

A COMPARATIVE ANALYSIS OF BANKERS' PERCEPTION ON ISLAMIC BANKING IN PAKISTAN

Madiha Arshad, Samina Aslam, Amir Razi, Syed Atif Ali,

Lahore Business School, The University Of Lahore, Lahore, Pakistan

Abstract

This research was conducted to gauge the perceptions of employees, in both Islamic banks and conventional banks, of Islamic products and services, the training and experience gained in Islamic banking, and the potential of Islamic banking in Pakistan. Questionnaires dealing with Islamic banking were distributed to bankers in the northern part of Pakistan. The results revealed that bankers in Islamic banks have more positive perceptions on the above issues. Interestingly, few of the bankers possessed a relevant academic background or relevant experience in Islamic banking before embarking on this career. The bankers also claimed that they had very limited knowledge in this area prior to working with the banks; thus, the issue of the availability of well-trained and skilled employees must be addressed critically by the government, industry players and educationists for the sustainable growth of Islamic banking in Pakistan

1. Introduction

Islamic banking industry has appeared as one of the fastest growing sector over the last three decades. It has extended to all places of the world and gained extensive identification by Muslims and non-Muslims. Islamic banks present the similar functions as banks do in the conventional system, except that the Islamic Banks carry out their transactions in accordance with Islamic rules.

As one of the most important players in service industry today, Islamic banking is no longer considered as a business entity only to carry out the religious duty of Muslim community, but also fulfil the need of non-Muslims by offering more products. This requires Islamic banks to identify with the perceptions of customers towards them in terms of service quality and other benefaction factors to secure customers loyalty.

In Pakistan, customer's optimistic observation towards Islamic banking is crucial mainly due to the fact that Islamic banks have to compete with the conventional banks in a dual-banking system. Pakistan has a dual banking system, whereby the Islamic banking system operates in parallel with the conventional system. In Pakistan currently 51 banking institutions are running their operations, encompasses five Islamic banks and 46 conventional banking institutions out of which 15 conventional banks also running Islamic windows.

The Islamic banking and financial institutions today has appeared as an essential part of the whole Pakistani financial system that contributes to the development and growth of the Pakistan's economy. Since 2007, in term of assets the domestic Islamic banking industry has been growing at an average rate of 18 percent per annum. It is the aim of State Bank of Pakistan to have a strong Islamic banking industry, detains 20 percent of market shares of financing and deposits in the country. In this regard, the capability of Islamic banking industry to imprison a major market share in a quickly developing and challenging financial environment particularly in a dual-banking system, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers.

Against this background, this study will explore Islamic banking from the bankers' viewpoints. Our analysis is based on a survey conducted among bankers of Islamic banks and Conventional banks in Pakistan, namely Meezan Bank Limited, Bankislamic limited, Dawood Islamic Bank, Allied Bank Limited, Faysal Bank, Bank Al-Habib, Standard Chartered, UBL, Bank Alfalah, Dubai Islamic Bank, MCB, Citi Bank, Silk Bank and Albaraka Islamic bank Limited. A questionnaire will

prepare to seek information on perception of bankers of Islamic banks and conventional banks.

The remainder of the paper will proceed as follows. The next section will highlight the philosophy of Islamic banking system in Pakistan, the growing phenomenon of ethical investment in the West and review on past studies on banking selection criteria. Section three and four will expound the research methodology and analysis tools will adopt in this study. Research findings and analysis will record in section five, while the final section will contain the concluding remarks.

1.1. Objective of Study

- 1.1.1. To examine the perception of bankers in Islamic banks and conventional banks towards Islamic banking products and services.
- 1.1.2. To evaluate the perception of bankers in Islamic banks and conventional banks towards the training and experience gained in Islamic banking.
- 1.1.3. To investigate the perception of bankers in Islamic banks and conventional banks towards the future potential of Islamic banking in Pakistan.

2. Literature Review

Z. Zainol, Shaari (2008) conduct a comparative analysis of bankers' perceptions on Islamic Banking. Their research covered both of the banking systems Islamic & conventional. The findings of their study show that the respondents have positive perceptions about the Islamic products and services. Though the staff in Islamic banks is more buoyant than their complements. In terms of the level of employee's knowledge of Islamic banking field, it is suggested that the bank's management should take initiative in providing their sufficient knowledge of the Shariah and the principles in which Islamic banking based. In this way with greater knowledge employees can handle their customers and can well perform their duties. Banks management must be positive in arranging seminars and workshops to expose their employees so that they can countenance the challenges and meet the objectives of Islamic Banking Industry.

