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**ARTICLE**

## **A Profile Analysis of the Customers of Islamic Banking in Khyber Pakhtunkhwa**

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### **ABSTRACT**

*Interviews conducted with the subscribers of Islamic banks in Khyber Pakhtunkhwa revealed their key characteristics and patterns. The study sample comprised 100 subscribers of Al-Meezan Bank and Bank of Khyber in N.W.F.P. A comprehensive profile analysis and a series of chi-square tests were conducted to elaborate the main attributes of the customers of Islamic banking system: the majority of Islamic bank customers are well educated; approximately 80 percent are between 25-50 years of age; more than 50 percent of the surveyed customers have maintained their current banking relationship with Islamic banks for more than one year; customers' awareness and usage rates are quite high for Murabaha financing, Mudaraba financing, investment accounts, customers were found to be most satisfied with the products/services they used most, with the Murabaha accounts receiving the highest satisfaction score; Islamic bank employees received the highest satisfaction score among the elements of the service delivery system; the single most important bank selection criteria were adherence to the Islamic principles.*

### **INTRODUCTION**

One of the significant developments in the Muslim world during the last decade and half is the emergence of Islamic banking, which has appeared as a powerful movement. Although some attempts to reorganize banking activities along the Islamic lines go back to the early 1960's, the concept of Islamic banking is even older. In fact, the strong disapproval of interest by Islam and vital role of interest in the modern commercial banking system led Muslim thinkers to explore the ways and means to organize commercial banking on an interest free basis. However, for a long time, the idea of Islamic banking remained a mere wish.

The main mission of these banks has been the achievement of social and economic development through the delivery of financial services in line with the principles and teachings of Islam. To achieve their mission, it is imperative for Islamic banks to continue to study the changing behavior, attitude and perceptions of their customers especially in the retail sector, which constitutes the major portion of the banking business. This study is designed to identify the profile and banking habits of Islamic bank customers as well as their awareness, usage, perceived

importance and degree of satisfaction with the current products and services provided by Bank of Khyber and Al-Meezan bank operating in Peshawar N.W.F.P.

The Al-Meezan Bank is fully operating on Islamic Banking Conjunctions while the Bank of Khyber have established some branches for delivery of Islamic Banking services to its subscribers. They are the main providers of Islamic financial services to the residents of N.W.F.P. The combined total assets of these two banks was 35 Billion Rupees in December 2005. The study utilizes a questionnaire methodology designed to survey 100 customers of the two banks. A number of statistical tests along with a profile analysis are performed to evaluate the empirical findings emerging from this comprehensive survey.

This study is divided into five sections. Section one is an introduction to the study. Section two presents a detailed review of the relevant literature. Section three embraces the study methodology which includes a detailed description of the questionnaire, the sample, the procedure of data collection and an overview of the statistical tests used in the study. Section four presents the study findings. It begins with a profile analysis designed to identify the banking behavior of the Islamic bank customers as well as a discussion of the results of the statistical tests performed. Section five presents the main conclusions of the study. This section also includes a list of recommendations for improving the quality of products/services provided by Islamic banks

## **LITERATURE REVIEW**

### **CUSTOMER SATISFACTION**

Customer satisfaction is the feeling or attitude of a consumer toward a product/service after it has been used (Solomon, 1996; Wells and Prensky, 1996). A satisfied consumer will repeat the purchase of the product and convey positive messages about it to others (Dispensa, 1997). By contrast, a dissatisfied consumer is more likely to switch to an alternative product/ service the next time he/she recognizes the same need. Not only this, but also his/her dissatisfaction will be reflected in a negative word of mouth which might have a serious damaging effect on the business. Therefore, it is crucial that firms ensure customer satisfaction for their products/services. This has led to the increasing popularity of measuring customer satisfaction in recent years (Gulledge, 1996).

