Determinants of Attitude towards the Acceptance of Islamic Banking: A Case of District Peshawar, Pakistan

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Abstract

The study intends to know the attitude of the customers towards the acceptance of Islamic banking in Peshawar, Pakistan. Sequential mixed method approach has been followed by the researcher for carrying out the study. A sample of 150 respondents was selected and questionnaires were distributed on convenience based sampling technique due to resource constraints. The major factors identified by the researcher during the interview session were religious beliefs, social pressure & norms, cost benefit analysis, and advertising influence. Based on these factors the researcher developed a framework. Multiple regression analysis has been applied for testing the hypothesis in which t test, f test and ANOVAs were used. The findings suggest that the factors religious beliefs, and social pressure & norms contributes the most while cost benefit analysis advertising influence contributes the least in shaping the attitude of the customers towards the acceptance of Islamic banking.

Keywords: Islamic Banking, Acceptance of Islamic banking, and Riba (Interest)

Introduction

The study aims at knowing the attitude of the customers across Peshawar towards the acceptance of Islamic banking. Islamic banking refers to a modern form of banking based on the pillars of Islamic principles known as Sharia, and it prohibits a pre promised rate of return known as riba (interest) (Schaik, 2001). Riba is the term used for interest in Islamic principles and refers to a fixed amount of return charged by the lender for the use of his / her capital by the borrower. Islam strictly prohibits this factor as it exploits the needy people in the time of need and ultimately leads to increasing gap between the wealthier and poor ones (Karsten, 1982).

Though the market for the Islamic banks is full of opportunities but still the environment is very competitive for them. And they need to have sound knowledge about the customer behavior and attitude towards the acceptance of Islamic banking, so that they may market their services

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in an effective way (Thambiah, Nathan and Eze, 2008). The study provides with the identification of key factors that influence the customer's attitude towards the acceptance of Islamic banking in district Peshawar, Pakistan. The study also covers the influence of each factor in shaping the attitude of the customers towards the acceptance of Islamic banking.

The Islamic banking industry is one of the widely growing industries and has shown promising growth in the last decade. Pakistan is also one of the pioneers of the Islamic banking industry and has shown considerable growth in the industry since 2001. The industry has registered an annual growth of 30% in the last couple of years for the Islamic banking and finance industry (State Bank of Pakistan, 2014).

Islamic banks are comparatively exposed to higher risk than the conventional banks, because they operate on the profit and loss sharing bases and they do not receive a fixed or pre-determined rate of return like conventional banks. But on the other hand, they have a very good opportunity to operate in the Islamic countries because they can gain more attention of customers than the conventional banks. According to Marimuthu et al, (2010) Islamic banks have more growth opportunity in the Islamic countries therefore it's necessary for these banks to know about the degree of acceptance of Islamic banks in these countries and devise their strategies accordingly.

Objectives
   i). To identify the factors that influences attitude towards the acceptance of Islamic banking.
   ii). To know   the impact of each factor on the attitude towards the acceptance of Islamic banking.

Literature Review
The journey of Islamic banking system that exists today was started in the 1970s when the King Abdul Aziz University in Mecca, Saudi Arabia organized First international Islamic Economic Conference, followed by the establishment of the pioneer commercial Islamic bank, with the name of Dubai Islamic Bank and Islamic Development Bank, in Saudi Arabia. Since then many other Islamic banks were established in Muslim countries like Kuwait, Egypt, Bahrain, and Sudan etc (Iqbal & Molyneux, 2005). The evolution of Islamic banking into modern banking that exists today is the continuation of the steps taken in the decade of seventies of the twentieth century.

Islamic banks complies with the basic four principles, firstly there must be profit and loss sharing in the financial deeds. Secondly, the rights of the needy and poor people in the time of need must be protected. Thirdly, dealing in all those entities and activities which are

prohibited in The Holy Quran must be avoided and lastly, the presence of the underlying economic entity must be ensured, means dealing in the trade of the those entities which are not directly backed by any material in real must be avoided (El Hawary et al, 2004).

