

# People's Perceptions towards the Islamic Banking : A Fieldwork Study on Bank Account Holders' Behaviour in Pakistan

Mehboob ul Hassan<sup>†\*</sup>

## Preface

Islamic Banking, which was started in 1975, is now having a significant share in the global financial market. At present there are more than 265 Islamic Banks operating in more than 40 countries and the total worth of their assets is more than US\$ 265 billion.<sup>1)</sup>

The principal reason behind this success is revival of fundamental Islamic values in all over the world during the past two decades. Muslims of the world are estimated as much as 1.2 billion inhabitants, which are nearly 25% of the world's total population. The significance of this Muslim population as the target market of Islamic banks in Muslim countries cannot be underestimated. Their continuous support is prelude to ensure the success of this banking system.

It is envisaged that the rate of interest on deposits does not matter to a majority of Muslim individuals. They prefer the legitimate or permissible return on their investments no matter this return is low or high as compared to conventional bank's interest rate or inflation. Conventional banks are working in Muslim countries too, this is because the majority of Muslim countries was under the colonial rule of European countries. Another important

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<sup>†</sup> Ph. D. Fellow, Graduate school of Economics, Nagoya City University Japan Yamanohata-1, Mizuho-cho, Mizuho-Ku, Nagoya 467-8501 Japan, E-mail: mhassanjp@yahoo.co.jp

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1) Business week

significant in the population of Muslim country is, many Muslims have their savings in conventional banks. It is because of the lack of knowledge in these peoples that Islam has condemned the charging and paying of interest.

In broad terms, the Muslim population (market) can be divided into three segments: (1) the strict or pious Muslims who totally avoid the interest-based or conventional banks, Perhaps these peoples are playing the key role for the success of Islamic banks, (2) the less devoted or less strict Muslims who hold accounts both in Islamic and conventional banks; and (3) the least strict Muslims who have accounts only at conventional banks no matter the Islamic bank is available in their surroundings. Pakistan, which got her independence from British rule in 1947 in the name of Islam, can be said the pioneer in Islamic banking thoughts and also the pioneer in the Islamization of the economy at institutional level. Majority of the population in the country is Muslim and adhere to Islam as religion. Qur'anic commands and practices of Prophet Muhammad (SAW) are supreme code of life for them.

In Pakistan, Islamic Banking which was started in 2002 at private sector is now having a significant share in the country's financial market. Now there are four full-fledged Islamic banks in the country and the share of their assets is estimated 3% of country's total banking sectors assets.

There is a set of questions to be addressed in this study. For example, why do Muslims in Pakistan prefer Islamic banks for their financial dealings over the conventional banks? How would depositors of conventional banks response if interest-free or Islamic banking services provided to them? Are Islamic banks working according to the *Sharia* compliances?, and Are Islamic banks providing higher returns to their deposit holders as compared to conventional banks in Pakistan.

The objective of this study is to find the answers of these questions. Section 1 of the study provides a brief concept and ideology of Islamic baking and its related matters, while in section 2 the explanation of a fieldwork to know the perceptions of the peoples of Pakistan towards the Islamic Banking has made.

## Section 1 Islamic Banking : 1. Concept and Ideology

Studies about the impact of religious resurgence on politics, economics and society have increased over the past three decades. In 1960's the *secularization* was considered as a natural concomitant of economic development and modernization. But, the next decade witnessed that *secularization*, a central pillar of modernization theology, *did not apply to Islam*,

because Islam provides a different doctrine to its believers for setting a system that is entirely different from the western system.

In 1980s, Iran, Pakistan and Sudan undertook initial steps for Islamization of their economies, especially banking and finance sectors. Soon these countries become leader for other Muslim countries. Malaysia, Saudi Arabia, Bahrain and some other Arabian countries have developed a hybrid financial system where Islamic banks coexist with conventional banking institutions, and the monetary authorities of those countries regulate both types of financial institutions. At present, Islamization of banking system, with more or less attention, is in process in almost all Muslim countries.

Since the late 1980s, Pakistan has steadily gained recognition as a successful story of Islamization of economy in the Islamic world, being hailed as one of the pioneer country in Islamic Banking, both in theory and practice. However, with the failure of converting all its state owned financial institutions in Islamic colors at official level, the private sector took the pioneering step towards the Islamic banking.

## 2. History of Islamic Banking

Business Partnerships or Profit-sharing agreements such as *Mudarbah* and *Musharkah* can be traced back to the pre-date of the genesis of Islam. These kind of business partnership based on *Mudarbah* concept co-existed in the pre-Islamic period in Middle East along with interest loans as means of financing the economic activities.<sup>2)</sup> Holy Prophet Muhammad (pbuh) utilized the Business Partnership (*Mudarbah*) principals when he acting as agent went to neighboring countries of the Arab for trading. Such business partnerships (*Mudarbah*) performed many important economics functions; capital accumulation, labour employment and entrepreneurship, the later two factors were provided by one (same) person the *mudarib* (agent). Second Caliph of Islam, also invested the money of the orphans with merchants trading between Medina and Iraq.