Banking is one of those industries in which consumer satisfaction has attracted the attention of many researchers (for example, Anderson et al., 1993; Bedall and Power, 1995; Brenhardt et al., 1994; Dispensa, 1997; Holliday, 1996; Wells and Prensky, 1996; White, 1994). One of the major reasons is that a fiercer

level of competition is becoming the most influential factor in determining the competitiveness of banks (Bartell, 1993; Haron et al., 1994).

Customer satisfaction is becoming so important to the extent that some banks consider it as a chief element in their marketing strategies. The term "aftermarketing" has been widely used to mean focusing attention and efforts on current customers in order to maximize their satisfaction so to secure their retention (Vavra, 1995).

The issue of customer retention has been the major concern of many banks. For example, Lloyds Bank (UK) conducted research to identify the process leading from customer satisfaction to account closure and to explore the determinant factors of dissatisfaction. The findings of the study helped Lloyds to design and implement a new customer retention process (Waterhouse and Morgan, 1994). Like Lloyds Bank, the National Bank of Middlebury (USA) also developed a quality service program based on customer retention through service quality. Similarly, the Royal Bank of Scotland uses customer satisfaction to help plot the course toward its vision for the future. The bank is concerned about profitable customer behavior in terms of the "3 Rs: remaining with the bank, referring the bank to friends, and repurchasing from the bank" (IJRDM, 1995b).

To satisfy customers, banks use various tools, ranging from reengineering all services to focusing on some specific services (Motley, 1994). One of the areas which is growing and believed to have a significant impact on customer satisfaction is telemarketing (Sion, 1994). White (1994) has examined the importance of telemarketing in satisfying customers and concluded that "telephone banking could become a key aspect of customer satisfaction". In Singapore banks are continually involved in improving the core technology that makes self-service banking products possible in order to achieve better marketing, customer satisfaction and retention (Kass, 1992). The Co-operative Bank in the UK has applied another strategy to satisfy its customers. The bank encouraged customers to communicate directly with its account management center, rather than contacting the branches, for any problem or complaint they might have. This strategy has helped Co-op to gain one of the highest customer satisfaction ratings (IJRDM, 1995a).

The above discussion highlights the importance of customer satisfaction which is thought to be the cornerstone in constructing strategies of banks. In this respect, it is essential for a present-day bank to switch from managing means to managing customers in order to satisfy them with the whole services they offer. Therefore, it is important for banks to have a system by which consumer satisfaction is continuously measured (Chakravarty et al., 1996; Chitwood, 1996; Morrall, 1996; Noe, 1996; Romano and Sanfillipo, 1996).

### **INFLUENCE OF QUALITY**

In the long run, the most important single factor affecting a business unit's performance is the quality of its products and services, relative to those of competitors ...Superior and improving quality is the most effective way for a business to grow. Quality leads to both market expansion and gains in market share (Buzzel and Gale, 1987).

In a service business, quality depends on the customer's experience with delivery because, unlike products, services are experienced while they are produced. Studies from the service literature emphasize the importance of quality perceptions and the relationship between service satisfaction and quality (e.g. Cronin and Taylor, 1992; Taylor et al., 1994). There is evidence to suggest that service quality leads to customer satisfaction and helps to keep existing customers and attract new ones (Keiser, 1993; Lian, 1994a, b). However, some banks go even beyond service quality. They suggest what they call "service excellence" (Mahoney, 1994). Masden (1993) defines service excellence as a field through which firms can delight their customers and exceed their expectations: "service excellence concentrates on listening, empowerment, innovation, and making customers and employees part of the action" (Masden, 1993). The realization of the importance of quality stimulated many manufacturing and service businesses to adopt programs such as TQM (total quality management) or CQI (continuous quality improvement) (James, 1989; Joseph, 1996).

