

CONSUMER BEHAVIOUR TOWARDS ISLAMIC BANKING IN PAKISTAN

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ABSTRACT: *Islamic banking is one of the most developing sectors in Pakistan. This study reveals the relationship between consumer behavior towards bank selection criteria and customer satisfaction. For this purpose, data was collected from a sample of 200 consumers in different Islamic bank in Multan through a structured questionnaire containing 30 questions. SPSS 17 has been used for data analysis. Correlation and regression analysis, ordinary least square (OLS) method was used to find out relationship among independent variables (religion, high profit & low service charges, influence of friends & family, service quality, responsive attitude of staff, mass media & bank image) and dependent variable (customer satisfaction). The findings show positive and significant relationship among all variables and customer satisfaction partially mediates the relationship between independent variables and dependent variables. We conclude that customers' satisfaction is increasing day after day and their commitment is strong with the Islamic banks.*

KEYWORDS: Islamic banking, Bank selection, Customer satisfaction.

INTRODUCTION

Financial Institutions based on Islamic laws has been introduced near about in 1970s. Egypt, Indonesia and Malaysia are the pioneer countries in this regard. The very main purpose of Islamic Banking System was to reshape financial services and products in the mold of Islamic Principles so that to accomplish with the requirements and demands of consumers, especially the ones (primary customers) who seriously consider the religious restrictions e.g. Interest. Later this purpose was even broadened to enhance the business volume under the same cover. According to Islamic World 2008, more than 100 financial institutions based on Islamic Banking System are being operated in more than 34 Muslim and non-Muslim countries in the world. Islamic Banking System with an estimate of \$1.1 trillion now is recognized as an emerging industry in today's global world.

The current study explores and investigates the customer approach on which people opt Islamic Bank for business. Generally people think very logical while selecting business to invest but in case of customers who are Muslims, it seems that they chose Islamic Bank majorly on the bases of their fundamental beliefs in Islamic principles concerning trade. Along with they think of the profit maximization and other conventional benefits, they want to obey Islamic principles too, and if they decide to business with an Islamic bank basically on their emotional and behavioral association with their religion, this obviously may be regarded as behavioral financing.

In banking industry in Pakistan, the presence of Islamic and conventional banking competes with each other in order to attract large number of customer. Islamic banks capture large number of

customer by offering quality products and services as a substitute of interest based product. Working of Islamic banking creates challenges for society, individual and organization as well as its practices comes with several benefits.

In Quran, Allah said that;

“O you who believe! Do not devour Riba multiplying it over and keep your duty to Allah that you may prosper” (Surah Al-Imran)

Consumers of Islamic bank are observed to establish their account with their current bank if they are made satisfied. Researches also reveal that most of the clients' decision to choose Islamic bank is because of their religious motives. Banks economic and financial operations based on Islamic principles have good image in securing the confidence of their clients. There is a serious ethical distinction based on principles derived from Quran and Sunnah (Mannan, 1993). A customer's line of action regarding selecting a bank is highly linked with his psychological state of mind. According to Qardhawi (1996), human being is Allah's creation that having the character of Muslim (keeping religious deeds). Pursuant to this philosophy, human being intention is in carrying a financial activity that is accordance with their religious obligations.

LITERATURE REVIEW

Review of the Study At International Level

Erol and El-Bdour (1989) and Erol, Kaynak and El-Bdour (1990) conducted study in Jordan where they marked three selection factors for Islamic banks: reputation, confidentiality and efficient services which prevail that religion is not a basic factor for selecting Islamic banking. They find out that it is not a religion that attract customer towards Islamic banking, but it is the products and services which attract the customer towards any conventional and Islamic banking. Omer (1992) states that customers are highly unaware of Islamic banking they used Islamic products and services only due to religious association and that why they don't prefer conventional banking as well as element of interest which is prohibited in Shariah therefore they choose Islamic banking but few customers do that.

Leeds (1992) argues from his study that due of service quality and professional good attitude customer satisfaction increase and it becomes a cause to decrease in the erosion of customer. There are 40% of customers who turn to another bank due to of bad services. The dealing of personnel with the customers is also includes in quality services. In consumer behavior research it's found out that when the quality of services is delivered to customers its automatically creates a good relationship. Haron et al. (1994) analyzed the three most basic factors for bank selections are efficiency, speed and friendliness as well as behavior of customer but they also found that 40% of respondents choose Islamic banking because of Islam factor. Similarly, Naser et al. conducted the same study in Jordan and surveyed 206 customers but their study found that 70% respondents select Islamic banks due to religion factor.

Hegazy (1995) found in Egypt that customers on the basis of religion and Islamic laws use Islamic banking services but still they compare the services and products of both bank and then made a final decision of selecting a bank. Levesque and McDougall (1996) argue that service quality is

correctly determinate as it has an influential effect on customer satisfaction. Poor service will cause customer dissatisfaction and they easily switch to another bank. Gerrard and Cunningham (1997) indicated through the result of their study that in Singapore clients are conscious and ready to compromise and go on for Shariah abidance. The Islamic banks are entitled with the slogan of Islamic banking system and their abidance of Shariah which gratify and inspire the clients on this very ground. Metawa and Almossawi (1998) focus on the customer approach while selecting a bank and finally concluded that Shariah principles are the primary factor. They examined that customer thinking and feelings associated with products and services lead to customer satisfaction. If customers satisfied with the business then they not only like to come again and again along with they become a marketing tool for products offered by company by having positive word of mouth same the case will be if customers are dissatisfied with the company's product it comes through negative word of mouth which create a challenge not only the products they are using but also for company overall products.

As per Jordan, Naser et al. (1999) argues that consumer also relate the bank reputation as per religious beliefs as the need for their Islamic bank support. The result of a research conducted by Naser et al. showed that factors influencing clients to select Islamic banks are religious reasons, bank reputations, competitiveness and of course the profit. Conclusion can be drawn from this study is that consumer select an Islamic bank because of both the religious factor and economic factors. Zeithmal et al. (2000) states that competition prevails in banking industry so service quality factor becoming famous among customers which help to gain competitive advantage and help to maintain long term relationship with customer. Hanson (2000) conducted study in south west and found that organization must developed strategy that enhances the service quality standard as it enhances the level of services. Many researchers in the world found the relationship between customer satisfaction and service quality. . He advised that in order to meet the customer needs and wants organization must improve their services.