Cizakca in his study referred the research of Goitein, who found that the practice of *Mudarbah* from the westward of Medina to Egypt and Tunisia was present in the seventh century.<sup>3)</sup> He also documented that the practice of *Musharkah* trading was present in the

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2) Cizakca Murat, "Historical Background of Islamic Banking and Insurance" in Encyclopedia of Islamic Banking, 1995: 10

3) Ibid.

4) Ibid.

north-south areas of Medina i. e., between Egypt and Syria as well as between Egypt and Jeddah during the eleventh century.<sup>4)</sup> 315 documents in the Geniza archives dealing specially with trade in Indian Ocean were also found by Goitein.<sup>5)</sup>

Cizakca further pointed out that Haim Gerber another researcher found 32 *Mudarbah* contracts of 17<sup>th</sup> century in the Turkish city of Bursa.<sup>6)</sup> According to Gerber, these contracts were clearly the most important type of business partnership being practiced in Bursa at this relatively late period.

Another successful example of *Mudarbah* and *Musharkah* contract during the Crimean war period in Palestine was discovered by Firestone as pointed out by Cizakca.<sup>7)</sup>

Meilink-Roelofs from a different perspective, confirms the above discussion by saying that “as late as in 15<sup>th</sup> century, shipping in Indian Ocean was organized into what we might call a ‘multiple *Mudarbah*’.”<sup>8)</sup> Details of those agreements were as follows :

“The ship-owner was not yet in independence position and the costs of transport were not yet entirely his responsibility. The captain did not receive a salary from the people who commissioned his services ; instead he shared in profits. Nor were the members of the crew employed by the owner of the ship paid salaries and they had too had a share in the trade”.<sup>9)</sup>

### 3. Evolution of Islamic Banking and Establishment of Islamic Development Bank (IDB)

The first Islamic bank in public sector, in urban area, is Nasser Social Bank of Cairo Egypt, established in 1971 and started its operation in 1972. The financial operations of the bank are specified for social purpose only like ; interest-free loans, projection on profit sharing basis, assistance to poor and needy, and supporting the students for higher education. This bank was exempted from the banking and credit law of 1957 in the beginning. The major distinct characteristic of this bank is the source of the fund. This is fully funded by the government. Major sources of this fund are residuals of extra budgetary resources, contribution from the ministry of Religious Affairs (*Wizarat-e-Awqaf*) and appropriation from state budget.

In 1975 the annual conference of finance ministers of Islamic countries held in Jeddah,

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5) Ibid.

6) H. Gerber, “The Muslim law of Partnership in Ottoman Court Records”, in Cizakca, *op. cit.* 2

7) See. Y. Firestone, “Production and Trade in Islamic Context”, in Cizakca. *op. cit.* 10

8) Meilink-Roelofs, in Cizakca *op. cit.* 2

9) Ibid : 11

where a draft agreement was approved for the establishment of Islamic Development Bank (IDB) with an authorized capital of two billion Islamic Dinars (equivalent to two billion Saudi Arabian Dirhams). All member countries of the Organization of Islamic Conference (OIC) are members of this bank.

At present there are 55 member countries of this bank (IDB), and the authorized capital of this bank is six billion Islamic Dinars. This bank is playing an important role in meeting the development needs of Islamic world. It has provided interest-free loans for infrastructure projects and has financed member countries on the basis of equity participation.

#### 4. Definition of Islamic Bank

According to the board term of *The International Association of Islamic Bank* an Islamic bank is defined as

*“An Islamic Bank is a Banking company which implements a new banking concept in that it adheres strictly to the rulings of Islamic Shari’ah in the fields of finance and other dealings”.*

However the term Islamic Bank may be defined in some different specific term according to the territorial anatomy of the country or region. Keeping in view the objective of Islamic bank, we can define Islamic bank as

*“A banking institution which conducts all its operations conforms to Shari’ah, without involving itself and its clients in Riba (interest) in any way”.*

The second definition incorporates the both aspects of banking and *Shari’ah* on an equal proportion, as Islamic bank has to fulfill two basic requirements. Firstly its operations must be based strictly on Islamic principles and secondly it must perform the functions of a sound banking. It is therefore indicative that the Islamic bank faces the technical constraints usually imposed on banks and is also subjects to the legal and ethical constraints provided by the *Shari’ah*.

Perhaps Ahmed A. El-Fouad in *Meeting the Economic Needs of Society*<sup>10)</sup> : gives the most comprehensive definition of Islamic bank as follows :

1. Multifunction banks, offering all the services rendered by commercial, merchant, investment and development banks, but on an interest-free basis ;
2. They are international bank and they work and co-operate with the rest of the interna-

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10) Muazzam Ali., 1984: 114

tional banking community ; and

3. They have social obligations towards the community they serve (exist). Each (bank) has a *Zakat* (obligatory wealth tax from Islam) fund which offers financial assistance to the poor and needy.