### **INFLUENCE OF INTERNAL MARKETING (I.E. EMPLOYEES) ON SERVICE QUALITY**

Internal marketing has been defined as marketing the firm to its employees (Gronroos, 1982); in other words, attempting to motivate and satisfy employees through training, incentives, appreciation, and participation, etc. (Joseph, 1996; Kotler and Armstrong, 1991). The important role of bank employees in the quality of the services delivered is well documented in the literature (Bartell, 1993; Berry and Parasuraman, 1991; Bitner, 1990; Chitwood, 1996; Gronroos, 1982; Joseph, 1996; Kotler and Armstrong, 1991; Surprenant and Solomon, 1987). Internal marketing is important because the people who deliver services play special roles in satisfying customers, (Joseph, 1996). Several studies of service satisfaction have found that the interaction between customer and employee plays an important role in satisfying customers (e.g. Bitner, 1990; Surprenant and Solomon, 1987). This concept has also been applied to the banking industry. Several banks have realized that outside customer satisfaction must start from inside (i.e. employees) satisfaction. For example, Citizens Commercial Saving Bank of Flint, Michigan (USA), applied a strategy to make sure that the staff member responsible for a customer contact had the necessary tools and decision-making powers to properly service the customer

during the service contact (Stone, 1995). The “internal” satisfaction as a gateway to the external one has been emphasized by Gremler and others in their study of a large US bank (Gremler et al., 1995). All these studies indicate the importance of increasing employees’ skills through continuous training. Trained employees can positively contribute to the service quality which was found by many banks to be instrumental to customer satisfaction and retention (Lian, 1994a,b).

### **BANK SELECTION CRITERIA**

Bank selection criteria have been heavily investigated over the past two decades (Anderson et al., 1976; Evans, 1979; Haron et al., 1994; Hegazy, 1995; Kaynak and Yavas, 1985; Khazeh and Decker, 1992; Laroche et al., 1986; Ross, 1989). In most of these studies, questionnaire methodology was employed to evaluate the relative importance of specific selection attributes. Several attributes were found to play a crucial role in the process of bank selection. Those attributes include: availability of credit, relatives’ advice and recommendations, friends’ advice and recommendation, convenient location, variety of bank services, the quality of services, availability of ATM, adequate bank hours, return on investment, friendliness of personnel, understanding financial needs, and bank name. The relative importance of each of those attributes differs from one market to another depending on: the type of institution (Islamic bank or commercial bank), the customers’ level of education, age, income and occupation.

Given the special nature of Islamic banking which differentiates it from commercial banking, it is expected that some of the above selection attributes that have been found to be crucial in the selection of commercial banking, may not play the same role in the selection of Islamic banks. Hegazy (1995) has investigated bank selection criteria for both Islamic banks and commercial banks. He concluded that the selection attributes for Islamic banks are different from those for commercial banks. For the selection of Islamic banks, it was found that the most important factor was the religious inclination of the subscribers rather than the convenience of location, friendliness of personnel, the expected profitability, timeliness and efficiency.

Identifying the main selection attributes will allow Islamic banks to develop appropriate marketing strategies. Since Islamic banks operate according to profit-loss sharing principles (prohibition of interest), they are expected to develop this competitive advantage around those crucial selection attributes emerging from comprehensive customer surveys.

## **THE METHODOLOGY**

The methodology employed in this study include: the procedure for data collection, the study sample, the procedure and techniques used in the data analysis, and the study limitations. A brief description of each of these elements is presented in this section.

## **DATA COLLECTION**

The data required for conducting this study were collected using self-administered questionnaires, specially designed to achieve the study goals as outlined in section one. A total of 14 questions covering 14 key attributes of the customers' banking behavior were prepared after reviewing the relevant literature on the subject, as well as consulting key officials in the two selected banks. Thirteen of the 14 questions were closed-ended questions to encourage easy response from the customers and to allow the researchers to use statistical tests in evaluating the empirical findings of the study.

A pilot study of 15 questionnaires (about five per cent of the total sample size) was conducted to check the validity and logic of the questions included in the questionnaire. After reviewing the feedback from the pilot study, several key amendments were made before the distribution of the questionnaire.

