

**"Customers Satisfaction with Islamic Banking in  
Pakistan"**

**Relationship between Customers satisfaction and Shariah  
Compliance with mediating effect of service Quality.**



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**Fall-2022**



**Majors: Finance**

**Majors No: F1**

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**Fall 2022**

FINAL PROJECT/THESIS APPROVAL SHEET

Viva-Voce Examination

Viva Date 06/ 02 /2023

Topic of Research: Customers Satisfaction with Islamic banking In Pakistan. Relationship between Customers satisfaction and Shariah Compliance with mediating effect of service Quality.

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### **Acknowledgment**

All praises for Allah Almighty Who help us in all ups and downs. I want to thank Almighty Allah for giving me courage and without the help of Allah. I would never be able to complete this thesis. I would like to thank Management Sciences Department, especially My Supervisor **Dr Imran Nazir** for helping me throughout this thesis, whenever I was stuck on some point and thought that I could not handle this anymore he was a knight in shining armor. I would really appreciate efforts by **Dr Shahab Aziz** for helping me regarding topic selection for my thesis. Without support of my family and Friends it would be very difficult to complete my thesis, so I would really be thankful to all who helped me during my thesis.

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### Abstract:

The main objective of this research is to know about the satisfaction level of Islamic banking customers in Pakistan. Banks can also use the findings of this study to know whether they are fulfilling demands of customers or not. Banks can formulate their strategies and shariah board can make their decisions to implement shariah laws in operations. Limited studies have been conducted about customer satisfaction with Islamic banking in Pakistan to investigate the mediating role of quality of services and products between Islamic rules and regulations and satisfaction of customers in Islamic banking in Pakistan. This research will provide valuable insights to Islamic banking sector in Pakistan for retention of existing customers and to grab new customers by quality products & services with Islamic Shariah Compliance. Around 150 responses are collected from Islamic banking customers through google forms to avoid errors from data and to collect valid data from customers. Data have been analyzed by SPSS to get accurate results of study. The results and findings of this research is concluded only with Islamic banking services of Pakistan and these results may not be applicable on other services areas.

*Keywords: Shariah compliance, products quality, service quality, customer satisfaction, Islamic banking*



## Chapter 1. Introduction:

### Background of study:

Banking sector is very important pillar of economy of any country. Strong banking system is necessary in today's era. Modern world uses advance equipment and systems in their banks to strengthen their economy. There is great competition between banks to keep their customers with them and to not them switch to another bank. For this purpose, banks need to formulate customer friendly policies to grab maximum share in the market. For the first time in the history of Pakistan, Islamic banking was initiated in Gen Zia ul Haq's era. Later, Islamic banking grab more share in Pakistan. Many studies have been conducted in all over the world and covered best things individually like awareness, usage, and satisfaction level of customers but in this research, we try our best to find relationship between satisfaction level of customers in Pakistan and Islamic Shariah compliance with mediating effect of service and product quality. Since conventional banks are more innovative as compared to Islamic banks, so Islamic banks also need to study customer's demand and should make innovative changes under shariah compliance. Many people prefer Islamic banking over conventional banking as they are getting more knowledge about shariah compliance. Some people avoid conventional banking for their investments in Pakistan because they fear of that bank may use their investment in prohibited activities e.g., Interest and non-Shariah profits. To check their satisfaction level with Islamic banking in Pakistan, we have spread questionnaire to find their satisfaction level with operations of bank, and their service & product quality which they are offering to their customers. Questionnaire including gender, age, occupation, account type, duration with bank, marital status and income range with some questions regarding shariah compliance, product and service quality, satisfaction level with bank. The level of shariah compliance implementation in different banks and in different countries may vary from one another. There are many banks who focus on profit maximization instead of implications of shariah compliance. The reason behind this is poor strategy or policies for implementing shariah compliance in their banking operations. Supervisory board plays significant role for implementations of shariah laws in banking operations, they must provide enough knowledge about shariah laws to ensure there should be maximum implementations of shariah in their all operations, transactions and investment made by bank.

For banks, quality services are also important to retain existing customers associated with the bank and to grab more customer and to gain competitive edge over other banks. As a result, mostly commercial banks which earlier working as conventional banks, switch their operations to as Islamic banking sector by following Islamic Shariah compliance to grab more customers of Islamic banking and conventional banking sector. Most of customers go for Islamic banking due to their beliefs in Shariah compliance. Study shows that customers who are associated with Islamic banking may not care about amount of profit they are expecting from transaction or investment, but they consider the way bank is operating either according to shariah or not, and service & products quality bank is offering Quality of services plays pivotal role to retain customers with the bank. In competition with rival's bank should provide quality services to their customers to gain customers' retention. There was total 5 full-fledged Islamic banks in Pakistan including Al-Baraka Bank Pakistan, Bank Islami Pakistan, Dubai Islamic Bank, MCB Islamic bank, and Meezan Bank of Pakistan but now Faysal bank of Pakistan became the 6<sup>th</sup> Full Fledged Islamic bank in Pakistan. Recently, Faysal bank recently completely shuts down conventional banking and switch their operations completely according to shariah compliance. Many other banks are also part of Islamic banking in Pakistan, but they are not fully fledged Islamic banks because they operate conventional banking system in their operations as well as Islamic banking window operation. In 2021, the growth rate of Islamic banks in Pakistan was 30% which was the highest in term of growth since 2015 and Islamic banks in Pakistan are expecting to grow at faster speed than 2021. By the year end of 2021, assets of Islamic banking in Pakistan were around 5.5tr.

According to SBP, Islamic banking was reintroduced in start of this century again. In new manners, Islamic banking was divided in three parts including full-fledged Islamic banks in Pakistan, Islamic banking subsidiaries of Pakistan, and Islamic banking branches of conventional banks. Although it would be not possible for Islamic banks to operate without shariah compliance in their banking operations, so SBP also introduced multi-tiered Islamic mechanism for Islamic banks in Pakistan.

