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Customer Satisfaction Regarding Interest– Free Banking in Pakistan

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ABSTRACT

It is very hard job to understand the customer's psychology and very challenging to measure the satisfaction level of the consumers. This study in reference to the customer satisfaction regarding Interest free banking system in Pakistan will give an insight into the various factors of customer satisfaction such as quality products and services, customer relationship and economic benefits to clients. Though some deviation was found in satisfaction level of customers related to services and products offered by Interest free banks in Pakistan but insufficient knowledge about Interest free banking system is the major weakness at the end of customers. Purpose of this conceptual study is to review the different angels of customers' satisfaction and depict the various features of Interest (Riba) free banking system to satisfy and retain the existing customers as well as develop future prospective marketing strategies including expansion of innovative and diversified products and services to establish new clientage market.

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Introduction

Evolution of Interest (Riba) Free Banking System:

The initial systematic banking industry was developed by Jews and now has divided into two organized banking systems, first is the conventional or interest based banking system and the other is non-conventional or Interest (Riba) free banking system. Interest free banking or Islamic banking system is just an alternate to interest based banking or conventional banking system but cannot be termed as banking in usual judiciousness of the expression.

The prime aim of Interest free banking system is the exclusion of usury. Though, Riba is a major prohibited element of Shari'ah, but there are many others including, Making money from money, *Gharar* (risk or uncertainty) and *Qimar* (speculation). It is the basic responsibility of Interest free banking system to avoid this disgusting aspect (interest) in a transaction.

Conventional banking is purely interest based banking industry. Interest or Usury is not allowed in Islam. Either Usury or Interest both forms are prohibited by the Qur'an and Hadiths.

"And that which you give in gift (loan) (to others), in order that it may increase (your wealth by expecting to get a better one in return) from other people's property, has no increase with Allâh; but that which you give in Zakât (sadaqa - charity etc.) seeking Allah's Countenance, then those, they shall have manifold increase. SuraAr-Rum(30:39)."

"That they took riba (usury), though they were forbidden and that they devoured men's substance wrongfully – We have prepared for those among men who reject faith a grievous punishment. Sura An-Nisa (4:161)."

"O ye who believe! Be afraid of Allah and give up what remains (due to you) from Riba(usury) (from now on wards) if you are (really) believers. Surah Albaqra(2:278)."

"And if you do not do it, take notice of war from Allah and His messenger! But if you repent, you shall have your capital sum Surah Albaqra(2:279)."

That's why interest or Riba free banking was introduced as a platform for Islamic financial sector development and to meet and satisfy the needs and demands of Muslim customers.

The Islamic finance involves only those transactions of goods and services which are primarily put into operation to comply with the main doctrine of Shari'ah (or Islamic law). In Shari'ah based banking system only the interest free loans are issued and the bank is partner of the organizations who obtained loan from the bank.

Therefore, Interest (Riba) free bank also share the risks along with the fruits of profits with the entrepreneur of the organization. Interest (Riba) free banking system is based on Zero rate of interest but not on zero base of return because Interest free banking deals with money but not deals in money ,1994(Siddique, 1994)

Philosophy of Interest Free or Shari'ah Based Banking& Economic System

Interest (Riba) free banking system deals only in those operations and instruments which are interest free i.e. avoid Riba altogether. Islamic banking practices excludes not only the dealings involved the element of Riba but also refrain from such the businesses that indulged in unethical activities and are strictly prohibited in Islamic Shari'ah (Source: SBP).

Such prohibited investments may include the production or selling of addictive substances like alcohol, gambling and tobacco. Interest free banking does not mean that finances are available to the borrower without any financial charge or cost.

Finances are available on profit and loss sharing basis to the entrepreneurs in Islamic system of interest free banks. The expected profit rate as a result of operating activities helps to replace interest rates and will also provide a system to control the demand and supply of money(Siddique, 1994)

Interest free banking system follows the principles of Shari'ah and performs its financial operations as per the rules established by the Islamic economics. Islamic economic system follows the rules defined by Islamic Shari'ah. Islamic economics can be described as a body of knowledge that study the

economic problems in relation to both the individual and the society as a whole from Islamic perspective and gives priority to the human wellbeing by distributing and allocating the scarce resources among them as teachings of Islam (Chapra 1996).

Islamic economics believes in fair distribution of resources among all factors of production i.e. Land, Labor, Capital, Land and Entrepreneur, as per principles of Islamic Sharia'h Islamic economic condemn the flow of money in few hands and believes in system of Redistributive justice i.e a system where flow of money in economy is more than the reserves in just few hands. Islamic or interest free banking has a major responsibility of accomplishing the pecuniary and societal goals of the Islamic monetary structure (Bank Alfalah).