According to Awan & Azhar (2014) In General Zia's regime the government of Pakistan took measures to make Pakistan an Islamic welfare state, for this purpose a committee was formed having representatives from ministry of finance, State Bank of Pakistan, and commercial banks and the council for Islamic ideology was requested to give their recommendations for introducing interest free economic system in Pakistan. In June 1980 a 3 year plan was submitted by the committee having three phases. As per the plan's recommendations in 1st phase interest was to be removed from all the financial institutions of Pakistan, in the 2nd phase banks were to maintain a profit / loss account besides traditional account, and in the 3rd phase it was made mandatory for all the banks not to accept any accounts having interest by the year 1985. Thereafter, despite all the hurdles a fully Islamic banking based setup was started in 1997 in Pakistan with the name Al Meezan bank. Later on in 2006 Dubai Islamic Bank and Bank Al Islami also extended their operation to Pakistan.

The Islamic banks present an attractive alternative in the banking industry and provide solution to the flaws associated with the conventional banking, hence provides an opportunity for the banking industry to take advantage from the Islamic banking operations both in the Islamic and the Non Islamic economies around the world and thus contributing to the economic growth and prosperity in Pakistan's economy in particular and the world's economy in general (State Bank of Pakistan, 2014).

One of the most developing sectors in pakistan is the islamic banking and it has attracted a huge number of customers towards itself (Awan & Azhar, 2014). The assets and the deposits of the Islamic banks in Pakistan by the end of March 2014 have reached almost one trillion dollar and the procpects for the industry are very bright and promising of doubling the growth of the banking industry by the end of 2020.

Hypotheses Development
In the light of the review of the above literature it is found that Islamic banking has considerable opportunities in Pakistan and it is important to identify those factors which influence the acceptance of Islamic banking in Pakistan. The studies conducted on the acceptance of Islamic banking nationally and internationally still have left blank spots needs to be filled by the researcher. The following factors with their respective hypotheses have been identified in the light of the similar studies conducted on the attitude of the customers towards the acceptance of Islamic banking.

The religious beliefs as defined by Kirkpatrick (2005) are the psychological attachment of the humans towards something based on the Holy Guidelines and represent a powerful attachment of humans to different things. The factor religious beliefs has been identified as key driver in shaping the attitude of the customers towards the acceptance of Islamic banking by Al-Sultan (1999), Loo (2010), Subhani et al. (2012) and Tara et al. (2014).

H_{01}: Religious beliefs are not significantly related to the attitude towards the acceptance of Islamic banking.

H_{11}: Religious beliefs are significantly related to the attitude towards the acceptance of Islamic banking.

Ajzen (1991) comment that customers perceive social pressure in their daily life, which influences the behavior of individuals towards the Islamic banks and it also, defines the intentions of the customers towards the acceptance or the rejection of the Islamic banks. As suggested by Omer (1992), Naser et al. (1999), Abbas et al. (2003) and Awan & Azhar (2014) the factor social pressure & norms is one of the essential determinants of attitude towards the acceptance of Islamic banking.

H_{02}: Social pressure and norms are not significantly related to the attitude towards the acceptance of Islamic banking.

H_{12}: Social pressure and norms are significantly related to the attitude towards the acceptance of Islamic banking.

Higher rate on the deposits and lower rates on the lending of the banks are considered important by most of the customers (Al-Ajmi et al. 2009). Cost benefit analysis has also been ranked as one of the most importance factors by Ahmad & Haron (2002), Abdulqawi and Lynn (2002), Mokhlis, Mat & Salleh (2008) and Subhani et al. (2012) that influences the customers in selecting a bank.

H_{03}: Cost benefit analysis is not significantly related to the attitude towards the acceptance of Islamic banking.

H_{13}: Cost benefit analysis is significantly related to the attitude towards the acceptance of Islamic banking.

Ors (2006) in his study analyzed the role of the advertisement in the selection of the bank and the study found that the advertisements by the banks have considerable important influence over the selection of the banks by the customers. Marimuthu, Jing, Gie, Mun & Ping (2010), (Gerrard & Cunningham, 1997) and Awan & Azhar (2014) have argued that advertising has a significant influence on the attitude of the customers in the selection of a bank.