## Research Overview:

Islamic banking is increasing not only in the Pakistan but in whole world specially in Islamic countries. People take their faith and belief with them while making any investment. To secure their investment and money which they deposit in banks, they must sure either their money will be used in prohibited activities or in Halal operations which will according to Holy Qur'an and Sunnah. In this research article we try to find satisfaction level of customers who are associated with Islamic banking sector in Pakistan. In today's era, many people prefer Islamic banking over conventional banking as they are getting more knowledge about shariah compliance. Some people avoid conventional banking for their investments in Pakistan because they fear of that bank may use their investment in prohibited activities e.g., Interest and non-Shariah profits. To check their satisfaction level with Islamic banking in Pakistan, we have spread questionnaire to find their satisfaction level with operations of bank, and their service & product quality which they are offering to their customers. Questionnaire including gender, age, occupation, account type, duration with bank, marital status and income range with some questions regarding shariah compliance, product and service quality, satisfaction level with bank. Data is collected through Google forms to ensure validity of data.

Satisfaction of customer means bank fulfil the expectation of customer about service and product quality (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. There is collective responsibility of Islamic banks in Pakistan to provide quality products and services along with implementation of Shariah compliance in their operations to gain trust of people in Islamic banking system in Pakistan. The main thing due to which some people avoid conventional banking in interest, so they need interest free transactions in their routine life. According to studies, Malaysia was the first country to initiate Islamic banking system with strong policies and strategies considering needs and demands of Muslims in the country. Customers are the primary source of income for any bank. Same applied to Islamic banks as well. They should provide surety to customers that their all transactions will be interest free. Investment made by Islamic banks should also be in non-prohibited activities to generate revenue and to give portion of profit to customers as per surety The first factor involves how well-aware they are about Islamic shariah compliance and Islamic rules and regulations. The second factor is

that how much customer understand the services, products, and operations of Islamic banks because it is different from conventional banks. 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 make profit from their customers. Therefore, in current study customer satisfaction is considered as the dependent variable. On the other hand, the awareness, understanding shariah compliance with mediating effect of service and products quality are 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 means to understand its attributes and make the decision to purchase it. In Pakistan, a significant proportion of the population does not have adequate understanding regarding the Islamic banking products and services and their quality and shariah compliance (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). 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.

There is collective responsibility of Islamic banks in Pakistan to provide quality products and services along with implementation of Shariah compliance in their operations to gain trust of people in Islamic banking system in Pakistan. The main thing due to which some people avoid conventional banking in interest, so they need interest free transactions in their routine life. According to studies, Malaysia was the first country to initiate Islamic banking system with strong policies and strategies considering needs and demands of Muslims in the country. Customers are the primary source of income for any bank. Same applied to Islamic banks as well. They should provide surety to customers that their all transactions will be interest free. Investment made by Islamic banks should also be in non-prohibited activities to generate revenue and to give portion of profit to customers as per surety. In 2003, Lorie conducted survey and he find in his survey that 87% of the customers prefers to interact with banking staff including teller and cashier. Islamic

banks also need qualified staff to run their routine operations smoothly and to guide customers in best manners.

#### Problem Statement:

Customers are the main and very important part of any business to grow in market and to compete with rivals. Same apply to Islamic banking system in Pakistan. Islamic banks should formulate strategies according with shariah compliance and provide better services to grow in market. Pakistan is among most muslims population countries in the world and for that reason Pakistan must have strong Islamic banking system to provide their people Islamic banking under shariah laws. According to state bank of Pakistan, country is in aim to reach 35% of “Islamic Banking Market Share” of its total banking market. Where today Pakistan is standing, this is because of poor marketing strategies regarding Islamic banking products and services.

#### Research Gap:

After literature study, I found that limited study has been conducted regarding “Customer satisfaction” with Islamic banking in Pakistan with mediator as service and products quality. Many researchers discovered in their research as customers are less aware of Islamic banking systems and they only want Interest free transactions for their routine life under shariah laws. Service quality is most important factor to satisfy customers. Islamic banks also need to know either they are providing services according to customers’ needs and demands or not, because when customers get satisfied, Islamic banking can grow in the market.

#### Research Objectives:

Following are the main objectives to conduct this study:

- To determine whether banking policies are customers friendly or opposite to it.
- To check the level of satisfaction of Islamic banking customers
- To determine either shariah compliance is the major reason of choosing Islamic bank
- To investigate whether service quality can affect satisfaction level of customers
- To investigate either any relationship between shariah compliance and service quality of Islamic banks to get desired satisfaction level.

- To evaluate how much customers are satisfied with Islamic banks in Pakistan.

#### Significance of research:

The findings of this research will provide insights to Islamic banking sector that where they are right now and where their customers want to be. Islamic banks can manage their operations and should make customers friendly policies under shariah compliance through which they can differ with conventional banks. This study will also help Islamic banks to know about the perception of their customers about the products and services they are offering and by studying this bank can made changes in their strategies, improve their services and products to reach their desired position.

## Chapter 2 Literature Review

### Shariah Compliance:

Customers associated with Islamic banking wants all operations of Islamic banking according with shariah compliance (According to Qur'an and Sunnah) because they consider this as most important factor due to their beliefs and faith. Stakeholders' confidence can be built by following and assuring Shariah compliance by Islamic Banks (Ullah, 2014). Studies show that COVID and recent financial crisis puts very low impact on Islamic Banking sector due to interest free transactions and by following Islamic rules and regulations. As a result, mostly commercial banks which earlier working as conventional banks, switch their operations to as Islamic banking sector by following Islamic Shariah compliance to grab more customers of Islamic banking and conventional banking sector. Most of customers go for Islamic banking due to their beliefs in Shariah compliance. Study shows that customers who are associated with Islamic banking may not care about amount of profit they are expecting from transaction or investment, but they consider the way bank is operating either according to shariah or not, and service & products quality bank is offering. (Ongera and Ndede, 2019).