Therefore the performance of Islamic bank is evaluated not only in financial terms but also by the criterion that its profit should be justified Islamically.<sup>11)</sup> Hence the existence of a *Shari'ah* Advisory/Supervisory Board, which continuously examines the transaction of the Islamic bank, is prerequisite of Islamic bank. This essential feature differentiates the Islamic bank from the conventional bank.

## 5. Development of Islamic Banking in Pakistan

Although, Islamic Banking at very small scale was present in Pakistan at the time of her inception in 1947, but due to having a very small volume of capital, limited areas of operations these banks were vanished from the page of history. According to Wilson, R. J., the first attempt to establish an Islamic financial institution was took place in Pakistan in late 1950s with the establishment of a local Islamic bank in rural area.<sup>12)</sup> This banking organization was known as "*Rural Cooperative West Pakistan*".<sup>13)</sup> Some pious landlords who deposited their extra money (funds) at no interest, and then loaned to small landowners for agricultural advanced, but a small charge was levied to cover the bank's operational costs. The charge was far lower than the rate of interest. Although the experience was encouraging, two main factors were responsible for its failure. First, the limited funds available to loan could not cover the gap between deposits and credit. Secondly, the bank staff did not have complete autonomy over its operation.<sup>14)</sup>

The serious steps towards Islamization of the principles and constitution were took place in 1962 when the Council of Islamic Ideology (CII) was established. The third constitution of Pakistan was passed in 1973, which allowed comprehensive legislation on Islamic Principles and establishment of Federal Shariah Court (FSC).

In 1980, the Council of Islamic Ideology (CII) presented its report on the elimination of interest, genuinely considered to be the first major work in the world undertaken towards the

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11) Radiah A. Kader, 1993: 76

12) Wilson, R. "Anthology of Islamic banking". Asma Siddiqi (edit) p. 69

13) Pakistan was divided into two independent countries in 1971

14) Ibid., Also in Wilson, R. J., 1983

establishment of Islamic Banking and Finance. In 1985, all commercial banks were bound by legislation to write-off all interest bearing transactions and transform their nomenclature stating all Rupee saving accounts as interest-free within next five years. However, foreign currency deposits in Pakistan and lending of foreign loans continued as those were done before.

In 1991, the Federal Shariat Court declared procedures adopted by the commercial banks non-Islamic. The government made appeals to the Shariat Appellate Bench of the Supreme Court of the Pakistan against the FSC's declaration. Until today, the dispute between government and FSC is still in progress, and details of the news in print and other media revealed that government aimed to sabotage the historic decision of FSC.

The Islamization process of all state owned banks in Pakistan seems to take very long time, because of very complex network of branches, misconduct of authorities, absence of firm determination from government. Perhaps, the root-cause of this failure was that the government and all the institutions having jurisdiction, not only did not felt their own responsibility on this important issue, but also with ample dexterity tossed the responsibility of Islamization process to the Federal Shariat Court to review its earlier decision that declared all interest bearing transaction non-Islamic. So, it is the duty of government to devise policies, acquire proper resources and take necessary steps to solve the challenges and problems confronting the country on this dilemma. Similarly it is the primary task of government to combat with the riba dilemma and establish a full-fledged Islamic banking system in state owned banks. Developing a successful, practicable and complete model of Islamic banking was a complex and difficult task for government and it should be not wise to underestimate this task, especially in a developing country. Therefore, it was decided to promote Islamic banking on parallel basis with conventional banking system. State Bank of Pakistan issued the criteria for establishment of Islamic banks in private sector and subsidiaries branches by existing conventional banks to conduct Islamic banking in the country. It was private sector that took the initial and pioneering step to establish a full-fledged Islamic Bank in Pakistan. In 2002 with the name of Meezan Islamic Bank the Islamic Banking in its real form started in Pakistan. At present there are four full-fledged Islamic commercial banks and many Islamic banking windows or branches are offering Islamic banking services by conventional banks.

## 6. Meezan Islamic Bank : Pioneer of Islamic Banking in Pakistan

In 2001 State Bank of Pakistan set criteria for the establishment of Islamic commercial

banks in private sector, and subsidiaries or stand-alone branches by existing conventional banks. Opening of Islamic banking windows at conventional bank was also allowed.

Meezan Bank is one of those banks from private sector that started its operation as a full-fledged Islamic commercial bank in 2002. It is a modified form of a private investment company working since 1997. The bank is Scheduled Islamic commercial Bank commenced operations with effect from March 20, 2002 on receiving notification under section 37 of the State bank of Pakistan act, 1956. At present, the bank is engaged in commercial, consumer and investment banking activities.

As of December 2004, the total assets of Meezan Islamic bank were PKR (Pakistani Rupees) 19,697 millions, increase 35.39% as compared to the position as of December 2002 (PKR 6,971 million). Furthermore, the numbers of branches of this bank are still increasing. At present, this bank has 58 branches at different cities of the country. These figures and data show that commercial banking under Islamic principles has performed successfully.

