

---

## ISLAMIC BANKING SCENARIO IN PAKISTAN

**Prof.Dr.Abdul Ghafoor Awan**

Dean, Faculty of Management and Social Sciences,  
Institute of Southern Punjab-Multan-Pakistan.  
ghafoor70@yahoo.com. Cell # +923136015051.

**Shabana Sheikh**

MS Scholar, Institute of Southern Punjab-Multan-Pakistan.  
shabanasheikh@yahoo.com. Cell # +923136015051.

---

### ABSTRACT

*This study was conducted on the Islamic banking scenario in Pakistan. The objectives of this paper were to review the distinctive concepts of Islamic banking and to analyze its customer satisfaction and also to evaluate the current practice and performances of the Islamic banks. The sample size was 200 taken from five full-fledged Islamic banks operating in Multan city by using judgmental sampling method. Judgmental sampling was used here because population size is small. All respondents were male. Data was collected through a structured questionnaire. The statistical procedure was carried out through SPSS Software; descriptive statistics. The results show that majority of the respondents prefer Islamic banking due to their religious faith. The author suggested that the Islamic banks should improve their total assets and the profitability.*

**Key Words:** Islamic Banking, Conventional Banking, Interest, PLS system.

---

---

### 1.INTRODUCTION

The term "Islamic banking" means behavior of banking operations in consonance with Islamic teachings. Banking practices which include the receipt and installment of premium are not consistent with the teachings of Islam. It is an unavoidable truth that the Muslim social orders were not able to avoid premium based exchanges when current banks emerged on the scene. The Islamic banking development, tries to change this financial scene. This development has two stages. From theoretical perspective, hypothetical work is under way on different aspects of interest free banking. Moreover, handy experience is consistently picked up in running interest free banks and monetary system. A decent arrangement of

communication is additionally occurring between the hypothesis and practice of Islamic banking. The Islamic banking development is still in its early stages yet it has visible effect on the financial sector not only in Pakistan but also all over the world. Islamic banking framework has risen as an aggressive and a practical substitute for the conventional banking framework during last three decades. It is particularly valid for Muslim world where right away Islamic banking strides at two different fronts. At one side, endeavors are additionally in progress to secretive the whole budgetary frameworks in agreement to Islamic laws (Shariah). At the other side, separate Islamic banks are permitted to work in parallel to ordinary conventional banks.

### **1.1 Origin of Islamic Banking**

Pakistan was among the three nations on the planet that has been attempting to enforce Islamic banking at national level. The process of Islamization was started in 1977 when then President, Gen Ziaul Haq, directed Islamic Ideology Council to develop interest-free mechanism for the whole financial system of the country. The Council comprising high profile bankers, economists, Jurists, and experts of different fields started deliberation over different feasibilities of interest-free banking. The Islamic Ideology Council presented its Report to the President in February, 1980. On the basis of the recommendations given in that Report, initially profit-and-loss (PLS) system was introduced in all commercial banks, which got overwhelming response from general customers. After that five full-fledged Islamic commercial banks were given licenses to initiate Islamic banking in the country.

### **1.2. Main Research Question**

Our main research question is to study the existing scenario of Islamic banking in Pakistan and its future prospective.

### **1.3 Objectives of the Study**

The main objectives of this study are the followings: -

- 1.To review the distinctive concepts of Islamic banking.
- 2.To analyze the customer satisfaction of Islamic banking.
- 3.To evaluate the religion as a mediator factor toward Islamic banks.
4. To analyze the existing scenario of Islamic banking in Pakistan.

### **1.4 Scope of Study**

The scope of this study is wide and its likely results will be useful for the whole Islamic banking segment operating in the whole Muslim world. This study is mostly deals with the attitude of customers and the results will be enable the management of Islamic banks to understand and develop products and services according to the needs and aptitude of their customers.

## **2. BRIEF SKETCH OF ISLAMIC BANKS**

### **2.1 Al Baraka Islamic Bank Limited**

Al Baraka Islamic bank provides its world class services and the products to its customers globally. With a vision to provide its services according to the Islamic principles its networks are increasing globally. It has been formed as a merger of the Al Baraka Islamic bank Pakistan, Emirates Global Islamic Bank Pakistan and the operations of Al Baraka Islamic Bank Bahrain. It's started operating globally in November 1st 2010. It provides a wide range of Islamic financings which includes Murahaba, Ijarah, Musharakha, and Islamic Export Refinance. It also provides various deposit schemes according to the basic principles of Islamic banking. It is one of big Islamic Bank operating in Pakistan.

