



Behavioral Intentions and Determinants of Consumer Preference for Islamic Banks in Faisalabad

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ABSTRACT

The current study analyzed the Behavioral Intentions and determinants of consumer preferences about Islamic Banking in Faisalabad. The primary data for this study is collected from 230 consumers in 2024 from different Islamic Banks in Faisalabad region. To estimate the consumer's preferences and satisfaction about Islamic banking, the study employs binary logistic regression model. The variable of consumer preference is dependent variable and in binary form. Moreover, awareness of Islamic banking, perceived sharia compliance and, trust in Islamic institutions are main independent variables of the study. According to the estimated results, the variable of respondent education, knowledge about the profit margin on Islamic bank, Awareness about service quality, insurance policy according to Shariah laws, leasing policy according to Shariah laws, deposit policy according to Shariah laws, bank charges, shows positive and significant relationship with the consumer preferences. Regarding demographic variables, the age of respondents, urban and rural region, marital status, gender, religion show positive but insignificant relation with the consumer preferences. On this research provide some suggestions and policy recommendations for concerned policy maker based on customer satisfaction and Knowledge in Islamic banking and shariah compliance.

1 Introduction

Islamic banking has been characterized as banking that adheres to Islam's ethos and value system and is controlled via "Islamic Shariah principles" in accumulation to conventional moral authority and risk supervision guidelines. Interest-free investment" describes various financial offerings avoiding interest charges. "Islamic banking," the further generic time, is intended to actively contribute to attaining the objectives and goals of an Islamic low-cost and refrain from unethical activities and interest-based transactions, which Islamic Shariah bans. With the involvement of local and global players, Pakistan's banking industry is actively working to improve all aspects of service quality (Jawaid et al., 2023). Nazir and Saqib, (2024) mention that Islamic banks have raised consumer awareness which increases customer satisfaction with Islamic goods and services. Islamic banks in Pakistan operate under Sharia law, increasing client satisfaction.

Muslims, particularly those from remote regions, presently account for more than 50% of the clients of several Pakistani Islamic banks (Ahmad et al., 2024). Islamic financial instruments like Mudarabah have attracted much attention. Religious citizens of Pakistan are interested. This study focuses on consumers of Islamic banks to understand how religious and religious identity affects purchaser

decision-making. This study concerns customers' continuous purposes to utilize Islamic banks and the consequence that spiritual purposes and attitudes have some preferences. In 1973, Islamic banks began operating, and in 1975, Dubai witnessed the launch of full-scale Islamic banking operations. The Islamic Development Bank was established to achieve socioeconomic development in Muslim nations. Islamic banking first expanded quickly in Southeast Asian nations. Still, in the 1990s, the Gulf States gained impetus for expansion, and the Gulf nations maintained about 74% of the assets of Islamic banks worldwide in 2002 (Iqbal et al., 2005; Awan et al., 2011). According to Abdullah et al. (2012), Iran and Sudan have implemented full-fledged Islamic financial systems. Additionally, the Islamic banking sector gained popularity in countries that are not Muslim (Chong et al., 2009). The first fully operational Islamic banks were established in Britain in August 2004, serving both Muslim and non-Muslim populations.

Islamic banking is gaining interest from traditional commercial banks due to its explosive growth and expansion. In this scenario, expanding cross-border banking operations become crucial to cater to the growing demand from foreign customers. Islamic banking has experienced explosive growth; the assets are expanding by PKR 9,235 billion by end of March 2024. The deposits of Islamic banking increased up to PKR 6,875 billion. The net financing also increased 1 % on average in a year of 2024 (State Bank of Pakistan, 2024). From almost nothing a decade ago, Islamic banking today makes up 9.4% of total deposits in Pakistan. However, Shaheed Zulfiqar Ali Bhutto Institution of Science and Technology and Iqra University conducted a study on Islamic banking in 2008. They found that 67 percent of Islamic banking clients also use conventional banks. Because the Islamic bank's customers believe that traditional banks offer a more comprehensive range of services. Although Pakistani bank customers do not appear to be agnostic about service quality, religion is significant to them.