## 7. Impact of Meezan Islamic Bank on the banking industry of Pakistan

Two or three decades ago, the establishment of Islamic Banking was considered a wishful thinking, because the conventional banking system, in all most all over the world was well established and had a brisk banking network. Failure of Islamization process of state-owned commercial banks in Pakistan killed the long wished hope of the peoples. Establishment of full-fledged Islamic bank was the most critical challenge for the Islamic scholars of the country. Even on the establishment of Meezan Islamic bank there were some serious worries about the future of this bank, because the state owned conventional banks were well established and had monopolistic control over the banking industry of the country. But, after only three years operating, Meezan bank is continuing to expand its business and branches network across the country. The good performance of this bank proved that Islamic banking is not only the desire of the public but also is the need of time and is capable to compete the conventional banking. At national or regional level, Meezan bank has made a vital contribution to the development of Islamic banking industry in Pakistan. Now this bank is playing a leading role for other banks to start Islamic banking in the country. At present there are four full-fledged Islamic banks and 11 conventional bank having Islamic banking windows working in Pakistan.



## Section 2 Fieldwork Study

### People's perceptions towards Islamic Banking : a Comparative Survey Study of Meezan Islamic and Conventional Bank Account Holders' Behaviour

#### 1 . Framework of the Study

Since this study is exploratory in nature, a sample survey of account holders in both kinds of Banks was the most appropriate method for data collection. By this method, data is collected from five major cities of the country. Even though more than six hundred individuals were asked in this study this would mean that the data collected is providing only an approximation of the entire population.

Two different kinds of questionnaires (one for Islamic Bank Account Holders and the other for Conventional Bank Account Holders) were designed to analyze their perceptions towards Islamic Banking in Pakistan. Three hundred peoples were asked to fill the first questionnaire to know their perception towards Islamic Banking from five major cities of Pakistan. The second questionnaire was designed to know the perceptions of those three hundred peoples who do not have account with Islamic Bank. Different personalities from Meezan Islamic bank, state bank of Pakistan, Islamic scholars, Islamic bank managers, conventional bank managers, societal representatives, common citizen and modern Economists were also interviewed during this fieldwork for knowing the behaviour of the individual towards the Islamization of the banking sector.

These Fieldworks were undertaken as a part of my Ph. D. dissertation on Islamic Banking during the month of October/November 2005 and March April 2006.

#### 2 . Objectives of the Study

The objectives of this survey study were as followings :

- 1 . To examine that how successfully the Islamic banking has developed in Pakistan ;
- 2 . How Islamic banking looks like in Pakistan ;
- 3 . To assess the prior knowledge of peoples about Islamic Banking ;
- 4 . To know that what socio-religious contexts motivates the customer to open an account in Islamic Bank ;
- 5 . Whether Islamic Banks are working strictly according to the Sharia compliances ;
- 6 . Whether Islamic Banks facilitate the learning towards Islamic Economic matters in gener-

al peoples ;

7. To analyze the decision making strategy of peoples for their financial matters ; and
8. More specifically, to know the differences of customer dealings between Islamic Banks and conventional Banks at different branches.

### 3. Previous studies on the topic

Although Islamic banking is one of the popular studies at present, unfortunately there was no case study dealing the perceptions of the peoples about the Islamic banking in Pakistan. I designed my self two sets of questionnaires to know the perceptions of the peoples towards Islamic banking in Pakistan.

### 4. Research methodology and allocation of fieldwork sites

This research work used data collection direct from the customer of the both kinds of banks, documents researches and interviews of the relevant authorities. Fieldwork was conducted during the months of October and November of year 2005 and some part of the work was completed during the March, April, and May of 2006. Although all replies were collected in personnel at the allocated areas, some replies were collected after the period prescribed above. The primary data collection applied obtaining the information from peoples through filling of questionnaires, observation, and interview methods in Karachi, Lahore, Islamabad, Rawalpindi and Gujranwala districts through direct proceedings. Local university students and friends of researcher have also helped for this work.

Three hundred persons at Meezan Islamic bank and three hundred at conventional banks in five different cities were asked to express their views during this study.

The researcher initially started his working from Karachi city, where the head office and main branches of the bank are located. After acquiring the written permission from the peer management of the bank the author started his interview from Sharia Advisor, President& CEO of the bank, Chief Operating Officer, and Manger of PNSC building branch. At the same time the author was watching the customer dealings of the bank staff. The author asked some clients at the spot and tried to perceive their views. The next stations of the author were Rawelpindi, Islamabad, Gujronwala and where the author made interviews with managers of the branches and got the perceptions of bank clients through questionnaires.

## 5. Limitations of the Study

Besides the significance of this kind of unique study on this topic, there were several following limitations of the application of this study ;

1. Limited period of time and small sample size. Results may not be indicative for the target respondents at large.
2. Some respondents, who have limited knowledge of Islamic banking or no knowledge about the financial modes of conventional and Islamic banking, also answered the questions ; hence the replies of some questions may be based on their own imagination or thoughts.
3. Although majority of our respondents of Islamic banking questionnaire were account holders of Meezan Islamic Bank, however some of our respondents had accounts in other Islamic banks too or accounts in Islamic branches of conventional banks, so the results of this study are not fully applicable to Meezan Islamic Bank of Pakistan.