The questionnaires were hand distributed to the account holders in the two selected banks. As the two banks have branches, the questionnaires were distributed in all the branches to seek wider representation of bank customers. This process of data collection continued for four months, from September 2006 to December 2006. Respondents were selected from among customers visiting the sampling locations during the chosen time intervals, in order to eliminate the sampling frame errors and to ensure the representation of the population under study in the sample units. Although 150 questionnaires were distributed, the actual sample size (i.e. usable returned and completed questionnaires) was 100 customers (50 from the Al-Meezan Islamic Bank and 50 from the Bank of Khyber). Those usable questionnaires were either returned to the bank official designated to collect them, or to the researchers' mail address.

## **THE PROCEDURE OF DATA ANALYSIS**

Two types of analysis were conducted in this study: profile analysis and statistical analysis.

Profile analysis can be viewed as a means of classifying a particular set of subjects according to a particular number of relevant attributes. This method is

widely used in social science research especially those studies that involve the investigation of behavioral issues. This method of analysis has been used in many studies as a first step before conducting any statistical analysis.

The profile analysis employed in this study was conducted via the use of percentages, mean scores and ranks. The results of the analysis are presented in Tables I-VII in section 4 of this paper.

In addition to the profile analysis, a non-parametric statistical test was also employed in this study. The selected chi-square test which has been widely used in the literature was adopted in this study for two reasons: first, its suitability to the nature of the data collected, as most of the data are nominal type; second, the application of the technique does not require those restrictive assumptions that are normally associated with most parametric statistical tests.

### **STUDY LIMITATIONS**

There are two main limitations to this research. First, there were only two Islamic banks whose customers participated in this study – Al-Meezan Islamic Bank and Bank of Khyber. As a result, the generalization of the findings of this research should be considered carefully. The second limitation concerns the nature of the measures used. The measures included in this research were all based upon the perceptions of the participating customers. Therefore, the potential for data inaccuracies due to item misinterpretation or predisposition to certain responses on the part of the participant does exist.

### **FINDINGS**

Islamic banks currently face various types of competitive pressures from both the traditional commercial banks and other Islamic banks and Islamic investment companies. The scope of this competition has grown in recent years to include every market, product or service. In this highly competitive environment, Islamic banks need to formulate and implement successful marketing plans in which a key ingredient is a clear understanding of the behavior, attitudes and perceptions of their customers. This mission can best be achieved through identifying a complete profile of Islamic bank customers which includes: their banking habits, their selection criteria, their awareness and usage of the various Islamic bank products/services, their degree of satisfaction with those products/services and their delivery systems.

### **CUSTOMER PROFILE**

The success of Islamic banks in formulating effective marketing plans largely depends on maintaining an up-to-date complete profile information on their



customers. This includes customer age, income, educational level, nationality, and other socio-demographic information. The availability of such a comprehensive profile provides the bank management with a solid basis for making plausible and effective decisions regarding the marketing of their products and services.

**Table I** presents a comprehensive profile of the Islamic bank customers participating in this study.

The results reported in **Table I** show that the majority of Islamic bank customers are well educated, with more than 40 per cent holding secondary school certificate and about 50 per cent holding a bachelor degree or above. These findings indicate that Islamic banking in N.W.F.P is predominantly the habit of well-educated persons. Those findings provide Islamic bank managers with valuable inputs for formulating their marketing strategy. More sophisticated products/services can be offered as they can be easily handled by those well-educated customers. However, the emphasis on the products/services to the well-educated customers should not lead Islamic bank management to underestimate the need to develop certain types of products/services that can attract less-educated customers in their efforts to expand their customer base.

In addition, the results reported in **Table I** show that approximately 42 per cent of Islamic bank customers earn less than Rs.20000 per month which represents a sizable population of the province. As a result, management personnel in Islamic banks need to provide the range of products and services that suit the needs of the customers in these income groups. A detailed study of the spending behavior of the customers in this group can provide Islamic banks with highly useful information that can be used in the development of the appropriate products/services to those customers.