### **2.2 Meezan Bank Limited**

It is the first Islamic Bank which started operation in Pakistan in 2002 and has been emerged as a big player in the financial market. It has played a vital role in promotion of Islamic banking practically by training bankers and introducing Islamic banking products and services in Pakistan. It provides value added products and services to the customers in accordance with the tenets of Shariah. The core ethics of the bank include the culture based learning, fairness, respect, performance and individual enterprise. It is the premier Islamic bank which ensures timely provision of its products with high quality and aims to promote Islamic values.

### **2.3 Bankislami Pakistan Limited**

Bankislami is the Pakistan's leading Islamic financial institution. Its products and services include the consumer banking, retail banking, corporate banking under which it ensures its customers to provide timely and friendly services. It lends finance to its customers under "MUSKUN" home financing, Islamic auto Ijarah new vehicle, Islami Auto Ijarah for used or imported vehicles. While it also provides services of Islamic current account, Islami

foreign currency account, Islami dollar bachat account Islami manaha munafa account and Islami sahulat account.

#### 2.4 Dubai Islamic Bank Limited

Dubai Islamic bank is one of the leading financial institutions of the country. It provides Islamic banking not only in Pakistan but also in other Muslim countries. It has its core ethics including morality, equity, transparency and the diversity.

#### 2.5 Burj Bank Limited

This bank was basically established by Dawood Group and its previous name was “Dawood Islamic Bank Limited (DIBL). It was fifth full-fledged Islamic bank, which started operation officially on April 27,2007. That bank was established in collaboration with Islamic Corporation for the Development of the Private sector (ICD) in Jeddah, Unicom Investment Bank in Bahrain, Al-Safat Investment Company in Kuwait, Gargash Enterprises in Dubai, the Singapore-based company Azam Essof Kolia and Shaikh Abdullah Mohammad Al-Romaizan, a company of Saudi Arabia. The bank initially suffered losses due to small capital and later its management was changed. It was renamed as Burj Bank Limited in July,2011. Now it has 75 online branches and is providing full-fledged banking services to its customers. The banks is also offering investment and corporate advisory services.

Table 1. Islamic Branches of Islamic Banks and Conventional Banks

<b>Name of Bank</b>	<b>No. of Branches</b>	<b>Windows</b>
<b><u>I- Branch Network of Islamic Banks</u></b>		
1. Al-Baraka Bank (Pakistan) Limited	136	
2. BankIslami Pakistan Limited	207	
3. Burj Bank Limited	75	
4. Dubai Islamic Bank Pakistan Limited	199	
5. Meezan Bank Limited	547	
6. MCB -Islamic Bank Limited	8	
<b><u>Total</u></b>	<b>=</b>	<b><u>1,171</u></b>
<b><u>II-Islamic branches of Conventional Banks</u></b>		

1. Allied Bank Limited	39	0
2. Askari Bank Limited	76	0
3. Bank AL Habib Limited	35	58
4. Bank Alfalah Limited	157	25
5. Faysal Bank Limited	82	0
6. Habib Bank Limited	45	492
7. Habib Metropolitan Bank Limited	22	207
8. MCB Bank Limited	34	0
9. National Bank of Pakistan	115	0
10. Silkbank Limited	10	0
11. Sindh Bank	13	2
12. Soneri Bank Limited	16	0
13. Standard Chartered Bank (Pakistan) Limited	10	91
14. Summit Bank Limited	10	7
15. The Bank of Khyber	66	39
16. The Bank of Punjab	49	0
17. United Bank Limited	42	141
Total =		<b><u>821</u></b>
		<b><u>1,062</u></b>
<b><u>III. Sub Branches</u></b>		
1. AlBaraka Bank (Pakistan) Limited	14	
2. Askari Bank Limited	3	
3. BankIslami Pakistan Limited	133	
4. Faysal Bank Limited	1	
5. Habib Bank Limited	2	
6. United Bank Limited	1	
Total		<b><u>154</u></b>
Grand Total		<b><u>2,146</u></b>

Source: Banking Policy & Regulations Department, State Bank of Pakistan, 2016.