Therefore, in this study the results about Islamic banking should be taken only as indicative and perceptive rather than conclusive.

## 6. Analysis of the Responses

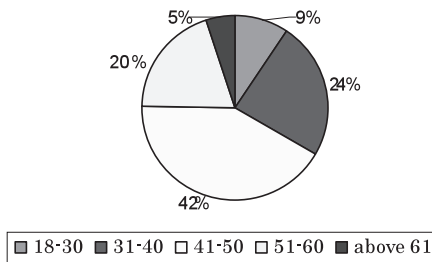
The data collected is summarized according to the numerical order of the questionnaire and analyzed according to the importance and need of the study. Some of the questions are analyzed in details and some of are not due to the requirement of the study.

### Demographic Profile of the Respondents

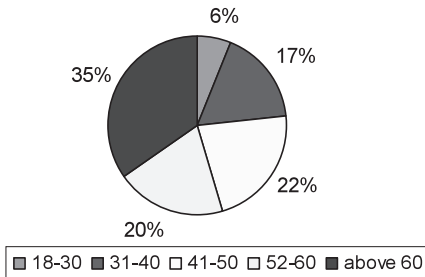
#### 1. Age distribution of the respondents. (300 responses from each bank)

Age Group	I. B. responses	%	C. B . responses	%
A. 18-30	28	9.3	18	6
B. 31-40 yr	72	24	52	17.33
C. 41-50 yrs	126	42	66	22
D. 51-60 yrs	59	19.7	60	20
E. 61 and above	15	5	104	34.67

Age Distribution of I.B Account Holders



Age Distribution of Conventional Account Holders



The table above contains the different age group in both Islamic Bank (I. B) and Conventional Bank (C. B). The table shows this clearly that Islamic Banking is more popular in young and middle age peoples of the society, while the conventional banks are popular in old or senior citizens of the country.

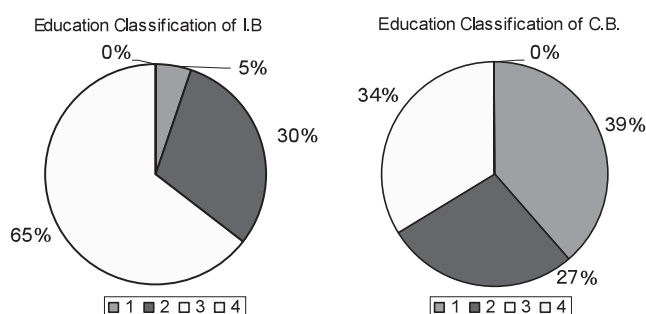
## 2. Genders. (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
A. Male	300	100	288	100
B. Female	0	0	0	0

This set of distribution shows that respondents in both kind of banks were Male. During our whole stay, at different place of the projected sites, we could not meet any female respondent or account holder at Islamic Bank. While there were some female coming in conventional Banks. This analysis shows that Islamic banks have to make the females as their target customer, so that the Islamic banking services can disburse in a balanced way.

## 3. Educational Qualifications. (300 responses from each bank)

	I. B responses	%	C. B responses	%
A. High School	16	5.3	116	38.7
B. Intermediate	91	30.34	82	27.33
C. Graduate	193	64.3	102	34.0
D. Ph. D.	0	0	0	0



The analysis of the table 3 shows that Islamic banking is more popular in highly educated class of the society as compared to conventional banks. University graduates respondents of Islamic banks represent 64.3 percent as compare to the 34 percent of conventional banks respondents. While, high school graduate respondents at conventional banks are 38.67% as compare to 5.33% in Islamic Bank.

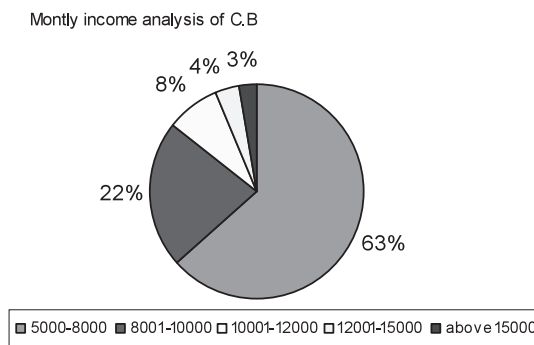
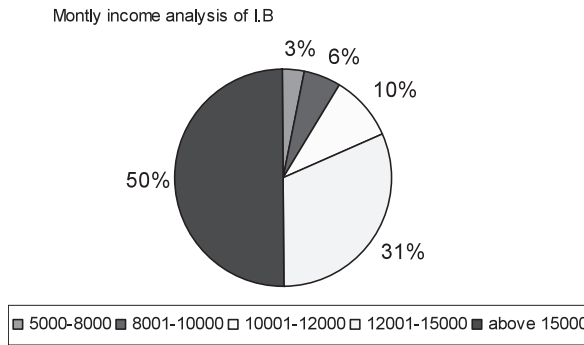
#### 4. Professions. (300 responses from each bank)

	I. B. responses	%	C B. responses	%
A. Student	0	0	20	6.67
B. Govt. employee	6	2	196	65.33
C. Private employee	113	37.67	64	21.33
D. Self business	187	62.33	20	6.67

Above table shows that private employees and businessmen are more in numbers in Islamic banks as compare to conventional banks. While the numbers of students and government employees are more in the conventional banks.