The results also show that about 25 per cent of the surveyed customers earn between Rs. 20000 and Rs. 25000 per month and 15.9 per cent of them earn between Rs. 25000 and Rs. 30000 per month. Combined together, the customers in those two income groups represent approximately 40 per cent of the total sample.

Furthermore, the results presented in show that nearly 80 per cent of Islamic bank customers fall in the range 25-50 years of age.

#### **HISTORY OF BANKING RELATIONSHIPS**

**Table II** presents a historical perspective on the banking relationships for the surveyed customers.

The data in panel A of **Table II**, show that 76 per cent of the surveyed customers have had a previous banking relationship with traditional banks prior to their current relationship with their selected Islamic bank. Although those customers might be aware of the different philosophies of the two banking systems (i.e. traditional banking system and Islamic banking system), it is expected that their previous banking experiences are likely to influence their attitudes and perceptions and degree of satisfaction with the current products/services offered by Islamic banks.

The results in **Table II** also show that 54 per cent of the surveyed customers have maintained a banking relationship with Islamic banks for more than one year and 18.5 per cent of them have maintained such a relationship for a period less than a year. These results show that there is a relatively high degree of stability of those customers' relationships with Islamic banks. This suggests that their attitudes, behavior and degree of satisfaction with Islamic bank services will be of significant importance to the Islamic bank management.

More specifically, the results indicate that there is a relatively high degree of permanence in the Islamic bank customer base which allows Islamic bank management to implement various long-term banking activities, such as long financing schemes, long-term savings programs, and launching long-term advertising campaigns necessary to achieve a higher rate of growth.

#### **AWARENESS AND USAGE OF ISLAMIC BANK PRODUCTS AND SERVICES**

The awareness and usage of ten products/ services offered by Islamic banks were surveyed and the empirical results are shown in **Table III**. The results presented in indicate that the awareness percentage is quite high for three basic deposit schemes – Murabaha Financing (88.1 per cent), Modaraba Financing (94.4 per cent) and investment accounts (85 per cent). However, the above results show that a significant portion of bank customers - around 30 per cent - are not aware of the Islamic financing schemes and almost two-thirds of the surveyed customers do not use these facilities.

Around half of the surveyed customers are not aware of money orders/drafts, or traveler cheques offered by Islamic banks. Given the considerable number of residents travelling and transferring money abroad every year, these percentages of customer awareness of those two products/services appear to be relatively low. This problem becomes more evident as we consider the very low percentages of customer usage of those two services, 13.3 per cent and 8.9 per cent respectively. This problem could be partially attributed to the widespread popularity

of money exchange companies and other informal channels of transfer used by the bank customers in N.W.F.P.

Some products and services such as foreign trade facilities, letters of credit and specially ordered bank statements have received low usage scores. However, given the fact that these products/services are not frequently used by the majority of bank customers (conventional banks or Islamic banks) it seems that the percentage usage of these products/services, as reported in, is in line with percentage usage of these services in other countries.

Finally, one-half of the surveyed customers are not aware of the “specially ordered bank statement” service, and only one-fifth of the customers use this service. Given the importance of this service, Islamic banks need to promote it more effectively. In general, the empirical findings regarding the awareness - usage patterns of Islamic bank products/services confirm that the usage rate is well below the awareness level for most of the products/services investigated in this study.

#### **THE RELATIONSHIP BETWEEN SOCIO-DEMOGRAPHIC FACTORS AND THE CUSTOMER USAGE OF ISLAMIC BANK PRODUCTS / SERVICES**

To enrich the findings reported above, a number of chi-square tests were conducted to examine the relationship between some major socio-demographic factors and the usage of Islamic bank products/services. The outcome of these tests is reported in **Table IV**.

The results in indicate that there is a significant relationship between customer age and the usage of “current accounts”. A closer examination of customer responses revealed that this product is relatively more popular among the older customers, 35-50 and above 50 years. About 75 per cent of the respondents in those two age groups have claimed that they use this product. However, only 35 per cent of the customers in the first age group (below 25 years) have indicated that they maintain a current account with their Islamic banks.

