

## **A COMPARATIVE STUDY OF ADOPTION OF CONVENTIONAL BANKING AND ISLAMIC BANKING IN PAKISTAN**

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This study aims to examine the adoption of conventional and Islamic banking in Pakistan. A sample of 300 customers and employees was gathered through a questionnaire. The dependent variable was “Adoption of CB or IB” and the independent variables were attitude, perceived behaviour control, social influence, innovation diffusion and public relations. The findings show that attitude, public relation, social influence, relative advantage and perceived behavioural control has a prominent impact on adoption decisions, but perceived behavioural affect adoption most significantly, as far as Independent Sample T-Test is concerned, the results designate that attitude, perceived behavioural control, and innovation diffusion have a significant impact on adoption.

**Keywords:** *Adoption, Conventional Banking, Islamic Banking, Independent Sample T-Test, Pakistan*

### **Introduction**

Islamic Banking is a system which follows Shari‘ah which is

considered as a base for the Islamic economic system. The Organization of Islamic Cooperation (OIC), provide the definition of Islamic banks that is “An Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and the banning of the receipt and payment of interest on any of its operations” (OIC, 2019). According to Shari‘ah, the interest charges (*Ribā*) is not allowed. In the view of Abedifar and Tarazi (2013) Islamic economy is to realize greater justice in the human endeavor that can be only achieved by Islamic financial institutions, therefore Islamic banking system and Islamic economy cannot be separated. The twentieth century is considered as the beginning of IB in modern world. Actually, it was started when the Prophet (ﷺ) provided his services as an agent for his wife.

IBS was introduced to satisfy the religious needs of Muslims. On the contrary, CBS charges the interest which is not allowed in IB. So, Muslims want to have an Islamic platform that can be helpful for their financial transactions. Rehman (2012) said that Qur’ān and Sunnah are the basic sources to follow IB and Islamic Jurisprudence is considered as secondary sources. Islamic Jurisprudence is based upon the *Ijmā’*, *Ijtihād* and *Qiyās*. According to Chong and Liu (2009), the first step towards IB was taken by establishing “The Mit Ghamr Saving bank” in Egypt in 1963s, which did not work properly.

The two banking systems are the rivals that compete for the customers, but conventional banks attract more customers because of a higher return on investment and because of different opportunities for customers. As IB is based on shari‘ah and has a difficult procedure to get services and products for this they have to face more difficulties in influencing customers’ decision to adopt the IB system. Islamic banking systems are emerging these days because people are not becoming more conscious about their religious’ responsibility not to get interested.

This study investigates the influence of positive or negative attitude of people on their decision, perceived behavioural control, and social influence by incorporating government support through creating environment important for the growth of IB, public relations and perceived complexity, to examine influence of the adoption of IB. The foremost aim of this study is to discover the adoption of conventional and Islamic banking in Pakistan. Moreover, this study makes a comparison of IB and CB.

This paper is comprised of five sections; part 2 demonstrate literature

review, part 3 exhibits methodology of the research, part 4 displays the analysis and part 5 reveals conclusion.

### **Literature Review**

An extensive literature is available on the Islamic Banking and the conventional banking (Butt, Saleem, Ahmed, Altaf, Jaffer and Jawad, 2011; Ergec and Arslan, 2012; Amin, Isa and Fontaine, 2013; Awan and Azhar, 2014; Tara, Irshad and Khan, 2014; Ali and Raza, 2015; Lajuni, Ming, Yacob, Ting and Jausin, 2017; Nawaz and Haniffa, 2017; Al Balushi and Locke, 2019). Aziz and Afaq (2018) studied the factors to adopt IB and measured the attitude, the subjective norms and the perceived behaviour control to increase the understanding of factors related to the adoption of IB. In the study, they used Variance-based partial least squares structural equation modeling and the findings indicated that the attitude and the subjective norms have a relationship with the intention to adopt IB. Usman, Tjiptoherijanto, Balqiah and Agung (2017) made a study on the adoption of Islamic Banking and the results show that religious norms in the customers play an important role. Other results show that it also affects the decision for using Islamic banks indirectly.

