ADOPTION OF ISLAMIC BANKING: MANAGERIAL AND CONSUMER PERSPECTIVE

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ABSTRACT

The purpose of this study is to examine the factors of low adoption of Islamic banking in Pakistan. The study identifies some variables (reason of choosing Islamic banks, knowledge of Islamic banks, service quality, customer satisfaction and bank image of Islamic banks) in Pakistan. The study uses survey questionnaires to gather information from bank managers of Islamic banks and customers of Islamic and conventional banks. By using random sampling technique data was collected. To explore the relationship of aforementioned variables, data was analyzed using structural equation modeling with partial least square (PLS). The findings of the study suggest that the adoption rate of Islamic baking is still low in Pakistan. The core reason for this is that consumers do not trust Islamic banks and consider their operations to be no different than conventional banks. There is a wide perception that the same good (conventional banking services) is being sold under the guise of Islamic banking. The study contributes to the existing literature of Islamic banking and its findings also suggest a need of enhancing Islamic banking practices and awareness.

Key-terms: Islamic banking, low adoption, customer perception, manager perception, bank image

INTRODUCTION

Pakistan, being an Islamic country has a Muslim population of over 95%. However, keeping in view the statistics it is shocking that the rate of adoption of Islamic banking is still low in the country. Research shows that, Islamic banks have captured a big market in non-Muslim countries despite being inherently appealing primarily to Muslims. Over the past few years, the western banking markets have been considering Islamic banking a profitable opportunity rather than a threat. Which is why, dominant market players such as HSBC and Citi Group have launched Islamic banking windows along with their regular operations (Warde, 2000). According to Khan & Mirakhor(1990) Islamic investment and holding companies were predominantly established in non-Muslim countries. Efforts have been made in the past by Muslim countries to transform their

financial systems completely by applying full Islamic principles. Countries such as: Sudan and Iran have restructured their economies thoroughly to function on Islamic principles. While Malaysia, Pakistan, UAEand Indonesia have a huge market for Islamic banking hand in hand with the extensive network of conventional banking that is still present in the countries (El Qorchi, 2005).

Islamic banking functions on the teachings of Shariah (Islamic Law), which is unlike the traditional conventional banking system. In Shariah 'riba' (interest or usury) which is the one of the core concepts of conventional banking; is forbidden. Strict rules are in place to avoid gambling and uncertainty known as Maysir and Gharrar in Islamic terms. Islamic banks have introduced tools such as: 'Murabaha' & 'Muzaraha' (agency), 'Musharakah' (partnership) and 'Ijara' (lease) contracts, which are founded on the basic principles of profit and loss sharing, commodity trading and real asset backing. A number of people support Islamic banking to be an ideal model (Iqbal and Molyneux, 2016; Warde, 2000). Nonetheless; when it comes to implementation, Islamic banking faces a plethora of hurdles such as: lack of skilled human resource, subtle legal issues and requirements in Islamic contract law; that differ from conventional law, which in some cases leads to invalidity of a contract (Khan & Mirakhor, 1990).

Global Islamic banking assets stood at US$1 trillion in 2015 and recorded a growth rate of 16% in 2014-15 (Young, 2016). The Islamic banking has taken a prominent share of banking in several Muslims states, as per the global report of Islamic Banking, such as UAE (21.6%), Malaysia (21.3%), Qatar (25.8%), Kuwait (25.8%), Saudi Arabia (51.2%) and Bahrain (29.3%). Even with the 95% of Muslim populace and a steady Islamic banking sector's evolution, the penetration rate of Islamic banking in Pakistan is recorded as low as 10.4%. In 1978, the Government of Pakistan decided to Islamize the country's financial system and on 1st of July, 1985 "all banking transactions; by law, were required to be conducted exclusively on the basis of equity participation" (Khan, 1986). While, literature supports the claim that Pakistani Banking is interest free, it is imperative to highlight that both systems of banking run side by side in the country (Khan, 1987). Furthermore, due to the Islamization, the interest rate is named "profitrate" in the Pakistani constitution, however; it is similar to the conventional interest-rate.