Islamic banking is normally based on two basic principles of Sharia'h one is *profit & loss sharing* and the other is *the exclusion of Interest*. However, it is not fair to restrict the operations of interest free banking only up to the elimination of *Riba* (Siddique, 1994).

Islamization of the Banking System IN Global perspective

Though the concept of Islamic banking is very old, but the idea was converted into an organized system in late 20th century. "The Mit Ghamr saving bank" was the first banking system based on Islamic Shari'ah, and was established by Ahmad El Najjar in Egypt in 1963 (Haroon and Ahmed, 1998). Due to poor marketing and management strategies of Mit Ghamr saving bank this experiment was proven unsuccessful.

After that many other Islamic financial institutions were launched in many countries of Asia and Middle East from 1980s to onward. Malaysia was the first country of Islamic world which had very serious reservations towards introduction of interest free economic system in the country and took very strong steps in this regard.

During last thirty years, Islamic banking industry has flourished throughout the globe very successfully. Some Muslim kingdoms like Pakistan, Irena & Sudan, Replaced their whole banking network from conventional to Interest free and Shari'ah based Islamic banking system. Interest free banking industry has been operating successfully not only in Muslim countries but it has been appreciated by Non-Muslim states as well where Muslims are a minority. Interest free banking system was flourished in India during 70's (Siddique, 1994).

It is a fact that most of the interest free banking system is functioning in the European or in Middle East courtiers but in recent years, demand for Interest (Riba) free modes of financing has greatly increased even in developed and advanced nations of the world (Yudistira, 2003).

The dynamic features associated with growth of interest free banking system includes economic and structural transformations in the credit system, the global amalgamation of monetary markets, and the good quality of Islamic products and services. Recently, Islamic banking system is functioning in more than sixty countries of the whole world. The growth rate of Interest (Riba) Free Banking and industry is 15 %-20% per year and has possessed overall asset of more than \$1 Trillion. Interest (Riba) free banking industry is a fast flourishing sector of the financial market in Muslim countries, market share of Interest free banking sector in Islamic states has grown up by 2% in 1970s to 15% in recent years (Aggarwal and Yousaf 2000). The mutual returns of International Islamic Financial Services (IFS) is valued to US \$ 53 billion, and interest free banking return was US \$ 15 billion and is projected to raise up to US\$ 32 billion during upcoming years. (IFSB, 2007).

Interest (Riba) free banking sector has shown extraordinary development during the last few years due to market growth and introduction of innovative products. Similarly, trained work force and use of latest technology enables the banks to get more returns in terms of monetary and non-monetary benefits (Ahmad, 2010).

Interest (Riba) Free Banking System in Pakistan

Islamic banking is growing rapidly all over the world. Initial step was taken in 1980's by converting the conventional and interest based banking system into Interest (Riba) free banking industry working under principles of Islamic Sahria'h. Federal Shariah Court passed a judgment in the year 2002 about the launching of Interest free banking system in the Pakistan. State Bank of Pakistan has played major role in the area introducing and establishing an interest free banking industry throughout the country within very short span of time. Federal Ministries of Finance, commerce and Law supported and assisted State Bank of Pakistan in this regard. Interest free banking system can flourish very successfully in the Islamic Republic of Pakistan having more than 90 % Muslim population.

During last few years, interest free banking system proved it as a successful alternative banking system in Pakistan. State Bank of Pakistan took very solid steps to introduce the Interest free banking system in the existence of interest based banking system. SBP has taken initiatives for implementation of Sharia'h based banking system in 1980 by doing some modifications in the banking ordinance and in rules and regulations of conventional banks. PLS (Profit and Loss Sharing) system was introduced in conventional banking system in order to make them interest free. But this experiment was not fruitful to convert the existing banking system in to interest (Riba) free banking system in a true spirit. Islamic Banking department was established by the State bank of Pakistan in 2003 and has been assigned with the task to stimulate and develop the strategies Sharia'h based banking system to work as compatible banking system in the country.

Thanks to Allah Almighty, that interest free banking system has been proven successful in Pakistan and earned a commendable reputé during the last few years. Recently six full-fledged banks are working on Sharia'h based doctrine for banking system in Pakistan. These include Albarka Islamic Bank, Dawood Islamic Bank, Al Meezan Bank, Dubai Islamic, Bank Islamic Pakistan Bank, Global Emirate Islamic Bank. It is the mission of Islamic Banking Division of the SBP to develop a liberal Riba free banking system that is companionable with the international banking and economic sector and is able to accomplish the maximum economic growth in the country. As a result of these untiring efforts of the State bank of Pakistan the growth rate of Interest free banking industry is reported more than 114% (in size and structure).

Interest free banking system was introduced in Pakistan almost thirty years before and on the whole its growth has been increased in terms of market share i.e. growth in term of size and profit, deposits recruitment i.e. investment volume, and financing portfolio.