#### 5. Monthly Incomes. (300 responses from both banks)

	I. B. responses	%	C. B. responses	%
A. 5000-8000 Rs.	10	3.0	190	63.33
B. 8001-10000 Rs.	17	5.67	67	22.33
C. 10001-12000 Rs.	29	9.67	24	8.0
D. 12001-15000 Rs.	93	31.0	11	3.67
E. More than 15000	151	50.3	8	2.67



The result of table 5 is negative to one of the dedication of the Islamic banks i. e., to participate more in human prosperity and elimination of poverty. This result shows that Islamic banks are more popular in high-level income groups of the society, while conventional banks are more popular in low-level income groups.

#### 6. For what purposes do you use this Bank ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Investment/Savings	191	63.67	178	59.33
Borrowings	38	12.66	43	14.34
Others *	71	23.67	79	26.33

Table 6 shows that the distribution of account holders in both types of banks is symmetric. Although the purposes distribution is not very clear, yet conventional bank have more numbers of respondents at their services section.

7. Having Account with this Bank. (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Yes	289	96.3	233	77.67
No	11	3.67	67	22.33

Table 7 too, shows a negative mode of service providing arena of Islamic Banks. 96.3 percent respondents are account holders at this bank, which shows that very few peoples are using this bank for other than account holding facilities. Or we can say that the services of Islamic banks are more limited to account holders as compare to conventional banks. Conventional banks are serving all those who have or not an account in these banks. This result shows that there is a room for Islamic banks to concentrate their business strategy towards services provision to their customer.

8. Type of Account. (289 response and 233 responses from Islamic and Conventional bank)

	I. B. responses	%	C. B. responses	%
Short-term	187	64.7	122	52.36
Medium-term	65	22.5	84	36.05
Long-term	37	12.8	27	11.58

Above table shows a low percentage of Long-term investment in both Islamic and conventional banks. Account holders for Long-term and Short-term investments were in more numbers at Islamic Banks, while account holder for Medium-term were more in conventional banks. This may be one the reason that Islamic banking is new born banking system, established in 2003, which shows the strategy of consciousness of investors for Long-term investment in Islamic Banks. As compare to conventional banks, which has more than three hundred years long history Islamic banks have attracted more investors for to have investments in their banks.

9. Do you understand the key concepts of Islamic banking ? (300 responses each bank)

	I. B. responses	%	C. B. responses	%
Yes	289	96.33	263	87.67
No	11	3.67	37	12.33

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\* Include Pension receiving, remittances, bank services, etc...

Tabulation of above question illustrates a very interesting result. There was unexpectedly high percentage of the conventional bank account holders or visitors who were well aware of the Islamic banking concepts. On the other hand, as oppose to our expectations 11 of the Islamic bank respondents were not aware of the concepts of the Islamic banking e. This result shows that Islamic banks did not explained well the concepts of Islamic banking to their customers. And this result was of opposite to expectations, that Islamic banks enhance the awareness and education both in economic as well as religious matters and support the religious resurgence for the community.

10. Do you agree that Islamic Bank operates under the *Shariah* compliance ?

(300 responses each bank)

	I. B. responses	%	C. B. responses	%
Yes	256	85.3	234	78.0
No	14	4.7	21	7.0
Don't know	30	10.0	45	15.0

The replies to above question were very interesting. More peoples at Islamic bank, as compare to peoples at conventional bank, do not agree or they are not in confidence about the operation of Islamic banks according the *Shariah* compliant. 44 out of 300 persons asked replied in negative or don't know replies. While 66 out of 300 peoples at conventional bank had same reply. This result also support the comments of many other scholars, we met in Pakistan, that this Islamic bank is not fully committed to Sharia complaints. This results, perhaps, is the big question mark on the commitment of Islamic banks towards *Shariah* compliance.

11. Do you know the term "RIBA" ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Yes	291	97	274	91.33
No	9	3	26	8.67

The persons whom we asked this question were well aware about this term in both banks; however the number of replies in positive was higher in Islamic bank. Which partially support one of our expectations that Islamic bank are one of the sources can utilize for enhancing the awareness in the peoples.



12. Is this bank paying you any amount on your deposits ? (This question was limited only to the investment/deposit account holders of both banks) (191 replies from Islamic bank and 178 replies from conventional bank)

	I. B. responses	%	C. B. responses	%
Yes	191	100	178	100
No	0	0	0	0

The responses of our respondents clearly indicate that both banks are distributing profit/return on investments/savings of their investors/depositors.