Islamic banking industry have experienced an upsurge in its total assets by Rs. 148 billion between the time period of mid-April and June, 2018, which gradually increased by Rs. 2,482 till the end of June, 2018. In the same way, Islamic banking industry's deposits correspondingly witnessed progress of Rs. 117 billion during the review period and touched Rs. 2,033 billion by the end of June, 2018. The Islamic banking industry have recorded market share of deposits and assets at 12.9% and 14.9%, respectively by the end of June, 2018. While analysing the profit side of Islamic banking industry, Rs. 15 billion of profit before tax was recorded by the end of June, 2018, which is an upsurge of Rs. 3 Billion as compared to the previous year's records.Islamic banking industry's asset base have recorded a quarterly progress of 6.3% (Rs. 148 billion) in the quarter April till June, 2018 and later jotted down at Rs. 2,482 billion, likened to Rs. 2,334 billion in the earlier quarter. This progress in assets was triggered by investments and net financing that documented a quarterly progress of 3% (Rs. 39 billion) and 4.8% (Rs. 26 billion), correspondingly during the review period. The overall share of investments and net financing in

total assets of the Islamic banking industry reached at 53.3% and 22.4%, respectively by the end of June, 2018.

Related assets (net) and financing of the Islamic banking industry observed a quarterly progress of 3.15 (Rs. 39 billion) in the review period and were logged at Rs. 1,323 billion by the end of June, 2018.The indicators for Asset quality of the Islamic banking industry comprising (NPFs) non-performing finances to financing (gross) as well as net non-performing finances to net financing were logged at 2.7% and 0.4%, respectively by the end of June, 2018. It's relevant to remark here that both the ratios were healthier than the average of the overall banking industry.The Islamic banking industry's deposits exhibited a quarterly progress of 6.1% (Rs. 117 billion) through the review period and were logged at Rs. 2,033 billion by the end of June, 2018 likened to the prior quarter (Rs. 1,916 billion). The Islamic banking industry's deposits Market share in overall deposits of banking industry increased to 14.8% by the end of June, 2018 likened to 14.6% in the prior quarter. Liquid assets to total deposits ratios and total assets were noted at 24.6% and 30%, respectively by the end of June, 2018. Financing to the deposit ratios of Islamic banking industry stood at 65% by the end of June, 2018.Islamic banking industry's capital base was amplified to Rs. 156 billion by the end of June, 2018 related to the previous quarter's figures Rs. 146 billion.

This research mainly focuses on the low adoption rate of Islamic banking in Pakistan. Islamic banks have been able to capture a wide market in non-Muslim countries despite being inherently appealing primarily to Muslims. This study identifies the factors that are responsible for the low adoption of Islamic banking in Pakistan. It will help policy makers and bankers to identify these factors and overcome them. By identifying the hurdles and in the adoption of Islamic banking and finding their solutions we can help bridge the gap between bankers and customers, as most people in Pakistan are vary of Islamic practices and consider them to be the same as conventional banks. They think it is just a new way of sellingthe same product. The "underlying product/service mechanism" is the same. This study can help bridge that gap and enable Islamic banks to capture more market share and to grow. Since most of the population in rural areas does not use banking services of any type as they deem them to be un-Islamic. This research adds to the literature by verifying attitudes and perceptions of potential and existing clients of Islamic Banks in Pakistan. This research endeavours to apprehend the low adoption of Islamic Banks in spite of strong growth potential as well as government support delivered to them. Presently, the steady, but sluggish, dissemination of Islamic Banks among the customers is a key concern for several Islamic financial bodies in Pakistan.

LITERATURE REVIEW

There has been considerable research in the area of Islamic banking all over the world. Specific research studies related to our study include work done on customer awareness, bank selection criteria, service quality and satisfaction with respect to Islamic banks. There are various other factors contributed to enhance the tendency of customers toward adoption of IB. Notable research carried out in this field includes the work of Khattak (2010) in Pakistan and Erol and El-Bdour (1989) in Jordan. Erol and El-Bdour (1989) studied the behaviour of people towards Islamic banking and bank selection criteria. According to their findings, religion and new branches did not significantly affect bank selection. While the influence from peer groups effect

the selection and awareness of Islamic banks. Hegazy (1995)claimedthat religion was the most critical factor for consumers while selecting banks followed by return.However, a research by Muhamad et al., (2015)stated that the primary factors that impacted a consumer's decision while selecting banks were bank reputation, electronic service and bank image. He also stated that religion is not a primary factor when it comes to choosing Islamic banks.

