Car financing scheme have created better impact/result in Islamic banking as compare to conventional banking due to effecting of marketing and promotion

Banking sector of Pakistan

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Abstract

This study examines the relationship between service quality and customer satisfaction regarding Islamic banks as well as conventional banks in Pakistan. It also investigated how service quality affects customer satisfaction by assessing the magnitude of the relationship between selected variables. This study is important due to an emerging trend of Islamic banking practices in Pakistan in the existence of conventional banking system. Data were collected from 250 bank customers by using stratified random sampling. SPSS 15.0 version is applied for data analysis. The results reflect that there is strong positive relationship between service quality and customer satisfaction in case of Islamic banks as well as in case of conventional banks. Findings showed that there is stronger positive relationship between service quality and customer satisfaction in Islamic banks as compared to Conventional banks in Pakistan. The study has a number of implications for bankers, policy makers and academicians.

Keywords: Islamic banking, Bank customers, Car Financing, Service quality, Customer satisfaction, Pakistan, Conventional bank

Introduction

The study was conducted to find the factors which effect customers' satisfaction. Satisfaction is the key factor which engages customers with organizations. The research focused on the topic Car Financing Scheme Have Created Better Impact/Result In Islamic Banking As Compare To Conventional Banking Due To Effecting Of Marketing & Promotion Strategy.

Literature on Islamic finance is preoccupied with assessment of monetary policy effectiveness in a hybrid system, where both Islamic and conventional banks coexist, by assessing specific channel(s) in spirit of conventional monetary transmission mechanism. Such an assessment, however, requires a number of factors specific to the Islamic financial system, such as presence of excess liquidity, prohibition of interest payments and price spillover from conventional to the Islamic financial system, to be taken into account (Khatat, 2016). Specially, in presence of price spillover, the central bank's ability to make precise impact on the market condition may be compromised if the financial system includes a well-developed interest rate channel but less developed Islamic financial system. The latter may become conduit to the conventional monetary transmission, though such price transmission through Islamic banks may not be expected by the regulators due to Shari'ah restriction. In this situation, differentiated policy tools, if adopted by the central bank for the two systems, may become less effective in regulating the market conditions.

At the same time, strong presence of Islamic banks could activate credit channel of monetary policy transmission as long as the central bank's actions affect the supply of Islamic credit (Khatat, 2016). Presence of excess liquidity, in either case, may weaken the monetary policy transmission as it affects the ability of the banks to price their retail products effectively.

1 This subject has acquired more importance with the rapid growth of Islamic banking in the global financial landscape, as excess liquidity apparently is a permanent feature of

Islamic financial system. Islamic banks have limited investment opportunities since financial instruments complying Shari'ah restrictions are not in abundance.

Literature Review

The principles guiding Islamic banks are significantly different from those for conventional banks. Islamic banks are organized under and operate upon principles of Islamic law which requires risk sharing and prohibits the payment or receipt of interest. In contrast, conventional banks are guided mainly by the profit maximization principle. If the differences between the two types of banks are not just semantic, Islamic and conventional banks may be distinguishable from one another on the basis of accounting and financial information obtained from company balance sheets and income statements (Olson and Zoubi, 2008).

Consequently, non-Islamic commercial banks in the Middle East today increasingly are recognising the need to take into consideration various precepts of Islamic finance. One reason is the more flexible earnings potential provided through Islamic banking. Therefore, the commercial banks in the region must become more innovative in their application of the marketing management concept, and only those banks best able to apply effective consumer-oriented marketing management capabilities within an Islamic environment will survive into the 1990s

The banks are believed not to apply the rules of Shariah completely. Islamic banks are said to include interest in their dealings to compete effectively with the Conventional banks. Moreover, conventional banks offering Islamic banking as a parallel service are thought to do so only to add to their profitability, by attracting who value the Shariah based system by enjoying the advantages of the special treatments from the Central bank. The rapid growth of

Islamic finance during the last decade has drawn the increasing attention of national policy makers as well as of international institutions.

Hanif & Iqbal, (2010), categorized Islamic modes of financing objectively in two heads; Sharia compliant and Sharia based. Table 1 displays Islamic modes of financing (appendix A). A brief introduction of the terms used for modes of financing is provided here.1 Sharia compliant products mean the modes of financing where return of financier is predetermined and fixed but within Sharia constraints. The tools which are relatively harmonizing the operations of Islamic financial system with conventional banking includes Murabaha (cost plus profit sale)

Jaffer and Manarvi (2011) [21] examined and compared the performance of Islamic and conventional banks operating inside Pakistan during 2005 to 2009 by analyzing CAMEL test standard factors, including capital adequacy, asset quality, management quality, earning ability and liquidity position. The financial data for the study was mined from the banks' financial statements existing on state bank of Pakistan website. A sample of 5 Islamic banks and 5 conventional banks were selected to measure and compare their performance. Each year the average ratios were considered, because some of the young Islamic banks in the sample do not have 5 years of financial data.