### 3. PRODUCTS OF ISLAMIC BANKS

There are different products of Islamic Banks. Prominent among them are the followings:

#### 3.1 Mudaraba (Capital Financing)

Under this concept, the person having capital provides it to a skill person for carrying out business and fix his remuneration for his services. The capital provider is known as “Rabul-Mal” while the skilled person who used capital for business purposes is known as “Mudarib”. The Mudarib is responsible for the whole operation of business entity and his paid fixed remuneration for his expertise and services while Rabul-Mal is responsible for profit and loss. The idea behind this concept is to utilize idle funds lying with Rabul-Mal as well as provide an opportunity and employment to a skilled person to utilize his expertise to generate wealth and employment. In the process of business both Rabul-Mal and Mudarib get benefit in monetary terms and collectively work for generation of employment and value creation. Mudaraba concept was practiced during the period of Holly Prophet, Muhammad, (MPBUH) who got capital from a wealthy woman, Hazrat Khadijah, and carried out trading successfully. In Pakistan, Modarba companies were allowed to start business in 1980 and since then around 30 companies have been working successfully and paying handsome dividend to its shareholders every year. These companies are enlisted at Pakistan Stock Exchange and is regulated by Securities and Exchange Commission of Pakistan.

#### 3.2 Musharaka (Partnership)

The term "Musharaka" implies a benefit imparting joint venture, intended to carry out a business exercises on long term business. Under this arrangement, both bank and its client form partnership. Bank provides capital as well as its expertise while client also inject its capital and skill. In this way, both work together and reap benefits of profit according to the proportion of their shareholding. Partnership is also in practice in conventional banking but it is for short-period because conventional bank provides capital and join venture for short-period until it gets back its principal amount of loan and accrued interest on it.

### **3.3 Murabaha (Cost plus profit)**

The term "Murabaha" implies an expense in addition to profit contract. In this arrangement of financing, the bank consents to buy a durable item for a customer who will then repay the bank in fixed time period in accordance with the agreement. It is basically a trade financing in which bank purchases an item on behalf of its client and then sells it to him. The bank discloses its purchase price of item and also charge certain amount of profit from the client as service charges.

### **3.4 Ijara (Leasing)**

The particular term "Ijara" means leasing. Under this arrangement, the bank provide plant, equipment, houses and vehicles to its customers on easy installments. The bank bifurcates its financing into units which are purchased by the clients periodically and ultimately the client become the owner of those assets which got on rent from the bank. In this way Islamic bank generates assets for its customers and then hand over to them when he gets back its financing. The customers get costly assets on easy instalments while the customers become the owners of the assets which he could not purchase due to lack of financial resources (Awan,2009). Ijara is a very popular product of Islamic banks.

### **3.5 Quard-E-Hasna (Interest-free financing)**

Quard-E-Hasa implies interest free financing given by the Islamic bank to the poor individuals for education and for starting a business. The act of managing this kind of contrasts from bank to bank. Quard-E-Hasa is typically given to those persons who are not in a position to acquire advance or any money related aid from some other sources. The primary objective of this financing is to help poor individuals in a general public keeping in mind the end goal to, make them independent and to raise their living standard (Zineldin, (1990); Khan, (1897); Kazarian, (1991), Ahmad, (1993), Awan, (2009).

## **4.CONCEPTUAL FRAMEWORK**

Islamic concept of business is based on profit and loss as both profit and loss is an integral part of business. Islamic financial laws do not permit charging any extra money on principle amount as it is in conventional finance. Islamic finance is based exchange of goods and services in real sense. There is practice of artificial trade or speculation. The core business of Islamic banking is financing on profit and loss basis. There is lending and borrowing and no interest. When Islamic bank finances any project it becomes a partner in

it and share profit and loss in real sense. This practice is negation of conventional banking in which bank lends money for a specific period on fixed amount of interest. There are many verses and instructions of Holy Prophet in which it has been strictly been prohibited to charge interest on any type of loans. Aristotle also strongly condemned interest saying that it is “birth of money from money”. It means that charging interest on money is an act of multiplying money from money. Even both Judaism and Christianity also prohibited the charging of interest on money lending. Some Jewish scholars, however, permitted to charge interest from non-Jews. But this verdict has created ambiguity among Jewish nation itself initially but latter money lending became core business of this community. In 1545 British Parliament enacted charging of certain percentage of interest on money lending and in that way it became core business of conventional banking. Thus, there is a fundamental role of Islamic banking to contribute in employment generation and circulation of money. There is no concept of wealth accumulation or concentration of wealth because accumulation and concentration of wealth is disliked by the Holy Prophet and also prohibited by Holy Quran. Thus, Islamic concept of banking is very much clear and different from conventional banking.