Parasuraman et al., (1988) discussed the role of service quality in bank selection. It was concluded that better service quality and professional behaviour led to an increase in customer satisfaction and reduced customer attrition. Levesque and Mcdougall (1996) found out that service problems had a substantial influence on client satisfaction and client attrition. Al-Tamimi and Al-Amiri (2003) stated that users were satisfied with the overall quality of Islamic banks. discussed the relationship between service quality and client satisfaction. Ali and Raza (2017) documented that in Pakistan client satisfaction and service quality have a positive relationship in Islamic banks. The magnitude of the relationship is higher in Islamic banks as compared to conventional banks.

Naser et al., (1999) stated that customers of Islamic banks in Jordan are satisfied with most of the aspects of the products. The users of Islamic banks deem that employees play a significant role in client-company interaction whereas; the customers are concerned about the limited number of branches and operating hours. Metawa and Almossawi (1998) concluded that customers of Islamic banks are highly satisfied with the investment accounts. Also, the staff of Islamic banks in Bahrain has been highly satisfying. Okumus (2005) noticed that Islamic finance house users are most content by proficiency in transactions, friendliness of employees and the advice offered by the bank employees. Al-Tamimi and Al-Amiri (2003) found out that customers in the UAE were pleased with the overall service quality of Islamic banks. Khattak (2010) studied the consumer satisfaction and awareness level towards Islamic banks. He concluded that consumers have mixed feelings towards Islamic banks, they are satisfied from some services and dissatisfied from others. Ali and Raza (2017), and Muhamad et al. (2015) also concluded that in Islamic banking, service quality has a direct relationship with consumer satisfaction.

Rammal and Zurbruegg (2007) studied the customer's knowledge about Islamic banking. Muslim users had limited awareness, and non-Muslim users were completely unaware of the existence of Islamic banking services. However, religion was an importantthat factor while choosing Islamic banks, for the Al-Ajmi et al., (2009) stated that in Bahrain, users of Islamic banking services have more awareness of Islamic banking products than non-users. Lateh et al., (2009) noticed that a major proportion of users in Thailand have awareness about the fundamental principles of Islamic banking prohibition of interest, but have little or no awareness of the services and products offered by Islamic banks.

Tara et al., (2014) examined the performance of Islamic banks in Pakistan. Their investigation involved 150 Muslim respondents from rural and metropolitan areas all over the country. The result of their analysis showed that there is a significant obvious adoption criterion for Islamic banking, with reputation, financial teaching and networking being most important among other factors. Al-Tamimi and Al-Amiri (2003) concluded that in UAE a majority of consumers preferred Islamic banks and their perception of Shariah-complaint banks is positive. For them bank image depends on products offered by the bank, followed by service quality and then

religiosity whereas consumers do not differentiate between Islamic and conventional banks at the basic level. Lateh et al., (2009) found that consumers in Thailand consider the social image of Islamic banks to be an important factor compared to conventional banks.

MODEL & METHODS

Irfan et.al.(2018) yields the association between reasons for choosing Islamic banks, service quality, customer satisfaction, bank image and adoption of Islamic banking. Prior literature has been used as a guide to develop the research model aiming to address impact of these variables on adoption of Islamic banking in Pakistan. The model below shows the observed variables RCIB, KIB, SQIB, CSIB and BIIB as independent variables and adoption of Islamic banking as the dependent variable for both managers and consumers
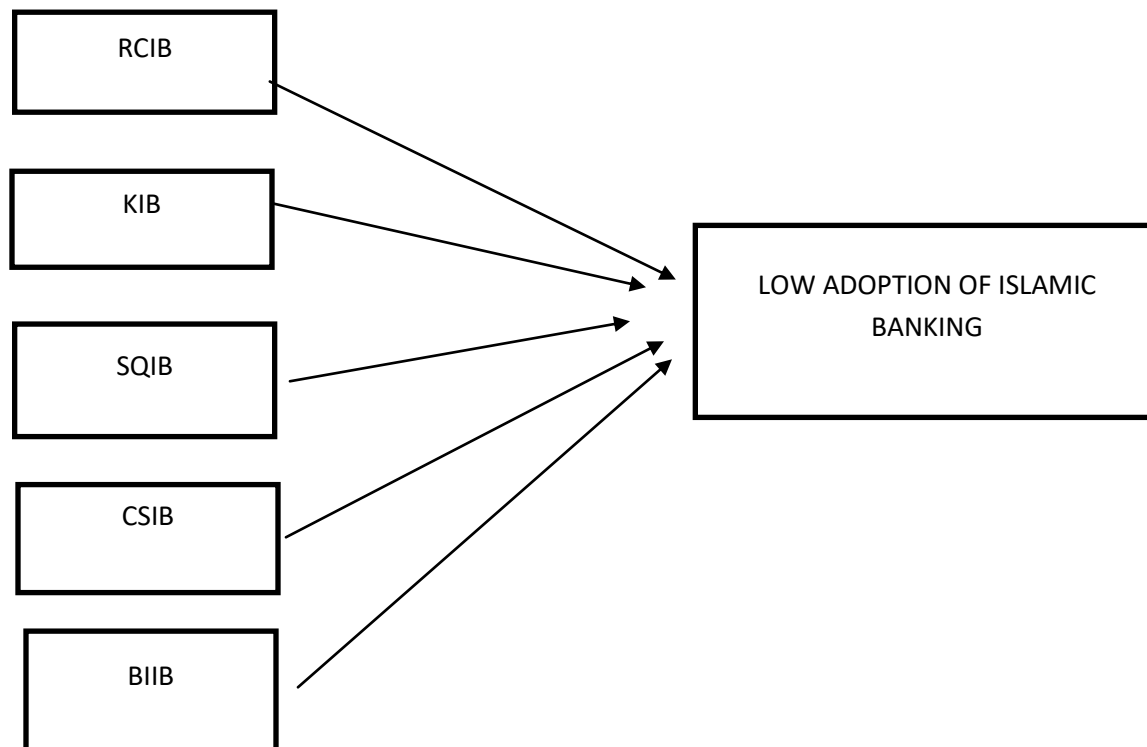