When banks do not follows Islamic rules and regulations, compromise on quality, may hurt customers' expectations and can cause to switch bank. Quality of services plays important role in selection of banks for customers. They may compromise on profitability, but they consider quality of services as an important element. For banks, quality services are also important to retain existing customers associated with the bank and to grab more customer and to gain competitive edge over other banks. As a result, mostly commercial banks which earlier working as conventional banks, switch their operations to as Islamic banking sector by following Islamic Shariah compliance to grab more customers of Islamic banking and conventional banking sector. Most of customers go for Islamic banking due to their beliefs in Shariah compliance. Study shows that customers who are associated with Islamic banking may not care about amount of profit they are expecting from transaction or investment, but they consider the way bank is operating either according to shariah or not, and service & products quality bank is offering Quality of services plays pivotal role to retain customers with the bank. In competition with rival's bank should provide quality services

to their customers to gain customers' retention. (Manik, 2019). It is essential to offer quality service to customers in a competitive market to gain a competitive advantage. Research also shows that quality services which are accordance with Shariah compliance (Qur'an and Sunnah) plays mediating role between customers and satisfaction.

*H1: Shariah Compliance positively effects the Islamic Banks service quality*

*H2: Shariah compliance positively effects the customer satisfaction of Islamic banking services*

#### Customer satisfaction:

Satisfaction of customers refers to expectation vs performance. This implies that how customer expect from bank and how bank fulfils expectation of customer by quality services and following of Shariah compliance in their operations. When banks fulfil expectations of customers it will help bank to grow further in market, retain their customers and grab new customers in banking sector. It will also expand customers loyalty toward bank. (Okumus and Genc, 2013). Satisfaction of customers associated with quality services of banks, and this will also put impact on overall performance of bank. (Florès, 2012). In 2011 Ramdhani et al, conducted study which shows that quality of services offered by Islamic banks puts strong impact on satisfaction of customers. Other studies shows that Islamic rules and regulation in banking operations influence customers satisfaction and loyalty with bank. Customers will be less satisfied with bank when shariah laws and regulation does not included in banking operations. According to Manik, customers consider quality of service of bank, and this also affects customers loyalty towards bank. Banks can also more customers loyalty by charging minimum costs from customers. Banking staff should have sufficient Islamic knowledge to act according to with customers so that customers can see shariah compliance in services of bank. By taking such steps, bank can grab and retain their customers than rivals (Manik 2019).

In 2021, Jawaid et al, conducted study on customer satisfaction with Islamic banks in Pakistan. Their study demonstrate that customer's behavior was positive towards banking services in Pakistan, and they feel comfortable while using Islamic banking system. Satisfaction of customers refers to expectation vs performance. This implies that how customer expect from bank and how bank fulfils expectation of customer by quality services and following of Shariah compliance in



their operations. When banks fulfil expectations of customers it will help bank to grow further in market, retain their customers and grab new customers in banking sector. It will also expand customers loyalty toward bank. Existence of Pakistan is based on Islam and that is the main reason people in the country wants interest free banking system in Pakistan and there is strong positive relation between shariah compliance implementation and satisfaction level of customers. Islamic banking is spreading in Pakistan with high speed due to religious faith of people and almost everyone in the country agreed on this statement that there should be interest free system in Pakistan (Raziq et al,2011).

The level of shariah compliance implementation in different banks and infact in different countries may vary from one another. There are many banks who focus on profit maximization instead of implications of shariah compliance. The reason behind this is poor strategy or policies for implementing shariah compliance in their banking operations. Supervisory board plays significant role for implementations of shariah laws in banking operations, they must provide enough knowledge about shariah laws to ensure there should be maximum implementations of shariah in their all operations, transactions and investment made by bank. Following of shariah compliance means bank should follow instructions given by Holy Quran and teachings of Holy Prophet (PBBUH) in form of Hadith and Sunnah and they must avoid prohibited operations and activities (Kamali 2000). The only difference in conventional banking and Islamic banking system is shariah laws on which Islamic banks operate.

*H3: Shariah rules and regulations affects customer satisfaction with quality of services in Islamic Banking*

#### Service quality:

Service quality play crucial role to attract customers from the market. Banks needs to formulate strong policies to catch maximum customers from market. Banks with quality services usually grabs more customers than rivals in the market. When someone got satisfied with services of bank, he/she will talk about services of bank to other people. In this way chain of customers become strong. Negative and positive comments about any organization impact their value among society. Same applied to banking sector as well. Most people believe in customers word of mouth before taking any action such as to open account in bank (Lewis, 1991; Newman, 2001; Caruana, 2002).

People who follow shariah compliance strictly believe in Islamic laws and if bank is not providing quality services according to shariah compliance they will never get satisfied and in result they will switch to another bank. Satisfaction level of both Islamic and conventional banks customers are almost same because they set same benchmark for their satisfaction. Their satisfaction level may achieved by their desired quality services, behavior of banking staff, ease of transactions (Haron et al., 1994). In today's era, banks are providing additional services to their customers to get their satisfaction and fulfil their needs and demands. On top of this, banks are providing E-banking through smart phones. They have launched mobile apps through which customers can operate their account and have most of access to their accounts. This may be the best and quick way to reach your account specially if you are smart phone user. Further, in mobile banking apps, they are providing additional features to fulfil your routine operations such as utility bills payment, internet bills and challans payment. Customers also consider number of branches and ATMs among various locations in case they physically want to visit, or they have any query, or they want cash with drawl. In 2001, Othman and Owen conducted survey regarding customers satisfaction, and they found that 78 and 65 customers are getting services according to their demands and need and they were fully satisfied with bank.

In 2008 Amin et al, conducted study regarding services of Islamic banks and how much customers are satisfied with services of Islamic banks. In their findings they came to know that most of customers were satisfied with services offered by Islamic banks and their faith toward Islamic banking was significant. According to Erol and El-Bdour (1989), most people does not consider their faith to be necessary for choosing Islamic banks in Jordon. Although every research has their own way of collecting data and it may vary from one country to another. But in Pakistan people are choosing Islamic banking sector due to their strong believe in shariah compliance. People who follow shariah compliance strictly believe in Islamic laws and if bank is not providing quality services according to shariah compliance they will never get satisfied and in result they will switch to another bank. Satisfaction level of both Islamic and conventional banks customers are almost same because they set same benchmark for their satisfaction. Their satisfaction level may achieved by their desired quality services, behavior of banking staff, ease of transactions (Haron et al., 1994). In today's era, banks are providing additional services to their customers to get their satisfaction and fulfil their needs and demands. On top of this, banks are providing E-banking through smart phones. They have launched mobile apps through which customers can operate their

account and have most of access to their accounts. This may be the best and quick way to reach your account specially if you are smart phone user.