13. If Yes to the question above, what do you consider that payment ? (191 replies from Islamic and 178 replies from conventional bank)

	I. B. responses	%	C. B. responses	%
Riba on savings	8	4.18	126	70.78
Profit on investments	183	95.82	52	29.22

The result for the above question was astonishing for us ; even in Islamic banking 8 respondents were considering the return, they obtained from Islamic bank, is *Riba* and 96 respondents from conventional bank were well aware about the nature of the return they obtained from conventional bank. One of the main reasons for having their deposits in conventional banks was limited access to Islamic banks. At the time of our survey study there were only 29 branches at nine cities of the country.

14. Would you continue to deal with this Bank even if this bank do not distribute any profit on your deposits/investments for three consecutive terms/years ? (This question was also limited to the investment account holders of the both banks) (191 responses were from Islamic bank and 178 respondents from conventional bank.)

	I. B. responses	%	C. B. responses	%
Yes	169	88.5	93	52.25
No	22	11.5	85	47.75

The result of above question shows a very affectionate attachment of peoples with Islamic bank. Majority of our respondents were willing to continue their dealings with Islamic bank. While, the response from conventional bank customers was in negative, which shows that

peoples are not much affectionate with conventional banks.

15. If you have an opportunity to open an account with Islamic bank, would you transfer your account to Islamic bank ? (300 responses from conventional bank)

	N/A	C. B responses	%
Yes	N/A	211	70.33
No	N/A	10	3.33
No reply	N/A	79	26.33

The table 15 indicates very supportive response for transfer of their financial activities from conventional bank Islamic bank.

16. Would you please tell us the reason for the transfer of your account ? (This question was asked 211 persons who replied "Yes" in previous question)

	I. B responses	C. B. responses	%
RIBA	N/A	126	59.72
Higher Profit	N/A	52	26.64
Other	N/A	33	15.64

Peoples want to transfer their bank dealings from conventional banks to Islamic banks because of religious background as well as higher profits as shown by the annual financial reports of both kinds of banks.

17. Would you continue to deal with Islamic bank even the risk on investment is higher than the conventional bank ? (191 respondents from Islamic and 178 from conventional bank)

	I. B. responses	%	C. B. responses	%
Yes	169	88.48	154	86.5
No	22	11.52	24	13.5

This result shows that majority of investors in Pakistan are of risk taker in the case of investment with Islamic banks. The reason behind this consent may be the philosophy of Islamic investment that the investor must participate in risk and loss. On the other hand there were significant respondents who are not willing to continue investments with Islamic bank in the case of risk or they are of risk avert group of investors.

18. In your opinion how much are the services charges of Islamic/conventional bank as compared to conventional/Islamic banks ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
High	24	8.0	81	27.0
Same	218	72.7	175	58.3
Low	58	19.3	44	14.7

The segment of results of above question shows that Islamic banks have relatively lower bank/services charges. This lower bank charges may gave these banks an advantage over their counterpart banks, but the numbers of peoples using this bank for services are very limited as saw in question 7.

19. Would you continue to deal with Islamic bank even if its services charges are higher than the conventional banks ? (300 responses from each bank)

	I. B responses	%	C. B. responses	%
Yes	231	77.0	194	64.7
No	13	4.3	17	5.7
No reply	56	18.7	89	29.6

This question also shows an affectionate attachment of t peoples for Islamic baking. Even in the case of higher bank charges peoples are willing to continue their dealings with Islamic bank.

20. Does this Bank inform you properly about your transactions ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Yes	284	94.7	221	73.7
No	16	5.3	79	26.3

The result of this question shows that the management of the Meezan bank is informing its clients regularly, which also indicate that the investor at present in Pakistan is keen on his dealings with bank. He did not simply invest and forgot his investments, but care about his transactions with bank.

21. How would you rate your level of satisfaction with this bank during your transactions ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Satisfy	189	63.0	106	35.3
Not satisfy	46	15.3	126	42.0
Don't know	65	21.7	68	22.7

There was high percentage of respondents who said they are satisfied with Islamic bank during their bank transactions as compared to conventional banks. The element behind this large difference is not only religious background but also the better performance of management but involvement of respondent himself in business as partner. While, in conventional bank the investor is not aware where his investment is taken placed by the bank. And he is not aware of the actual performance of the business. This distinct operational strategy gives an advantage to the Islamic bank over the conventional bank.

22. Does Islamic bank distribute higher profits as compared to conventional bank ? (267 responses from Islamic and 178 responses from conventional bank)

	I. B. responses	%	C. B. responses	%
Yes	216	80.9	153	85.9
No	0	0	0	0
Do not know	51	19.1	25	14.1

Responses of this question also show a significant advantage of Islamic Bank that the rate of return in this bank is higher than the conventional bank. That is one of the other reasons of popularity of Islamic banking in Pakistan.

23. Your view on the following phenomena that Islamic Banking is ... (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Banking without RIBA only	44	14.7	N/A	
A socially acceptable Just Banking System	223	74.3	N/A	
Same as conventional banking with different name only	33	11	N/A	

The outcomes of our question resulted in very unexpectedly low percentage of favor of Islamic banking system. As many as 77 respondents were still on the opinion which does not fit to the definition of Islamic banking or Islamic banking has not yet understood by the many peoples.