Figure 1: Research Model

Data collection

To empirically examine the model of this research, field survey approach was adopted. The data was gathered on the variable with the help of questionnaire surveys from the managers of Islamic banks and the consumers of Islamic banking, in order to identify the contradiction between the products offered by Islamic banks and their impact factor in Pakistan (Islamabad, Rawalpindi). The purposive sampling technique is used for choosing the participants in the research based on the population's characteristics and intents of the study. Concomitantly, the study needs data of a specific target group, this method is used to guarantee the selection of respondents from particular target groups i.e. managers of different Islamic banks and the consumers of the products of Islamic banking in Rawalpindi and Islamabad.We used systematic sampling method for this study for the consumers. The questioners approached every third person entering the bank and requested to fill out the survey questionnaire. The questioners were to contact the next

person if a customer declined to fill out a questionnaire and then repeat the process of approaching every third person after a customer agreed to fill out a questionnaire. A systematic approach provides a better degree of control and procedural advantage which might be helpful for survey studies with the short sample (Patton, 2002).A total of 183 usable questionnaires were obtained from consumers and 50 usable questionnaires from bank mangers of Islamic banks.

Variables and Measures

A cautious selection of dealings is mandatory for a field survey study, for that reason, scales for every single variable are modified from previous researches. The questionnaire is formed with the help of a Likert Scale in order to measure the said hypotheses.The scale adapted in this study is a validated measure used to represent people's attitudes to a topic. All the variables are measured with the help of 5- point Likert scale; comprising of different items, the scale ranges from 1 (Strongly disagree) to 5 (Strongly agree).

Table 1: Detail of items for Each Variable

Reasons to choose Islamic banks(RCIB)	Knowledge of Islamic Banks (KIB)	Service quality of Islamic banks (SQIB)	Customer satisfaction of Islamic banks (CSIB)	Bank image of Islamic banks (BIIB)
Faith in Religion	Interest free financing by Islamic banks is purely Islamic	High bank returns	Returns offered	Banks operate according to Islamic law
Bank returns	Islamic banks have successfully differentiated themselves from conventional banks in terms of service and products.	Wide range of services	Service charges	Varieties of Islamic financial products are available
Location Bank Services Charges	Interest free financing by Islamic banks is purely Islamic	Investment diversification opportunities	Customer care	Confidence in authenticity of Islamic banking
Range Of services	Interest free banking	Wide branch network	Financial counseling	Confidence in bank's Shariah advisors
Bank reputation	Risk and profit sharing	Efficient/quick service	Employees know how	Bank's ambience is Islamic
Branch network	Earn profits	Good customer care	Marketing efforts	Separate counter for ladies
	Banking for poor	Financial advice	Variety of products/services	Staff attire and behaviour
			Branch network	Low service charges
			Role of Shariah advisors	Online service/ No hidden charges.
			Role of media in creating awareness	Bank size
			Technology	Bank reputation
				Profitability
				Confidentiality of customer information.
				Location and Branch network

