"Factors Influencing People's Perception towards Islamic Banking Products and Services"

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Dedication

Dedicated to me because I worked hard and of course my supervisor Dr. Muhammad Imran Nazir, who did not lose hope and faith in me. He helped me a lot during my thesis as he introduced me to PLS software.

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First of all, I want to thank Allah Almighty because it was impossible to complete this thesis without his help. Secondly I would like to thank Management Sciences Department of Bahria University to hire teachers like Dr. Muhammad Imran Nazir and Dr. Shahab Aziz. I came up with the proposal of this thesis with the help of Dr. Shahab Aziz and did my thesis in the supervision of his friend, Dr. Muhammad Imran Nazir. They both kept me guiding at every stage; that what to do and how to do. Furthermore I would like to thank my parents who had compromised their living, who left the village only because of my studies and see me on this stage. Because of the efforts, care and affection of my parents, I completed my theoretical and research work without any hardships, tough times and interruptions. My elder siblings and fiancé deserves a great appreciation and a huge round of applause for handling me during the panic attacks and mood swings I had during the whole time period of writing this thesis. Lastly, I would like to thank my only best friend Mahnoor Fatima who make tough times bearable and who always gave me emotional support whenever I need.

Abstract

To examine the relationship of product knowledge, social influence and understanding of Arabic terminologies used in field of Islamic banking with perception about products offered by the Islamic banks. This research targets citizens of Pakistan as they belong to an Islamic state, and it is important to measure their perception because it is curious that why majority of the population of an Islamic states are opting for conventional banks. An online survey questionnaire was filled by 114 people spread all over Pakistan. The data from these questionnaires was analyzed through "Partial least square structural equation modeling (PLS-SEM)" with the help of Smart PLS software. The analysis was done and we came to realize that Product Knowledge and Social Influence are found to be in a positive relationship with perception of Islamic banking products, whereas understanding of Arabic terminologies has no relationship with perception of Islamic banking products. The time span was extremely short to get a larger sample size. The analysis leads to a managerial implication that the marketing teams of Islamic Banks should create awareness either through social media or by organizing campaigns. Furthermore, we came to know that majority of people think that there is hardly any difference between conventional banking system and Islamic banking system. So, Islamic Banks should change their operations in a way that customers can differentiate the products of Islamic and conventional banks easily.

Keywords

1. *Product Knowledge*
2. *Social Influence*
3. *Arabic Terminologies*
4. *Perception of Islamic Products*
5. *PLS Software*

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Chapter 1

Introduction

1.1. Background

To survive in the uncertain global economy, investors are seeking for stable and less risky investment opportunities. Customers deposit or invest in an account with an obligation of not withdrawing that amount of money for a specific period of time with an aim to get a higher rate of return. The return obtained from term deposits is not only risk free but also stable. These types of deposits are known as term deposits. Banks offer higher rate of return on term deposits because they become owners of that money for a specific period of time and are free to use that amount to lend to other customers and businesses on a higher interest rate.

Islamic banks, just like commercial banks, rely on depositor's money and use them as a source of funds. As we know that, to charge a fixed rate of return by the lender on your investment is prohibited in Islam. It is the fundamental principle of Islamic banking that in any investment, lender and the borrower should be equally responsible for the profit and loss according to the part they played in the business. This concept is referred as risk-sharing. This concept is appreciated in Islam as it reduces and divides the burden in the parties. Islamic banking also helps to improve the economic activity of the state and promotes the equal sharing of wealth among people.

In Islamic banks, investors and lenders are willing to share profit and loss irrespective of the type of contract they are opting for. This profit and loss sharing system is the most ideal system because it basic Islamic principle that a business should be done on equality basis.

Many people think that risk sharing factor is the only factor that stops the investors to invest or deposit in Islamic banks. But they are still unaware of many other factors that have an impact on banking behavior. There are knowledgeable customers, investors and depositors who go for specific banks keeping in view their services and the rate of return provided by them. Most of the people have little or no product knowledge and selects commercial banks because of their geographical proximity and others' word of mouth. It is often observed that people choose banks

which have a huge network of branches all over the country to avoid difficulties in later time of lives

According to Financial stability report 2021, 72.4% of the total Islamic Financial service Industry (IFSI) comprises of Islamic banks. The figure below shows the breakdown of the Global IFSI by segment and region:

Region	Banking Assets	Share
GCC	854.0	45.4%
South-East Asia	240.5	23.5%
Middle East and South Asia	584.3	25.9%
Africa	33.9	1.6%
Others	53.1	3.7%
Total	1,765.8	100%
Share	72.4%	

Figure 1: Breakdown of IFSI by segment and region

Pakistan is the 5th most populated country of the world with a population of 231,402,524 as of Friday, December 16, 2022, based on Worldometer elaboration of the latest United Nations data. This population consists of 204,559,831 Muslims, which is about 88.4% of the total population of the country (www.worldometers.info). Despite of the fact that Pakistan is a Muslim majority country, but still Islamic banks have a market share much lower as compared to conventional banks. At end-2021, Islamic banking share reached 19.4% of deposits (www.fitchratings.com). If we talk about a specific product of Islamic banks; i.e. term deposits, the overall market share for the Islamic bank term deposits in Pakistan is $114,202.716 million as of 2021 (www.ceicdata.com). It means that only $22,155.33 million is deposited in Islamic bank while rest of $92,047.39 million (i.e. about 80.6% of total deposits) is deposited in conventional banks (State Bank of Pakistan).

Table-1: Industry Progress and Market Share								(Amount in Rs Billion)	
Particulars	**Period**			**Yearly Growth (YoY) in %**			**Share in Overall Banking Industry (in %)**		
	Dec-20	Sep-21	Dec-21	Dec-20	Sep-21	Dec-21	Dec-20	Sep-21	Dec-21
Assets	4,269	4,884	5,577	30.0	28.2	30.6	17.0	17.0	18.6
Deposits	3,389	3,822	4,211	27.8	26.0	24.2	18.3	18.6	19.4
No. of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
No. of Branches*	3,456	3,651	3,956	7.0	10.5	14.5	-	-	-
No. of Islamic Banking Windows	1,638	1,579	1,442	19.3	13.9	(12.9)	-	-	-
* including sub-branches									
Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)									

Figure 2: Industry Progress and Market Share

According to the strategic plan for the Islamic Banking Industry in Pakistan (2021-25), the banking sector and the government has to emphasize on the concept of Islamic finance in banking industry. Being a country with dominant Muslim population, the development of Islamic banking has remained a key agenda of State Bank of Pakistan (SBP). The target is to achieve 30% share of overall banking industry in assets and deposits in Islamic banks.