Study of Almossawi (2001) explored the Bahrian student satisfaction toward bank institution. He concluded that students are more influence by accessible location, ATM, friendliness of bank staff, reputation of bank and parking place. Hamid and Nordin (2001) conducted the research in Malaysia and found that many customer are well aware and having knowledge related to Islamic banking but still there are some customer who don't know of it so they can't be able to distinguish between Islamic and conventional banking as well as they are not conscious about the method of banking either it is conventional or Islamic. Ahmaed and Haroon (2002) analyzed in Malaysia that religion is a powerful determinant of Islamic banking. Muslim look Islamic banking as an right banking theory because its interest free banking and interest is forbidden in Islam that's why Muslim choose Islamic as compared to conventional banking. They carried their study in Malaysia on attitude of corporate customers and concluded that 'average 55% of the respondents pointed that religion is the primary reason of selecting Islamic banking while 75% Malaysian customer have perception that through marketing channel government promote Islamic banking'.

Sureshchander et al. (2003) states that in Indian banking industry's technological factors are more important than human factors of service quality. Wang et al., (2003) examined in China that due to of the intense competition in banking industry, the Islamic and conventional banks want to capture the current and potential customers. Bank realized that service quality is important for

survival in competitive atmosphere and in today's world. Vitell and Paolollo (2003) study depict that religion is indirectly a dominant factor of practices, belief and ethical of consumer but it is a substantial element of both relativism and idealism. Bley and Kuehn (2004) concluded that in United Arab Emirates the preference of selecting Islamic banks is motivated by religious values not by financial knowledge. More the customer has religious association the larger the preference of selecting Islamic banks. They conducted a surveyed in which they want to point out the student knowledge and thinking towards Islamic banking. They found interested result while examined hypotheses on: aspect of religion, cultural differences and knowledge of Islamic product etc. Study analyses that due to language barriers it prohibits students to learn Islamic financial system. Nevertheless, the study was mainly concentrated towards having an adequate marketing and education policy on Islamic banking and economics.

Curry and Penman (2004) analyzed in Scottish that bank must meet the customer needs by providing their services through managing the resources in proper way as well as keep check on it because differentiations in service quality is a major factor in competitive environment of banking industry. Customer retention is achieved by providing the right service at right time which gives long term benefits to the organization. Flavian et al. (2005) presented that in the competitive environment; bank image is strong factor to hold market positions which help in creating and sustaining the trust between customers and their respective banks as trust has a powerful influence on performance of organization. Dusuki and Abdullah, (2006) concluded in Malaysian customer service considered as an important factor while selecting Islamic banks. Respect must provide to customer and they should be treated by knowledgeable personnel with gracious and friendly way. Staff plays an influential role in enhancing the customer satisfaction. Bank must provide adequate training to their employees who enhance the abilities and competences of employees which will consequently increase the satisfaction of customer which is the main purpose of the bank.

Ahmad et al. (2006) concluded in Malaysian that the senior management must keep the factors under consideration which influence the customer decision for choosing Islamic banks like mass media services, external influence, convenience and Islamism of products. Due to religious exposure, a person tends to be more religious which attracts towards Islamic financing. Such groups of customer who are more religious are expected customer and there is a need to describe Islamic products in detail to such group. They also reason out that religion is a basic choice for Islamic banks. Al-Hawari and Ward (2006) found out that in Australia, relationship of financial performance and service quality is linked with customer satisfaction. Despite of having a fully satisfied customer, organization should focus to maintain a positive relationship standards with their customers. Dusuki and Abdullah (2007) found in Malaysia bank employee is also an important factor which attracts customer while making decision of selecting bank (efficiency and effectiveness in transaction handling, knowledge and experienced bank personnel and staff friendliness). Employee ability to communicate trust onto customers, competences and courtesy of employees is major abilities that a good employee should have. They also reveal that religion factor is the major one that drives individual towards Islamic banking.

Gait and Worthington (2008) examined that the factors which are important for choosing the Islamic banking are service quality, bank reputation, religious and pricing aspects. Among the consumer the idea of Islamic banking is new and they having less knowledge about Islamic

finance, Islamic banks must develop innovative and strong marketing program so that customer should aware about new Islamic products and services. Amin & Isa (2008) study found that awareness of Islamic product and services are highly compared between Muslim and non-Muslim customer in Malaysia. The majority of Islamic banking customers are satisfied with the service quality in all aspect. Ahmad et al. (2008) found in Malaysia that there is a dominant difference between religion and selection of bank. Muslim only select Islamic banks due to that fact that is what religion said and required. This research depicts that people who are more associated with religion select Islamic bank for their deposits transaction. In Malaysia, Tan (2009) analyzed that services play important role in customer satisfaction. She explored that customer are more satisfied with the speed of transaction along with accessible location, fast services, parking facilities and reception gets at bank rather than customer is less satisfied with the bank size and mass media advertising in Malaysia Islamic bank criteria. Osman et al. (2009) concluded in Malaysia that conformation to Islamic Principles was sensed as the primary method. Despite of the fact that customer know that services offered by international banks are better but still due to of religious factor they select Islamic banks. To maintain market positioning, Islamic banks provide quality service that increase satisfaction of customer which consequently lead to customer retention. Instead of depending on Islamic image they have to give quality products and services.

Al-Ajmi et al. (2009) study depicted in Bahrain that customer select Islamic banking not only on the basis of Islamic values but there are also other factors which influence their decision like economic factors which compasses services and costs, influence of family and friends, conveniences factors like parking facility, accessibility to ATM, location of branches, image of bank like social responsibility, financial strength and risk etc. In order to enhance the customer Islamic banking operation must generate profitability as the competition is with conventional banking but Islamic banking should keep in their mind Islamic values and Shariah principles. It creates a challenge for Islamic banking to satisfy the customers who are already satisfied with conventional banking products and services, with their products which are entirely new and lacks standardization which consequently enhances cost of transaction. Marimuthu (2010) examined that along with the religious values and belief there are many factors include in selecting Islamic banking like ATM, service quality, influence of family and friends but they don't play a substantial role in selecting Islamic banking. In such aspect customer should have knowledge and awareness as well as banks should take the responsibility to describe different feature that Islamic banks offer. Ahmad et al. (2010) concluded that the customer perception of Islamic banks is greater than conventional banks. Their study show that there is a difference of perception of male and female customer of Islamic banks but customers of conventional banks have same perception of service quality. Manager must take initiative steps by focusing the demographic aspects of customer while improving the quality of products. Bankers must develop strong marketing programmers to attract large number of customers and specific strategy to meet the customer needs. Islamic banking while developing a new product and services based on Shariah principles must give awareness to customer about its product and services in order to compete in the long run with conventional banking. Rahim Mosahab (2010) researched in Iran and found that customer association with the bank leads to customer satisfaction in long run. If customer expectation related to quality services and products are meet it consequently create customer satisfaction.

Mirr (2011) analyzed in Bangladesh that if customer is satisfied it leads to loyalty which is a major factor in Islamic banking. Customer satisfaction is associated with several factors like bank image,

attitude of banking staff with customer, low banking service charges, its location etc. Documentary prove, friendly environment of bank, minimum time taking for executing any function also help in building customer satisfaction. Bank staff must communicate in understandable and easy way with customers which enhance customer satisfaction.