Data Analysis Techniques

The procedure of data analysis starts with the data collection followed by the screening of data and descriptive statistics evaluating demographics of the respondents. A Structural Equation Modeling was used with Partial Least Squares (SEM-PLS) in order to test the hypotheses of the study. A data analysis technique called Structural Equation Modeling (SEM) is introduced in two forms. The Covariance-based Structural Equation Modeling practice (Jöreskog, 1973) and the Variance-based Structural Equation Modeling practices or the PLS (Wold, 1985). The Covariance-based Structural Equation Modeling practices are engaged for cause and effect relationships (Hair et.al. 2012) or confirmatory factor analysis (Hox and Bechger, 1998) but they have certain limitations such as; the data must be normally distributed, requires large sample size, there must be at least 4 indicators for every variable to properly run the model (Hair, Ringle, & Sarstedt, 2011). The SEM-PLS method however has least demands of sample size, data, measurement scales and residual distribution. Although Partial Least Squares is engaged for theory confirmation purpose, it could also be utilized to test the absence or presence of relationships between hypotheses (Wold, 1985). The objective to choose PLS-SEM as a technique for the estimation purpose is because it has an ability to deal with the data issues, for instance; small sample sizes, complexity of models and non- normality of data.

PLS technique was used to perform structural Equation Modeling (SEM), in order to test the expressed hypotheses and examine the proposed model. The analysis was loaded onto reasons for choosing Islamic banks (RCIB), knowledge of Islamic banks (KIB), service quality of Islamic banks(SQIB), customer satisfaction of Islamic banks(CSIB), bank image of Islamic banks(BIIB) and low adoption of Islamic banks respectively. The items' internal consistency is tested by traditional reliability measure, Cronbach's alpha (Cronbach and Meehl, 1955). Next the validity of each hypothesis is measured by outer loadings that must be beyond 0.7. To measure the discriminant validity of hypotheses a technique named Fornell and Larcker is engaged (Fornell and Larcker, 1981). Once the validation of constructs is done, a path analysis was executed to check the assumed associations between the dependent variable; low adoption of IB's and independent variable; reasons for choosing Islamic banks, knowledge of Islamic banks, service quality of Islamic banks, customer satisfaction of Islamic banks and bank image of Islamic banks. After running the Partial Least Squares (PLS) model, estimations are issued for the path coefficients that certainly signify the hypothesized relationships concerning the constructs. This particular procedure was implemented since the size of the sample was small. The 10-times rule sample selection method is among the most commonly used sample selection methods in the business research and information systems (Hair et al., 2011). The 10-times rule limits that the size of the sample must be 10 times bigger than the maximum number of outer or inner model links directing at any latent (inferred) variable in the model (Goodhue, Lewis, & Thompson, 2012), with this particular definition the smallest size of the sample for the projected model is 70. Although, our sample size is certainly greater, that is 183 questionnaires for the consumers and 50 for the managerial side's analysis.

The reliability of constructs is measured through Cronbach's alpha (α). It is a test for reliability of scales by internal consistency of the questionnaire items. It shows how well the items of the scale measure the said constructs. Its value ranges between 0 and 1, the closer it is to 1 the greater is the internal consistency. Reliability above 0.70 is considered reliable (Bacon, Sauer,

&Young, 1995) and between 0.5-0.6 is considered acceptable. Reliability analysis of each construct was performed and the results are reported in next chapter.

RESULTS AND DISCUSSION

The aim of the current study is to examine the relationship between reasons for choosing Islamic banks, knowledge of Islamic banks, service quality and customer satisfaction, bank image of Islamic banks and low adoption rate of Islamic banking. Results are discussed in this chapter. Demographics, descriptive statistics, reliability measures, path coefficients, and structural equation modelling results are discussed in this chapter in detail starting from respondent's profile, Descriptive Statistics and Reliability of measures followed by Structural Equation Modeling Analysis showing the linkages among constructs. A discussion of findings is also provided along with the specified future areas.