Finally, the  $X^2$  results in indicate that there are no observed patterns of relationships between customers’ ages and the other products/services included in this study. These findings suggest that the various other products/services provided by Islamic banks, including the highly popular “Modaraba Financing”, appear to be used by many customers across the various age groups.

The results presented in indicate that there is a significant relationship between the level of education and the usage of the Murabaha and Mudaraba

Financing as indicated by the significant  $X^2$  values of 13.5 and 11.11 respectively. The frequency distribution for those two products/services reveals that these two products are more popular among the well-educated customers. These findings have far-reaching implications for formulating Islamic banks advertising strategies in general and the media selection in particular.

#### **THE RELATIONSHIP BETWEEN THE NUMBER OF YEARS WITH ISLAMIC BANKING EXPERIENCE AND AWARENESS OF THE AVAILABILITY OF DIFFERENT BANKING SERVICES**

A chi-square test of independence indicated that there is a significant relationship between the number of years of Islamic banking relationship and the awareness of the availability of various banking services. These findings suggest that the greater the number of years for Islamic banking relationship the higher the degree of awareness of various banking services offered by the bank. Successful marketing strategies suggest that Islamic banks need to have adequate advertising and promotion activities which will allow their customers to have adequate information about the various services offered by the bank. Those activities, if properly conducted, can speed up the customers' learning about the various bank services - as those customers normally represent potential users of the various services offered by the Islamic banks.

#### **CUSTOMER SATISFACTION WITH ISLAMIC BANK PRODUCTS / SERVICES**

In the highly competitive market for bank products/services, Islamic banks are left with no option but to apply the marketing concept. More specifically, Islamic banks need to be customer-oriented institutions. They should deliver what their customers need. To achieve these goals, it is necessary to obtain in-depth information on the customers' levels of satisfaction with the bank products/services offered. The degree of satisfaction was measured using a five-point Likert type scale ranging from very unsatisfied (1) to very satisfied (5).

**Table V** summarizes the study findings regarding the degree of satisfaction with ten banking products/services offered by Islamic banks in N.W.F.P. It should be noted that customers would indicate their degree of satisfaction with a particular product or service only if they are using the product or the service. The mean satisfaction score for each of the products/services, as well as its respective rank, are presented in.

Based on the mean satisfaction scores presented in **Table V**, and usage rates presented earlier in, it can be noticed that Islamic bank customers in N.W.F.P. are most satisfied with those products/services they use most.

The results reported in **Table V** show that Islamic bank customers are not quite satisfied with the “financing facilities” as indicated by the low mean satisfaction score of 1.83. Informal interviews conducted with some of the surveyed customers indicate some concerns about the cost and flexibility of these financing schemes. “Money orders/drafts” and “traveler cheques” also received relatively low mean satisfaction scores of 1.79 and 1.70 respectively.

In response to the low customer satisfaction with several key Islamic banking products/services (as reported in), Islamic banks need to undertake concrete steps to improve the quality of their products/services. Those steps may include: controlling their costs more efficiently in order to decrease the cost of their financing schemes; simplifying their procedures especially those associated with the various types of financing schemes and other key products and services; arranging for adequate training of their employees; and implementing a program of regular in-depth study to identify the various types of deficiencies in the provision of their products/services.

The results in **Table VI** show that Islamic bank customers appear to be highly satisfied with bank employees - as indicated by the relatively high satisfaction score of 4.08. This finding reflects Islamic bank long-standing commitment to hire, train and maintain qualified personnel. The warm, trustworthy relationship developed between Islamic bank employees and the customers of the bank is largely attributed to the management policy regarding the emphasis on the importance of such relationships as a means of promoting Islamic values in the society and furthering the viability of Islamic bank systems.

According to the results of the chi-square tests presented in, it appears that there is a significant relationship between customer age and the relative importance of Islamic principles as a selection criterion. This is indicated by the high value of chi-square of 89.1 which is significant at 0.000 level. A detailed examination of the responses reveals that more than 84 per cent of the customers in the 25-35 age group consider Islamic principles to be a very important variable in their bank selection decisions, while only 56 per cent of the customers in the 35-50 years age group consider those principles to be very important.