1.2. Problem Statement

The above information left us with an ambiguity that why Muslims prefer conventional banks over Islamic banks. A previous research states that people don't go for term deposits because term deposits involves a very high risk and take much longer time to mature as compared to current deposits. Furthermore previous research concluded that it must be because of the quality and value perception of the target market. Despite of being an Islamic state, we are still low on converting from conventional to Islamic banking services. We cannot say this is because Islamic banking is a new concept. First Islamic bank was established in Egypt in 1963 but in Pakistan, concept of Islamic banks started in 2005 with a name of Bank Islami Pakistan Limited. It's going to be 17 years but still there are only 5 standalone Islamic banks across the country.

1.3. Research Question

The list of research questions of current work is as follow:

- What is the relationship between product knowledge of Islamic Banking and the perception about products offered by Islamic banks?
- What is the relationship between social influence and the perception about Islamic banking products?
- What is the relationship between understanding of Arabic terminologies used in the field of Islamic banks and the perception of Islamic banks?

1.4. Research Objectives

So, our study primarily aims to investigate the investment behavior of a Muslim majority country in Islamic bank deposits. Our study investigates the impact of their product knowledge, social influence, and their understanding of Arabic terminologies used in field of Islamic banking on the perception about the products by the Islamic banks. The research objectives of this study are mentioned below:

- To determine the relationship between product knowledge of Islamic products and the perception about products offered by Islamic banks.
- To examine the relationship between social influence and the perception about Islamic banking products.
- To investigate the relationship between understanding of Arabic terminologies used in Islamic banking products and services and the perception of Islamic banks.

1.5. Scope of study

The scope of this study has wide aspects. Firstly this research will help to identify the "Perception of people to deposit in Islamic Banks" who is already using some banking products either Islamic or conventional. Secondly, it would help to identify the "Intention to invest in Islamic Banking Products" in respect of their knowledge, social influence and understanding of Arabic terminologies.

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1.6. Significance of study

The findings of this study highlight the need for Islamic banks to educate customers about the products and services they offer. This research will help the marketing teams of Islamic Banks to create awareness campaigns for the public. This research will also help Islamic Banks to change their operations in a way that will help them built a positive perception in customer's mind. This research will help the marketing teams of Islamic Banks to create awareness campaigns for young generation so that they are able to understand the Arabic terminologies. The awareness campaign will also help in enhancement of knowledge. Furthermore, this research will help the Islamic banks realize that they must clearly distinguish their products against the products offered by the conventional banks. This research will help to know the impact of product knowledge, social influence and understanding of Arabic terminologies on the intention and willingness of people to invest or deposit in Islamic banks; whereas, previous studies showed the impact of product knowledge, social influence and understanding of Arabic terminologies related to Islamic banking on the willingness to invest in Islamic bank's products.

1.7. Organization of the Thesis

Chapter 1 is about the introduction of Islamic Banking, current situation and future plans of the Islamic Banking Industry. The remainder of the work has been organized as, Chapter two offers literature review. Chapter 3 covers the research approach. In chapter 4, the findings and analysis are explained with details, and the overall conclusion is compiled in chapter 5.

Chapter 2

Literature Review

2.1. Introduction

This chapter is further divided into 3 sections. In the very first section, theories related to the topic of thesis are discussed, just to establish the bases of research. In the next section, Past researches are discussed that were related to either "Determinants of investing in Islamic Banks" or "Intention to invest in Islamic banking products". This section also highlights the research gap. In the third section and the last section, we have discussed the variables and their relationship. The last section also includes the hypothesis development.

2.2. Literature Review

As the past studies about Islamic banking is done in Indonesia and Malaysia, therefore it focused on customers of those countries. The result of those researches showed the perception, intention and willingness of Malaysian and Indonesian customers to invest in Islamic banks. There has been research in Pakistan on the impact of perceived risk, perceived quality and perceived value on the willingness to deposit in Islamic banking products. In Pakistan, (Noonari et al., 2015) only measured the prior knowledge, perception and if there is any relationship of socio-economic background, and knowledge and perception.

In this study we have examined the "Determinants of investing in Islamic banks" by evaluating the relationship of product knowledge, social influence and understanding of Arabic terminologies used in Islamic banking.

2.2.1 Life Cycle Hypothesis and Permanent Income Hypothesis

According to economists; all the terms like earnings, deposits, spending, consumption and saving are closely related and depends upon one another. The two main theories that explain consumption and saving behavior and attitudes at its best are the permanent income hypothesis (Friedman, 1957) and the life-cycle hypothesis (Ando and Modigliani, 1963). The permanent income hypothesis (PIH) is a theory of consumer spending that explains how a person spends

money that is consistent with the expected long term average income. According to Friedman, there are two types of income i.e. permanent income and transitory income. Permanent income refers to the mean or average income that is expected to be received for a long period of time (e.g. salary, rent received etc.); whereas transitory income is defined as an unexpected rise or fall in income (e.g. income received from lottery, return or loss in a stock etc.) In the same way, Friedman also distinguished the two kinds of consumption i.e. permanent consumption and transitory expenditure. Permanent consumption refers to the mean or average expenditure that is expected to be incurred for a long period of time (e.g. rent of house or office to be paid); whereas transitory consumption is defined as an unexpected rise or fall in expenditures (e.g. unexpected illness). Thus;

$$Y = Y_p + Y_t$$

Y = Total income

Y_p = Permanent income

Y_t = Transitory income

and,

$$C = C_p + C_t$$

C = Total consumption

C_p = Permanent consumption

C_t = Transitory consumption

Friedman's basic argument is that permanent consumption depends on permanent income. The basic relationship of Permanent Income Hypothesis is that permanent consumption is proportional to permanent income. According to the permanent income hypothesis, amount of savings is mainly determined by permanent income and not by any kind of transitory changes. The other theory i.e. Life Cycle Hypothesis (LCH) describes the spending and saving behavior of people over the lifetime. According to this theory, individuals seek for borrowing when their consumption is more than the income; and go for savings when there is more than the consumption. It means that demographic and economic factors play an essential role in depicting the amount of savings, investment and deposits.

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2.2.2 Deposits in Banks

Contemporary and conventional banks offers an interest rate on fixed deposits but there is no concept of interest rate in Islamic Finance as interest rate is prohibited in Islam. In Islamic finance, interest rate is termed as riba. Riba can be defined as the act of charging rent (additional money) for the use of money (Warde, 2000). Islam prohibits interest rates, because it seems unfair for the party on one end. The main reason that riba is prohibited in Islam is that it makes the rich richer and the poor poorer. Despite knowing that riba is haram and is considered one of the major sins of Islam, it is still treated as a lesser sin compared to murder and adultery. Muslims consume Riba and justify the consumption to be a necessity.

Kasri and Kassim (2009) studied by using macroeconomic data with the time span of 7 years, from the year 2000 to the year 2007. They concluded that depositors of Islamic bank transfer their deposits and saving accounts to conventional banks when the rate of return offered to them is less than the interest rate of conventional banks. A previous study of 2016, by Mushtaq and Siddiqui concluded that there is no specific relationship between interest rate and bank deposits. He did his research by collecting data of 23 Muslim and 23 non-Muslim countries but found that most of the individuals that put their money in conventional banks have an objective of savings and not of getting fixed return (interest rate). Saving accounts are not affected by the fluctuations in the interest rate, so there is no significant relationship between bank deposits and interest rate.