Muhamad, Anuar, Kamarudin, Aziz, Pazil and Muhammad (2015) observed that the promotion of IB in the society is a need of the hour, especially for the Muslims. Marimuthu, Jing, Gie, Mun and Ping (2010) pointed out that the cost benefits, service delivery, convenience and friends have a remarkable relationship with the adoption of IB. Abedifar, Molyneux and Tarazi (2013) studied a country where the Muslim population is in majority, their Islamic banks are more stable than conventional with low credit risks. Islamic banks also ask for extra charges for offering their services to their customers and their loan quality is not so much flexibility in terms of interest rates in the comparison of conventional banks. Abduh and Omar (2012) found the factors which may influence IB and the result shows that multiple factors can affect it. Khattak and Rehman (2010) investigated the awareness about IB. The basic question, that was tried to be answered by the author through this study, is what the reasons that encourage customers to adopt IB. are It was found that customers mostly prefer IB because of factors such as demographic variables, the image of the bank, Shari'ah rules implemented in Islamic banks, a wider range of services, occupation and income level of customers, their ages, location of the bank. The above-discussed literature shows

that IB and conventional banking systems are the opposite of each other because the conventional system follows the interest and cannot survive without it.

### **Methodology**

A questionnaire was made and distributed to 300 banking customers and employees. The sample size includes 184 male and 116 female customers by using convenience sampling. The dependent variable was “Adoption of CB or IB” and attitude, perceived behaviour control, social influence, innovation diffusion and public relations were the independent variables. The operational definition of independent variables is as follows:

- **Attitude:**

How a person behaves or has an opinion about something. It includes factors such as perceived uncertainty and relative advantage.

- **Social Influence:**

According to research, how a person changes his/her behaviour change to meet the requirements of society (Cialdini and Goldstein, 2004).

- **Perceived Behavioural Control:**

Person’s perception of how he/she can perform ethical and moral behaviour. It includes factor-like govt. support.

- **Innovation Diffusion:**

A theory that explains how, why, and at what rate new ideas and technology spread. It includes factors such as perceived complexity and compatibility.

- **Public Relations:**

It is focusing on the public image by a company or a famous person.

In this research, Cronbach Alpha, descriptive analysis, factor analysis and T-Test were applied. For measuring we have designed a questionnaire was based on two sections. Section one shows demographic information of the respondents. Section two includes information about the Islamic Banking system that why respondents had chosen IB. It was used to collect information regarding factors that were considered at the time of selecting IB. It mainly gives information related to the factors affecting choosing IB over the Conventional Banking system. The questionnaires

were filled by the users of Conventional banks and IB, employees of Conventional Banks and IB and the general public. The Conventional Banks that were surveyed were Habib Metropolitan Bank, JS Bank, Allied Bank. Islamic Banks which were surveyed were Meezan Bank, Bank Islami and Dubai Islamic Bank. The survey has been conducted in different areas of Pakistan to get information from different types of people related to the factors which influenced the choice the Islamic Banking customers and determinants that customers consider at the time of choosing the Islamic Banking system. The survey was conducted by distributing and filing a questionnaire from respondents. The respondents were selected because of availability; one can easily get our survey filled from different people.

### **Findings**

Table 1 represents the Respondent's Profile, analysis shows that there were more male respondents and the percentage was about 61.3%. Most of the respondents were between the ages of 21-30 and the percentage was about 44%. Most of the persons surveyed were private-sector employees with a percentage of 43.3%. Almost 77% of our respondents were single. Most of the people are highly educated having a bachelor's and master's degree and the percentage was about 57% and 33% respectively. Most of our respondents were not using any banking system with the percentage of 33% and respondents of CB and IB were 25% and descriptive analysis showed how these factors are affecting the basis of demographic variables. To know which demographic variable factors are affecting more. For this purpose, we calculate the mean and standard deviation. As there is little variation between the mean of respondent's gender (1.3867), age (1.5733) and marital status (1.2300).

The table showed that these factors have the almost same effect on them, but standard deviations show that there is little dispersion in these variables. Mean of respondent's qualification (2.4367), occupation (2.7633) and type of banking system used by respondents (2.7167) showed these variables are almost equally affected by these factors. Standard deviation showed that the latter three variables are more affected by factors.

Levene's test shows that either the variance among variables is equally assumed or not, for that hypothesis is:

**Table.1** Demographic Profile

<b>Gender</b>	Male	184	61.3
	Female	116	38.7
<b>Age</b>	20 or less	36	12
	21–30	132	44
	31–40	78	26
	41–50	32	10.7
	51 or Above	22	7.3
<b>Occupational status</b>	Student	86	28.7
	Business	16	5.3
	Private	130	43.3
	Government	19	6.3
	Others	49	16.3
<b>Marital status</b>	Single	231	77
	Married	69	23
<b>Qualification</b>	Matric or less	9	3
	Bachelor's	172	57
	Master's	101	33
	Professional	15	5
	Others	3	1
<b>Banking</b>	Islamic bank	56	18.7
	Conventional	75	25
	Bank		
	Both	67	22.3
	None	102	34

H<sub>0</sub>:  $\sigma_1^2 - \sigma_2^2 = 0$  (“the population variances of Islamic and conventional banks are equal”)

**Note:**

Equal Variance is assumed when the P-value of Levene's test is greater than 0.05 or less and vice versa.