Based on these findings it appears that adherence to Islamic principles has a relatively large influence on customers’ bank selection decisions, especially on those relatively younger customers (25-35 years). As most of the customers in this age group will be looking for Islamic financing schemes to finance their acquisition of various durable goods, banks can respond positively by offering various financing schemes to take advantage of this fast-growing lucrative market of relatively younger customers.

Regarding the relationship between the customers' educational level and the relative importance of bank selection criteria, the results presented in **Table VIII** reveal that there is a significant relationship between the level of education and the relative importance of "Islamic principles" in the bank selection process. Well-educated customers - high school and college degrees - tend to put more emphasis on Islamic principles in selecting their banks than those customers in the other educational groups. Furthermore, recommendations and advice provided by family and friends tend to have more influence on the less-educated customers, as indicated by the significant  $X^2$  value of 31.59. Finally, the significant  $X^2$  value of 24.4 indicates that there is a strong relationship between the customers' level of education and the relative importance of "convenient location" as a selection criterion. A review of the responses received reveals that highly-educated people tend to put more emphasis on the relative importance of bank location as an attribute of their bank selection than do other customers who are relatively less educated. The implication of this finding is that Islamic banks whose customer base includes a large number of well-educated customers, must take into consideration the preferences/desires of those customers when choosing the location of their offices/branches. Again, this study confirms the importance of location as a bank selection criterion, which was also reported in some previous studies (Hegazy, 1995; Javalgi et al., 1989).

## CONCLUSION

This study was designed to investigate the banking behavior of Islamic bank customers in N.W.F.P. A comprehensive profile analysis of Islamic bank customers was conducted. Furthermore, customer awareness of key Islamic bank products/services, their usage of those services and their satisfaction with the delivery systems utilized in extending them were also investigated. Finally, the key attributes used by Islamic bank customers in making their selection decisions were also examined.

The general conclusions which can be derived from this study are:

- First, the results of the study show that the majority of Islamic bank customers are well educated, with approximately 40 per cent holding secondary school certificates, and about 50 per cent holding a bachelor degree or above. Furthermore, the results also show that about 80 per cent of Islamic bank customers fall between 25-50 years.
- Second, the study results indicate that more than 75 percent of Islamic bank customers have had previous banking experience, and about 54 per cent of the current customers have maintained banking relationship with their Islamic bank for more than one year.

- Third, the findings of the study show that customer awareness and usage rates are quite high for four key banking products/services: Murabaha (88.1 per cent), Modaraba (94 per cent), and investment accounts (85 per cent). Among the least used product/services were: money order drafts, traveler cheques, letter of credit and specially ordered bank statement.
- Fourth, the results of the study also indicate that Islamic bank customers in NWFP were found to be most satisfied with products and services they use most. Murabaha and modaraba financing received the highest satisfaction score. However, the lowest satisfaction score was associated with the Islamic financing schemes. This suggests that Islamic banks should re-examine their financing schemes with special attention given to the procedures followed and the true costs that customers using those schemes are actually paying.
- Fifth, the results reported in this study indicate that bank employees received the highest satisfaction score, followed by bank equipment.

**Table-1**  
Profile of Islamic bank customers

Age	Percent
Less than 25 years	13.5
25-35 years	46.7
36-50 years	31.9
Above 50 years	5.6
<b>Education</b>	
Under Secondary School	4.8
Secondary School Certificate	40.4
Graduate	38.1
Master Degree	14.8
<b>Income</b>	
Less than Rs. 10000	11.1
Rs.10000-15000	30.7
Rs. 15000-20000	24.8
Rs. 20000-25000	15.9
Rs. 25000-30000	6.3
More than Rs.30000	10.7