Researchers, Akram and Akram (2015) studied the relation of interest rate with saving behavior in both Muslim and non-Muslim countries. Through his research, he found that this relationship only works in non-Muslim countries and not in Muslim countries as Muslims follow Islam and the obligations of Allah and His Prophet (PBUH). But according to Akram and Akram, he didn't include micro-level data, so further investigation and studies could lead us to different results. The past researchers mainly examine the Non-Muslim countries. But, our study contributes by examining and analyzing Muslims of an Islamic state that how they perceive about a Halal or an Islamic product.

2.2.3 Saving behavior in Pakistan

Pakistan is the 5th most populated country of the world with a population of 229,172,248 as of Thursday, June 9, 2022 consisting of 200,400,000 Muslims, which is about 87.4% of the total

population of the country (www.worldometers.info). Despite of the fact that Pakistan is a Muslim majority nation, the outgrowth in the market share of Islamic banks is still very slow. Previous studies examined that this low market share is due to lack of product knowledge and awareness. The minute percentage of market share and deficiency of knowledge about Islamic finance in the people of this nation gives rise to a question that why this situation exists in Pakistan. Therefore, this study has an objective to study the impact of knowledge on Muslim customers' perception about the products. The figure below shows the distribution of Islamic banks branches across Pakistan:
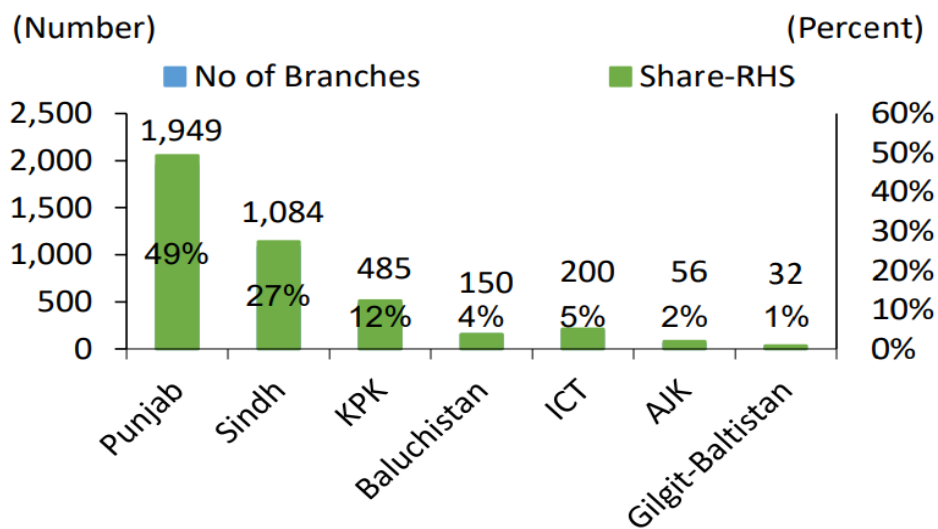
Figure 3: Distribution of Islamic Banks branches across Pakistan

2.2.4 Product knowledge

Religion is not the sole driver to opt for Islamic or conventional bank. Bank's reputation and its image play an essential role in opting for banking system. Knowledge about products and services offered by the Islamic banks, social circle and understanding of the Arabic terminologies that are commonly used in Islamic banks plays a crucial and an essential role in choosing financial products. A study among Muslim clients in Malaysia led to a shocking result that a great proportion of population has only know how about the products and no in-depth knowledge about the products offered by Islamic banks (Ahmad and Haron, 2002). Even Muslims don't know the pretension or aim of Islamic banks. Whenever, there is a debate about Islamic and conventional bank, most of the people raise a point that as interest rate is prohibited

in Islam, so Muslims should favor Islamic banks over the conventional ones. A major chunk of people have nearly zero knowledge about some specific terminologies used in field of Islamic banking.

2.4. Hypothesis Development

2.4.1 Product Knowledge and Perception

In literature, product knowledge means the familiarity and the expertise about a certain product or service. Familiarity refers to experiences and information related to the product, while expertise means the ability of the customer to deal and handle the operations related to product and service efficiently and effectively. Furthermore, product knowledge is a mix of objective and subjective knowledge.

The product knowledge is studied in different times in the context of product and service. Different strategies are proposed, which includes as educating the market through a promotional program or an emotionally attractive advertisement. Banking industry, and fields related to finance use the strategy of personal selling (individual offering), to educate consumers to expand their customers. A past study revealed that customers with higher product knowledge produce higher intent to purchase. In simple words, familiar and expert individuals would have higher willingness to purchase than unfamiliar ones.

H1. *Product knowledge has a direct impact on perception of Islamic banking products*

Social influence and Perception

There is a strong influence of your social gathering and the people around you on not only your buying behavior but also on your investing behavior. It is a common observation that there is a society pressure on every person that effects his or her decision. As the world is gradually moving towards development, people have also understood that they have to give independence to individuals at least on matter of decision making. We not only have to accept but also support the banking customers on their decisions. (Ali et al., 2017; Taib et al., 2008) found that social

influence has more weightage than attitude. It is very important to understand about the influence of societal pressure on the perception about the products.

H2. Social influence has a direct impact on perception of Islamic banking products

Understanding of Arabic terminologies and Perception

As citizens of a Muslim nation, we have taught to read Arabic at an early stage of our lives. But still most of the citizens can only read but not understand the Arabic language. This paper intents to examine the understanding of Arabic terms that are commonly used in Islamic banking sector. These terms are riba, hiba, mudarabbah, musharakah, qard hassana and takafful. According to (Akbar et al., 2012), Islamic banks only twist the names of product of conventional banks. That's the only reason Islamic banks' depositors demand the same rate of return as offered by conventional banks at a specific time. Research conducted by Kangsar also shows that se Arabic terminologies is not taught as a common course to the people of finance but only to the students that opt for the course of Islamic banking.

H3. Understanding of Arabic terminologies used in Islamic banking products has a direct impact on perception of Islamic banking products.