**H1.**

Attitude rejects the null hypothesis.

**H2.**

Social Influence accepts the null hypothesis.

**H3.**

Perceived Behavioural Control rejects the null hypothesis.

**H4.**

Innovation Diffusion Theory accepts the null hypothesis.

**H5.**

Public relation accepts the null hypothesis.

**Table 2: Group Statistics**

	<b>Banking System</b>	<b>N</b>	<b>Mean</b>	<b>S.D</b>	<b>S.Error Mean</b>
Attitude	Islamic	56	19.9286	4.70921	62929
	Conventional	75	18.9467	3.93835	45476
Social Influence	Islamic	56	3.3571	1.36753	18274
	Conventional	75	2.7600	1.28231	14807
Percieved Behavioural Control	Islamic	56	10.5893	2.52102	33688
	Conventional	75	8.7333	3.16797	36581
Innovaion Diffusion	Islamic	56	21.4464	3.42143	45721
	Conventional	75	19.5733	3.84558	44405
Public Relation	Islamic	56	10.2321	2.76991	37014
	Conventional	75	10.1600	2.50427	28917

T-test of independent sampling shows the comparative impact of dependent and independent variables, for that the null hypothesis is as;  $H_0: \mu_1 = \mu_2$  (“the two-population means are equal”)

**Table 3:** Independent Samples Test

	Levent's Test for Equality of Variances		t-test for Equality of Means							
	F	Sig	T	df	Sig(2- tailed)	Mean Diff.	S. Error Diff.	95% Confidence Interval		
								Lower	Upper	
Attitude Variances Assumed Equal	5.621	.019	1.298	129	.197	.981	.756	-.515	2.478	
			1.265	105.96	.207	.981	.776	-.557	2.521	
Social Influence Variances Assumed Equal	.194	.660	2.563	129	.012	.597	.233	.136	1.058	
			2.539	114.3	.012	.597	.235	.131	1.063	
Percieved Behavioural Control Variances Assumed Equal	4.544	.035	3.612	129	.000	1.855	.513	.839	2.872	
			3.732	128.4	.000	1.855	.497	.872	2.839	
Innovaion Diffusion Variance Assumed Equal	2.249	.136	2.889	129	.005	1.873	.648	.590	3.155	
			2.939	125.02	.004	1.873	.637	.611	3.134	
Public Relation Variance Assumed Equal	.233	.630	.156	129	.876	.072	.462	-.843	.987	
			.154	111.69	.878	.072	.469	-.858	1.002	

**Note:**

Accept the null hypothesis when the P value of T-Test is more than 0.05 and vice versa.

**H1**

There is an impact of Attitude on the adoption of Islamic and conventional banking services.

**H2**

There is an impact of Social Influence on the adoption of Islamic and conventional banking services.

**H3**

There is an impact of Perceived Behavioural Control on the adoption of Islamic and conventional banking services.

**H4**

There is an impact of Innovation Diffusion Theory on the adoption of Islamic and conventional banking services.

**H5**

There is an impact of Public relations on the adoption of Islamic and conventional banking services.

From the results and interpretation of factor analysis, we figured that Attitude, Perceived Behavioral Control and Innovation Diffusion are the variables that significantly involved in the adoption of the banking system.

**Conclusion**

The present study seeks to find the adoption of IB and CB in Pakistan. It is evidenced that attitude, perceived behaviour and innovation diffusion are the most important respectively. Social influence and public relations have not a significant impact on the adoption decision. It may be fruitful for Islamic banking to attain market share for their Islamic products and services. IB can get high market share from conventional banking system by using more understanding procedures and by educating people. This study also reveals some important results about government support, public relation, social influence, innovation diffusion theory and attitude of customers in Pakistan concerning the adoption of IB. This

study considers only a limited area of Pakistan, so there are future possibilities to cover different areas of Pakistan. Pakistan is an Islamic economy with persons of different religions and races. Therefore, it is recommended to study Muslims and Non-Muslims. In this study, only five variables were used to study the reasons affecting adoption, so far there is a possibility to develop a comprehensive model to check the factors affecting adoption.

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