Idris et al.(2011) analyzed that religious thinking that customer have in their mind regarding selection of Islamic banks are interest free transaction, conformation of Shariah laws, social contribution in form of zakat ,transparency and honesty but Islamic banks not only take favor from religious aspect of customer but also provide quality products and services. Alam et al. (2011) prevailed in Malaysia religion has a powerful impact in directing the behavior of human being in social and personal aspect.

Review of the Study at National Level

Urban and Pratt (2000) analyzed that manager must understand the demographic characteristics of customer as customer thinking of service quality vary on basis of ethnicity, income, gender and education. This study was conducted in Pakistan focus the gender thinking about the service quality due to of cultural aspect and socio-economic development. Azeemi et al.(2004) research was conducted in Karachi by using questionnaires directed to come to know that customer are aware about the Shariah laws based on financial system. They checked the ‘overall awareness’ by using four sub dimensions first is awareness measure the knowledge of respondents’ regarding Shariah based financial system (SBFS) and their thinking about the reasons about the lack of awareness among public related to Shariah based financial system, the second one is ‘differentiation’ which measure the respondents’ knowledge about differentiation between Islamic and conventional products. The third is ‘obstacle’ related hindering the growth of Shariaha based financial system and last one is ‘acceptability’ show the step which could help in acceptability of financial service. The conclusion show that awareness in society about Shariah based financial system is not high. The study provides the descriptive statistic which is helpful as it provide the insight about the perception of Pakistani people.

Naeem et al. (2009) explored that policy in Pakistan established by central bank, banking industry either conventional or Islamic has to obey some standards but the way these standards practiced is the major aspect of banking policy makers. They also concluded that quality of services play important role in emerging banking business which depends on the quality of personnel dealing with customers. They also concluded that service quality leads to customer satisfaction which is the main goal of every business. According to Rehman A. and M.S. Shabbir (2010) religion play important role in shaping people beliefs ,attitudes and knowledge as well as it impact on customer decision and action because its teaches about the non-prohibited and prohibited things. Ahmad et al. (2010) explored that from previous decades, Islamic banking show progress exceedingly as well as service quality is demand by customer of Islamic banking more in contrast with conventional banking because the customers are having more knowledge, they know their role and they asked for better quality services. Once the customer satisfied it leads to customer retention if it not so then it’s easy for customer to select another bank. They also analyzed that Islamic banking show tremendous progress they capture market in Pakistan with a growth rate of 114% per year and having large size of market as compare to conventional banking. Six Islamic banks are separately working while 13 conventional banks have a window of Islamic banks.

Akram et al. (2011) concluded that in Muslim countries especially in Pakistan the efficiency and performance of Islamic banking increases. Due of the competition between the conventional and Islamic banking in banking sector, Islamic banking facing more challenges but still they are growing and perform better which leads towards improvements. Ali et al. (2012) conducted their study in Pakistan and analyzed that conventional banking performed since independence of Pakistan if Islamic banking want to be dominant in banking industry, it should compete with conventional banking as well as they identify the important factors which attract and satisfy customers which are: bank image, bank offering financial benefits to customers, customer care, service quality and bank competitiveness. In their study, they show a substantial relationship between these factors and customer satisfaction. Shabbir et al. (2012) examined that the factor for growth in banking sector of Pakistan is high quality services which leads to customer satisfaction, customer retention, customer loyalty, reduction of customer complaint and efforts for improvement in service quality. Taimoor (2012) concluded that many factors like customers' satisfaction, trust and customer perception has a direct influence on customer loyalty. Higher customer loyalty arrives from high customer satisfaction and positive customer perception about Islamic banks. when customer are satisfied that Islamic banks are dealing according to Islamic Norms and values and having no element of interest it go towards loyalty. Trust is also a major factor because a customer is having a trust they deal with Islamic banks which create customer loyalty. In short, Islamic banking must concentrate on the dimension of customer loyalty if they want to sustain their current as well as expected customer loyalty.

Imtiaz et al. (2013) concluded that corporation still prefer conventional banking because of no risk of loss, fix interest, take profit from their deposit as well as earn profit in shape of interest on deposit. Corporation don't want to spend more time to understand the product and service of Islamic banks, while in aspect of individual they prefer Islamic banking as it based on ethical banking in which interest is prohibited and religious norms and beliefs are applied. Agha and Asghar (2013) found that managers of Islamic banking in Pakistan are educated and having a good experience of banking. In Islamic banking, majority of customers have their deposits in current account having a feature of profits and losses which is a reflection that customers are salaried person and businessmen

Research Gap

The purpose of the study is to explore the behavior of customers towards Islamic banking by using demographic profile as well as, mainly to find out which variables (religion, parent and friends influence, high profit and low service charges, quality of service, mass media ,bank image and responsive attitude of banking staff) has a powerful influence on customer choice towards Islamic bank in Multan that consequently lead to customer satisfaction which would reflect the future potential of Islamic banking in Pakistan. In order to enhance the revenue and share of Islamic bank in the banking industry we should able to understand the customer behavior as the same study was conducted by Imtiaz et al. in Karachi.

Distinction of Current Study

The ultimate outcome of our research is to find out the customers perception and priority in selecting the Islamic bank in Multan. Respondents demographics which are included in our study are kept taking care of income, gender, family and education background. To test the behavior the

independent variables which included are based on seven factors where each factor has its weight. After collecting the response we will look in the overall impact of all these factors (independent variables) on the customers' perceptions and preferences in choosing the Islamic bank as a business partner. Finally it will help us to give a strategy based on précised techniques so that to streamline the factors and methods to boost the level of customer satisfaction, that's actually our objective of the study.

Objective of the Study

A lot of effort has already been made to find out and know about the customers' behavior towards investment. The major most purpose of this research is too to measure the level of acceptance of Islamic system of banking among the bank customers in Pakistan. Secondly, it is to quantify up to what extent and what factors influence their decision to select an Islamic bank to business with bank.

Significance of the Study

As shown in the previous researches, the religion is the main factor which attracts customers towards an Islamic Bank. Additionally, Islamic Banks must bring service quality as well as customer behavior which changes day by day under consideration in order to enhance the growth of Islamic bank and awareness of customer as Riba factor will may not sustain its strong position in the long run.

Research Design

The purpose of this research is to know which variable among religion, high profit and low service charges, influence of friends and family, service quality, mass media, responsive attitude of staff and bank image is more impactful on consumer behavior in selecting Islamic bank which lead to customer satisfaction.

Sample of Research

In the study the sample size was 200, the respondents were selected from the customers of listed Islamic banks located in Multan division. For this study I have targeted customers from Dubai Islamic Bank, Al Baraka Bank, Bank Islami Pakistan, Faysal Bank, Dawood Islamic Bank, Meezan Bank and Burj Bank.