Respondents Profile
For the purpose of this study, data was gathered from 183 customers of both Islamic and conventional banks. The data collection took place at various banks throughout the twin cities (Rawalpindi, Islamabad). Initially 200 customers were asked for their feedback and contribution. After data collection and final data screening 183 responses were selected for analysis which was the final sample size of the study. From these responses of customers 56.2% were male and 43.7% were female. Approximately 67.7% of the customers were of age 25-less, while 25.6% of customers were of age 26-35 and only 6.7% of the respondents were of age 36-45. 64.4% of the respondents were married while 35.5% were single. Most of the respondents had a masters' degree (62.2%), and 37.7% of the respondents had a bachelors' degree. Amongst the respondents 53.5% of them had a salary cap of 20,000- 40,000, while 32.7% had a salary of 40,001-60,000 and 13.6% of the respondents had marked their salary to be 60,001-above. A large number of the respondents were students 55.1% while 27.8% of the respondents had marked their occupation as self-employed/professional, and just 16.93% of the respondents were holdings managerial occupations.

Table 2: Demographicsof Customers and Managers

Demographics	Customers		Managers	
	No. of Respondents	Percentage	No. of Respondents	Percentage
Gender				
Male	103	56.2%	42	84%
Female	80	43.7%	8	16%
Age				
25-less	124	67.7%	3	6%
26-35	47	25.6%	35	70%
36-45	12	6%	12	24%
Marital status				
Married	118	64.4%	43	86%
Single	65	35.5%	7	14%

Education				
Masters'	114	62.29%	33	66%
Bachelors'	69	37.7%	17	34%
Income				
20,000-40,000	98	53.5%	--	--
40,001-60,000	60	32.7%	13	26%
60,001-above	25	13.6%	37	74%
Occupation				
Student	101	55.1%	--	--
Self-employed/professional	51	27.8%	5	10%
Managerial	31	16.9%	43	86%
Others	--	--	2	4%

Forthe purpose of this research, data was collected from 50 bank managers of Islamic banks. The data collection took place at various branches in the twin cities (Rawalpindi, Islamabad). After data collection and screening 50 responses were selected for analysis which was the final sample size for the study. From these responses of bank managers 84% were male and only 16% were female. Approximately 70% of these bank managers including male and female were between age 26 to 35, while 24% were from age 36-45 and 6% were of age 25or less. Most of the bank managers were married (86%) while 14% were single. A large number of bank managers had a masters' degree (66%) while 34% of them had a bachelors' degree. Amongst the respondents 74% of them had a salary cap of above 60,000 rupees while 26% had a salary of 40,000 to 60,000 rupees. Most of the bank managers chose managerial position as occupation (86%) while 10% chose self-employed/professional as the occupation and 4% chose (other) from the options.

RESULT & DISCUSSION

The results of the study show a clear difference of opinion between the bank managers of Islamic banks and customers (both Islamic and conventional banks). Bank managers consider returns, location, bank service charges, range of services provided, bank reputation and branch network to be the factors that consumers deem important when selecting Islamic banks. The sole factor that drives customers towards Islamic banking is their faith in their religion. This is evident from the data collected. Similarly bank managers are adamant that their banks functions/operations are purely Islamic. Whether its interest frees financing or their products and services, managers believe that they have successfully differentiated themselves from conventional banks, and that their operations are purely Islamic. However, data collected from consumers reveals that customers do not consider interest free financing of Islamic banks to be purely Islamic nor do they believe that Islamic banks have managed to differentiate themselves clearly from conventional banks in terms of their products and services.Validity is the degree to which questionnaire items (measuring instrument) measures what is expected from it to measure (Drost, 2011). In PLS-SEM to examine validity convergent validity and discriminant validity are investigated.

Table 3: Factor loadings for Customers and Managers

Latent variable	Customer	Managers

	Indicators	Loadings	Indicators	Loadings
Reasons for choosing Islamic banks	RCIB1	0.784	RCIB2	0.728
	RCIB4	0.771	RCIB3	0.859
	RCIB5	0.84	RCIB4	0.843
	--	--	RCIB5	0.743
	--	--	RCIB6	0.647
	--	--	RCIB7	0.762
Knowledge of Islamic banks	KIB3	0.783	KIB1	0.906
	KIB4	0.67	KIB2	0.877
	KIB5	0.825	KIB3	0.713
	--	--	KIB4	0.563
	--	--	KIB6	0.487
Service quality of Islamic banks	SQIB1	0.712	SQIB1	0.913
	SQIB3	0.762	SQIB2	0.873
	SQIB4	0.827	SQIB4	0.901
			SQIB5	0.437
			SQIB6	0.565
Consumer satisfaction	CSIB2	0.6	CSIB1	0.817
	CSIB3	0.749	CSIB2	0.698
	CSIB4	0.824	CSIB3	0.882
	CSIB5	0.811	CSIB4	0.472
	CSIB6	0.671	CSIB 5	0.578
	CSIB7	0.617	CSIB7	0.797
	CSIB8	0.585	CSIB9	0.499
	CSIB9	0.69	CSIB10	0.531
	--	--	CSIB11	0.398
Bank image	BIIB2	0.514	BIIB1	0.82
	BIIB3	0.583	BIIB2	0.432
	BIIB4	0.506	BIIB3	0.434
	BIIB5	0.456	BIIB4	0.527
	BIIB6	0.621	BIIB5	0.716
	BIIB8	0.646	BIIB6	0.515
	BIIB9	0.551	BIIB7	0.449
	BIIB11	0.672	BIIB8	0.473