The primary determination of this study is to check the customer Preferences for Islamic banking. The consumer has different preferences. Some people prefer Islamic banks due to their policies, as they do not give investment or interest on savings. Specifically, this study focuses on factors such as consumer knowledge and awareness of Islamic products and services, demographic and lifestyle characteristics including income, education, age, and religious values and ethical considerations (especially Sharia compliance and ethical principles). The second objective of this study. The study used variables like satisfaction, awareness about Islamic banking, customer trust, Age, and education.

This paper is organized as follows: The following sections outline the relevant literature review, materials and methods, detailed results and discussion, the conclusion, and policy recommendations.

2 Literature Review

Research on consumer behavior toward Islamic banking products and services has recently attracted attention. Numerous factors have been identified that contribute to customer acceptance of Islamic banking. However, findings differ regarding the variables that influence consumer preferences for Islamic banking products and services. Several scientific studies conducted in different contexts (Metawa & Almossawi, 1998; Naser et al., 1999; Okumus, 2005; Dusuki & Abdullah, 2007; Khan & Khanna, 2010; Echchabi & Aziz, 2012a; Chenguel, 2014; Souiden & Marzouki, 2015; Souiden & Jabeur, 2015; Abou-Youssef et al., 2015; Junaidi 2021; Junaidi et al., 2023; Ahmad et al., 2024) provided empirical support for the knowledge that religious principles have a major impact on customer decisions about the use of Islamic banking goods and facilities; emphasized that these beliefs are a major factor. Motivating factors for adoption.

Rather, numerous studies have shown that religious beliefs are not the only determinant influencing consumer choice for Islamic banking services. Consumers also consider various other factors when choosing an Islamic bank, including the reputation and image of the institution, compliance with sound social obligation follows, suitability, availability & competence of bank staff, value of service, pricing policy, attractive rates of return, etc. competitive product pricing, low maintenance costs,

social impact and consumer awareness (Erol et al., 1990; Haron et al., 1994; Gerrard & Cunningham, 1997; Metawa & Almossawi, 1998; Dusuki & Abdullah, 2007; Rammal & Zurbrugg, 2007; Amin et al., 2011; Thambiah et al., 2011, 2012; Wahyuni, 2012; Echchabi & Aziz, 2012a; Faisal et al., 2014; Ismail et al., 2014; Aziz et al., 2015; Kashif et al., 2015).

Many scholars have presented interpretations of Islamic banking from various perspectives. Rammal and Zurbrugg (2006), and Ahmad (2008) define Islamic banking as a financial system that operates in accordance with Islamic jurisprudence, also known as Sharia law. In contrast, Ahmad (2008) suggests that the fundamental difference lies in the principle of profit distribution, which is consistent with Shariah principles. The main purpose of Sharia is to promote social welfare and balance. As Chapra (2000) stated, such balance in society can only be achieved by adhering to the principles of Maqasid al-Sharia. In modern Islamic banking, there is a noticeable emphasis on equity-based products rather than focusing solely on social security and religious obligations. The desire to distribute wealth equitably and promote economic development and growth cannot be fully realized if the focus is solely on profits (Ahmad & Ahmad, 2000).

3 Materials and Methods

To estimate the objectives of the current research the study collects primary data from 230 respondents, by using standardized questionnaires. The survey was conducted in Faisalabad, Pakistan, and the items were evaluated on a five-point Likert scale, with one representing strongly disagree, two representing differ, three representing neutrals, four representing agree, and five representing agree strongly. The operationalization of the study variables guided the development of the survey's questions.

Consumers of Islamic & Commercial Banking customers with Islamic bank accounts and a variety of Islamic banking products make up the targeted respondents. The questionnaire is the primary tool used to gather first-hand quantitative information. A questionnaire was developed to design the basis of the research and obtain many variables. The questionnaires are divided into many parts.