These banks were selected for the data collection due to certain reasons. Here I have an easy access to customer as they are account holder in listed bank. I have targeted customers of different demographics (e.g. different income, different family and educational background etc.) were selected.

Data Collection Method

The items in questionnaire containing 30 questions which are mainly self-administered however many researches were consulted to take help for sake of precision. The questionnaire was categorized in two sections. Section one included the demographic information of the customer (gender, age, academic qualification, income, marital status, occupation). Section two include information regarding the customers dealing with Islamic banks in accordance with religion, family and friends influence, service quality, mass media, bank image and responsive attitude of staff that would help us to find out the selection criteria of customer behavior towards Islamic

bank. Questionnaire consist of three questions related to religion, three questions related to high profit and low service charges, five questions about friends and family responses, three questions cover service quality aspect, four questions related to responsive attitude of staff, two questions about mass media, five questions related to bank image and five questions designed to know about customers satisfaction.

Measure

The main variable of the study are religion, high profit and low service charges, influence of friends and family, mass media, service quality, bank image and customer satisfaction. To measure these variables, standard questions are used which are developed with the help of previous studies. Moreover, customers are the main concern of banking industry in Pakistan. Therefore data for current study were collected from customers of Dubai Islamic Bank, Al Baraka Bank, Bank Islami Pakistan, Faysal Bank, Dawood Islamic Bank, Meezan Bank and Burj Bank of Multan, in which customers were requested to respond. In this study reason behind selecting Islamic bank which lead to customer satisfaction was identified by applying different descriptive test statistics. Respondents level of agreement with the items was found with the help of likert five point scale .Five Point Likert scale starting from 1 (strongly agree),2 (agree),3 (not sure),4 (disagree),5 (strongly disagree) was used to measure the study variables. For customer satisfaction 5 item scale were adopted from the Sonodoh Jr, Omar, Wahid, Ismail and Harun.

INDEPENDENT VARIABLES

Hypothesis

H₁ – Religious motives effect consumers’ behavior of an Islamic bank. Religion

Kirkpatrick (2005) define religion as psychological attachment a powerful emotional relation to things .According to Delena (1990) religion is a “unified systems of beliefs and practices relative to the sacred things, while religiosity is viewed as the degree to which beliefs in specific religious values and ideal are held and practiced by an individual” Islamic principles especially interest free banking is a source of attraction for consumer to select Islamic banking. Zaher and Hassan (2001) also confirmed that religious motives have influencing factor on customer for selecting Islamic banks .Religious factors also effects the volume of deposits in Muslims countries.

Religion influence consumer behavior in selecting Islamic bank as “human beings are not born with a set of behavior, they have to learn it what they learn is dedicated by the culture into which they are born or within which they grow up”J-Bareham (1995).

H₂ – Recommendation from family and friends effects consumers’ behavior of an Islamic bank.

Parental and Friends Influence

Family is the most influential group for the consumer. The family of orientation consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economies, and a sense of personal ambition, self-worth, and love. Even if the buyer no longer interacts very much with his or her parents, their influence on behavior can be significant. In countries where parents live with grown children, their influence can be substantial. Friendship

Groups' are part of specific consumer reference groups, generally termed, informal groups because they are usually unstructured and lack specific authority levels. There is an aspect of childhood socialization that is relevant to the study of consumer behaviour, termed, consumer socialization, which is defined as the process by which children acquire the skills, knowledge, attitudes and experiences necessary to function as consumers. Many studies shows that customers decision making processes of Islamic banks users were affected by advice from mother, father as well as their innate religious belief and motivation. This variable has been discussed in many studies (Wangenhein and Bayon, 2004: Grace and O' Cass, 2003), especially in professional services (Razzouketal, 2004: Ettenson and Turner 1977).

H₃ – High profit and low service charges effect consumers' behavior of an Islamic bank. High Profit and Low Service Charges

Another attractive factor for selecting Islamic bank which is also suggested by Gerrard and Cunningham (1997). Customer are satisfied from the quick and efficient management while paying less charges for services offered by Islamic banks.

H₄ – Quality of services effect consumers' behavior of an Islamic bank Service Quality

Parasuraman, Berry and Zeithmal (1988) defined service quality as "the overall evaluation of a specific service firm that results from comparing that firm's performance with the customers' general expectations of how firms in that industry should perform". Moreover Parasuraman et al. (1988) furthermore identify that service quality is the degree and direction of inconsistency between the consumer's perceptions and expectations, or the extent to which a service meets or exceeds customer expectations. The qualities of a service will much more depends on that service time after time in compliance to customers' expectations (Witt and Steward, 1996). Degree of service quality as consumers are highly concern with the fast speed and efficiency of services delivered to them in making choice for Islamic banks. In order to maintain a competitive advantage Islamic banks manger are conscious to improve and increase their service so customer should not have any complain as they know customer retention are the most important for bank.

H₅ – Mass Media effects consumers' behavior of an Islam bank Mass Media

All banks play their important role into getting people to accept the Islamic banking facilities. The promotions have been through advertisements in all communication media as well as having a program on television to educate people of Islamic financial system.

Mass media advertising plays important role now days. Advertising plays a significant role in selecting banks as well as give awareness and knowledge about Islamic products and services. Media create attachment of consumer by using famous celebrate which inspire consumer to be a part of Islamic banks and ultimately show a positive relationship with profit.

H₆ – Bank reputation/ image effects consumers' behavior of an Islamic bank. Bank Image

Haque, Osman, and Ismail (2009) state that bank's name and reputation are strongly affect customer selecting a bank. They investigate that reputation and image factor are demonstrated as one of the important criteria in the banking selection decision. Almossawi (2001) investigate that bank's reputation" was found to play a significant role as a selection criterion. Young people prefer to deal with popular, reputed banks. This implies that banks can attract young people by engaging

in various public relations activities that would give good press and TV coverage for their activities, such as charitable contributions, and sponsorships of local events which will lead to boosting their image and reputation in the public eye. Such a strategy will enable the bank to create a positive image in the minds of young people. For today's young people, brand name is one of the major factors determining their decisions for obtaining services. Bank reputation which influence consumer in selecting Islamic banks Islamic banks reputation creates when their customer is fully confident that there operation is conducted according to Sharia .Majority of consumers are status conscious now a days they only develop their relationship with those Islamic banks which has a good image and repute in the market.