In contrast, giving money by a Muslim to another needy Muslim is aimed at supporting him to start business and enable him to become a productive person. It does not mean to charge any money or take any service from him for this support.

Among the followers of Islam, the interest has always been regarded as highly objectionable because the Holy Qur'an strictly prohibits interest based transactions in all forms of business. Islamic financial laws allow trade in which goods and services are exchanged in the same quantity. Similarly, profit is allowed and it can be generated through collective efforts of two parties. One has surplus capital and other has skill and these two join hands to collectively work for a productive venture and earn money and share according to agreed proportion. In this way, both reap benefit from their tangible and intangible assets. Capital is a tangible asset while skill is an intangible asset. Both have value in the existing competitive world.

In this paper, we have conducted research to analyze the preference of customers regarding the services of Islamic banks and underlying objective of this study is to understand why

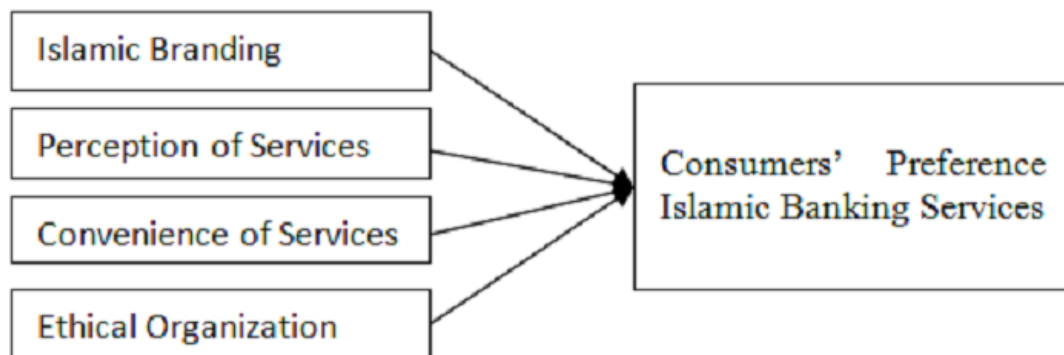


customers prefer to avail the services of Islamic banks vis-à-vis the services of conventional bank.

#### 4.1 Conceptual Model

We adopted the conceptual model from the study of Anas (1993) that states the people preference toward Islamic banking. This model is shown in Figure 1.

**Figure.1 Conceptual Model of Islamic Banking**



The model shows three independent variables such as perception of services, convenience of services and ethical organization while dependent variable is consumers' preferences towards Islamic banking services.

#### 5. RESEARCH METHODOLOGY

This is an exploratory as well as empirical Study. It will explore the Islamic banking scenario in Pakistan. The empirical data is used to explore the practices of Islamic Banks to see whether Islamic banks are working on sound footing and growing in real sense.

##### 5.1 Target Population

The target population was all full fledging Islamic banks and their branches operating throughout Pakistan.

##### 5.2 Research Sample

The authors used convenient sampling method that is non-probability sampling. Judgmental sampling is used here because sample size is small and geographical study area is Multan City. Full fledge Islamic banks which are operating for the last five years are included in this study. These banks are as under: -

1. Al Baraka Islamic Bank
2. Meezan Bank

3. Bank Islamipakistan

4. Dubai Islamic Bank

5. Burj Bank

Total 60 branches of Islamic banks located in Multan city and 200 customers were selected randomly for collection of data.

### **5.3 Research instrument**

Data was collected through a constructed questionnaire. It consisted of two parts; one was designed to collect information about the major involvement of religion in Islamic banks. The second part of the questionnaire has questions regarding the understanding and practices of Islamic banks of Pakistan.

### **5.4 Types of Data**

#### **5.4.1 Primary Data**

The authors visited 60 different branches of Albaraka Islamic bank, Mezan Islamic bank, Bankislami Pakistan, Dubai Islamic Bank and Bank Alfalah and the Islamic branches of conventional banks such as Askari Bank, Bank Alfalah, Soneri Bank, MCB Bank and United Bank. Total 200 questionnaires were distributed among the sampling population but 175 were responded positively. Some of the respondents expressed disinterest in filling questionnaire while some of them were not filled them properly and were not included in the analysis. The ratio of response is 87% which is satisfactory.

#### **5.4.2 Secondary Data**

Sustainable growth rate is calculated through its formula. Data needed to calculate sustainable growth rate is collected from the financial statements/annual reports of the banks available on their official websites and database of the State Bank of Pakistan and Pakistan Stock Exchange.