2.5. Theoretical Framework

The three research hypotheses of this research are summarized in figure given below:
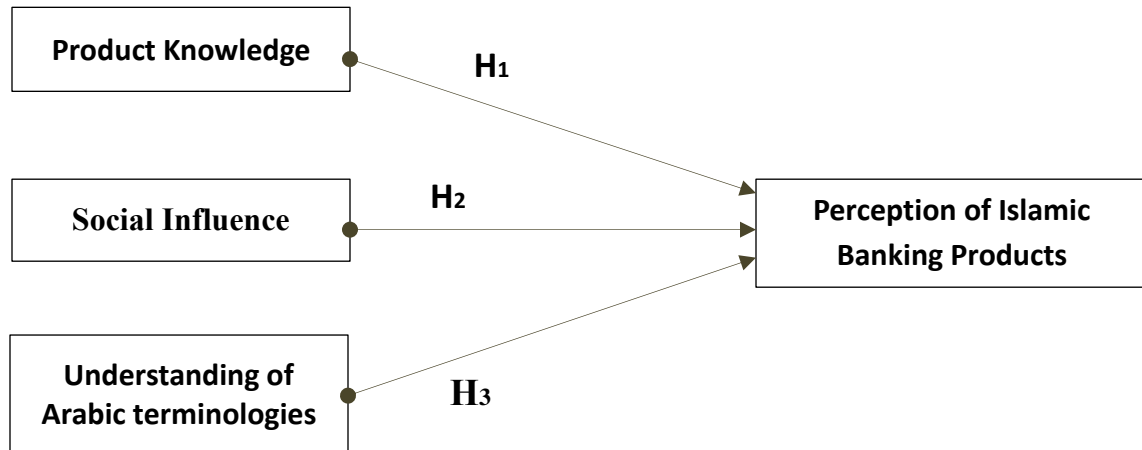
Figure 4: Theoretical Framework

Chapter 3

Research Methodology

3.1 Introduction

The objective of this research is to analyze the impact of product knowledge, social influence, and understanding of Arabic terminologies on perception of Islamic banks' products and services. The study is descriptive in nature and used the survey method. "Online questionnaire" will be used as a tool for collecting data from the respondents and participants; therefore, this is a quantitative study. This chapter contains the detailed methodology and processes to obtain the data and to analyze it.

3.2 Research Approach

There are two standard ways of conducting any research. One is qualitative research and the other one is quantitative research. Qualitative research is one which provides insights and understanding of the problem. In a qualitative research, there are very few non-representative cases (literature review) that could be used as a sample to develop an initial understanding. It means that qualitative research is conducted with the aim of exploring and discovering new ideas used in the ongoing processes. Whereas, in quantitative research, there are a sufficient number of representative cases (literature review), that can be taken into consideration before recommending a final course of action. The purpose of quantitative research is to examine cause and effect relationship between variables.

In this research, we would be using quantitative research approach as there is a lot of literature review related to this topic. We are using independent and dependent variables to investigate the cause and effect relationship between them. As this research aimed to measure the "Intention of deposit in Islamic Banking" and the researcher had to find out the relationships between variables, which in this case are, "product knowledge, social influence, and understanding of Arabic terminologies used in Islamic banking", so this research would be referred as quantitative study.

3.3 Population of the study

Study the whole population of Pakistan is near to impossible. To avoid extra time and cost limitations, we will be going to study samples instead of examining the whole population. In this study, the researcher has specifically targeted the customers who still use conventional banking system and have not shifted towards Islamic banking, the ones who are using Islamic banking products and the people who are the potential users of Islamic Banking products in future. It is really important to measure that; do they have knowledge about these products, what they and their social circle perceive about Islamic banks and whether they have understanding about the Arabic terminologies that are used in Islamic banking products. The conventional bank and Islamic bank account holders and university students that were the residents of Pakistan were made the part of our study.

3.4 Sample size

Sample size totally depends upon the nature of study. The questionnaire was distributed electronically among 140 people. 125 people responded. 114 questionnaires were found useful and the rest were discarded. Most of the respondents are between the age of 20-40 as they are present customers and potential customers.

3.5. Sampling Approach

There are two types of sampling approaches, one is probability sampling and the other one is non probability sampling. Probability sampling refers to the selection of a sample from a population, based on the principle of randomization. Probability sampling approach is more complex, more costly and more time consuming. Non-probability sampling refers to the selection of a sample from a population, which is non-random. In this research, the target population which is university students and conventional bank account holders; is very large in size and every individual would get equal chance of being selected. This means probability sampling will be used. Probability sampling is used in quantitative research that help the researcher to produced unbiased results. By using probability sampling, our four hypotheses that we stated in the beginning would be tested.

3.6. Data Collection

There are two types of data i.e. primary data and secondary data. Primary data is referred as first hand data which is collected by the researcher himself or herself. Secondary data means the data collected by someone else previously. In this research, as the data will be collected through questionnaires by the researcher herself, so it means that this research would be based on primary data. The primary data will be collected through an online questionnaire made on "Google Forms" as it is convenient way of making a questionnaire and sharing with others.

3.7 Measurement of Variable

The data was collected through an online questionnaire created on Google Forms. Questionnaire consisted two sections; Section and Section B. Section A consisted of the demographic variables that included gender, age, qualification, religion, residence, monthly Income or pocket money and whether they have a bank account in Islamic Bank or Conventional Bank or none. Section B consisted of the questions about the variable being used in the research. The items in section B related to product knowledge and social influence were based on "5-point Likert Scale" where "1= Strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly agree". Items related to Arabic terminologies were based on simple "Yes or No". Respondents were not asked to share their personal information like name, email address or contact number. The respondents were kept confidential.

3.7.1 Product Knowledge

There were 4 items in first sections which were used to measure knowledge about Islamic banking products and the scale was adapted from (Aziz et al.,2019)..

Table 1 Items used to measure Product Knowledge

Variable	Code	Items Statement	Reference
Knowledge	PK1	I have very limited knowledge about Islamic banking products	(Aziz et al.,2019)
	PK2	I would like to discuss the possibility to purchase Islamic banking Products	
	PK3	I would like to know about the benefits of Islamic banking products	
	PK4	I would like to know how Islamic banking differs from conventional banking	

3.7.2 Social Influence

There were 3 items in second section which were used to measure social influence and the scale was adapted from (Amin et al.,2011)

Table 2: Items used to measure Social Influence

Variable	Code	Items Statement	Reference
Social Influence	SI1	Most people who are close to me think that I must choose Islamic banking products	(Amin et al.,2011)
	SI2	It is expected by others that I should go towards Islamic banking products	
	SI3	Most of the people around me thinks that Islamic banking is useful	

3.7.3 Understanding of Arabic Terminologies

There were 4 items in third section which were used to measure understanding of Arabic terminologies of Islamic banking products and the scale was adapted from (Lee Ling et al., 2012)

Table 3: Items used to measure Understanding of Arabic Terminologies

Variable	Code	Items Statement	Reference
Understanding of Arabic terminologies used in Islamic banking	AT1	Riba	(Lee Ling et al., 2012)
	AT2	Mudarabah	
	AT3	Shariah	
	AT4	Qar e Hassana	

3.7.4 Perception about Islamic Banking Products

There were 5 items in forth section which were used to measure perception about Islamic banking products and services and the scale was adapted from (CONTEH, 2020)

Table 4: Items used to measure Perception about Islamic Banking Products

Variable	Code	Items Statement	Reference
Perception	Per1	Many Pakistanis will adopt Islamic banking if they knew more about it	(CONTEH, 2020)
	Per2	Islamic banking products are different from conventional banking products in Pakistan	
	Per3	Without Riba, Islamic banking provides the best source of financing and improves economic growth in Pakistan	
	Per4	Islamic bank provides the best way to reduce inequality in Pakistan through profit and loss sharing	
	Per5	Islamic banking products are properly marketed in Pakistan	

3.8. Data analysis Technique

3.8.1 Cronbach's Alpha

As this research uses questionnaire for the purpose of collecting primary data, it was important to check the reliability of questions. The best measure of checking the reliability of items used for variables is Cronbach's Alpha. The Cronbach's alpha is interpreted according to the table given below:

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Figure 5: Cronbach's Alpha interpretation

3.8.2 PLS-SEM

"Smart PLS software version 3.3.3." will be used for "Partial Least Square Structural Equation Modelling (PLS-SEM)".

