals that the usage of Islamic banks is more prevalent among the young and middle-aged customers. Moreover, most of the respondents were male and married. Furthermore, the above table indicates that all the respondents were Muslims. Interestingly, the results revealed that the system of Islamic banking is more prevalent among the customers with a higher educational level in comparison to the customers whose educational level was less than graduation. Higher education refers to having the degrees of bachelors or above. Even more interesting is the fact that a large number of the respondents (43.2%) were high salaried employees and had investments in medium-term (36.6%) and long-term (57.8%) deposit accounts, respectively.

### Inferential Analysis

This research intended to test the relationship between the dependent and independent variables using PLS-SEM Bootstrapping technique. *Figure 2* below shows the tested model. The left-hand side ellipses indicate the independent variables, while the right-hand side indicates the dependent variable. The values in the lines of the independent and dependent variables depict the path coefficients as well as the significant value of the rejection and acceptance of the hypotheses.

The estimated structural model shown in *Figure 2* was extracted using PLS-SEM and it shows the path coefficients with the p-value given in the parenthesis for each path. The thickness of path lines shows the intensity of the influence. The results showed that the two independent variables, that is, awareness and understanding have a positive and significant relationship with the dependent variable, that is, satisfaction level. However, the independent variable 'usage' is insignificant. It means that the awareness of Islamic banking products, services and system influences the satisfaction of the customer. Similarly, if there is an understanding of the system of Islamic banks as well as its products / services, it also tends to influence the customers' level of satisfaction. However, the usage of Islamic banks by the customers showed different results.

**Figure 2**  
*Structural Model*



**Table 3**  
*Results*

Variables	Path Coefficients	T Statistics ( O/STDEV )	$f^2$	Effect Size
Awareness -> Satisfaction	0.371***	6.725	0.206	Medium
Understanding -> Satisfaction	0.476***	8.361	0.279	Medium
Usage -> Satisfaction	0.055	0.926	0.004	Medium

*Note.* Small:  $0.0 < f^2$  effect size  $< 0.15$ ; medium:  $0.15 < f^2$  effect size  $< 0.35$ ; large:  $f^2$  effect size  $> 0.35$

Table 3 above shows the estimated regression results. The levels of significance of the awareness and understanding of Islamic banks by the respondents ( $H_{01}$  and  $H_{02}$ , respectively) are less than 0.05. Hence, the null hypotheses were rejected. It means that there is a significant and positive effect of both awareness and understanding on customer satisfaction with Islamic banks. These results are consistent with the studies conducted on Islamic banking keeping in view the satisfaction level of customers (Bodibe et al., 2016; Islam & Rahman, 2017; Khattak, 2010; Murad et al., 2016; Rammal & Zurbruegg, 2016a). On the other hand, since the level of significance for the usage of Islamic banking products ( $H_{03}$ ) is higher than 0.05, the null hypothesis couldn't be rejected. Hence, it was concluded that there is no influence of the customers' usage of Islamic banks on

their satisfaction. This is consistent with the findings of Saini et al. (2011), though their study was conducted in South Africa and the current study was conducted in Pakistan. The results also revealed that the customers mostly access Islamic banks for long-term and medium-term transactions. A study in Singapore conducted by Philip (1997) and another study in Jordan conducted by Naser et al. (1999) also revealed the same results about the level of the usage of services and products.

**Table 4**

*Results of  $R^2$  for Model of Satisfaction*

Model	$R^2$	Adjusted $R^2$
Satisfaction	0.662	0.659

In Table 4 above,  $R^2$  and adjusted  $R^2$  depict the model's explanatory power. The adjusted  $R^2$  of this model explains it up to 66%.