BIIB12	0.689	BIIB10	0.74
BIIB13	0.636	BIIB11	0.455
BIIB14	0.622	BIIB12	0.594
BIIB15	0.637	BIIB13	0.523
BIIB18	0.75	BIIB15	0.41
BIIB19	0.785	BIIB17	0.623
		BIIB18	0.573
		BIIB19	0.405
		BIIB20	0.632
		BIIB21	0.658
		BIIB22	0.59

The table 4 below shows the significance of the factors used to measure the variables for consumers. For the variable reasons of choosing an Islamic bank, the factor RCIB is not significant in either t statistic or p-value. For the variable knowledge of Islamic banks, the factor KIB is significant in both t statistic and p-value. Likewise, the factors for all other variables, service quality (SQIB), customer satisfaction (CSIB) and bank image (BIIB) are all significant in both, t statistic and p-value. The table above shows the significance of the factors used to measure the variables for managers.

Table 4: Significance analysis for Customers and Mangers

	Customers			Managers		
	Original Sample (O)	T Statistics	P- value	Original Sample (O)	T Statistics	P- value
RCIB_ -> DV	-0.008	-0.102	0.791	-0.135	-1.594	0.117
KIB -> DV	0.197	2.737	0.012	0.541	4.292	0
SQIB -> DV	0.136	2.229	0.037	0.607	4.076	0
CSIB -> DV	0.261	3.434	0.008	-0.170	-1.974	0.044
BIIB -> DV	0.575	8.855	0	0.051	0.445	0.643

For the variable reasons of choosing an Islamic bank, the factor RCIB is not significant in either t statistic or p-value. For the variable knowledge of Islamic banks, the factor KIB is significant in both t statistic and p-value. For the variable service quality,the factor (SQIB) is also significant in both t statistic and p-value. For the variable customer satisfaction, the factor (CSIB) is insignificant in t statistic but significant in p-value. For the variable bank image, the factor (BIIB) is insignificant in both t statistic and p-value.

Reliability Analysis

The test for internal consistency of questionnaire items measuring the said constructs was measured through Cronbach's alpha (α). Of all the variables 'bank image" showed highest consistency among its items (α=0.881) followed by 'customer satisfaction' which showed (α= 0.852). Both variables' α values were above the cut- off of 0.7 (Bacon et al., 1995) indicating that their items produce consistent outcomes. Other variables; knowledge of Islamic banks" (α =0.833), reasons of choosing Islamic banks (α =0.717) also lie above the cut-off of 0.7. Service quality (α =0.667) has reliability measures above Nunnally's acceptable range for internal consistency i.e. 0.6. Therefore, the resulting scales for all variables under study have exhibited acceptable reliability. However, authors of PLS-SEM estimation technique suggest the use of composite reliability (C.R) to evaluate internal consistency of the said constructs' items (Hair et al., 2012; Hair et al., 2011). Composite reliability provides more pertinent measures of internal consistency when using PLS-SEM due to two reasons; i) PLS-SEM algorithm prioritizes indicators based on their individual reliabilities unlike Cronbachs' α, ii) It does not underestimate reliability like Cronbachs' α which underestimates consistency due to varying number of items in the scale. Therefore, for appropriate construct reliability measures composite reliability was also used.