PLS-SEM (Partial Least Square – Structural Equation Modeling) is a two-step technique for data analysis (allows estimation of complex cause-effect relationship. First step is measurement model, which is used to check validity and reliability of the data. The second step is structural model, which is used for testing of hypothesis and to check if the model is fit or not.

Chapter 4

Findings and Data Analysis

4.1 Introduction

This chapter includes the detailed explanation and analysis of the data that was collected through the online survey with the help of questionnaire. This chapter includes measurement model, reliability and validity of the data collected. Furthermore, it also includes the structural model which further leads to Collinearity assessment, hypothesis testing and effect size.

4.2 Demographic Profile of the Respondents

The survey involved 114 respondents. Out of 114, 57 were female and 57 were male that shows a ratio of 50-50. 10 respondents fell under the age of 20 years. 91 respondents and 11 respondents belonged to the age group of 20-30 and 30-40 years respectively. Only 2 respondents were those whose age was above 40 years. Out of 114 respondents 11 were students of intermediate, 63 were students of Bachelors and 40 were students were enrolled in class of Masters. Majority of the respondent (99%) were Muslims except 1. 69 respondents were full time students. 36 respondent belonged to professional sector. Major proportion of respondents (42%) had an income between 25,001 and 50,000. Income of 19.3% fell between 50,001 and 70,000. Around 15% of the respondents had an income over 70,000. Majority of respondents (56%) had an account in conventional bank and 18% had an account in Islamic banks and 22% of the respondents have

Table 5: Demographic Profile of Respondents

Category	Number of respondents	Percent	Cumulative Percent
Gender			
Male	57	50	
Female	57	50	
Age			
Below 20	10	8.8	8.8
20-30	91	79.8	88.6
30-40	11	9.6	98.2
Above 40	2	1.8	100

Qualification

Intermediate	12	10.7	10.7
Bachelors	62	54.9	65.7
Masters	40	35.4	100

Religion

Muslims	113	99.1	99.1
Non-Muslims	1	0.9	100

Work

Study	69	60.5	60.5
Job	36	31.6	92.1
Both	9	7.9	100

Monthly income

1-10,000	8	7	7
10,001-25,000	19	16.7	23.7
25,001-50,000	48	42.1	65.8
50,001-70,000	22	19.3	85.1
Above 70,000	17	14.9	100

Bank Account

None	22	19.3	19.3
Conventional	64	56.1	75.4
Islamic	21	18.4	93.9
Both	7	6.1	100

4.3 PLS-SEM Approach

PLS-SEM (Partial Least Square – Structural Equation Modeling) is a two-step technique for data analysis (allows estimation of complex cause-effect relationship. First step is measurement model, which is used to check validity and reliability of the data. The second step is structural model, which is used for testing of hypothesis and to check if the model is fit or not.
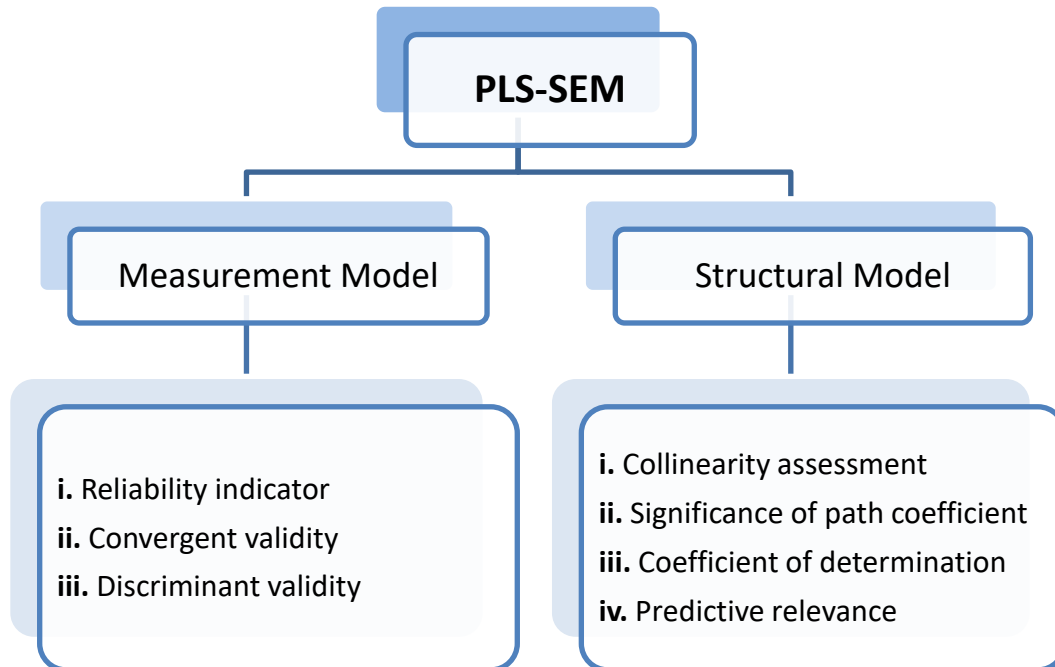
Figure 6: PLS-SEM Evaluation