*H4: Quality of service positively effects satisfaction level of customers.*

Many customers can hold different beliefs to get their desired satisfaction level. Different theories support level of customers satisfaction. Following are the main theories of customers satisfaction and brief explanation:

i- Dissonance theory

Leon Festinger was the first to research on dissonance. This theory demonstrates that when people already have some information about anything and they find some new information about that thing, their thoughts may conflicts with existing and new information, and they find themselves in difficult situation to make any decision. In banking system, many people use more than one banks for their transactions. When customers do not get their perceived satisfaction and get below average quality services than their expectations, so they get psychological discomfort to make decision about that product or service.

ii- Contrast Theory

This theory is all about expectations of customers. When customers receive products or services according to their expectations, they can easily be satisfied but on other hand, when they get products and services below their expectations then service or products provider may not get the loyalty of customers and they get unsatisfied. This theory further elaborate that we compare products with another one rather than its own qualities. In banking sector, customers may compare the services and products of one bank with another. After that they can choose best one to carry with them.

iii- Comparison level Theory

According to this theory, customers set some standards about service or product in their mind that what they are expecting from that product. After receiving that product or service they compare their qualities with imagine ones and from that they evaluate the quality of product or service. Expectations may include its performance against price they paid, and it may also include durability, functions, features. Same applied to banking customers, how they perceived the quality of services from bank and in result what they get, or they are getting from bank.

#### iv- Value percept theory

this is the popular theory of customers satisfaction. According to this theory customers satisfaction have two main factors one is actual value and other is idea value. Actual value of product refers as the value product is having. On the other hand, ideal value refers as the value customers are perceiving to get from that product. When customers do not get their desired value of product it causes brand switching or trail failure of any product just because manufacturer fail to read the expectation level of customers regarding that product. There is also great competition between Islamic banking products and services in the market if any bank fails to provide quality services or products it may lead to customers switching from one bank to another.

#### v- Attribution theory

This theory is mostly used in dissatisfaction model and very rare in satisfaction models. According to this theory when consumers purchase product, they are responsible for the outcomes they face. It may be in form of product which they purchased, service quality, price of product or seller can be the reason.

## Chapter 3. Methodology

In this research we have used some adoptive questions and some questions are self-designed. Data we used for analysis was collected through online questionnaire by Google forms. Our targeted customers were specifically Islamic banking customers.

### Research Approach:

Research approach refers as how we study or collect data to solve our problem. Usually couple of data collection methods have been using, one is qualitative and second is quantitative. Quantitative research refers as gathering numerical data. After data collection, different tests are conducted for testing of hypothesis to find relationship among variables. On the other hand, in qualitative research, different methods are used for data collection and analysis e.g surveys/questionnaires, interviews, focus groups, observations, archival views. In these methods, we typically used primary data which we collect directly from targeted sources. Although archival views are the one in which we collect data from already recorded views.

Our research is focus on “Customer satisfaction with Islamic Banking” in which we study impact of shariah compliance on customers satisfaction level and how much service quality mediate between these two variables. We will use qualitative approach in our research as we have designed questionnaire to investigate relationship between variables.

### Population of study:

There are countless customers of Islamic banking in whole world and in Pakistan. We can not take whole as our sample you need to be very precise about choosing population about your study. To avoid wastage of time and cost, we have selected specific portion of customers. We have designed brief questionnaire with close ended questions for ease of data collection. Majority of respondents are from Islamabad, Rawalpindi and Mianwali. Before collecting data from them we have ensure them, do they have proper knowledge about shariah compliance, Islamic banking products and services, and they are using only Islamic banking or both Islamic and conventional banking at the same time.

### Sample size:

Choosing sample size is among important steps towards data collection and analysis of given responses in survey. Researchers choose proper filled responses for their data analysis. There is 50 to 500 sample size is recommended to conduct any study. We have aimed to collect 125-130 responses for our data collection. Around 200 respondents took part in our research. All responses are rarely used for your data analysis, you need to filter them, and best ones should be carry forward. Many questionnaires were not filled correctly as respondents go with only one options continuously. Therefore, we have remove them from list of data analysis and we found 127 responses useful for data analysis.

### Sampling Approach:

There are couple of approaches toward sampling, one is probability sampling, in which any members can be chosen from population to be part of data sample for data analysis. The second one is non-probability sampling, in which sample is collected through subjective way. In this research targeted population was customers of Islamic banks which are countless for us, and we also do not have any record of them. Therefore, we have used non-probability sampling approach for our research.

### Data Collection:

In our study, we have only used primary data which was collected through “Google Forms” to analyze correctly and with ease. No other than this primary data is used for our study.

### Measurement of variables:

We have designed our questionnaire in two main sections named as “Basic Information”, and “Research Questions”. In “Basic Information” section we have never asked respondents for their personal name, ID card number, contact or any email ID, we have asked them some basic questions including gender of respondent, Age of respondents including 6 ranges, experience with Islamic banks with 3 ranges, their occupation level with 5 common ranges, income level including 5 ranges and “Reason of Choosing Islamic banking” which includes 5 check points so, respondent can choose as per their experience. “Research Questions” section consist of questions to find relationship between variables. This section consists of 18 questions and “5-point Likert scale”, where 1 to 5 points range given to respondents consist of “Strongly Disagree”, “Disagree”,

“Neutral”, “Agree”, “Strongly Agree”, respectively. 3 questions in this section including response of “Yes”, “No”, are also included.