The overall market share of Interest free banking sector is very small as compare to conventional banking sector and they are also passing through evolutionary and momentary phase of their life. Interest (Riba) free banks are in very tough rivalry with the interest based conventional banking system.

To survive in this tactical competition, It is the prime objective and mission of Interest (Riba) free banks to understand

the requirements of the existing and potential customers and do their best to achieve the optimum level of customer satisfaction by providing them the quality products and services that are parallel to the global requirements and are in accordance to the existing constitutional rights of the Islamic Sharia'h. (McIver and Naylor, 1986).

Interest (Riba) free banking sector in Pakistan has shown a very good performance and attracted a large number of customers towards banking system based on principles of Sharia'h by providing them quality products and services.

Due to provision of quality product, services, customer care etc, interest free banking sector in Pakistan has succeeded to create a strong competition in banking industry to magnetize and retain larger number of customers for long term benefits.

Customer Satisfaction and Retention

Customers' satisfaction is the most important part of the organizations' strategy since satisfied customers are the major revenue earning source of the industry. There is a direct relationship between customer satisfaction and customer retention by a growing body of empirical work (Oliver, 1997). Now, bankers are more conscious about satisfaction of their existing customers and develop strategies to increase the customer racket to compete with competitor banks in the market (Khattak&Rehman, 2010).

In this era of completion, it is very challenging task to the banking organizations to retain their valued and loyal customers. Interest free banking industry is also facing the same challenge along with many other hurdles in way of retention the loyal customers. These challenges include lack of awareness, doubts and hesitation about the products, services and functioning of Sahria'h based financial system (Naser K, 1998).

Customers are attracted and remained loyal towards a bank only if the ratio of economic benefits such as higher return on investment, speedy services, online services, and easily accessible positions, secure and healthy monetary structure, is high as compared to other available financial institutions in the market. Awareness regarding Sharia'h based modes of financing among Non-Muslim investors can be created through advanced and modern methods of marketing strategies. Because of the ambiguities associated with existing unconvinced brands, it is very challenging task to attract a larger number of potential customers around the globe and at the same time very tough for the banks to retain the current loyal customers. Therefore, it is need of the hour that banks have to introduce the dynamic, modern and quality products and services to retain the clientage ratio at maximum level because customer of today's era has a lot of choices regarding selection of banks if one fails to offer service quality and products (Kholi& Jaworski;1990).

Almost all the banks are offering same nature of products and services to the potential customers. In this situation of very close and rigid completion, the secret of success of Interest free banking system lies in the customer satisfaction i.e. more the customers are satisfied with the products and services quality greater will be the amount of profits earned by the bank otherwise vice versa.(Reichheld and Sasser; 1990).

Customer Satisfaction and Its Impact on Customer Loyalty

Due to proliferation in competition especially in services sector achieving the customer loyalty has become the prime responsibility (Bodet, 2008). In this highly competitive paradigm, only customer loyalty can make it possible for the organizations to have a complete edge (Lin &Wang, 2006).Contented customers intended to buy alike goods while

dedicated clients must be satisfied with their promised ones. Buyer contentment can moves towards customer loyalty up to certain level but cannot become equal to loyalty.

A long lasting relationship between organization and customer can be developed by increasing customer loyalty. Successful operations and existences of the firms business have a direct relation with customer loyalty. Loyal customers have intention to repurchase in future and also recommended the products and services to others and pay less attention to price factor.

Factors Affecting Customer Satisfaction

"Customer satisfaction" is the most discussed topic in almost every discipline including marketing, services, production, accounting, banking etc. and has taken the attention of many researchers all over the world. Buyer contentment can be termed as an outcome of the comparison between the perceived performance level of the product or service by the ultimate consumer with his or her projected estimation. These outcomes may be in form of contentment or discontent.

Gratified customer is the real asset for any organization that ensures long-term profitability even in the era of great competition. It is found that satisfied customer repeat his/her experience to buy the products and also creates new customers by communication of positive message about it to others (Dispensa, 1997). On the other hand, dissatisfied customer may switch to alternative products/services and communicate negative message to others. So, organizations must ensure the consumer fulfillment regarding their goods/services (Gulledge, 1996).

Many factors can affect the customer satisfaction level. As per Hokanson (1995), Good customer service and long term customer relationship is one of the reasons of customer satisfaction. It is the prime responsibility of any organization to meet the needs and demands to achieve the customer satisfaction (La Barbera and Mazurky, 1983).

Impact of Product and Services Quality on Customer Satisfaction

Consumer satisfaction normally based on quality of product being offered to the potential customer (Bitner; 1990). Service quality can measure the extent of consumer satisfaction but cannot be termed exactly as satisfaction (Oliver, 1997).