### **5.5 Data Analysis Tool**

Data was analyzed through SPSS (statistical packages for social sciences). First of all, reliability of this scales were evaluated using Cronbach's Alpha. It is used to measure the consistency with which respondents answer to the question within a scale. As the correlation between variables increases, the Cronbach's Alpha also increases. On the other hand, if the correlation is low, Cronbach's Alpha will also be low. In order to address the

reliability of the data and goodness of fit of model, some statistical techniques were applied. The questionnaire consists of 25 questions covering different aspects of Islamic Banks. For estimation, a coefficient of Cronbach's Alpha greater than or equal to 0.7, it is a good indication of reliability.

### 5.6 Ratio Analysis

This tool is used for comparison of various types of responses. It is generally used to measure change in financial indicators of banking institutions. The formula used in the ratio analysis is as under: -

$$P \frac{F}{N} \times 100$$

Where

P = Percentage

F = Frequency

N = Total No. of items

### 5.7. Regression Analysis

According to Cohen & Cohen, (1983) regression analysis is used to examine the hypothesized relationships among variables. To investigate the nature of these relationship between independent variables such as: Job Satisfaction and attitude toward work on dependent variable: Job Performance, Regression analysis was applied, whereas, moderated regression analysis was conducted to explore interaction effect of moderate variables on dependent variable. The value of  $R^2$  shows the fitness of goodness of model. And adjusted  $R^2$  gives a more accurate picture about the "goodness of fit" of model, therefore, the value of adjusted  $R^2$  was used for interpretation of regression analysis results.

## 6. RESULTS AND DISCUSSION

The Cronbach's Alpha was used to check the reliability and its results are shown in Table 2.

Table 2: Reliability Statistics

Cronbach's Alpha	No. of Items
0.79	24

Table 2 shows the reliability statistic Cronbach's Alpha Coefficient for the Quality of life Scale. The value of Alpha coefficient is 0.79 shows the scale is appropriate for the target population.

Table 3: Demographic statistics

Variables	Categories	Frequency	%
Gender	Male	100	57.14
	Female	75	42.85
	Total	175	100.0
Education	HSSC	13	7.42
	Graduation	24	31.71
	Master	79	45.14
	Above Master	4	2.28
	Total	175	100.0
Income Level	10-20 thousand	30	17.14
	21-30 thousand	38	21.71
	31 thousand	29	16.57
	Above	23	13.14
	Total	175	100.0
Occupation	Agriculture	26	14.85
	Business	27	15.42
	Job Holder	29	16.57
	Laborer	18	10.28
	Any other	20	11.42
	Total	175	100.0
Age	15-20 years	26	14.85
	21-25 Years	27	15.42
	26-30 years	29	16.57
	31-35 years	3	1.71
	36-40 years	20	11.42
	41-45 years	11	6.28
	46-50 years	4	2.28
	Total	175	100.0
Type of Family	Joint	99	56;57
	Nuclear	76	43.42
	Total	175	68.57

Sr. #.	Table 4 Means score of question asked to customer of Islamic Banks	Mean	
1.	Do you think that interest charged by banks is valid?	1.34	
2.	Do you prefer Islamic Banking due to Islamic dealing?	1.21	
3.	Do you prefer Islamic banking due to perception of services?	1.36	
4.	Do you prefer Islamic banking due to convince of services?	1.38	
5.	Did you prefer Islamic banking due to ethical organization?	1.43	
6.	What is reason behind dealing with Islamic Banking?	4.15	
7.	Do you think that interest free banking mode is suitable for you?	1.40	
8.	Are you willing to undertake risk of business partnership in a bank?	1.33	
9.	if yes then why	1.43	
10.	Do you think that the existing Modaraba in Islamic banks leasing companies are operating in accordance with Islamic Sharia?	1.21	
11.	Do you think Islamic Banks transactions are legitimate under the sharia law?	1.28	
12.	Do you think there is a synergy effect after implementing Islamic banking in Pakistan?	1.43	
13.	Have you heard about financial crisis in 2009?	1.39	
14.	Does your confidence on Islamic banking being affected by that crisis?	1.43	
15.	Do you think Pakistan is ready for implementing Islamic banking in Pakistan?	1.27	
16.	There is risk factor among the Islamic banking?	1.36	
17.	if yes, what are the risk factor	2.32	
18.	Do you know following features of Islamic banking?	2.90	
19.	What is your satisfaction toward Islamic banking?	1.48	
20.	Services materials related visually appealing at your Islamic banking?	1.37	
21.	Do you think IB emphasizes the recruitment of highly qualified people having Islamic knowledge?	1.49	
22.	Employees of your Islamic bank tell customer exactly when services will be performed	1.45	
23.	You feel safe in your transitions with Islamic banking?	1.33	
24.	Employees of Islamic banking have the necessary knowledge to answer your question	1.36	
Religion	Muslim	149	85.14
	Non-Muslim	26	14.85
	Total	175	100.0