The study found that Islamic banks performed better in possessing adequate capital and better liquidity position, while conventional banks pioneered in management quality and earning ability. Asset quality for both modes of banking was almost the same. Conventional banks recorded slightly smaller loan loss ratios showing improved loan recovery policy whereas, UNCOL ratio analysis showed a nominal better performance for Islamic banks.

Research Methodology

This study investigates satisfaction level of bank customers regarding products offered by Islamic and conventional banks in Pakistan. The population of the study consists of the customers of Islamic banks and conventional banks operating in Pakistan. A sample of 250 respondents is selected for this study by using stratified random sampling. The stratification has been done based on the nature of bank i.e. Islamic bank or conventional bank. From each group of bank, customers were selected randomly to assess their responses. A structured questionnaire was developed to record their responses.

Problem Statement

Car financing scheme in conventional banking is more effective than Islamic banking despite of sharia rules and high interest rate. This study is made to find the reason behind low growth of car financing.

Hypothesis

H1: Car financing scheme have created better impact in Islamic banking as compare to conventional banking due to effective marketing and promotion strategy

H2: Car financing scheme have created better impact on customer satisfaction in Islamic banking as compare to conventional banking due to effective marketing and promotion strategy

Data Collection

The tool or instrument of data collection used in this research for data collection was a structured questionnaire which had close ended question enquiring information about respondents'

The first includes demographic information about the customers who want car Ijarah, for example, age, gender, marital status, income, occupation, religion and level of education. The second consists of several questions regarding perceptions of customers with reference to Shari'ah compliance of the transaction, satisfaction level, quality of transaction, cost comparison, staff attitude, staff's knowledge about the transaction and service equality of the transaction .Responses are coded on a five-point Likert scale. Questions selected for the questionnaire were based on the findings in the literature review.

Sampling Technique

Personnel and organizations engaged in Banks were identified as respondent population. Random simple technique was applied to my research for collection of data.

Statistical Technique

The statistical technique used in this research was Descriptive Statistics: Frequencies because our data was large, complex, and categorical and nominal data. In Descriptive Statistics the Frequencies procedures work well with categorical data than scale data. I have added mean, median mode.

Banking

Meezan Bank.

Trade finance business also crossed half a trillion benchmark and closed at Rs 552 billion from Rs 461 billion, a growth of 20%. The trade business is supported by the Bank's growing network of correspondent banking relationships around the world and better customer experience. Fee, commission and brokerage income increased by 38% during the year to reach

Rs 2.74 billion as against Rs 1.99 billion last year mainly due to increase in trade finance income and income from Alternate Distribution Channels.

Habib Bank.

HBL is committed to investing in its human capital by attracting top talent, investing extensively in training and development and providing growth opportunities to its people. As part of its enhanced focus on compliance, over 100 resources were added in this area to build bench strength. In addition to hiring experienced mid-career employees, a batch of fresh graduates was inducted and given extensive classroom and hands-on training, in a newly created Compliance Academy. The branch sales force was also increased by adding over 350 Relationship Managers to the network

Conclusion

Islamic banks work as welfare organization to promote trade and economic activities in line with the instructions of Islam to provide a number of interest-free products/services. The existence of Islamic and conventional banks in Pakistan created stiff competition among banks to attract and retain greater number of customers by the provision of quality services. This study examined the relationship between service quality and customer satisfaction by comparing Islamic and conventional banks operating in Pakistan. A structured questionnaire is used to collect data regarding service quality and customer satisfaction. The researchers collected data from 250 respondents using products/services of Islamic bank and conventional by stratified random sampling.

Intuitively, Islamic banks raises deposit on religious ground, complying Shari'ah requirements, which appeal people with religious inclination. These people may have stayed away from banking on ground of riba (interest) prohibition. Introduction of Islamic banking system thus has helped in channelling these savings into the banking system. This also explains why Islamic banks continue to attract deposit despite recently paying lower return on investments. Islamic banks, therefore, should be credited with the increasing financial inclusion in Pakistan.

This study investigated the comparative pass-through of the policy rate to the retail prices, spill over between the prices of the Islamic and the conventional banking systems, and impact of excess liquidity on these relationships using Vector Error Correction Mechanism , on data from 2007 to 2016, acquired from SBP.

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