#### Shariah Compliance:

In our designed questionnaire, we divide our questionnaire in further three subsections of questions. Following are the questions for “Shariah Compliance” variable.

**Table 1**  
**Item Statements for shariah Compliance**

<b>Variable</b>	<b>Code</b>	<b>Items Statement</b>
Shariah Compliance	SC1	Conventional banks must adopt and operate like Islamic banks in Pakistan
	SC2	Difference level in operations between Islamic and conventional banks is known to you
	SC3	Islamic banks are operation according to Shariah laws
	SC4	Islamic Banks are operation interest less.
	SC5	Islamic Banks are operation according to teachings of Holy Quran and Sunnah.

#### Service Quality:

In our research model service and product quality are our mediators. We want to know how much they mediate on satisfaction level of customers.

*Table 1*

*Item Statements for Service Quality*

<b>Variable</b>	<b>Code</b>	<b>Items Statement</b>
Service and Product Quality	SPQ1	Products And services offered by Islamic banks are known to you,
	SPQ2	Islamic banking products and services are more attractive than conventional banks are offering
	SPQ3	You found Islamic banking products useful for yourself.
	SPQ4	You can trust on products offered by Islamic banks in Pakistan
	SPQ5	All information is available to you through websites of Islamic banks
	SPQ6	Islamic banks are providing time saving services which are effective for you
	SPQ7	The banks provide its services according to their promise to do.



### Customer satisfaction:

The last section in our questionnaire was containing portion of Customers satisfaction.

**Table 2**

***Item Statements for Customers Satisfaction***

<b>Variable</b>	<b>Code</b>	<b>Item Statement</b>
Customer satisfaction	CS1	Islamic Banks are only providing Islamic products and services in Pakistan
	CS2	Bank gives intentions to individual
	CS3	Islamic banks are providing satisfactory profit on investments
	CS4	You are satisfied with the services offered by Islamic banks in Pakistan
	CS5	Islamic banks in Pakistan have qualified staff
	CS6	Facilities provided by Islamic banks are satisfactory
	CS7	Before making any investment decision, you consider profit margin.

### Data Analysis Technique:

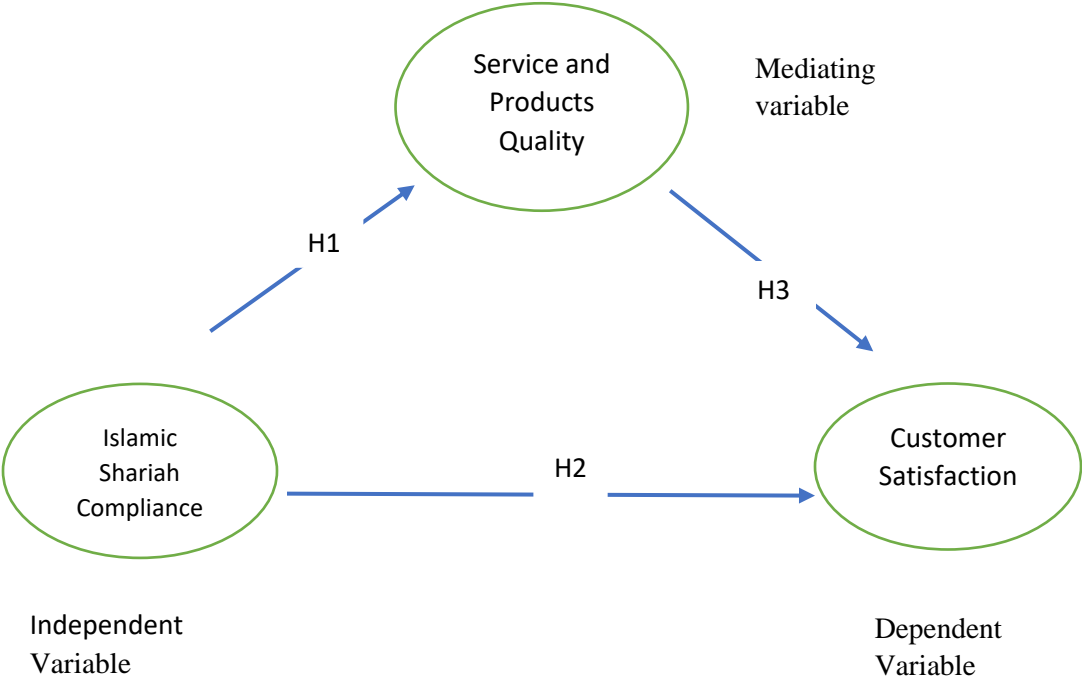
#### Cronbach's Alpha:

We are having questionnaire with different sections and subsections. Our research is based on primary data, so it is very important to measure reliability of questions in different sections. For this purpose, researchers use Cronbach's alpha for their studies. We have also checked the reliability of our questions through Cronbach's alpha.

Tools For Data Analysis:

We have used likert scale questionnaire so, results we are having in statistical numbers. To analyze these results, we have used “Statistical package for the social Sciences (SPSS).

Research Model:



## Chapter 4. Findings And Data Analysis

In this chapter we will discuss the findings from data which we have collected through questionnaire. This chapter will provide information about reliability of data, validity of data and most important it will provide structural model also. We will discuss hypothesis testing in this chapter and its measure to for supporting independent, mediating, and dependent variables in hypothesis.

### Demographic Profile of the Respondents:

We have aimed to collect more than 150 questionnaires for our survey. We have spread more than 200 questionnaires for our data collection. Data is collected through google form so we can ensure validity of data. In our questionnaire we have divided our questions and basic questions in two sections. First section consists of basic demographic information of respondents. After filtration of responses, Demographic profile shows that 63% of respondents were male and 37% of respondents were consists of female respondents. In age range, 77.2% (98) of respondents were belong to age 20-29, 3.9% (5) of respondents belong to age 30-39, 0.8% (1) respondent was 50-59. 1 respondent was above age of 60. 17.3% (22) respondents were below age of 19 years.