**Figure 3**

*Importance Performance Matrix*

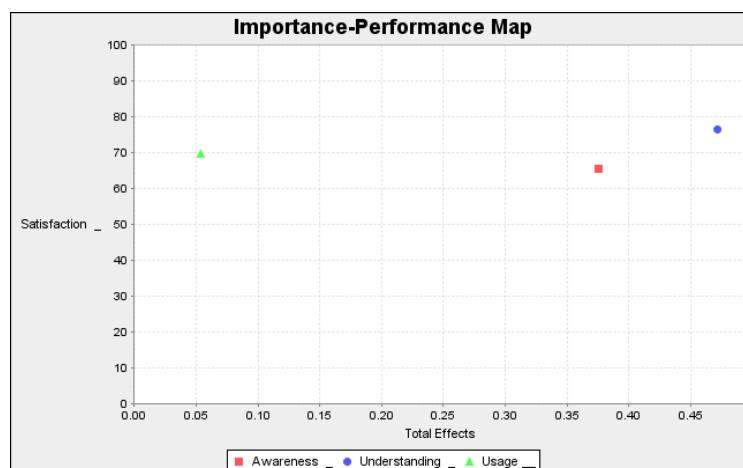


Figure 3 depicts that the most critical aspect for gauging the respondents' satisfaction level with Islamic banking was their level of understanding. If there is more understanding of the products and services offered by Islamic banks, there will be more satisfied customers. Similarly, awareness is the second most important variable which increases the satisfaction with the products and services of Islamic banks. On the contrary, the usage of Islamic banking was not found to be necessary for achieving customer satisfaction.

## **Conclusion**

Islamic banking is regarded as sprouting rapidly developing field in Islamic finance, worldwide. Due to its religious backing and interest-free products and services, it is gaining full acceptance among the Muslim communities all over the world. However, it was observed that the factor of religion is not the only reason behind the attraction of the customers towards Islamic banks. There are certainly other aspects that shape up the choice of the bank that the consumers consider. The current study helps in explaining the selection of the products and services of Islamic banks by the customers on the basis of their satisfaction level.

The findings of this study showed that not only the awareness of the Islamic banking system, services and products but also the understanding of the attributes of each product and service is critical to make the right selection decision, which ultimately leads to a higher customer satisfaction level. Conversely, the extent of the usage of the Islamic banking services and products does not influence the customer satisfaction level. Instead, it is more related to the customers' perception of Islamic banks. It is the duty of Islamic banks to know why the people do not have sufficient knowledge about their system. They should innovate their products and services accordingly. This would establish a strong foundation for an innovative Islamic banking system in Pakistan, which will ultimately lead to better goodwill and enhanced customer satisfaction.

### **Implications of the Current Research**

The results proved that awareness and understanding influenced customer satisfaction at significant levels. Therefore, Islamic banks should arrange seminars to increase awareness about their products and services. There should be awareness programs and workshops for the customers which may develop their understanding towards the products and services of Islamic banks. The banks must reflect through seminars that they are exclusively engaged in Halal businesses only and operate on the foundations of the Islamic Shariah and law.

During the measurement of the level of utilization of the products and services of Islamic banks, it was revealed that the customers use both types of banking systems, that is, the conventional banking system and the Islamic banking system because Islamic banks do not provide all banking facilities to their customers, effectively. Therefore, bank management should consider the customers' demands. They should innovate their product development mix to attract new customers and also strive to retain the existing customers. The current study also suggests that the management of Islamic banks should do promotional campaigns and design

strategies to propagate old and new products and services. Furthermore, the outcomes of the descriptive analysis indicate that mostly the users of Islamic banks are young people and many of them belong to the high-income group. Therefore, Islamic banks should introduce cost-effective savings schemes for this target group.

### **Limitations**

The current research has some limitations which can be addressed in future research. The sample was taken from the cities of Lahore and Faisalabad. Hence, it is not appropriate to generalize the findings across the country. This study considers only the customers of Islamic banks. So, the findings are not applicable to the customers of conventional banks.

Although this research broadens the scope of the Islamic banking literature, it does not focus on conventional banks which are significant competitors of Islamic banks. Similarly, the model can be adapted to explicate the role of the variables playing an independent role in the current study as the best mediators or moderators in the future studies.

### **Recommendations**

Considering the above limitations, future researchers can use this model as reference. This study can be carried out with a larger and more diverse sample for achieving generalizability. The managerial team and staff can be included in the target population. Besides quantitative methodology, a mixed methods approach can be used in the future. The current research was conducted in urban areas only. In future research, the clientele of Islamic banks from both rural and urban areas of Pakistan should be considered.

Indeed, the same framework can be applied to conventional banks. If comparative research of Islamic and conventional banks is conducted, it can highlight the limitations in the scope of Islamic banking which reduce the competitiveness of Islamic banks against conventional banks. It will allow policymakers to formulate such policies that can facilitate the promotion of Islamic banks and their competitiveness. Similarly, the conceptual model of this research can also be changed by adding some moderators and mediators about the usage and satisfaction level of Islamic banking products and services.

With the advancement of technology, organizational and personal dependency on technology is also increasing. In future research, the phenomenon of technology usage and Fintech can also be studied. The target population can be other than the existing customers of Islamic banks and it may include their potential customers and non-users.

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