2.1. Philosophy of Islamic Banking

Many Islamic banking literature declare that though Islamic banks carry out similar functions to that of conventional banks, their approach is distinctly different (Ahmad, 2000; Chapra, 2000; Warde, 2000; Henry and Wilson, 2004; Iqbal and Molyneux, 2005; Iqbal and Mirakhor, 2007). To demonstrate, some of the prominent characters of Islamic banking which making it distinguishing and sole from its conventional complements are: first, Islamic banking struggle for a just, pale and balanced society as imagined by the Islamic economics (Mirakhor, 2000; Warde, 2000). Therefore, the many bans are to give a level playing ground to defend the interests and benefits of all parties concerned in market dealings and to endorse social concord (Ahmad, 2000; Chapra, 2000). For instance, the current practice of interest in the conventional banking system engages unfairness to the borrowers since the interest on their loans have to be paid irrespective of the results of their business. Similarly, interest-bearing agreements can be unfair to the lenders particularly when their yield on deposits, which have been cancelled by the banks to the entrepreneurs, do not proportionate with the real presentation of the investment (Lewis and Algaud, 2001; Iqbal and Molyneux, 2005). Second, Islamic banking is build upon the principle of brotherhood and collaboration, which stands for a system of equity sharing, risk sharing and stake taking. It promotes such sharing and collaboration between the provider of funds and the user of funds (Ahmad, 2000; Iqbal and Molyneux, 2005). Third, as a system ashore on moral and ethical structure of the Islamic law of Shariah, Islamic banking is also

characterised by moral standards and social promise (Ahmad, 2000; Mirakhor, 2000; Warde, 2000). There is a moral sift based on the meanings of halal and haram in force at diverse levels, statue the scruples of entrepreneur and firm, endorsing a optimistic social environment for the public, and providing an practical lawful structure (Chapra, 1992). Hence, Islamic banks cannot finance any project which clash with the ethical value system of Islam such as financing a brewery factory, a casino, a night club or any other activity (Ahmad, 2000).

2.2. Islamic banking and ethical investment

In the UK, the anxiety for ethical investment and socially accountable financial firm has become more and more accepted since the mid-1970s. Since then, there have been important growths in the field of corporate social responsibility (CSR) and ethical investment, not least within the financial sector (O'Brien, 2001; Snider et al., 2003). According to a research conducted by Ethical Investment Research Services more than 50 retail ethical investment funds now exist in the UK. These funds all apply ecological, social and other ethical criterion to the collection of their investments. The approximated value of these funds stood at £4 billion in August 2001 (EIRIS, 2003). According to Social Investment debate, in 2003, 11.3 percent of total assets under expert management in the USA were invested using a publicly accountable philosophy (Benson et al., 2006).

The growth of the ethical investment industry is another current indication of the emphasis placed on the social and ethical behaviour of companies. There is a competitive advantage that companies believe they can reap by being ethical and socially responsible (Porter and Kramer, 2002; Snider et al., 2003). They foresee that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brand, enhance their corporate reputation with customers and suppliers, and attract and retain a committed and skilled workforce (Turban and Greening, 1997). Indeed, extant literature asserts that, the commitment towards ethical and social responsibility will in turn lead to better performance in terms of profitability, competitiveness and risk management (Waddock and Graves, 1997; O'Brien, 2001; Porter and Kramer, 2002; Brinkman, 2003; Johnson, 2003; Snider et al., 2003).

The emerging of Islamic banking and finance along with the propagated doctrine of ethical investment and socially responsible financial transactions in the West is really a phenomenon that requires an instructive examination from the customers' perspectives. This growing phenomenon somehow implies that Islamic banks need to balance out their operation between profit-making activities and social responsibility (Wilson, 1997).