H_{04}: Advertising Influence is not significantly related to the attitude towards the acceptance of Islamic banking.

H_{14}: Advertising Influence is significantly related to the attitude towards the acceptance of Islamic banking.

Conceptual Framework
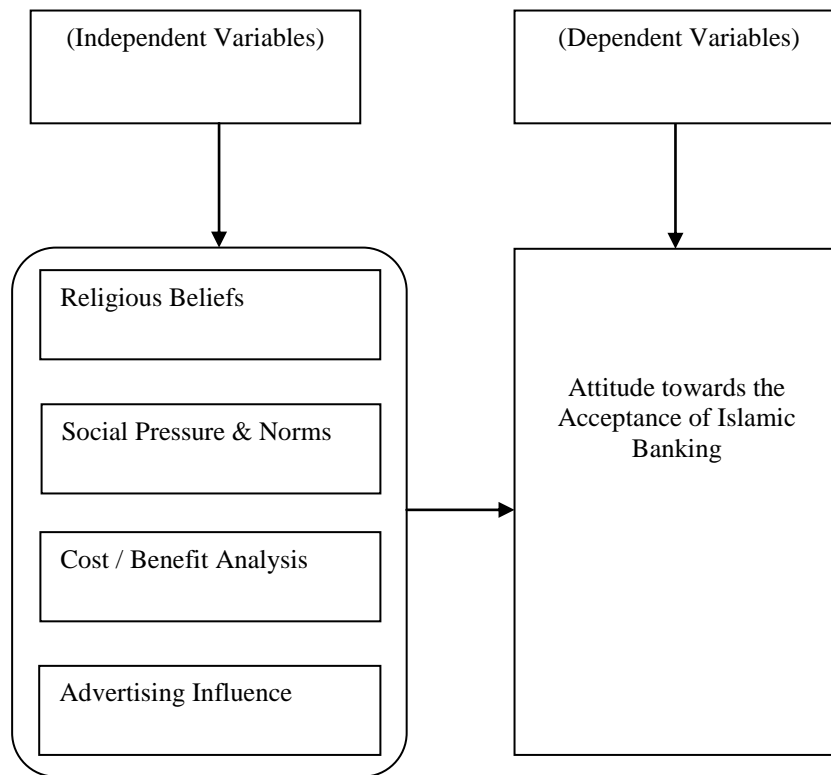
Methodology

In this study the researcher has used mixed method approach; the reason for selecting this approach is that there is no strong theory available for being tested. And it would be unjust to conduct a study without the availability of a solid theory. So in the first stage the researcher has developed a theory on the bases of interviews with 30 existing retail banking customers. During the interview session the factors religious beliefs, social pressure & norms, cost benefit analysis and advertising influence were identified as major determinants of attitude towards the acceptance of Islamic banking. Based on the factors identified by the researcher, research framework (model) has been developed. In the second stage this theory has also been tested by developing a questionnaire and taking feedback from the customers of the banks regarding each factor (independent variables) there in the theory.

Questionnaires and Interviews have been used as research instruments. The questionnaires were used for the collection of primary

data on a five point likert scale from the customers of the banks. Moreover, structured interviews were used for knowing the attitude of the customers towards the Islamic banking and also for identifying the key factors that influences the attitude towards the acceptance of Islamic banking.

All the items of the dependent and independent variables have been through the reliability test of cronbach's alpha coefficient and according to (Gujarati 2009) the value of cronbach's coefficient shall be greater than 0.7 for a reliable data collection instrument. And it was found that for each variable the value of cronbach's alpha coefficient was greater than 0.7. This implies that the questionnaire was highly reliable.