4.3.1 Measurement Model

Measurement model is used to access the quality of the items used in the study. Quality includes both; reliability and validity. In this study, we have used 4 variables; product knowledge, social influence, understanding of Arabic terminologies used in Islamic banking and perception of Islamic Banking products. These variables were measured through 16 items. Smart PLS was used to measure the reliability and validity of the items.
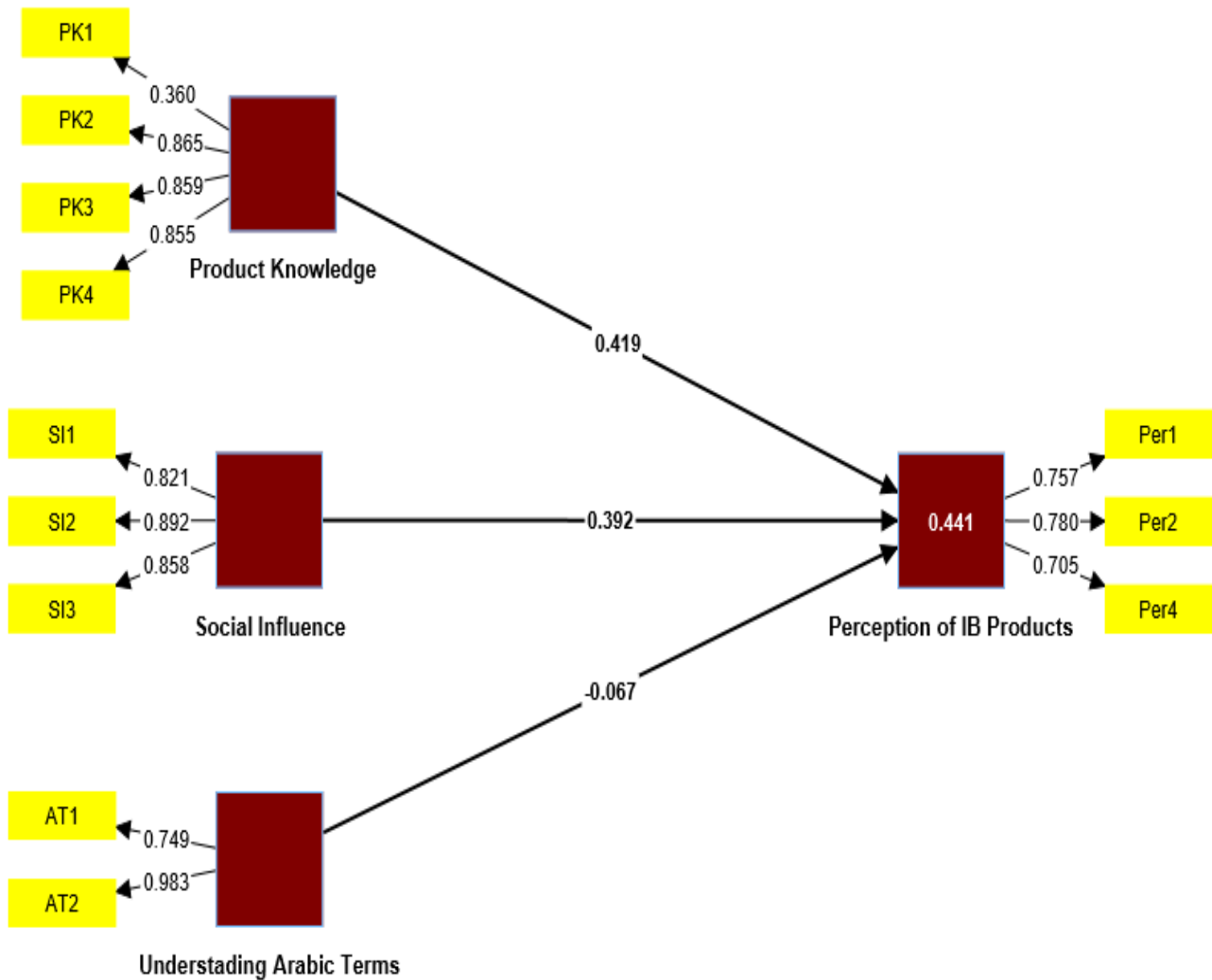
Figure 7: Structural Model

4.3.2 Internal Consistency and Convergent Validity

The model was built in SmartPLS software. Then we ran the PLS algorithm. The outer loadings that are above 0.708 are highly encouraged, as it shows that there is 50% of the variation between items.. Furthermore according to Byne, the values above 0.60 are also acceptable.

The analysis shows that maximum of the values were above 0.708 that includes (PK2, PK3, PK4, SI1, SI2, SI3, AT, AT2, Per1, Per2). If we see according to the analysis of Byne, Per4 is also acceptable because its outer loading is 0.705 which is greater than 0.60. PK5, AT3, AT4 and Per3 is not acceptable and was removed from PLS software.

Table 6: Outer Loadings

Item Code	Factor Loadings
Product Knowledge	
PK1	0.360
PK2	0.865
PK3	0.859
PK4	0.855
Social Influence	
SI1	0.821
SI2	0.892
SI3	0.858
Understanding of Arabic Terminologies	
AT1	0.749
AT2	0.983
Perception of Islamic Banking Products	
Per1	0.757
Per2	0.780
Per4	0.705

The Cronbach's alpha, Composite Reliability (CR) and Average Variance Extracted (AVE) is used to analyze convergent validity of the items. All these values are shown in the table below:

Table 7: Convergent Validity

Variable	A	ρA	CR	AVE
Product Knowledge (PK)	0.714	0.723	0.792	0.56
Social Imfluence (SI)	0.748	0.839	0.84	0.587
Understanding of Arabic Terminologies (AT)	0.821	0.828	0.893	0.736
Perception of Islamic Banking Products (Per)	0.76	0.896	0.864	0.763

Cronbach's alpha and Composite Reliability should be greater than 0.70. In this case, this condition is fulfilled. AVE should be greater than 0.50, which in this case is. The table 7 clearly shows that all the values of convergent validity falls in acceptance level.

4.3.3 Discriminant Validity

Discriminant Validity is used to examine the extent to which variables are different from each other. There are three criteria to check discriminant validity. First is Fornell and Lacker; second is cross loading and the third is Hetrotrait-Monotrait Ratio (HTMT). First two criteria are not considered reliable, while HTMT ratio is reliable and valid. "HTMT is the mean of all correlations of the indicators measuring different constructs, relative to the geometric mean of the average correlations of the indicators measuring the same construct". If the values are below 0.9, it means variables are different from each other. The table below shows the discriminant validity of the variables used in the construct:

Table 8: Discriminant Validity with Hetrotrait-Monotrait Ratio (HTMT)

Variable	PK	SI	UAT
Product Knowledge (PK)	0.754		
Social Imfluence (SI)	0.72	0.367	
Understanding of Arabic Terminologies (AT)	0.236	0.245	0.268

For this research, all the achieved values are below 0.90, so the model is satisfactory and ready for the PLS software to run the program.