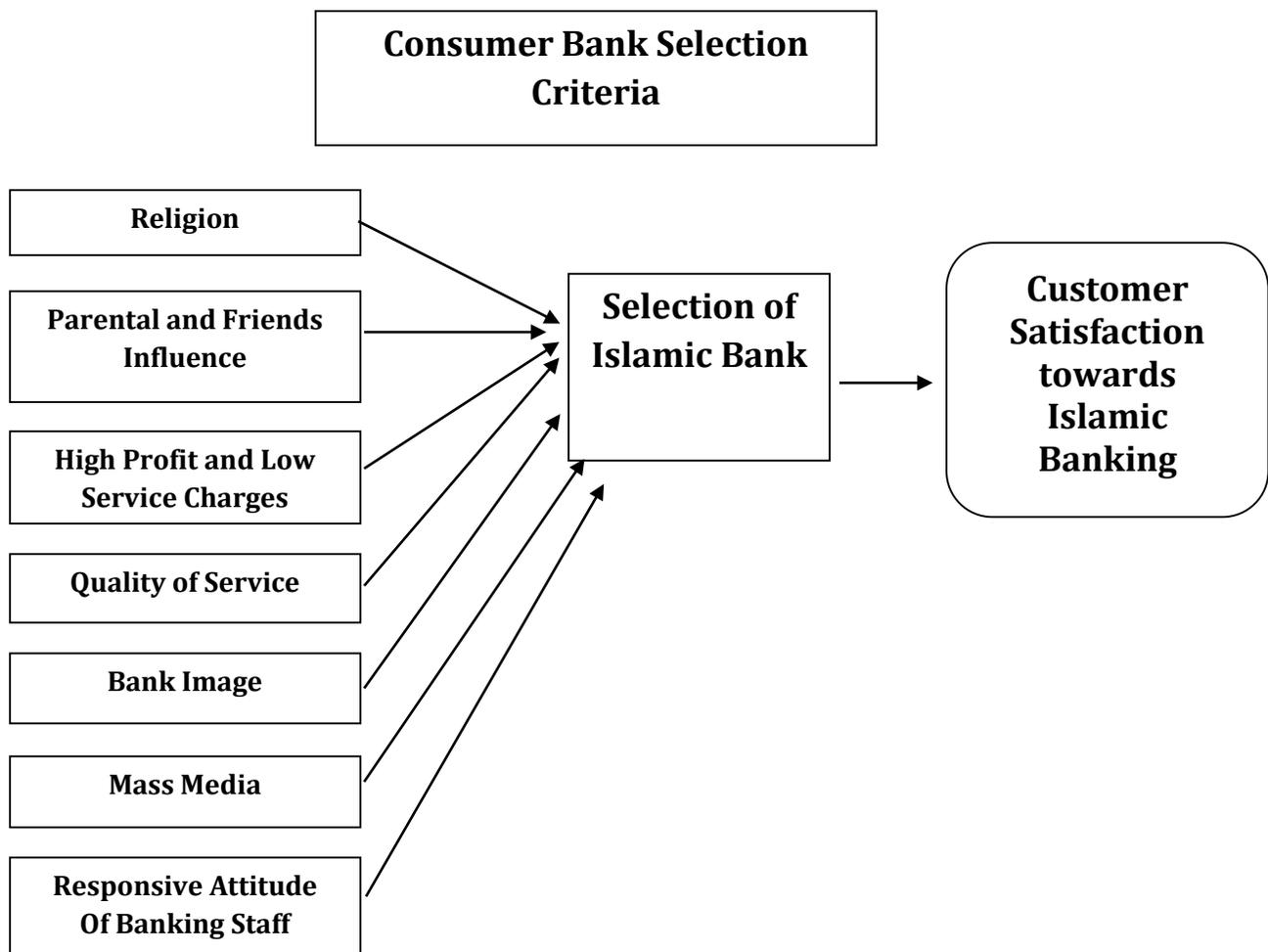
H7 – Response/behavior of the bank staff effects consumers' behavior of an Islamic bank. Responsive Attitude of Staff

Kaynak and Harcar (2004) found that in a bank the managing service quality is very important because most are depends on how well the bank's staff respond to the needs and expectations of the customers. In the most of the cases, bank customers are evaluate the bank on the bank's staff dimension when they set a critical emphasis on the positive of staff's attitude, staff's knowledgeable, friendliness of the bank personnel, staff's professionalism and timely staff responses to customers. Awang (1997) stated that staff is an important asset in any organization. Staffs are having respective ranks and responsibilities accordingly to the job that given to them. Besides that, an attitude also will reflect to how well on their performance. Overall, a positive attitude will attract the customers to using the products and services. The attitude of bank staff towards their customers is greatly important. Staff must understand the needed of their customers and use a simple language to help customers solve their problems. Thus, bank customers can feel friendlier with the bank's staff when in their interactions. Furthermore, a staff have change better attitude, the public will regard the bank as having change its attitude towards its customers and the public. Caring and responsible staff which influence the consumer in making decision of selecting Islamic banks. The staff should be able to communicate the public in properly and effective way about the operation of Islamic banking which would help in developing banking customer relationship in future.

DEPENDENT VARIABLE

Customers Satisfaction

Olive defined the satisfaction as post consumption judgment by the consumers that whether a product or service provides a gratifying level of consumption-related fulfilment or not? Study of Boshoff&Gray argued that satisfaction doesn't depend upon the product or service itself rather it relies on the customer's perception. Likewise, Cronin et al. states that satisfaction is a result of perception of the customer about the value received. Moreover, study of Choi et al. found that there is a positive influence of perceived value on the satisfaction. Therefore, it is understood that satisfaction level varies to customers experiencing the same level of services. It is also defined as "a cognitive or affective reaction that emerges in response to a single or prolonged set of service encounters". Customer satisfaction is the most concern are of Islamic banking as if customers are satisfied it leads to customer loyalty and consequently to customer retention. Managers know the satisfied customer bring a lot of potential customer while the dis-satisfied customer will deprive the customer in future.



EVOLUTION OF ISLAMIC BANKING IN PAKISTAN

General Zia-ul-Haq initiated a government policy to convert Pakistan into an Islamic state. To achieve this purpose ministry of finance, state bank and all the commercial banks of Pakistan were used as an apparatus to launch Islamic banking. The process was initiated by asking the council of Islamic ideology to develop a blue print of an economic system that is interest free. A team of 15 people were appointed by CII in February 1980. After extensive deliberation on the modification a modified version of the report was submitted in June 1980. It included 3 year plan having 3 phases. In phase one interest was removed from all financial institutions. The second phase effective from 1981 interest was to be eliminated from bank operations and from financial institutions. During this phase the banks are supposed to maintain a profit and loss account along with the conventional accounts. The third phase was supposed to start on July 1985 after that bank could no longer accept accounts with interest. On 20th June 2004 the finance minister made an official announcement of cleansing the banks from interests. The final phase was to be completed in 1985 and state bank issued 23 circulars but the loopholes were there. Besides all

problems full fledged Islamic banking was introduced as a competition to commercial banks. The first Islamic bank that enters in Pakistan in 1997 was AlMeezan bank. In 2006 two more Islamic banks entered the market; Bank Islami and Dubai Islamic bank.