Perhaps, Islamic banks need to play a leading role in social services such as the development of human resources, protection of environment, promotion of human rights and constructive participation in community development programmes. Indeed, Islamic banking system has an in-built dimension that promotes ethics and social responsibility, as it resides within a financial trajectory underpinned by the forces of religious injunctions. These religious injunctions interweave Islamic financial transactions with genuine concern for ethical and socially responsible activities and simultaneously prohibit involvement in illegal activities or those, which are detrimental to social and environmental well-being.

3. Research method

The research population consists of all officers in Islamic banks as well as officers in conventional banks offering Islamic banking products and services (Islamic window). The

banks include Meezan Bank Limited, Bankislamic limited, Dawood Islamic Bank, Allied Bank Limited, Faysal Bank, Bank Al-Habib, Standard Chartered, UBL, Bank Alfalah, Dubai Islamic Bank, MCB, Citi Bank, Silk Bank and Albaraka Islamic bank Limited. A non probability convenience sampling method was employed in which 200 questionnaires were distributed to officers at Bank Islami and all conventional banks offering Islamic banking products and services in the Pakistan. Of the 200 questionnaires, all were returned. The data was analyzed using Statistical Packages for Social Science (SPSS) 16.0.

4. Findings

The respondents' demographic profile is presented in Table 1. A total of 200 bankers were involved in this study. 69% of them were male while the rest were female officers. In addition, of the 200 bankers surveyed, 14% were below or equal 30 years old, 45.0% were in the range of 30-39 years of age, and the rest were between 40 and 49 years old (36.5%) and above 50 years old (4.5%). Bankers in the operations department accounted for 58.5%, while bankers in lending departments comprised 41.5%. Also, 1.5% bankers held at least a diploma level education, while the bankers who held undergraduate and postgraduate degrees accounted for 33.5% and 63.0% respectively. In addition, 50% respondents in this study were from the conventional bank while 50% of the respondents worked with the Islamic banks.

An analysis of the perceptions of bankers of Islamic products and services is depicted in Table 2. The first item concerns with the knowledge of the bankers regarding the understanding of *riba*, which is clearly prohibited in Islam. 24.5% of respondents agree that the Islamic banking system was introduced because Muslims are prohibited from dealing in any transactions based on *riba*, which is practiced in the conventional banking system. The mode score for this item is 2, which shows that the average respondent gave a positive response to this statement. The second item tests the principles of profit maximization in Islamic banking. The majority of respondents (55.5%) indicated that they not agree with this statement, while only 18.5% agree. 2.5% responded that they were unsure of the principles in Islamic banking. The mode score for this item is 2, which indicates that most of the respondents not agree with this statement; this shows that most of those who responded to this statement do not realize the objective of the establishment of Islamic banks, which are based on two main factors, namely religion and profitability.

For the third, fourth and fifth items, the respondents gave their opinions of the Islamic products and services offered by their respective banks. Based on the Likert scale of 1-5, the third item exhibited the mode of 2, followed by the fourth item with a mode of 4, and a mode of 4 and 4 for the fifth and sixth items, respectively. It can be concluded that most of the respondents have positive perceptions of Islamic products and services.

An analysis of the perceptions of the bankers concerning training and experience is detailed in Table 3. For the first item, it was found that only 16% of the respondents strongly agree with the statement that they possessed an extensive academic background in a related field prior to working with the banks. 44.5% agree with this statement, another 11.5% are undecided, 19.5% disagree while 8.5% of the respondents strongly disagree with the statement. Interestingly, the mode score for this item was just 4, which shows that the respondents on the whole evidently do not have an extensive academic background in Islamic banking. The second item examined whether the respondents possessed vast experience in the field of Islamic banking prior to working at their present banks. Only 27% of the respondents disagree that they have extensive experience in the related field, while almost 38% declared that they have any relevant experience in the field. Consequently, the mode score obtained for this item is 4, which indicates that the majority of the respondents have extensive working experience before assuming their current post.

Interestingly, however, most of the respondents (35%) claim that they have broad knowledge of the products and services they handle, as seen from the subsequent score of a mode of 4.

Meanwhile, 38% of the respondents also declare that they have the ability to solve customers' problems. 18.5% remained undecided, and the rest did not agree with the statement.