**Table-II**  
History of banking relationships

Panel	Attribute	Percent
A	Previous banking relationship with conventional banks	
	Yes	76
	No	24
B	Duration of banking relationship with Islamic banks	
	Less than 1 year	27
	1-2 Years	18.5
	2 Years and More	54.1

**Table-III**  
Awareness and usage of Key Islamic bank products/services

Sr.No	Type of Product/service	% awareness	% usage
1	Murabaha Financing	88.1	55.6
2	Mudaraba Financing	94.4	86.7
3	Musharika Financing	43.3	8.9
4	Financing Facilities	71.5	34.8
5	Investment Accounts	85	63.8
6	Current Accounts	75.8	56.9

**Table-IV**  
The relationship between socio-demographic factors and the usage of key Islamic bank products/services

Socio-demographic factors	Murabaha Financing	Mudaraba Financing	Musharika Financing	Savings Account	Investment Accounts	Financing Facilities	ATM	LC	Bank Statements	Money Orders
Age										
X2	14.81	2.44	7.44	9.09	1.86	3.79	3.0	4.56	1.27	3.191
D	3	3	3	3	3	3	3	3	3	3
F	0.005	0.655	0.11	0.05	0.77	0.43	0.55	0.33	0.86	0.363
P										
Income										
X2	39.1	5.04	5.47	2.81	16.53	8.62	3.8	5.62	6.16	9.88
D	5	5	5	5	5	5	5	5	5	5
F	0.001	0.54	0.48	0.83	0.01	0.19	0.69	0.47	0.41	0.01
P										
Education										
X2	13.5	4.44	2.92	11.11	10.76	8.20	0.98	0.54	3.60	1.85
D	4	4	4	4	4	4	4	4	4	4
F	0.02	0.48	0.71	0.05	0.05	0.14	0.96	0.99	0.61	0.60
P										



**Table-V**

Degree of Satisfaction with Key Islamic Bank Products/services

Type of Product/service	Degree of Mean Score	Satisfaction Rank
Murabaha Financing	3.30	4
Mudaraba Financing	3.76	2
Musharika Financing	1.70	6
Savings Accounts	3.79	1
Current Accounts	1.83	5
Investment Accounts	3.60	3

**Table-VI**

Degree of satisfaction with the basic elements of product/service delivery systems

Elements of product/service delivery system	Degree of Satisfaction	Rank
Bank Employees	4.08	1
Equipment	3.28	4
Location	3.48	2
Evening banking hours	3.87	3

**Table-VII**

Degree of importance of factors affecting the customer choice of Islamic Banks

Factor	Degree of Importance	Rank
Islamic Principles	4.7	1
Family and Friends	3.51	3
Convenient Location	3.00	4
Rate of Return	3.85	2

**Table-VIII**

Results of the chi square tests of the relationship between socio-demographic factors and the relative importance of the selection criteria

<b>Selection Criteria</b>				
<b>Socio-demographic factors</b>	<b>Islamic Principles</b>	<b>Family and Friends</b>	<b>Convenient Location</b>	<b>Rate of Return</b>
Age				
X2	89.1	32.82	26.92	11.19
DF	12	12	12	12
P	0.00	0.08	0.13	0.512
Income				
X2	75.27	31.58	24.79	10.67
DF	20	20	20	20
P	0.000	0.10	0.15	0.10
Education				
X2	75	31.59	24.4	10.67
DF	16	16	16	16
P	0.001	0.05	0.10	0.557

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The knowledge society is the first human society where upward mobility is potentially unlimited. Knowledge differs from all other means of production in that it cannot be inherited or bequeathed. It has to be acquired anew by every individual, and everyone starts out with the same total ignorance.

Peter F. Drucker: *Managing in the Next Society*, page 260



**The Road not Taken**

*Yet knowing how way leads on to way*

*I doubted if I should ever come back*

*I shall be telling this with a sigh*

*Somewhere ages and ages hence:*

*Two roads diverged in a wood, and I*

*I took the one less travelled by*

*And that has made all the difference*

Robert Frost