At present in Pakistan Islamic banking services can be provided by:

- Full-fledged Islamic banks
- Islamic banking subsidiary of conventional banks
- Designated Islamic branch of conventional banks
- Islamic banking counters in the branches of conventional banks

Definition and Philosophy of Islamic Banking

Islamic banking is defined as banking system which is in consonance with the spirit, ethos, and value system of Islam and governed by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept denoting a number of banking instruments which avoid interest. Islamic banking is based not only to avoid interest based transactions prohibited in Islamic Shariah but also to avoid unethical and unsocial practices. The model of Islamic Banking system leads towards the achievement of a system which helps achieve economic prosperity.

Vision: “To make Islamic Banking the banking of first choice for the providers and users of financial services.” Mission: “To promote and develop Islamic Banking industry in line with the best intersectional practices, ensuring Shariah compliance and transparency”

The philosophy of Islamic banking takes the lead from Islamic Shariah. According to Islamic Shariah, Islamic banking cannot deal in transactions involving interest. Further, they cannot deal in any transaction, the subject matter of which is invalid. Islamic Shariah links the gain on capital with its performance. Operating within the ambit of Shariah, the operation of Islamic banking are based on sharing the risk which may arise through trading and investment activities using contracts of various Islamic modes of finance. Islamic Shariah prohibits ‘interest’ but it does not prohibit all gains on capital. It is only the increase stipulated or sought over the principal of a loan or debt that is prohibited. Islamic principles simply require that performance of capital should also be considered while rewarding the capital. The prohibition of a risk free return and permission of trading, as enshrined in the Verse 2:275 of the Holy Quran, makes the financial activities in an Islamic set-up real asset-backed with ability to cause ‘value addition’. Islamic banking system is based on risk-sharing, owning and handling of physical goods, involvement in the process of trading, leasing and construction contracts using various Islamic modes of finance. As such, Islamic banks deal with asset management for the purpose of income generation. They will have to prudently handle the unique risks involved in management of assets by adherence to best practices of corporate governance. Once the banks have stable stream of Halal income, depositors will also receive stable and Halal income.

The forms of businesses allowed by Islam at the time the Holy Quran was revealed included joint ventures based on sharing of risks & profits and provision of services through trading, both cash and credit, and leasing activities. In the Verse II:275, Allah the Almighty did not deny the apparent similarity between trade profit in credit sale and Riba in loaning, but resolutely informed that Allah has permitted trade and prohibited Riba.

Principles of Islamic Banking

The principles of Islamic Banking come from the sources of the Holy Quran, Hadith, Sunnah, Ijma (Consensus of the Ummah), Qayas (Analogy) and Ijtihad. One of the principles of Islamic banking is the prohibition of Riba. Riba is an Arabic word which stands for excess, increase, expansion or growth. Islamic banking is known as Interest free Transaction in banks based upon the clear and transparent systems of Islamic Banks in Pakistan. Any predetermined payment over and below the actual amount of principle which is Riba is strongly prohibited by the Quran and the Sunnah.

The meaning of Riba has been clarified in the following verses of Quran: "O those who believe; fear Allah and give up what still remains of the Riba if you are believers, But if you do not do so, then be warned of war from Allah and His Messenger. If you repent even now, you have the right of the return of your principal; neither will you do wrong nor will you be changed"

Riba is not allowed because it creates accumulation of wealth in hand of few which consequently diminishes human beings to concern their fellow men. Moreover, Islam also disliked gain from financial activity unless the principle is also subject to the risk of potential loss. The second principle by Islamic banking is the prohibition of Gharar which is generally defined as uncertainty or risk hazard. The prohibition of gharar is designed to prevent the weak from being exploited. Gambling and derivatives such as futures and options is believed to be violating the Gharar.

"Islam not only prohibits dealing in interest but also in liquor, pork, gambling, pornography and anything else, which the Shari-ah (Islamic Law) deems Haraam (unlawful). Islamic banking is an instrument for the development of an Islamic economic order."

The third principle is prohibition of Maysir. Maysir is a speculative element in a contract where expected gains are not clearly defined at the initiation of the contract. Iqbal and Molyneux state the reason behind prohibition of Maysir is that gambling and game of chance can lead to greater financial and social problem and ultimately it seems to be unnecessary for the society because they do not provide any surplus to the societal wealth. The next Principle is profit and loss sharing (PLS) principle. It is a contractual agreement between two or more parties which allow pooling their sources to invest in a project and share profits and loss ratio according to their capital, effort but there is no guarantee for allocation of capital because the return on capital depends on the viability of project which therefore, promotes greater market discipline in Islamic banks. The business and investment done under the light of Islamic laws must be based on Halal activities such as Zakat must be given for social welfare.

Difference between Conventional and Islamic Banking

In Conventional banking, operations are run according to SOPs while in Islamic banking operations are based on Shariah principles given by Islam.

In Conventional banking earning is fixed comes from the interest while in Islamic banking earning comes from generating income which seem as profit that is variable.

In Conventional banking, risk is wholly transferred to other while in Islamic banking risk is shared among bank, lender and borrower.

In conventional banking, dealing is purely based on interest that seem as a financial intermediary while Islamic banking seem as a trade oriented unit.

In Conventional banking, money is a commodity besides medium of exchange and store of value. Therefore, it can be sold at higher prices than its face value while in Islamic banking; money is not

a commodity through it is used as a medium of exchange and store of value. Therefore, it cannot be sold at a price higher than its face value.

In Conventional banking, time value is basis for charging interest on Capital while in Islamic banking, profit on trade of goods or charging on providing service is the basis for earning profit.

In Conventional banking, interest is charged even in case the organizations suffer losses by using banks funds. Therefore, it is not based on profit and loss sharing while Islamic bank operates on the basis of profit and loss sharing. In case, the businessman has suffered losses, the bank will share these losses based on the mode of finance used.

In Conventional bank, disbursing of cash finance, running finance or working capital finance, no agreement for exchange of goods and services is made while in Islamic bank, the execution of agreements for the exchange of goods and services is a must, while disbursing funds under Muradba, Salam and Istisna contracts.

In Conventional banks use money as a commodity which leads to inflation. In Islamic banking tend to create a link with the real sectors of the economic system by using trade related activities. Since, the money is linked with the real assets therefore it contributes directly in the economic development.