Table 5: Reliability Analysis (Reliability, Validity, Average Variance Extracted)

	Cronbach's Alpha	rho_A	Composite Reliability	(AVE)	Cronbach's Alpha	rho_A	Composite Reliability	AVE
BIIB	0.881	0.903	0.898	0.391	0.805	0.775	0.814	0.212
CSIB	0.852	0.918	0.883	0.488	0.83	0.817	0.842	0.397
DV	1	1	1	1	1	1	1	1
KIB	0.833	0.857	0.881	0.599	0.777	0.894	0.843	0.531
RCIB	0.717	0.726	0.841	0.638	0.879	0.806	0.893	0.583
SQIB	0.667	0.696	0.812	0.591	0.738	0.881	0.805	0.52

The test for internal consistency of questionnaire items measuring the said constructs was measured through Cronbach's alpha (α). Of all the variables 'reasons of choosing Islamic banks" showed highest consistency among its items (α=0.879) followed by 'customer satisfaction' which showed (α= 0.83), then "bank image" (α= 0.805)followed by "knowledge of Islamic banks" (α= 0.777) and lastly service quality (α= 0.738) all variables' α values were above the cut- off of 0.7 (Bacon et al., 1995) indicating that their items produce consistent outcomes. Therefore, the resulting scales for all variables under study have exhibited acceptable reliability.

Discriminant Validity

Discriminant validity is used to represent the extent to which a construct is distinct from other constructs and measures what is expected from them to be measured. Fornell and Larckers' technique (Fornell & Larcker, 1981) is used to examine discriminant validity in this study. According to this technique the average variance extracted (AVE) of every construct should be higher than its squared correlations with other constructs. Table 8 shows that the square root of AVE value for each scale was higher than the construct's respective correlation with all other constructs, which is an evidence for discriminant validity.

Table 6: Discriminant validity Analysis

Discriminant validity: (Customers)					
	BIIB	CSIB	KIB	RCIB_	SQIB
BIIB	0.625				
CSIB	0.518	0.699			
KIB	0.375	0.422	0.774		
RCIB_	0.347	0.515	0.421	0.799	
SQIB	0.248	0.336	0.112	0.234	0.769
Discriminant validity: (Managers)					
	BIIB	CSIB	KIB	RCIB_	SQIB
BIIB	0.646				
CSIB	0.528	0.63			
KIB	0.379	0.51	0.728		
RCIB_	0.296	0.03	0.408	0.764	
SQIB	0.561	0.624	0.713	0.307	0.721

Discriminant validity is used to represent the extent to which a construct is distinct from other constructs and measures what is expected from them to be measured. Fornell and Larckers' technique (Fornell & Larcker, 1981) is used to examine discriminant validity in this study. According to this technique the average variance extracted (AVE) of every construct should be higher than its squared correlations with other constructs. Table 8 shows that the square root of AVE value for each scale was higher than the construct's respective correlation with all other constructs, which is an evidence for discriminant validity.

CONCLUSION

The results of the study show a clear difference of opinion between the bank managers of Islamic banks and customers of (both Islamic and conventional banks). Bank managers consider returns, location, bank service charges, range of services provided, bank reputation and branch network to be the factors that consumers deem important when selecting Islamic banks. However, the sole factor that drives customers towards Islamic banking is their faith in their religion. This is evident from the data collected. This research reveals that customers of both Islamic and conventional banks perceive that Islamic banking is not purely interest free. Likewise, there is a common perception that Islamic banks are not really practicing Islamic banking according to Shariah and that the same conventional banking products are sold under the guise of Islamic banking. However, bank managers are adamant that their bank's functions/operations are purely Islamic. Whether their interests free financing or products and services, managers believe that they have successfully differentiated themselves from conventional banks, and that their operations are purely Islamic. However, data collected from consumers reveals that customers do not consider interest free financing of Islamic banks to be purely Islamic nor do they believe that Islamic banks have managed to differentiate themselves clearly from conventional banks in terms of their products and services.

In order to go forward Pakistan needs to take much aggressive decisions in encouraging Islamic Banking consistent with the uniform principles being encouraged by the Islamic Financial Services Board. Core drive however, should stay intact, i.e. bringing financial novelty to cater the requirement of industry, country's infrastructure, population and corporate sector; with the vision to develop the faith centred system of financing reliable with the Sharia codes. In order to endorse Islamic banking, it's also essential for Islamic banks to propose good products for the big majority in order to persuade them to reside their deposits with the Islamic banks. Banks could also capture large deposits by engaging good marketing practices. That could be spreading of the Islamic education with the help of mass media turn out to be a chief advantage for banks to grasp the attention of bulk of populace who are Muslims.

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