There is a close relationship between the customer satisfaction and the product quality measurement (East; 1997). Professionalism and provision of quality products definitely result in high level of customer satisfaction and decrease in dissatisfaction factor among the potential clients as well (Leeds, 1992). Service quality cannot be characterized by a single variable; instead quality of service consisted on diverse combination of various forms of facilities (Bitran&Lojo; 1993, Lewis 1993).

Parasuraman et al (1988) described 5 quality elements of services 1) Consistency, 2) Solidity, 3) Awareness, 4) Guarantee,5) Responsiveness. Perception about quality of service, either positive or negative, will affect the consumer attitude towards future purchase (Sivadass& Baker, 2007).

Impact of Customer Satisfaction on Profitability

There is a direct relationship between the profitability of the organization and its satisfied customers i.e. larger the number of satisfied customers will result in huge amount of revenue. Therefore, Customer satisfaction has a positive effect on the revenues generated by the organization. Organizations can get

maximum return in exchange of quality products and services to their loyal customers.

Contented customers provide foundation for the financial growth of any business (Hoyer and MacInnis, 2001).

Customer Satisfaction about Interest Free Banking System in Pakistan

It is need of the hour to know the factors which helps to retain the customers by increasing the level of customer satisfaction and minimize the elements lead to influence customers to switch their banks. Consumer satisfaction is the major significant element of any organization's mission statement because only the contented client can be considered a revenue generating asset of the business.

Banking sector is also paying great attention on achieving and maximizing the customer satisfaction since last fifteen years. It has been observed that customers perception towards Islamic banking products and services in Pakistan based on three different parameter i.e. facilities offered by Islamic and non-Islamic banks, customer awareness about interest free banking system and consumer knowledge about various aspects of banking (Rustam, 2011). Although customers are aware with few explicit products of Islamic banks like Musharakah and Mudarabah but the majority of them are not aware about Interest free banking mechanism (H. SadumanOkumus, 2005).

There is a direct significant relationship between the customer satisfaction and the financial measures taken by banks for customer retention (Bolton, 1998). Customer Satisfaction can be assessed by quality features of products and services offered by Interest free banking industry. Prime objective of the interest free banking industry is to maximize the customer satisfaction by providing quality products and services to their customers.

The different dimensions of service quality may include company structure and access to service quality, customer care, financial benefits, competitiveness, bank reputation (Stafford, 1994). Other than quality of service and products offered by interest free banking industry, there are some other important factors which must be considered for achieving maximum customer motivation, satisfaction and retention. These factors include interest free loan, financial soundness of bank, awareness about Riba (interest) and teaching of Sharia'h in this regard. Customers' satisfaction is largely depends upon some factors like operational diversification, efficiency, religion etc. Services and products offered by both the interest free banking system and conventional banking system effects the customer satisfaction. Majority of the customers ranked religion as most important factor regarding bank selection criteria (Gerrard and Cunningham, 1997).

Most of the customers directly interact with the banker during dealings with the bank. According to the survey conducted by Loriece (2003) almost 87% customers visited bank directly, 83% of the customers used ATM, 3% of the customers do their transaction through online banking. If banks want to have best antagonism with other banks they must have highly trained, educated and professional to attract and retain the customers and remain them loyal with their bank for long time period.

Conclusion

Islamic banking is a chunk of whole Islamic teaching and these principles may include freedom, brotherhood, equality, justice, trust and honesty. Interest free banking system has been flourished in many countries of the world including both the

Muslim and non-Muslim countries and bring many opportunities and threats for the banking sector.

Characteristics of both the interest free and conventional banking systems have been studied by various researchers all over the world. It is reality the formation of interest free banking system is not only difficult to develop but also very challenging to flourish.

The purpose of this study was to review customer satisfaction regarding various factors such as service quality, product quality, customers care and financial benefits to customers, competitiveness of Interest free Islamic banks with Interest based conventional banks, and bank reputation.

Though customers were found satisfied towards quality of services and products offered by interest free banks but still there are many issues which are yet to be resolved. The issue of unawareness about products and service offered by interest free banks in Pakistan has also been observed.

Interest free banking system cannot be implemented only through paper work or policies. Islamic bankers can strengthen their recognition by creating awareness, learning and understanding among potential customers towards interest free banking and also introduce more innovative and diversified products and services in competition to conventional banks. Bankers should take quality initiatives to improve their products by keeping in view the capricious requirements of the customers.

On the whole, after consumers have been discovered to the origin of Sharia'h based banking system, it would be predicted that consumer's awareness about modes of interest free banking system would boost and ultimately result in positive trends in their perceptions about this type of banking system. Interest free banking in Pakistan showed remarkable progress.

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