The third, sixth and seventh items measured the bankers' perceptions towards the training provided by their management in the area of Islamic banking. With a mode of 4, the response to the third item showed that 10% of respondents strongly agree, 37.5% agree, 20% undecided, 27.5% somewhat disagree, while 5% strongly disagree with the statement that there is efficient training and exposure to products and services. Meanwhile, for the sixth item, which considered the adequacy of training programs, 10% of respondents strongly agree, 31% somewhat agree, 25.5% are undecided, 24% somewhat disagree and only 9.5% strongly disagree with the statement, yielding a mode score of 4. This demonstrates that most of the respondents perceive that they have received an adequate and sufficient amount of training in the field of Islamic banking. Besides this, with a mode score of 2, they disagree that their bank management encourages them to attend short-courses, seminars and conferences in the field of Islamic banking.

Table 4 presents an analysis of the bankers' perceptions concerning the potential for Islamic banking in Pakistan. The potential usage of Islamic banking products and services by non-Muslim customers, 26.5% of respondents said the products and services are less likely to be used by non-Muslims while 42.0% positively believe that the products and services have a huge potential with non-Muslim customers. The second item tests the potential usage of Islamic banking products and services by Muslim customers. As expected, mostly respondents (38.5%) agree that the products and services have substantial potential. The last item in this section measures the utilization of Islamic banking products and services within the corporate sector in Pakistan. The survey indicates that only 25.5% believe that the products and services have no potential, while 43.5% of the respondents claimed that the Islamic products and services have outstanding potential with corporate customers.

Table 5 presents an analysis of the perceptions of bankers concerning the Islamic banking products and services and types of banks to see if there are any differences between the banks. From the T-test, it was discovered that the p-value is 0.015, which is smaller than the confidence level of 0.05. This finding noticeably indicates that significant differences exist in the perceptions of bankers in Islamic banks and bankers in the conventional banks.

The above table shows the outcome of a t-test in determining whether there exist any differences in perceptions among the bankers on the training and experience gained with the banks to which they are attached. The p-value obtained from this test (0.626), which is higher than the confidence level of 0.05, revealed that there is no significant difference in the perceptions of bankers from the Islamic banks and bankers from the conventional banks.

The p-value from the analysis in Table 8 yielded 0.031. This value is lower than the confidence level of 0.05, which clearly indicates that there are significant differences in the perceptions of bankers towards the potential of Islamic banking in Pakistan with the types of banks.

5. Discussions

5.1 Perceptions of Islamic banking products and services

Bankers in Islamic banks are more positive in relation to Islamic banking products and services than their counterparts. Based on this outcome, it is clear that the bankers in Islamic banks are more exposed to the Islamic banking products and services, since they are involved in day-to-day operations and transactions. In contrast, bankers in the Islamic window face difficulties in understanding Islamic banking concepts and principles, as they work with conventional banks.

Moreover, the knowledge of employees of the fundamental aspects of Islamic banking – with particular reference to the objectives of the establishment of Islamic banks – is very limited. Most of the respondents are not aware of the objectives, which place religion as the main

feature, unlike the conventional banks which place greater emphasis on the profitability factor.

5.2 Perceptions on the training and experience gained in Islamic banking

There exists little difference in bankers' perceptions of the training and experience in Islamic banking with the types of banks to which they are attached. From the analysis, it is clear that a significant number of the respondents did not possess extensive working experience or a related academic background prior to working with their respective banks. Nevertheless, most of them agree that they have sufficient knowledge of the products and services with which they are dealing.

5.3 Perceptions of the potential of Islamic banking

From the analysis, it has been revealed that the perceptions of bankers towards Islamic banking are dependent on the banks with which they work. The two-way analysis suggests that employees in Islamic banks are more positive than their counterparts in conventional banks. This might be due to their wider involvement in the arena of Islamic banking.

6. Conclusion

This research was conducted to gauge the perceptions of employees in both Islamic banks and conventional banks of Islamic products and services, the training and experience gained in Islamic banking, and the future potential of Islamic banking in Pakistan.

The findings yielded that most of the respondents have positive perceptions of the Islamic products and services. However, employees in Islamic banks are more optimistic than their counterparts. Based on the undesirable outcome in terms of the level of knowledge of employees in the Islamic banking field, it is recommended that the banks' management take greater initiative in providing their employees with sufficient knowledge of and exposure to rules of the *Shariah* and the principles governing Islamic banking in particular. This is to ensure that the employees are well equipped with knowledge to handle their customers and to perform their duties. Hence, moving forward, bank management must be considerably proactive in organizing seminars and workshops to expose their employees to innovations in Islamic banking products and services, and to equip them well so that they can face the challenges and meet the objectives of the Pakistani government in positioning Pakistan as an Islamic financial hub in the region.