Table 4 shows that 57.14 percent were male and 42.25 percent were female. 7.42 percent. About 7.42 percent were matriculate, 31.71 percent graduate while 45.14 percent had Master degrees and 2.28 percent had post-graduate degrees. About 17 percent respondents told that their family income is 10-20 thousand, 21.71 percent of the respondent said their income is between 21-30 thousand while 16.57 percent of the respondents told that their income is 31-40 thousand and the income of 13.14 percent of the respondents is above 40 thousand per month. As regard to their occupation, 14.15 percent respondents belonged to agriculture sector, 15.42 percent to own business, 16.57 percent were job holders while 10 percent were laborer and 11.42 percent of the respondent were working in other different professions. As regard to their age groups. 14.15 percent respondents had 15-20 years of age group, 15.42 percent had 21-25 years of age group, 16.57 percent of the respondents had 26-30 years of age group, 1.71 percent had 31-35 years of age group and 16.7 percent of the respondent had 36-40 years of age group, 11.42 percent had 41-45 years of age group and 6.28 percent respondents had 45-50 years of age group. 56.57 percent of the respondents were belonged to joint family system and 43.42 percent of the respondent were belonged to nuclear family system. 85.14 percent of the respondents were Muslims and 14.85 percent were non-Muslim.

**Table 5:** Impact of gender, education, income level, occupation, age type of family and religion of the respondent on Islamic Banking.

Gender	Mean	Educati- on	Mean	Income level	Mean	Occupation	Mean	Age	Mean	Type of family	Mean	Religion	Mean
Male	1.62	HSSC	1.31	10-20	1.87	Agriculture	1.92	15-20	1.92	Joint	1.48	Muslim	1.84
Female	1.36	Graduati on	1.50	21-30	1.55	Business	1.26	21-25	1.93	Nuclea r	1.59	Non- Muslim	1.45
Total	1.52	Master	1.23	31-40	1.07	Job Holder	1.14	26-30	1.21	Total	1.52	Total	1.52
		Above	1.20	Above	1.61	Laborer	1.64	31-35	1.33				
		Total	1.28	Total	1.52	Any other	1.75	36-40	1.15				
						Total	1.52	41-45	1.00				

								46-50	2.00				
								Total	1.52				

Table 5 shows that male respondent show preference toward Islamic banking rather than female. Graduate people show higher preference toward Islamic banking, people who have 10-20 thousand per month income show more preference toward Islamic banking people who belong to agriculture sector show more preference toward Islamic banking, people who belongs to 21-25 years of age group show more preference toward Islamic banking and people of nuclear family system show more attitude toward Islamic banking and also people who belong to Muslim set show more preference toward Islamic banking.

Table 6: Percentage distribution of the Respondent Preferring Islamic Banking due to religious reasons

Categories	Frequency	Percent
Yes	95	54.42
No	80	45.71
Total	<b>175</b>	100.0

Table 6 shows the percentage wise distribution of the respondent with respect to their preference of Islamic banking, 54.42 percent of the respondent response they prefer Islamic banking due to Islamic pattern of dealing and 45.71 percent of the respondent response they prefer Islamic banking without any reason. The majority of the respondent were said they dealing with Islamic banking due to Islamic dealing.

Table 7: Ratio of the Respondents dealing with Islamic Banking Mode for interest-free services.

Categories	Frequency	Percent
Yes	123	70.28
No	52	29.71
Total	175	100.0

Table 7 shows the percentage wise distribution of the respondent with respect to their preference to interest free banking mode. 29.71 percent of the respondent said the interest free banking mode is suitable for them and 40.0 percent of the respondent said interest free banking is not suitable for them. The majority 70.28 percent of the respondent said interest free banking is suitable for them.