EMPIRICAL ANALYSIS

Descriptive Statistics

For this research, we have a sample of 200 customers of Islamic bank after applying descriptive statistics table 1 represented below which shows 153 customers are males which is majority than 47 females having an age range between 31-50 years (62.5%). Marital status shows that majority of customers are married that is 61% as compare to unmarried which is 39%. In our sample, table depicts that customers of Islamic bank are highly educated that is 50% than secondary 6% high secondary 22.5% and graduation 21.5%. According to demographic profile analysis, customers of Islamic bank are mostly salaried person which is 81% as compare to self employed 16% and student 3%. As per table 1, customers of Islamic bank having income range between 50,000-100,000 is greater having a percentage of 41.5 as compare to below 50,000 that is 31% and above 100,000 that is 27.5%. In short, our demographic profile analysis shows that that majority of account holders in Islamic bank are highly educated males having an age of 31_50 which are salaried person as per occupation and getting an income between 50,000 to 100,000. The demographic segments of Islamic Banks are given in the table 1

Table1: Demographic Profile

	Frequency	Percentage	Mean	SD
Gender			1.235	.425
Male	153	76.5		
Female	47	23.5		
Age			1.915	.60797
20-30 years	46	23.0		
31-50 years	125	62.5		
Above50 years	29	14.5		
Marital Status			1.61	.4889
Married	122	61.0		
Unmarried	78	39.0		
Education			3.155	.97247
Secondary	12	6.0		
High Secondary	45	22.5		
Graduation	43	21.5		
Higher Education	100	50		
Occupation			1.87	.417
Self employed	32	16		
Salaried	162	81		
Student	6	3		
Income			1.97	.77596
Below 50,000	63	31		
50,000 -100,000	83	41.5		
Above 100,000	55	27.5		

Correlation Analysis

As the purpose of this study is to find the relationship between independent variables (religion, high profit and low service charges, influence of friends and family ,service quality, mass media and bank image)and dependent variables (customer satisfaction), therefore correlation analysis is used to find the relationship among the study variables. The results are shown in Table-4. The results show that independent variables (religion, high profit and low service charges, influence of friends and family ,service quality, mass media and bank image) and dependent variables (customer satisfaction) are significantly & positively correlated with each other. The mean, standard deviation (S.D) are also given in the Table-2. It shows that each study variable is highly rated, as mean value of each variable is greater than three.

Table2: Correlation, Mean and S.D

	Mean	SD	1	2	3	4	5	6	7	8
1.Religion	2.020	.7989	1		.					
2.High profit & low service charges	2.335	.82229	.647	1						
3.Influence of friends & family	2.626	.82822	.521	.538	1					
4.Service Quality	2.348	.919	.327	.327	.326	1				
5.Responsive Attitude of staff	2.414	.846	.467	.500	.554	.549	1			
6.Mass Media	2.348	.919	.342	.407	.388	.370	.541	1		
7.Bank Image	2.54	.7858	.523	.499	.616	.472	.604	.409	1	
8.Customer Satisfaction	4.11	.58	.403	.529	.633	.419	.725	.832	.544	1

Regression Analysis

Regression analysis has been carried out with the help of SPSS 17 to investigate the impact of religion, high profit and low service charges, influence of friends and family, service quality, mass media and bank image on consumer behavior in order to select Islamic bank which consequently lead to customer satisfaction. 'R²' is a statistical measure which shows how close data are fitted to the regression line or it is the % of the response variable variation that is explained by a linear model. Adjusted 'R²' compare the explanatory power of regression models that contain different number of predictors. The table shows the significant values of B-coefficient, t values, adjusted R² and p values i.e Religion (R²=.158; B=.403;T=6.183; P<0.01) High profit and low service charges (R²=.276; B=.529;T=8.748; P<0.01) Influence of friends and family(R²=.398; B=.633; T=11.491; P<0.01) service quality (R²=.171; B=.419;T=6.468; P<0.01) responsive attitude of staff (R²=.523; B=.725;T=14.780; P<0.01) mass media (R²=.691; B=.832;T=21.085; P<0.01)bank image (R²=.292; B=.544;T=9.067; P<0.01)

Table3: Regression Analysis

DepVariable	Independent Variables	B	T	Sig.	R ²	Adjusted R ²
Customer Satisfaction	Religion	.403	6.183	.000	.163	.158
	High Profit and low service charges	.529	8.748	.000	.280	.276
	Influence of friends and family	.633	11.491	.000	.401	.398
	Service quality	.419	6.468	.000	.175	.171
	Responsive attitude of staff	.725	14.780	.000	.526	.523
	Mass media	.832	21.085	.000	.693	.691
	Bank image	.544	9.067	.000	.295	.292

FINDING AND RESULTS

The literature presented in the study suggests that the Islamic banking phenomenon is one of the most emerging and the most rapidly growing concept in the global economies. Some of the studies suggest that the Islamic banking is gaining a wider acceptance in the different parts of the world especially in the areas where there are large Muslim population. Customers are the main stakeholders in any organization and they are the customers for whom all services are being provided. As banks are the service providers, so for banks, customers play a very important role. For Islamic banks, the factors are even more important because, now, with the arrival of Islamic banks, especially from the last two decades, the competition has gained tremendous importance. As per this research, the first selection criterion of Islamic banking is mass media advertising. Till 1981, it was a negative but insignificant association between profitability and advertising intensity. Later on it was found that advertising plays a significant role in banking and positively affect the profitability. It is evident that there is a size advantage for advertising in Islamic banking. So, from this, we can formulate that mass media advertisement is the first selection criterion of Islamic banking because it is beneficial to inform and educate the people about the working of Islamic banks and the opportunities they are providing to their customers. Mass media is on top priority in selection of the Islamic banks because people sitting in their houses can get the required information without putting any effort for it. Thus it promotes more efficiently that lead to customers' satisfaction.

The second selection criterion of Islamic banking is the responsive attitude of the bank staff. It is essentially important to understand the importance of the service by the bank staff. Quick customers' service delivery is an important tool that makes the responsive attitude of the bank staff on top second priority level in the selection criterion of the Islamic banking is the staff factor especially the friendliness of staff leads to customers' satisfaction.

The third selection criterion of Islamic banking is the influence of friends and relatives. The importance of recommendations or word-of-mouth in the formation of attitudes in a service purchase decision making context has been discussed in many studies, especially in professional services. Many studies showed the decision making process of Islamic banks users were affected by spouses, friends and relatives as their innate religious motivation. Thus influence by the friends and family is on third priority in the selection criterion of Islamic banking.

The fourth selection criterion of Islamic banking is the image, good will and reputation of the bank. The level of comfort within the bank, followed by the banks interior ambience and external appearance also lead to customer satisfaction. The beautification of the banks premises and the interior comfort provided by the bank has been accorded top priority by the bank customers. This finding suggests that in a developed and modern market where basic banking needs and convenience have been met, customers look for higher level of service satisfaction in term of luxury and comforts. Hence, this factor should be taken seriously by the current bank management in their marketing strategy. The bank size, reputation and reliability is the crucial factors to gain customers confidence. Thus, banks reputation is the significant factor and also the fourth main criterion in the selection criterion of the Islamic banking. Because studies revealed that the customers perceive banks reputation as one of the most important factors on the selection of banks whether Islamic or conventional. The image and reputation of the bank was ranked the third in 1994 among non-Muslim respondents. The fifth selection criterion of Islamic banking is the high profit and low services charges as well. The return factor is a common feature shared by the variables that are loaded to this factor. High but interest-free profits are an important consideration in Islamic banking. Another important return criterion is the relatively high returns offered by the banks on its deposits compared to that offered by the bank on its deposits compared to that offered by the other banks whether Islamic or conventional banks. Customers considered it important that the services of the Bank Rayat are free from interest and that the investment deposits can earn returns in the form of profits. The above factor confirms Bank Rayat's superior performance in providing satisfactory returns to its customers. Besides this low service charges lead to the customer's satisfaction.