4.4 Assessment of Structural Model

If the outer model is valid, then we move towards inner model evaluation. In the inner model evaluation, we assess path loadings and path coefficient. These all are parts of structural model. For accessing the structural model, different techniques were used; such as, collinearity assessment, path coefficients (beta), regression score (R^2) and effect size (f^2).

```
┌─────────────────────────────────────────────┐
│        Assess structural model               │
│            collinearity                       │
└─────────────────────────────────────────────┘
                    ⬇
┌─────────────────────────────────────────────┐
│        Assess the significance and           │
│        relevance of structural model         │
└─────────────────────────────────────────────┘
                    ⬇
┌─────────────────────────────────────────────┐
│            Assess level of $R^2$              │
└─────────────────────────────────────────────┘
                    ⬇
┌─────────────────────────────────────────────┐
│          Assess $f^2$ effect size            │
└─────────────────────────────────────────────┘
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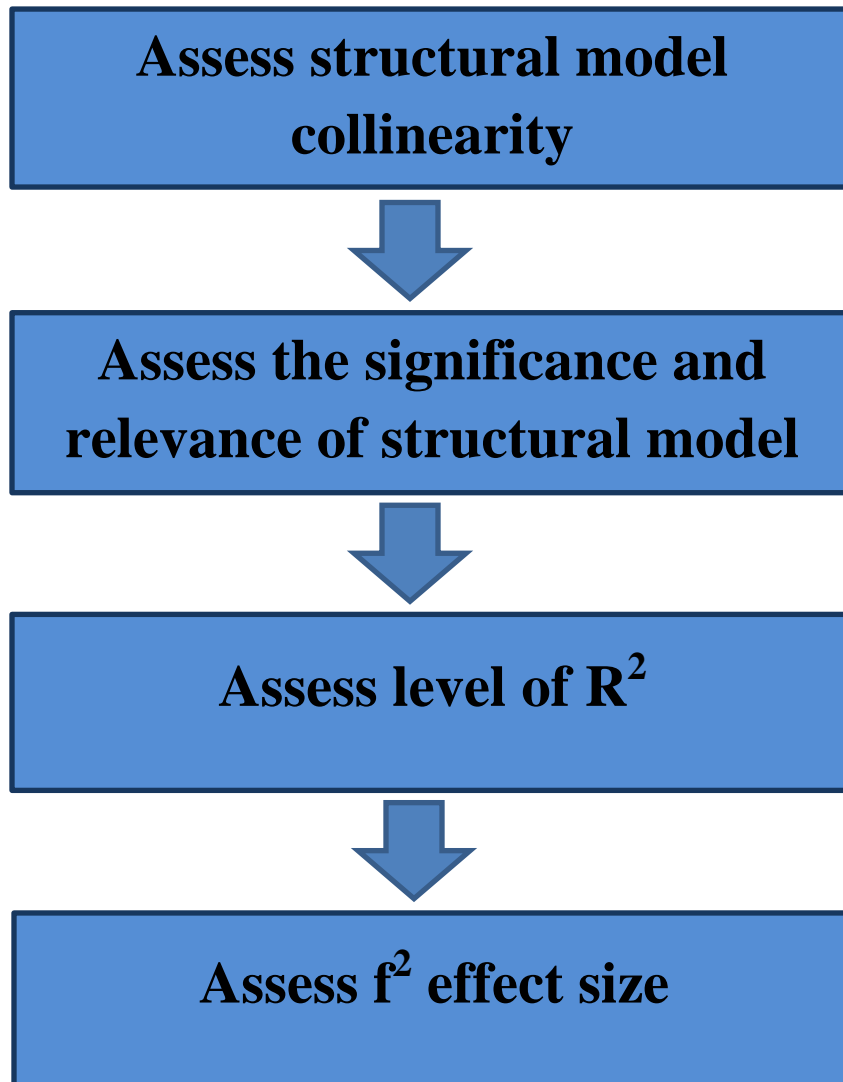
Figure 8: Structural Model Assessment Steps

4.4.1 Assessment of collinearity

In PLS-SEM, Ordinary Least Square (OLS) regression technique is used to access every variable. Collinearity assessment is done to remove biased estimations. The software generates Variance Inflation Factor (VIF) to check multicollinearity. Values above 3.3 indicate high collinearity. But in this case, all values are much lower than this level, so there is no issue of collinearity among variables.

Table 9: Collinearity Assessment

	Perception
Product Knowledge (PK)	1.118
Social Imfluence (SI)	1.221
Understanding of Arabic Terminologies (AT)	1.101

4.4.2 Path Coefficient and t-values

We measure path coefficient, t-value and p-value to test hypothesis. T-value higher than 1.96 indicates that hypothesis was correct. So H_1 and H_2 are accepted, while H3 has a t-value less than 1.96, so it is not supported. The table below shows the path coefficient (β), t-value and p-value.

Table 10: Hypotheses Testing

Hypothesis	β	t-value	p-value	Decision
H_1: PK → Per	0.419	5.307	0.000	Supported
H_2: SI → Per	0.391	5.996	0.000	Supported
H_3: AT → Per	-0.067	0.313	0.377	Not Supported

4.4.3 Explanatory Power of the Model

The values of R^2 should fall between 0 and 1. If the value is inclined to one, it shows that higher is the predictive accuracy. This model has an R^2 value of 0.426. It showed moderate level of predictive accuracy in perception of Islamic Banking Products in people of Pakistan.

Table 11: Dependent Variable and R^2 value

	Perception
Perception about Islamic Banking Products (Per)	0.426

4.4.4 Effect size f^2

The f^2 value of 0.02 indicates a small effect, the f^2 value of 0.15 represents the medium effect and f^2 value of 0.35 indicates a large effect (Cohen et al., 1998). The result indicates that Product Knowledge, Social Influence, Understanding of Arabic Terminologies have medium effect on perception of Islamic banking products. The results of this model are shown in table below

Table 12: Effect size of f ^{2}

Construct	Perception
Product Knowledge	0.281 (moderate impact)
Social Influence	0.226 (moderate impact)
Understanding of Arabic terminologies	0.002 (small effect)

The results show that product knowledge and social groups have medium influence and impact on perception about the Islamic banks' products and services. On the other hand, impact of understanding of Arabic terminologies is small.

Chapter 5

Discussion and Implications

5.1 Introduction

This chapter includes discussion and analysis of the results of the overall study; the results derived from the previous chapter. All the discussions are aligned with the research objectives mentioned in the first chapter of the thesis. The primary purpose of this research was to examine and analyze the impact of "Product Knowledge, Social Influence and Understanding of Arabic Terminologies" on the "Perception of Islamic Banking Products" in the people of Pakistan.

5.2 Discussions on Empirical Findings

This research was done with an objective to examine the effect of independent variables that are product knowledge, social influence and understanding of Arabic terminologies on the dependent variable which was perception of Islamic Banking products. In this study, the target population was the Public of Pakistan because despite being a citizen of an Islamic state, we still prefer the conventional banking system and do not opt for Islamic Banking. A questionnaire was circulated online in order to collect data. PLS Software was used to measure the reliability and validity of the items in the construct.

5.2.1 Analyzing the relationship between Product Knowledge and Perception of Islamic Banking Products

The first objective of our research was to examine and analyze the impact of knowledge about Islamic banking products and the perception about those products. The hypothesis was supported by the results with the t-value of 5.307 and p-value of 0.000 but it has a moderate effect on the perception.

According to our study, 65.0% of the respondents believe that they have very limited knowledge about Islamic Banking Products and only 13.2% of respondents believe otherwise. 81.6% of the respondents would like to discuss the possibility to purchase Islamic Banking Products. This point is of great importance as it tells that a certain group should be given attention by creating awareness campaigns about Islamic Banking Products as they are major potential customers.

91.2% of the respondents want to know the benefits they will get after buying these products. 88.6% of the respondents want to know how these products are better than conventional products.

The result clearly shows that majority of people of Pakistan want to get knowledge about Islamic Banking products. There is a dire need of educating people about the Islamic banking products.

5.2.2 Analyzing the relationship between Social Influence and Perception of Islamic Banking Products

The next objective of our research was to examine and analyze the relationship between social influence and the perception about the Islamic banking products. The hypothesis was supported by the results with the t-value of 5.996 and p-value of 0.000 but it has a moderate effect on the perception.

According to our study, 39.5% of respondents believe that people close to them expect them to choose Islamic banking in place of conventional banking and only 17.5% respondents disagreed. 51.5% respondents believe that there is a pressure from others to choose Islamic banking over conventional banking and only 13.2% do not feel that pressure. 60.6% respondents believe that people close to them perceive Islamic banking products as useful and expect them to choose these products and only 8.8% respondents disagreed.

The result clearly shows that there is a positive relationship between social influence and the perception about those products offered by Islamic Banks. There is a dire need of educating people about the Islamic banks' products. As we are citizens of a country like Pakistan where religion and society plays a very important role in our decision making, it is quite obvious that any product declared Halal will come to the market and will exercise its power.