Table 8: Motives of the Respondents for dealing with Islamic Banking

Categories	Frequency	Percent
Religious	100	57.4
Profitability	05	2.85
Shariah Rule	25	14.28
Banking facilities	10	5.71
Services are in wide range	9	5.14
Diversification of Investment	10	7.71
Network	2	1.14
Investment Opportunities are low	4	3.700
Any other	10	5.71
Total	175	100.0

Table 8 shows that ratio of respondents dealing with Islamic banks due to religious reason is 57.4 percent and the availing the services of Islamic banks due to compliance of Shariah's law is 14.28 percent. Similarly, the respondents dealing with Islamic banks due better facilities and for diversifying their investment are 10 percent while the respondents dealing Islamic banks due to wide range of services is 7.71 percent. On the whole, the majority of respondents 57.4 percent and 14.28 percent are dealing with Islamic banks due



to religious and Shariah's reasons. It means that most of the people go to Islamic banks for availing Sharia's based banking services.

Table. 9 Ratio of the respondents having satisfaction over Islamic banking facilities

Categories	Frequency	Percent
Management Policy	110	62.85
Banks personal knowledge	65	37.14
Total	175	100.0

Table 9 shows that the percentage wise distribution of the respondent with respect to customer satisfaction with Islamic banking facility is 62.85 percent while the ratio of respondents who are satisfied with management policies of Islamic banking are 37.14 percent. The employment personal knowledge was main reason behind satisfaction of customers.

## 7. CONCLUSIONS

The objectives of this research were to review the distinctive concepts of Islamic banking, to analyze the customer satisfaction of Islamic banking and to evaluate the current practice and performances of the Islamic banks. We conducted a survey to collect data through questionnaires from 175 respondents. The findings of this research show that respondents are not influenced by products of Islamic bank but are attracted by other factors such as perception of services, convenience of services and ethical values. Our results highlight the fact that there is significant and positive relationship between the demographic variables such as age, gender, education, income, religion and family type' and dependent variable 'preference of Islamic banking services. Our study proved that Islamic banks are operating on sound footing and their future prospective are bright. One of the main salient features of Islamic banking is that, unlike conventional banking, it is concerned about the viability of the project and the profitability of the operation but not the size of the collateral. Good projects which might be turned down by conventional banks for lack of collateral would be financed by Islamic banks on a profit-sharing basis. It is especially in this sense that Islamic banks can play a catalytic role in stimulating economic development. However,

Islamic banks are focusing on trading, which is short-term in nature to avoid risk involved in financing. The apparent reason is that long-term financing requires expertise which is not always available at the moment. Another reason is that there are no back-up institutional structures such as secondary capital markets for Islamic financial instruments. However, State Bank of Pakistan is making efforts to develop secondary market and also issuing sukuks to absorb excess liquidity of Islamic banks.

## 8. RECOMMENDATIONS

This whole discussion clearly state that Islamic Banking is growing with higher speed in Pakistan, and according to the State Bank of Pakistan, it will grow more in future. Banks are asked to provide appropriate training to the staff so that they can work in a better way. Branch network must be growing, still Islamic Banks are not big as are conventional Bank in term of branch network, so they should expand their network particularly in the rural areas where the faith in Islamic banking is more strong due to religious attachment. Islamic Banks should introduce new financial products that can easily compete with the products of conventional banking and that can attract the new customers. Though Islamic Banking industry is dependable on KIBOR they haven't its own Bench Mark. Islamic Scholars and Shariah Advisors should work to prepare their own bench mark which is according to Shariah and fulfils the Islamic tenets of Islamic KIBOR. Islamic can attract more customers by launching effective marketing campaigns to enhance awareness towards quality of their services. It helps to enhance the understanding of bank customers about service quality by comparing Islamic and conventional banks. Bank managers should take quality initiatives to improve their products by considering demographic characteristics of the customers. On the basis of our findings, we can suggest that Islamic banks should improve their total assets and the profit.

## REFERENCES

- [1]. Abdur Rahim Hamdi (1992) "Islamic Banking: Conceptual Framework and Practical Operations" ,pp.13-14.
- [2]. Ahmad, A.(2007). "Participatory Banking and Finance: Present Status and Future Prospects". Islamic Research and Training Institute, Jeddah, Saudi Arabia.
- [3]. Ahmad, Mamud Shaikh (1989). "Towards Interest Free Banking Institute of Islamic Culture"