Service quality is the sixth selection criterion of Islamic banking. It is essentially important to understand the importance of the service quality element and that understanding on which dimension of the service quality that significantly influence customers' satisfaction. Customer service quality is an important tool but it cannot create sustainable value unless corporate with more innovative and forward looking strategies. As the quality of service is not a one-dimensional construct, there are five dimensions of service quality, namely, reliability, tangibles, responsiveness, assurance, empathy which are discussed in this study. The service quality is represented by the banks good will, the variety of services provided, the level of friendly and courteous services provided, the swiftness and efficiency of the service provided and banks

reputation and the knowledge of and ability to meet the needs of the customers. Other service quality dimension under this factor includes the availability of the facilities such as ATMs, credit and inter-branch transactions and suitable hours of operation Out of which friendly and courteous services has the highest mean score.

The last selection criterion of Islamic banking is religion. This factor is considered at lower level in selection criteria of Islamic banking because it is hypothesized that the Muslims would be more influenced by the Islamic banking due to religious factor as compared to non-Muslims. Result showed that the differences in the means for the religious criteria between the two groups were highly significant. The highest different, significant at 5% level, as the “Status of Bank Rayat as a full fledged Islamic Bank”. Equally highly significant are Islamic criterion “no Riba” and the “investment deposits based on profit-sharing contract”. It is worth noting that there were no significant differences between the Muslims and non-Muslims with respect to the influence of service quality, rate of return and physical image of the bank. Even though Muslims are more inclined to choose an Islamic bank because of their religious beliefs when there are many Islamic financial institutions to choose from, customer generally give importance to the service satisfaction and cost-benefit consideration.

CONCLUSION

The observations and the literature presented in this study suggest that the concept of Islamic banking is one of the most emerging and the most out-bursting concepts in global economies. Numerous studies show that The Islamic banking is gaining wider acceptance and inspiration throughout the world especially in the areas occupied by Muslim communities which enlightens the fact that religion is the core attraction behind Islamic banking but recent studies debunk this only reason and acquiesce with the fact that is not only the religion that is attracting the people towards Islamic banking but it is basically the products and services provided by the banks weather Islamic or any conventional which attract the consumers towards banking. This research provides some important information on the development of Islamic banking in Pakistan. The result will help the relevant parties to further enhance the development of Islamic banking in Pakistan especially selection criteria preferred by consumer behavior. However, banks should take note of people’s insufficient knowledge in Islamic banking system into consideration especially when promoting Islamic financial services. Hence, banks should revamp their marketing activities accordingly. Therefore, there should be more qualified experts or knowledge-based workforce absorbed into this industry to promote greater innovativeness especially in dealing with Islamic financial products. In light of this, participation of the both public and private universities in the banking sector could offer more input (e.g. designing Islamic financial instruments) for the growth of the Islamic banking. The management and Shariah advisor’s of the Islamic banking systems should take decisions to make their customers more satisfied with the products and services they are providing them.

This research is based on the factors affecting and expanding Islamic banking. Keeping in view all the factors, this research provide some important and detailed information on the development of Islamic banking in Pakistan. The formulation of desired and relevant factors from this information, as a result, will help the relevant parties to further improve, enhance and develop the Islamic

banking in Pakistan and other countries where people are facilitated through Islamic banking. This information is especially beneficial in selection criteria preferred by consumer behavior.

This research work also discloses the fact that a lot of people are still unaware from the concept of Islamic banking or from the products and the services it provides. Thus, banks should take note of the people's insufficient knowledge in Islamic banking system and their products and services, into consideration. This would be most important step by the Islamic banks to spread the awareness and knowledge in the general public and the customers, especially when they are promoting Islamic financial services such as investments , savings, funding and zakat and usher system etc. awareness of these services in the consumers, will surely beneficial for the Islamic banks. Thus, Islamic banks should revamp and renovate their advertisement and other marketing activities, accordingly.

Therefore, more qualified, experts and knowledge based work forces are needed for this purpose to be absorbed into this industry. Presence of such qualified experts and knowledge based work forces will help to promote greater innovation especially in dealing with Islamic financial products. Proper marketing and promotion of Islamic financial products and services will help to improve the goodwill and reputation of Islamic banks. To get the desirable output, participation of both public and private universities is needed in the banking sector. This participation from the public and private universities would result to offer more inputs, for example , designing Islamic financial instruments, for the growth and development of the Islamic banking. This would favor the establishment and growth of an innovated Islamic banking setup. Thus, the management and the shariah advisors of the Islamic banking system should take better steps. They should take such decisions that help the Islamic banks to make their customers more satisfied with the facilities, products and services which the Islamic banks are providing to them. Customer's satisfaction will definitely flourish and glorify the goodwill and outputs of the Islamic banks.

RECOMMENDATION

There are certain recommendations that if adopted by the Islamic banking system, will surely help to improve the standard and enhance the development of Islamic banking. Some of these recommendations that will help the Islamic banking in Pakistan are as follow:

- The concepts of Islamic banking system must be clear to the employees of Islamic bank so that they easily convince and motivate their customers.
- It is observed that people have very little know how about Islamic products and services so employee should give awareness to the people.
- As many industries conducted SWOT analysis in order to use its strength to gain any opportunity, and to remove weaknesses and threats so that Islamic banking must also conduct this analysis to sustain its position in banking sector.
- The location of Islamic bank must be at convenient point from where customer easily accesses the bank.
- The motive of Islamic bank should to delight customer not only to satisfy them.

LIMITATION OF THE STUDY

It has to be noted that the sample in the study is not accomplish with the diverse population (multi-cultural environment nationwide), so may affect the results in terms of generalization specially. The present study is conducted only with the Islamic bank customer situated in limited sector (i.e. Multan). The results cannot be generalized as the demographic variables vary place to place due to multicultural mind sets of customers.

SUGGESTION OF THE STUDY

Future studies attempting to explore *the relationship between consumer behavior towards bank selection criteria and customer satisfaction* may benefit from:

A larger, more representative and diverse sample may be helpful in establishing and generalizing the results.

The current study would be a hallmark reference for the further studies if conducted at a larger scale.

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