As the population of the current study consists of all the existing banking customers' living across Peshawar, but it is very difficult to study all the customers of the banks for the purpose of the study. Therefore, a sample of 150 respondents who are using the banking services and products across Peshawar is selected on the basis of convenience based sampling technique due to resource constraints out which 144 questionnaires were found correct for analysis. In order to check the relationship between the independent variables i.e. factors influencing acceptance of Islamic banking and the dependent variable i.e. attitude towards the acceptance of Islamic banking multiple regression analysis has been applied.

Data Analysis and Discussion

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.812	0.659	0.648	0.24328

a.   Predictors: (Constant), SPNP, RBP, CBAP, AIP

The R square value in the above table shows that 65.9 percent of variation in dependent variable (Attitude towards the Acceptance of Islamic Banking) for Peshawar city is explained by the explanatory variables (Religious Beliefs, Social Pressure & Norms, Cost Benefit Analysis, Advertising Influence). For the accuracy of the model the R square value shall be closer to 1 or greater than zero (Gujarati, 2009). The R square value in the above table is greater than zero and closer to one therefore it is concluded that the model for Peshawar city is accurate.

Table 2: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	48.813	5	9.762	32.217	.000
	Residual	27.884	92	.303		

Total	76.697	97

a.   *Dependent Variable: ATAP*
b.   *Predictors: (Constant), SPNP, RBP, CBAP, AIP*

The overall model is statistically significant as the significance value i.e. p value is 0.000. Therefore, it is concluded that there is statistically significant relationship between the dependent variable (Attitude towards the Acceptance of Islamic Banking) and independent variables (Religious Beliefs, Social Pressure & Norms, Cost Benefit Analysis, and Advertising Influence).

Table 3: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.481	.208		2.312	.008
RBP	.493	.103	.807	4.786	.000
SPNP	.374	.119	.529	3.142	.000
CBAP	.090	.303	.051	.297	.769
AIP	.072	.582	.020	.123	.902

a. Dependent Variable: ATAP

In the light of above table the factor religious beliefs contributes 80.7% to the attitude towards the acceptance of Islamic banking.
The factor social pressure & norms contributes 52.9% to the attitude towards the acceptance of Islamic banking.
The factor cost benefit analysis contributes 5.1% in shaping the attitude of the customers towards the acceptance of Islamic banking.
Lastly, the factor advertising influence just contributes 2% in shaping the attitude of the customers towards the acceptance of Islamic banking. Therefore, the most important factors being considered by the customers of Peshawar city in selecting a bank are religious beliefs and social pressure & norms. While the factors cost benefit analysis, advertising influence contribute the least in selecting a bank.

Conclusion & Recommendations
The first objective the study was to identify the key factors that influence the attitude of the customers towards the acceptance of Islamic banking. For this purpose initially the interviews were conducted with the existing customers of the banks. During the interviews it was found that Religious Beliefs, Social Pressure & Norms, Cost Benefit Analysis, and Advertising Influence, are the major determinants for influencing the attitude of the customers towards the acceptance of Islamic banking. Furthermore, the table 3 suggests that the factors Religious Beliefs, and Social Pressure & Norms, contributes the most to the dependent variable

as they have statistically significant relationship with the Attitude towards Acceptance of Islamic Banking. This leads to the acceptance of alternate hypothesis H_{11} and H_{12}. On the other hand, the factors Cost Benefit Analysis and Advertising Influence contribute the least to the dependent variable as they have statistically insignificant relationship with the dependent variable. Therefore it leads to the acceptance of null hypothesis H_{03} and $H_{05.}$

Recommendations

There are greater opportunities for Islamic banks in Pakistan because more than 95% of its population consists of Muslims. The people have a very positive attitude towards the acceptance of Islamic banking since they are hugely influenced by religious beliefs factor.

As the factor cost benefit analysis has showed insignificant relationship with the attitude towards the acceptance of Islamic banking therefore, more attractive and fruitful products shall be offered by the Islamic banks. The Islamic banks can only survive in the system dominated by the conventional banking if its products are profitable.

The findings reveal that the customers are not influenced by the advertisements made by Islamic banks for their products and services. It is therefore recommended that more influential means shall be adopted by the Islamic banks for making their advertisements to be fruitful.

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