- Lahore, pp 171-196.
- [4]. Al-Omar, Fuad & Abdel-Haq, Mohammed (1996) "Islamic banking: Theory, practice and challenges." London: Zed Books Ltd.
- [5].Anas Zarqa, (1983) "Stability in an Interest-Free Islamic Economy" A Note in the Pakistan Journal of Applied Economics ,Winter, pp.181-88.
- [6]. Anas Zarqa, (1983) "An Islamic Perspective on the Economics of Discounting in Project Evaluation", Fiscal Policy and Resource Allocation in Islam, Islamabad: Institute of Policy Studies, pp.203-234.
- [7]. Arif, M. (1989). "Islamic Banking in Malaysia: Framework, Performance and Lesson" . Journal of Islamic Economics, 2 (2), pp. 67-78.
- [8]. Awan,Abdul Ghafoor (2009). "Comparison of Islamic and Conventional Banking in Pakistan".Proceeding 2<sup>nd</sup> CBRC, Lahore,Pakistan:1-36.
- [9]. Awan,Abdul Ghafoor and Maleeha Azhar (2014). "Consumer Behavior towards Islamic Banking in Pakistan", European Journal of Accounting and Finance Research, Vol 2 (9):42-65.
- [10]. Delta Khoirunissa (2003), "Consumers preference toward Islamic banking (Case study in bank muamalat Indonesia and bank BNI syariah), Iqtisad Journal of Islamic Economics" Vol. 4, No. 2, Rajab 1424 H/September 2003 pp. 145 – 168
- [11].Erol C,El-Bodur (1989). "Attitude, behavior and patronage factor of bank customers towards Islamic Banks", Int. J. Bank Mark. 7: 6.
- [12].Hanif, M. & Iqbal, A. (2010). "Islamic financing and business framework: A survey." European Journal of Social Sciences, 15(4), 475-489.
- [13]. Haque, Nadeem-ul and Abbas Mirakhor (1987), "Optimal Profit-Sharing Contracts and Investment in an Interest Free Economy", Theoretical Studies in Islamic Banking and Finance, Houston, Texas: The Institute for Research and Islamic Studies.
- [14].Imtiaz A. Pervez. (1990), "Islamic Finance, Brill: Arab Law Quality", Vol. 5, No.4, pp. 259-281
- [15]. Iqbal, Munawar (2001). "Islamic and Conventional Banking in the Nineties". A Comparative Study' in Islamic Economic Studies. Vol.8 No.2 pp.1-27.
- [16].Kahf, Monzer (1987), "The Islamic Economy" ,Plainfield, Indiana: The Muslim Students'

- Association of the United States and Canada.
- [17].Kazarian, E. (1991), "Finance and Economic Development" Islamic Banking in Egypt", Lund Economic Studies, No. 45.
- [18].Khan, M.(1986) "Islamic Interest-Free Banking" IMF Staff Paper, Vol. 33, March 1986, P.19]
- [19].Ma'bid Ali Al-Jahri (1983), "A Monetary and Financial Structure for an Interest Free Economy.
- [20]. Mahal, I. & Rahman, B. (2013). "Profitability trend in the banking sector of Bangladesh- A comparative study of Islamic and conventional banks", The Bangladesh Accountant. January – March, 22-35
- [21]. Naveed Ur Rahman and Sher Wali Khan (2010) "Islamic Banking" Karlstad University", Karlstad University.
- [22].Nejatullah Siddiqi (1983), "Muslim Economic Thinking: A Survey of Contemporary Literature", Leicester,U.K.:The Islamic Foundation.
- [23].Saduman HO (2005). "Interest `free banking in Turkey: A study of customer satisfaction and bank selection criteria" J. Econ. Cooperation 26(4): 51-86.
- [24]. Umer Chapra (1985) "Towards a Just Monetary System Money and Banking in Islam" Jeddah:, International Center for Research in Islamic Economics. pp.202-3.
- [25]. Usmani, M.T (1999), "The concept of Musharkah and its application as an Islamic method of financing" Arab Law Quarterly, Vol. 14, No.3, pp. 203-220.
- [26]. Uzair M (1976). "Some Conceptual and Practical Aspects of Interest Free Banking" Studies in Islam Econ., pp. 37-57.
- [27].Warde, Ibrahim. (2000) "Islamic finance in the global economy". Edinburg: Edinburg University Press.
- [28]. Ziauddin Ahmad (1983) "Some Misgiving about Islamic interest Free Economy: A Note", Journal of Applied Economics, Karachi, Winter. pp. 59-61.
- [29]. Zineldin, M. (1990) "The Economics of Money and Banking: A Theoretical and empirical study of Islamic Interest-Banking" Stockholm University.