Mostly respondents were single regarding marital status as 92.1% (117) respondents was single. 6.3% (8) was married and only 2 were divorced among all respondents. Different categories were also provided in questionnaire regarding occupation level of respondents in which 6.3% (8) respondents were government employees, 10.2% (13) respondents are having their own business, 23.6% (30) were employed in private sector organizations while 59.8% (76) were related to “other” category in questionnaire. Different ranges on income level were also provided so that we can classify them in different classes. 69.3% (88) respondents having monthly income less than 50,000, income level of 11% (14) respondents were fall between 51,000-60,000, 4.7% (6) respondents were taking income between 61,000-70,000 while 15% (19) respondents fall above 80,000 income range. Experience with Islamic bank is also important factor, so we include experience range in our questionnaire. 55.1% (70) respondents having experience of less than 1 year with Islamic banking sector in Pakistan, 28.3% (36) respondents are having experience between one to five

years with Islamic banking while only 16.5% (21) respondents are having more than 5 years of Islamic banking sector. Further details of demographic information are given below in table.

**Table 4**  
**Demographic Profile of Respondents**

<b>Category</b>	<b>No of Respondents</b>	<b>Percentage</b>
<b>Demographic</b>		
Gender		
Male	80	63%
Female	47	37%
Age		
Below 19	22	17.3%
20-29	98	77.2
30-39	5	3.9%
40-49	0	0
50-59	1	0.8%
Above 60	1	0.8%
<b>Personal Information</b>		
Marital Status		
Single	117	92.1
Married	8	6.3%
Divorced	2	1.6%
Occupation		
Govt Employee	8	6.3%
Business Owner	13	10.2%
Private Employee	30	23.6%
Other	76	59.8%
<b>Economic Status</b>		
Monthly Income		
Below 50,000	88	69.3%

51,000-60,000	14	11%
61,000-70,000	0	0
71,000-80,000	6	4.7%
Above 80,000	19	15%
<b>Length of Relationship with bank</b>		
Less than 1 year	70	55.1%
1-5 years	36	28.3%
More than 5 years	21	16.5%
<b>Account Type</b>		
Current Account	89	70.1%
Saving Account	13	10.2%
Investment	1	0.8%
Other	24	18.9%

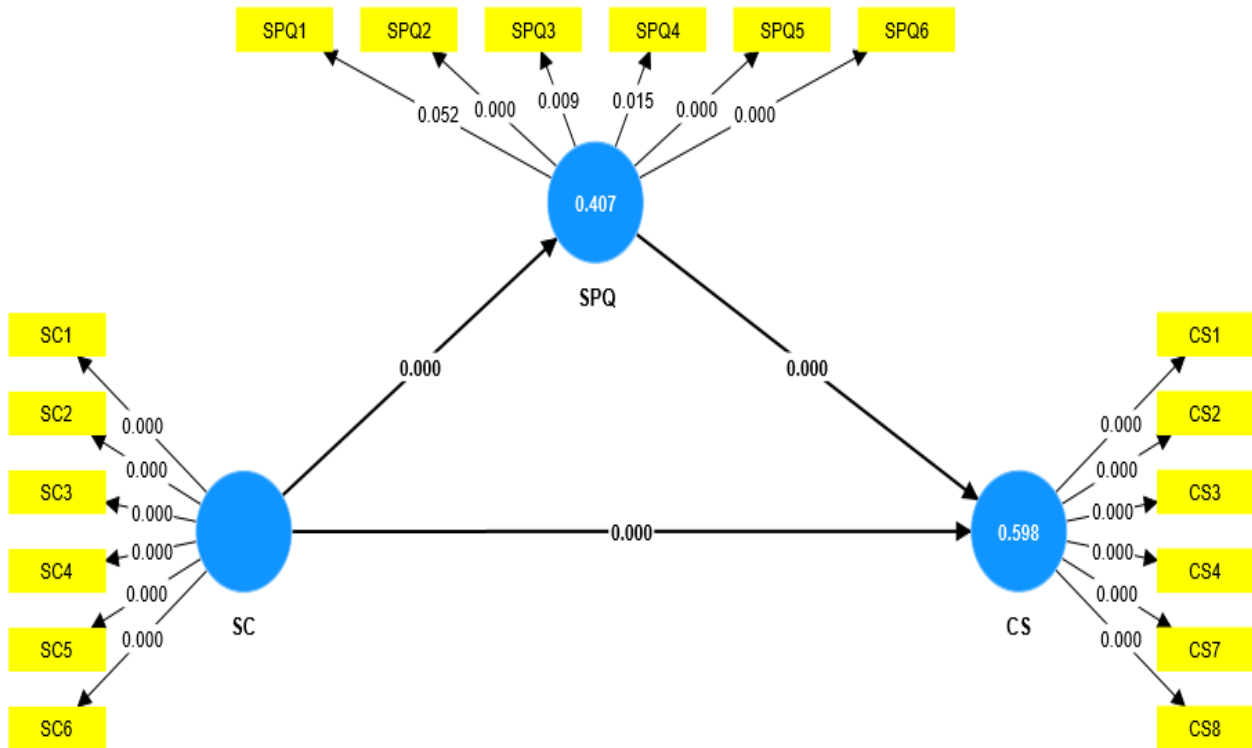
#### SPSS Data Analysis Approach:

We have used SPSS for our data analysis as discussed before in previous chapter. SPSS demonstrate in depth relationship between variable in your model. There are couple of stages to analyze our collected data are following:

#### Measurement Model:

In this stage we measure characteristics of latent constructs by explaining how they have been observable variable. In our study we have used 3 variables including Shariah Compliance as independent variable, Products and service quality of Islamic banks as mediating variable, and customer satisfaction with Islamic banks Pakistan as dependent variable. These variables were measure through 23 items.

Figure 2



#### Internal Consistency and Convergent Validity:

After constructing model in SPSS, we ran SPSS algorithm which is also known as measurement model or also called evaluation of model. Outer loadings which are above 0.7 are encouraged. It shows that items account for more than fifty percent and items dependability is acceptable. Value which lies or above 60% is also acceptable. Following results in table are above 0.7 which is considerable in results. In calculations result, if value fall below 0.4 should not be consider for further studies so in our study, we have removed variables and the result of items which are below 0.4.