This research should be expanded further to gauge the perceptions of employees in Islamic banks as well as in conventional banks throughout Pakistan. It is suggested that foreign banks involved in offering Islamic banking products and services be included in the sample. It is hoped that the research will further assess the perceptions of employees in depth.

Table 1. Demographic profile of respondent

Variable		Frequency	Percent
Gender	Male	138	69.0
	Female	62	31.0
Age	Below 30 years	28	14.0
	31-39 years	90	45.0
	40-49 years	73	36.5
	>=50 years	9	4.5
Number of officers per department	Operations officers	117	58.5
	Lending officers	83	41.5
Highest education attained	Diploma and below	3	1.5
	Bachelor's degree	67	33.5
	Masters degree	126	63.0
	Any other	4	2.0
Respondents per bank	Bank Islami	100	50.0
	Conventional banks with Islamic window	100	50.0

Table 2. Analysis of Perception of the Bankers pertaining to the Islamic product and services

Item	Mode	STD %	SD %	UD %	SA %	STA %
Item 1. The Islamic banking system was introduced because Muslims are Prohibited to take riba	2	1.5	50.0	2.5	24.5	21.5
Item 2. The Islamic banking system must adhere to the profit maximization principle	2	4.0	55.5	2.5	19.5	18.5
Item 3. Products and services in Islamic banks are similar to the products and services of conventional banks with the exception that the banks use different names to differentiate the products and services'	2	3.0	46.5	1.0	40.5	9.0

Item 4. Products and services in Islamic banks are more expensive than conventional banking	4	9.0	20.5	4.5	60.0	6.0
Item 5. Non-Muslim customers are not interested in utilizing the Islamic products and services	4	10.0	17.0	2.0	57.5	13.5
Item 6. Customers choose Islamic banking products and services because they are more interested in the Arabic concepts applied to these products and services	4	8.0	21.0	6.5	59.0	5.5
Item 7. Your bank management shows commitment in marketing and promoting Islamic banking products and services	2	21.0	54.5	8.5	11.5	4.5
Item 8. The Pakistan government shows commitment to further developing Islamic banking in Pakistan	2	8.0	56.5	4.5	24.0	7.0
Item 9. Islamic banks and conventional banks market their Islamic banking products and services in an effective manner	2	3.0	51.0	4.5	30.5	11.0

STD = strongly disagree SD = somewhat disagree UD = undecided
SA = somewhat agree STA = strongly agree

Table 3. Analysis of perception of bankers pertaining to the training and experience gained in Islamic banking

Item	Mode	STD%	SD%	UD%	SA%	STA%
Item 1. Extensive academic background prior to working with the bank	4	7.0	18.0	8.0	51.0	16.0
Item 2. Extensive work experience prior to working with the present bank	4	7.0	27.5	19.0	38.0	8.5
Item 3. Clear and efficient training and exposure on the products and services before they are launched	4	5.0	27.5	20.0	37.5	10.0
Item 4. Extensive knowledge on the products and services under my supervision	4	8.5	22.0	16.0	35.0	18.5
Item 5. Capable to solve customers' problems	4	7.5	20.5	18.0	38.0	16.0
Item 6. Adequate training and exposure before assuming the current post	4	9.5	24.5	25.0	31.0	10.0
Item 7. Bankers are encouraged to attend short-courses, seminars and conferences in related field	2	18.0	34.5	20.0	18.5	9.0

Table 4. Analysis of perception of the bankers pertaining to the potential for Islamic banking in Pakistan

Item	Mode	STD	SD	UD	SA	STA
Item 1. Potential usage of Islamic banking products and services by non-Muslims	4	7.5%	27.0%	13.5%	42.0%	10.0%
Item 2. Potential usage of Islamic banking products and services by Muslims	4	8.0%	29.5%	11.5%	38.5%	12.5%
Item 3. Potential usage of Islamic banking products and services by corporate sector	4	13.5%	26.0%	17.5%	31.5%	11.5%

STD = strongly disagree SD = somewhat disagree UD = undecided
SA = somewhat agree STA = strongly agree

Table 5. T.Test value on the bankers' perceptions pertaining to Islamic banking products and services, and types of banks.