24. How would you response to the following statement ? .....*Islamic Banking is a third and new way between capitalism and socialism* (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Agree	242	80.67	231	77
Disagree	33	11.0	7	2.33
Don't know	25	8.33	62	20.67

Replies of above, previous and next questions are of same nature. Islamic banking is not yet well understood by the Account holders of Meezan bank. Or Islamic banking has not enhances the awareness about it operations in the general peoples.

25. Do you agree ? Islamic Banks can contribute more to the societal balance, human prosperity and welfare. (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Agree	226	75.3	234	89
Disagree	13	4.33	6	2.3
Don't know	61	20.33	23	8.7

The replies of above question show that peoples in Pakistan expect that Islamic banks are more helpful for economic development, societal balance and human prosperity. It is also verdict from the injunction of Shariah rules that Islamic financial institutions are obliged to participate in the equal distribution of wealth, human prosperity and equal economic development.

26. How would you evaluate the development level Meezan Islamic Bank has achieved in the past 3 years in Pakistan ? (300 responses from each bank)

	I. B. responses	%	C. B. responses	%
Good	255	85%	N/A	N/A
Bad	18	6%	N/A	N/A
Don't know	27	9%	N/A	N/A

Over 85% of our respondents in our study evaluate that Islamic banking has achieved the good in past three years operation, but there are 15% who think that Islamic banking has not yet achieved what was expected or what can achieved. There is still a vast room for this bank to explore its operations.

### Conclusion

This survey-study has tested a number of perceptions using two pre-designed questionnaires. After scrutinizing the answers of the respondents following points can be summed-up as conclusion :

- 1 ) Islamic banking is more popular in young, highly educated and high monthly household income group of the society. This difference is clear from the demographic profile of our respondents from question 1 to question 5.
- 2 ) People use Meezan (Islamic) banks for investment more as compared to borrowings or other bank services i. e., pension receiving, utility bill paying etc facilities. On the other hand, people use Conventional banks more for bank services and other facilities. We met very few people are using Islamic banks for service facilities i. e., only 11 respondents in our study.
- 3 ) In case of investment at Meezan Bank peoples prefer Short-term investments instead of Medium or Long-term which shows that investor in Islamic bank is still shy to invest for Medium and Long-term investment.
- 4 ) As oppose to our expectations, still there some peoples who are not well aware about the concepts of *Riba* and Islamic banking even they had accounts in Meezan Bank.
- 5 ) This analysis also shows that there are still many account holders in this bank who are not confident about the commencement of this bank's operations according to the Shariah. They were suspicious about the commitment of this bank to *Shariah* Compliances.
- 6 ) Investor in Meezan bank are receiving higher profits are compared to the rate of interest on savings at conventional banks or inflation in the economy. And the services charges are considered lower in Meezan bank as compared to conventional bank.
- 7 ) The trends analysis in this study shows that account holders of commercial banks will transfer their financial assets to Islamic banks if such opportunity provided.
- 8 ) This study also shows the affectionate attachments of the peoples with Islamic banking. Our respondents were agreeing to continue with Meezan Islamic bank even in the case of higher

risk on investments. This tendency also shows the risk taking attitude of the investors.

9) The respondents, who said that they are satisfied with Meezan bank, were 189 i. e., 63%. These numbers are more as compared to 106 i. e., 35.3% of the conventional bank's respondents.

10) The trend analysis provided in this study, shows to a general and high rate of growth of the Islamic Banking Industry of Pakistan. Meezan Islamic Bank started its operations in 2002, and now on 2006/11/28 this number has reached to 58 branches in operation. The bank is still expanding at a handsome rate both in its volume of business and branch network. This analysis identifies following reasons.

(A) Before starting of this bank's operations, there were lots of immobilized funds due to fact that many Muslims clients do not want to involve in any interest-bearing dealings. In absence of a viable alternative of conventional banking they were keeping their savings in private custodies.

(B) Islamic banking became popular in Pakistan. By seeing the success of this bank's past three year operation, it is clearly identified that the profit rate on investment from this bank is higher than the conventional bank.

(C) One of the reason behind the success of this bank is the growing economy of Pakistan. GDP growth rate for recent years is between 8-9% per annum. And Islam is the major religion of the country that also has a big contribution towards the popularity of Islamic banking.

11) The evaluation of the performance of this bank through a number of key ratios yields fairly satisfactory results. This bank is well capitalized, profitable and stable. This bank has won the trust of the general peoples of the country.

12) The analysis in this study shows that people has had waited for a long time for Islamic Banking operations in Pakistan. And they have very loving affections with this bank. Many of our interviewees were seems to continue their business dealings with this bank even if this bank do not distribute any profit of return for consecutive three years.

13) Many peoples diversified to invest their idle money by using this bank so the use of idle resources now can be channeled to the economic matters.

This research study is result of a pioneer fieldwork conducted so far on Islamic Banking in Pakistan. Therefore, the results should be taken only as indicative and perceptive rather than conclusive. It is hoped that further empirical or theoretical studies will be done to draw more definitive realities.

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