**Table 5**  
**Variables code and outer weightage**

	<b>CS</b>	<b>SC</b>	<b>SPQ</b>
<b>CS1</b>	<b>0.576</b>		
<b>CS2</b>	<b>0.439</b>		
<b>CS3</b>	<b>0.79</b>		
<b>CS4</b>	<b>0.79</b>		
<b>CS7</b>	<b>0.75</b>		
<b>CS8</b>	<b>0.8</b>		
<b>SC1</b>		<b>0.509</b>	
<b>SC2</b>		<b>0.407</b>	
<b>SC3</b>		<b>0.775</b>	
<b>SC4</b>		<b>0.725</b>	
<b>SC5</b>		<b>0.786</b>	
<b>SC6</b>		<b>0.807</b>	
<b>SPQ2</b>			<b>0.73</b>
<b>SPQ4</b>			<b>0.282</b>
<b>SPQ5</b>			<b>0.832</b>
<b>SPQ6</b>			<b>0.832</b>

The convergent validity is seen by using the Cronbach's alpha, roh A, Composite Reliability (CR) and Average Variance Extracted (AVE). the convergent validity of our study is shown in the table below:



**Table 6**  
**CR and AVE Values**

<b>Variable</b>	<b>A</b>	<b><math>\rho A</math></b>	<b>CR</b>	<b>AVE</b>
Shariah	0.757	0.788	0.835	0.507
Compliance (SC)				
Service and Product Quality (SPQ)	0.781	0.748	0.542	0.558
Customer Satisfaction (CS)	0.785	0.813	0.85	0.596

The result of above Table shows that CR, Cronbach’s alpha and roh A for all above variables is meeting the criteria of 0.7 above of internal consistency reliability. AVE should be greater than 0.5. The above table shows that the values of convergent validity are in acceptable level of internal consistency and convergent validity.

**Discriminant Validity:**

By this measure we can find that how much one variable is different from another. We are having Hetrotrait-Monotrait ration for our findings. When the square root of the construct’s AVE exceeds the inter-item correlation, a measurement model has discriminating validity. It demonstrates that a construct’s related items have greater variation than other things. First criteria is “Fornell and Lacker” and second is “Cross Loading” but they are not considered reliable. The third criteria “Hetrotrait-Monotrait ratio (HTMT)” is considered by most of researchers because of reliability of that measure. The value of this measure should not be greater than 0.9 which demonstrates that variable is different from each other. Results of our study regarding this variable are given below in the table.

**Table 7**

**VIF Values**

	<b>CS</b>	<b>SC</b>	<b>SPQ</b>
<b>CS</b>			
<b>SC</b>	<b>0.899</b>		
<b>SPQ</b>	<b>0.803</b>	<b>0.862</b>	

Hypothesis testing:

We have tested our hypothesis through SPSS bootstrapping technique. As a result, we find that our hypothesis is supporting our variables. Value and calculations for our hypothesis testing is given below in the table.

**Table 8**

**Hypothesis Testing**

	<b>Original sample (O)</b>	<b>Sample mean (M)</b>	<b>Standard deviation (STDEV)</b>	<b>T statistics ( O/STDEV )</b>	<b>P values</b>
<b>SC -&gt; CS</b>	<b>0.449</b>	<b>0.45</b>	<b>0.089</b>	<b>5.044</b>	<b>0.0000</b>
<b>SC -&gt; SPQ</b>	<b>0.638</b>	<b>0.653</b>	<b>0.046</b>	<b>13.73</b>	<b>0.0000</b>
<b>SPQ -&gt; CS</b>	<b>0.406</b>	<b>0.408</b>	<b>0.077</b>	<b>5.276</b>	<b>0.0000</b>

Mediation:

**Table 9**

**Mediation Values**

	<b>Original sample (O)</b>	<b>Sample mean (M)</b>	<b>Standard deviation (STDEV)</b>	<b>T statistics ( O/STDEV )</b>	<b>P values</b>
<b>SC -&gt; SPQ -&gt; CS</b>	<b>0.259</b>	<b>0.266</b>	<b>0.054</b>	<b>4.789</b>	<b>0.0000</b>

Value of R square and F square:

**Table 10**

**Value of R square and F square**

	<b>R-square</b>	<b>R-square adjusted</b>
<b>CS</b>	<b>0.598</b>	<b>0.592</b>
<b>SPQ</b>	<b>0.407</b>	<b>0.403</b>

<b>F square</b>	<b>CS</b>	<b>SC</b>	<b>SPQ</b>
<b>CS</b>			
<b>SC</b>	<b>0.297</b>		<b>0.687</b>
<b>SPQ</b>	<b>0.243</b>		

## Chapter 5. Discussions and Implications

In this chapter we will discuss the findings and results of our study. Our findings can be useful for different financial institutions and specifically Islamic banking sector in Pakistan. We study different variables and their relations with each other through different techniques. Data was collected on basis of different variables and items as how customer satisfaction can be achieved through mediating role of service and products quality and how much shariah compliance can put effect on satisfaction level of customers as independent variable.

### Discussion on Findings:

The basic aim of our study is to get information about customer satisfaction regarding Islamic banking in Pakistan. We use shariah compliance as an independent variable and service & product quality as our mediator to find out how much they play role in customers satisfaction. Targeted area was also Islamic banking sector customers. as data is collected through online questionnaire and we collect our data through google forms as mentioned earlier. Our research was on statistical data, so we have used SPSS software to analyze our data.

### Data Analysis for relationship between customer satisfaction and Shariah compliance:

Main objective was to find out relationship between shariah compliance implementation in Islamic banking sector and level of customers satisfaction. We have collected data from Islamic banking customers, and they have sufficient knowledge about shariah compliance implementation in Islamic banking sector. Results in our study is showing that shariah compliance put great impact on customers satisfaction. Banks work with in shariah compliance and does not involve in riba usually grab a greater number of customers than the bank involves in riba. Because Pakistan is the country with Muslims majority and as a muslim it should be our first priority to do riba free transactions in our financial activities. Muslims usually choose Islamic banking over conventional banking not only in Pakistan but all over the world as well.