Types of Banks	N	Mean	SD	T	Sig (2-tailed)
Bank Islami	100	26.50	3.81	2.445	0.015
Conventional Banks	100	27.75	3.41		

Table 6. T.Test value on the bankers' perceptions of training and experience gained and types of banks.

Types of Banks	N	Mean	SD	T	Sig (2-tailed)
Bank Islami	100	22.14	3.10	0.488	0.626
Conventional Banks	100	22.37	3.54		

Table 7. T.Test value on the bankers' perceptions on Islamic banking potential and types of banks.

Types of Banks	N	Mean	SD	T	Sig (2-tailed)
Bank Islami	100	9.74	2.15	2.169	0.031
Conventional Banks	100	9.05	2.35		

References

- Wen, D. and Schneider, B. (1998). Service Marketing and Management: Implication for Bankers. *Organizational Behaviour*, 10: 43-80.
- Buchanan, B. (1974). Building Organizational Commitment: The Socialization of Managers in Work Organization. *Administrative Science Quarterly*, 19: 533-546.
- Congram, C. A. and Friedman, M. L. (1991). *The Quality Leadership Connection in Service Businesses*. The AMA Handbook of Marketing for the Service Industries, American Management Association: New York.
- Cook, J. and Wall, T. (1980). New York Attitude Measures of Trust, Organizational Commitment and Personal Need on Fulfillment. *Journal of Occupational Psychology*, 53: 39-52.
- Davis, K. (1989). *Human Behavior at Work: Organizational Behavior*. 8th ed. McGraw-Hill: New York
- Dessler, G. (1988). *Personnel Management*. 4th ed. Prentice-Hall: New Jersey.
- Donnelly, J. H., Berry, L. L. & Thompson, T. W. (1985). *Marketing Financial Services: A Strategic Vision*. Irwin McGraw-Hill: New York.
- El-Ashker, A. A. F. (1990). *Egypt: An Evaluation of the Major Islamic Banks, in Islamic Financial Market*. Ed. Rodney Wilson. Routledge: London and New York.
- Hamid, A. and Nordin, N. A. (2001). A Study on Islamic Banking Education and Millennium-Malaysian Experience. *Journal of Islamic Financial Services*, 2: Jan-Mac.
- Haron, S. (1996). *Prinsip dan Operasi Perbankan Islam*. 1st ed. Berita Publishing: Kuala Lumpur.
- Haron, S. and Ahmad, N. (2002). The Potentiality of Islamic Products and Services in Fulfilling sCorporate Customers' Banking Requirements. Paper presented at the 1st International Conference on Islamic Banking, Finance and Insurance, 30-31 January, Labuan, Malaysia.
- Hassan, M. K. and Ahmed, M. (2002). Islamic Banking versus Conventional Banking: A Questionnaire Survey of their Apparent Similarities and Differences. Paper presented at the 1st International Conference on Islamic Banking,
- Peters, V. J. (1999). Total Service Quality Management, *Journal of Managing Service Quality*, Vol.29 (1): 6-12.
- Scharf, T. W. 1983. *Arab and Islamic Banks: New Business Partners for Developing Countries*. The Organisation for Economic Co-operation and Development (OECD): Paris.
- Schneider, B. and Bowen, D. (1985), Employee and Customer Perceptions of Service in Banks: Replication and Extension, *Journal of Applied Psychology*, Vol.70: 423-33.
- Wilson, R. (1983). *Banking and Finance in the Arab Middle East*. MacMillan Publishers Ltd: Surrey (UK).

- Zaher, T. S. and Hassan M. K (2001), A Comparative Literature Survey of Islamic Finance and Banking. *Financial Markets, Institutions and Instruments*, Vol. 10 (4): 155-199.
- Zeithaml, V. A. and Bitner, M. J. (2000). *Service Marketing: Integrating Customer Focus across the Firm*. Irwin McGraw-Hill: New York.
- Zeithaml, V. A. (2000). Service Quality, Profitability and the Economic Worth of Customers: What We Know and What We Need to Learn. *Journal of the Academy of Marketing Science*, 28(1): 67-85.