5.2.3 Evaluating the Understanding of Arabic Terminologies and its relationship with Perception of Islamic Banking Products

The last objective of our research was to examine and analyze the relationship between understanding of Arabic terminologies used in field of Islamic Banking and the perception about their products. The hypothesis was not supported by the results with the t-value of 0.313 and p-

value of 0.377, which shows that the understanding of Arabic terminologies don't impact the perception about the Islamic Banking products and services.

According to our study, more than 78.1% of respondents understand the meaning of Riba. 60.5% of our respondents understand the meaning of Mudarabah. 86.8% and 84.2% of respondents understand the meaning of Sahriah and Qard Hassana respectively.

Table 13: Understanding of Arabic terminologies

S. No.	Arabic Terms	Yes	No
1	Riba	78.1%	21.9%
2	Mudarabah	60.5%	39.5%
3	Shariah	86.8%	13.2%
4	Qard Hassana	84.2%	15.8%

5.3 Contribution of the study

The framework offers in-depth knowledge of the Islamic Banking literature based on perception of different sectors. This study highlights what citizens of Pakistan think about Islamic Banking Products. This study also deals with the factors that affect them the most. The information and the data extracted from this study may be utilized to improve marketing tactics and increase or enhance the market share of Islamic Banks in Pakistan. This research provides the theoretical contribution in the field of Islamic banks as very few studies exist on the perception of Islamic Banking products in Pakistan. In the past, no study as per the knowledge of the researcher has found the relationship between product knowledge, social influence and understanding of Arabic terminologies and perception in Pakistan. The study has proved that first two variables have positive relationship with perception and the third one has no relationship.

5.4 Implication of Study

The findings clearly show that majority of people of Pakistan want to get knowledge about Islamic Banking products. There is a dire need of educating people about Islamic banking products. There is a dire need of educating people about the products and services that are offered by Islamic Banks. As we are citizens of a country like Pakistan where religion and

society plays a very important role in our decision making, it is quite obvious that any product declared Halal will come to the market and will exercise its power. So marketers should focus on religiosity-based marketing. Islamic banks should conduct seminars in order to increase the knowledge about their products and create a better perception about the Islamic banking products, because still majority of people think that there is no difference between conventional banking system and Islamic banking system. By creating awareness, Islamic banks would be able to enhance the confidence in the investors.

5.5 Limitations

Due to lack pf time and resource, the data for this research was collected from all over the country with no specific age group or educational background. This research is studied as a whole. So the future researchers can opt for this research gap and studies either people of specific age group or a specific educational background.

5.6 Direction for Future Research

Future researcher may use a large sample size and include people of a certain age group or studying at a same level so that a proper understanding could be built that how the people of certain age, class or educational background perceive about the Islamic banking products.

5.7 Conclusion

According to Financial stability report 2021, 72.4% of the total Islamic Financial service Industry (IFSI) comprises of Islamic banks. So it was very important to study about how people of an Islamic state perceive about Islamic Banking. This research will help the marketing teams of Islamic Banks to create awareness campaigns for the public. This research will also help Islamic Banks to change their operations in a way that will help them built a positive perception in customer's mind. This research will help the marketing teams of Islamic Banks to create awareness campaigns for young generation so that they are able to understand the Arabic terminologies. Furthermore, this research will help the Islamic banks realize that they must clearly distinguish their products against the products offered by the conventional banks. This research will help to know the impact of product knowledge, social influence and understanding of Arabic terminologies on the intention and willingness of people to invest or deposit in Islamic

banks; whereas, previous studies showed the impact of product knowledge, social influence and understanding of Arabic terminologies related to Islamic banking on the willingness to invest in Islamic bank's products.

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Appendix A: Questionnaire

Section A

Please indicate the degree of your agreement by choosing the appropriate answer. Choose only one answer that best reflects you for each statement.

Knowledge of Islamic Banking Products

S. No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	I have very limited knowledge about Islamic banking products					
2	I would like to discuss the possibility to purchase Islamic banking Products					
3	I would like to know about the benefits of Islamic banking products					
4	I would like to know how Islamic banking differs from conventional banking					

Social Influence

S. No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Most people who are close to me think that I must choose Islamic banking products					
2	It is expected by others that I should go towards Islamic banking products					
3	Most of the people around me thinks that Islamic banking is useful					

Understanding of Arabic Terminologies

Please choose yes or no for each of the following statement. Choose yes if you understand the meaning. In other case select No (if unsure/ uncertain).

S. No.	Arabic Terms	Yes	No
1	Riba		
2	Mudarabah		
3	Shariah		
4	Qar e Hassana		

Perception towards Islamic Banking

S. No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Many Pakistanis will adopt Islamic banking if they knew more about it					
2	Islamic banking products are different from conventional banking products in Pakistan					
3	Without Riba, Islamic banking provides the best source of financing and improves economic growth in Pakistan					
4	Islamic bank provides the best way to reduce inequality in Pakistan through profit and loss sharing					
5	Islamic banking products are					

	properly marketed in Pakistan					

Section B

Demographic Profile

Gender
- Male
- Female

Age
- Below 20
- 20-30
- 30-40
- Above 40

Qualification
- Intermediate
- Bachelors
- Masters

Religion
- Muslims
- Non-Muslims

Work
- Study
- Job
- Both

Monthly income
- 1-10,000
- 10,001-25,000
- 25,001-50,000
- 50,001-70,000
- Above 70,000

Bank Account
- None
- Conventional
- Islamic

- Both

Thesis Plagiarism Report

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<u>**Viva-Voce Examination**</u>

Viva Date <u>06/02/2023</u>

<u>**Topic of Research:**</u> Factors Influencing People's Perception towards Islamic Banking Products and Services.

<u>**Names of Student**</u>: Zoya Awan   <u>**Enroll #**</u> 01-221212-038

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