In our study, most of the respondents check shariah compliance as a reason for choosing Islamic banking in Pakistan. This implies that they do not care about or less care about other things because shariah compliance is their priority for choosing Islamic banking over conventional banks in Pakistan.

## Role of Service and products quality between Shariah compliance and Customers Satisfaction:

Providing quality services to customers should be the first aim of any business. Customers visit to bank usually face different problems such as time taking process for transactions, not good quality staff to handle customers, lack of experience and basic manners in staff, old school managing systems and approach, and problems like low space of parking area. That all problems should be discussed by top management of banking sector. People who follow shariah compliance strictly believe in Islamic laws and if bank is not providing quality services according to shariah compliance they will never got satisfied and in result they will switch to another bank. Satisfaction level of both Islamic and conventional banks customers are almost same because they set same benchmark for their satisfaction. Their satisfaction level may achieved by their desired quality services, behavior of banking staff, ease of transactions. In today's era, banks are providing additional services to their customers to get their satisfaction and fulfil their needs and demands. On top of this, banks are providing E-banking through smart phones. They have launched mobile apps through which customers can operate their account and have most of access to their accounts. This may be the best and quick way to reach your account specially if you are smart phone user. People who follow shariah compliance strictly believe in Islamic laws and if bank is not providing quality services according to shariah compliance they will never got satisfied and in result they will switch to another bank. Satisfaction level of both Islamic and conventional banks customers are almost same because they set same benchmark for their satisfaction. Their satisfaction level may achieved by their desired quality services, behavior of banking staff, ease of transactions

## Contribution of Study:

In this research we have provided complete framework for data analysis regarding Customers satisfaction with Islamic banking sector in Pakistan. Religious wise people prefer Islamic banking over conventional banking but also some people prefer Islamic banking due to products and services under shariah compliance. This research will also provide insight to policy makers to formulate policies regarding Islamic banking customers to grab more customers from market. Marketing strategies also make huge impact on customers perception. Typically, conventional banks adopt strong marketing policies to feed knowledge about their products and services in

customer's mind. Islamic banks also need to advertise their products and services through print and electronic media to provide information regarding products and services they are offering. Very few studies have been conducted on customers satisfaction with Islamic banking in Pakistan so this study will add more values to shariah board of Islamic bank's knowledge to formulate customers friendly policies with in shariah Compliance to attract more customers than conventional banking.

#### Implications of Study:

Our research will be useful for future of Islamic banks and managers of Islamic banking that how are thinkings of customers towards Islamic banking operations and services of Islamic bank. Managers and shariah board can see the value of Islamic banks by their policies and further operations can also be improved by close look at findings of our study.

#### Limitations:

There are countless customers of Islamic banking is Pakistan as well as entire world. We specifically target 3 cities of Pakistan as we cannot take responses from whole Pakistan due to limited resources. Future researchers can take this research carry forward to do more in depth analysis regarding shariah compliance and service & product quality, their impact on customers satisfaction, by studies of different demographic levels of respondents and also research should be conducted in other major cities to take different responses from them for accumulated results and findings. The higher number of samples, the more accurate results can be find by researchers.

#### Conclusion:

Islamic banking sector is growing with the passage of time. Muslims countries wants to switch their operations to Islamic banking due to faith of Muslims. Because majority of People in Muslims countries wants interest free transactions for their routine life. Pakistan is the country with strong majority of Muslims population. People in Pakistan wants interest free banking for their transactions, but some political and other issues are main hurdle to adopt interest free economy for Pakistan. Pakistan do not have very strong economy due to which many economic problems do not allow Pakistan to adopt interest less banking in the country. Our research will also help marketing teams of Islamic banks to provide knowledge about Islamic operations to public for

more awareness in minds of people. It was important thing to know either people in Pakistan knows about shariah compliance in Islamic banking or they just want interest less transactions for their financial activities. Service and products quality also plays crucial role to make customer satisfy. We have conducted our study in a way that by following our research Islamic bank can build strong perception in customers of Islamic banks in Pakistan. This research will help Banks to realize they need to perform their operations in such a way that customers can distinguish their services from conventional banks.

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## Appendix

### Questionnaire:

#### Section 1 “Basic Information”

Gender:

Male

Female

Age:

Below 19

20-29

30-39

40-49

50-59

Above 60

Marital Status:

Single

Married

Divorced

Occupation:

Govt Employee

Business Owner

Private Employee

Other

Monthly Income:

Below 50k

51k-60k

61k-70k

71k-80k

Above 80k

Banking relationship Experience:

Less than 1 year

1-5 years

More than 5 years

Type of Account

Current Account

Saving Account

Investment Account

Other

Reason of selecting Islamic bank.

Services of Islamic Bank

Shariah Compliance

High profit rate on investments

Availability of finance Facility

Reputation of Islamic Bank.

Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Conventional banks must adopt operations like Islamic banks					
Difference level in operations between Islamic and conventional banks is known to you					
Islamic banks are operation according to Shariah laws					
Islamic Banks are operation according to teachings of Holy Quran and Sunnah.					

Products And services offered by Islamic banks are known to you,					
Islamic banking products and services are more attractive than conventional banks are offering					
You found Islamic banking products useful for yourself.					
You can trust on products offered by Islamic banks in Pakistan					
All information is available to you through websites of Islamic banks					
Islamic banks are providing time saving services which are effective for you					
The banks provide its services according to their promise to do.					
Islamic Banks are only providing Islamic products and services in pakistan					
Bank gives intentions to individual					
Islamic banks are providing satisfactory profit on investments					
You are satisfied with the services offered by Islamic banks in Pakistan					
Islamic banks in Pakistan have qualified staff					
Facilities provided by Islamic banks are satisfactory					
Before making any investment decision, you consider profit margin.					