When data collection was done, the questionnaire was edited in SPSS software. The questionnaire data were entered in the SPSS and then verified thoroughly. We coded the information given by the respondent about Islamic banking and commercial banking. We made the SPSS sheet to calculate and analyze the composed data.

4 Methodology

To estimate the objective of consumer preferences about Islamic banking and estimate the sharia compliance on Islamic banking. In this research binary logit regression is used for econometric analysis.

Binary logistic regression is a statistical method commonly used in social sciences, economics, and business research when the dependent variable is binary, meaning it has two categories (0 and 1). The binary logistic model, often known as "h" logi "" odel, converts the event's log-odds (logarithm) into a linear grouping of one or more independent variables. This numerical model determines the probability that one event (out of two possibilities) will take place ("predictors"). Regression investigation uses logistic regression, also identified as logit regression, to find the limitations of a logistic model.

In this research on consumer preferences about Islamic banking and Sharia compliance, using binary logistic regression makes sense if your dependent variable is binary, perhaps indicating whether a consumer prefers or does not prefer Islamic banking or whether a particular banking product is Sharia-compliant or not.

In essence, binary logistic regression will help in understand the relations b/w various features and the likelihood of consumers expressing a preference for Islamic banking or perceiving products as

Sharia-compliant. It's crucial to justify your choice of this statistical method based on its appropriateness for your specific research questions and data structure.

4.1 Econometric Model

In Binary Logistic Model Y is dependent variable and next all variables are independent.

$$P(Y = 1) = \beta_0 + \beta_1 CK + \beta_2 SC + \beta_3 CS + \beta_4 Age + \beta_5 Reg + \beta_6 FI + \beta_7 Mar + \beta_8 Edu + \beta_9 Gen + \beta_{10} Rel + \varepsilon_i \quad (1)$$

Equation 1 presents the econometric model of this study where Y is denoting the dependent variable. This is in a binary form representing consumer preferences, coded as 1 for "prefers Islamic banks" and 0 for "prefers conventional banks". CK stands for Consumer Knowledge about Islamic and conventional banking and have four subcategories to have extensive information about the said variable. SC denotes the Shariah Compliance of Islamic Banking which is further categorized by four variables for detailed overview of the main variable. CS denoting Customer Satisfaction about Islamic banking, having seven variables for comprehensive understanding of the main variable. Moreover, the study used demographic variables to control the unobserved heterogeneity like, age, region, family income, marital status, education, gender, religion of the respondents. β_0 is the intercept of the model. β_1 to β_{10} are the associated coefficients of the variables. ε_i is the error term of the model presenting the unobserved factors influencing preferences that aren't captured by the independent variables.

5 Results and Discussion

The model estimates the probability of a respondent preferring Islamic banks over conventional banks based on their knowledge, perceptions, demographics, and other factors. The coefficients ($\beta_1, \beta_2, \dots, \beta_{10}$) quantify the impact of each independent variable on the probability of choosing Islamic banks. Positive numbers indicate an upper probability of choosing Islamic banks, while negative coefficients suggest a lower likelihood.

Table 1 presents the analysis of factors affecting the consumer's preferences. CKAIB 1-4 represent different aspects of customer knowledge and awareness of a particular product or brand. Higher odds ratios suggest a stronger positive relationship of consumer knowledge with consumer preferences. SCIB 1-4 represent different aspects of sharia compliance with consumer behavior. Higher odds ratios again indicate a stronger positive relationship with preferences. CSIB 1-7 represent different aspects of consumer satisfaction related to the product or services offered by Islamic banks. Customer knowledge about all banks (CKAIB), Sharia compliance (SCIB), and consumer satisfaction (CSIB) have the strongest positive relationships with consumer preferences.

The variable of education has a positive relationship, suggesting that advanced levels of education are associated with stronger preferences. Age is also significantly related to consumer preferences while Region, Family Income, Married, Gender, Religion have not significant relationships with consumer preferences in this model.

The coefficient of Customer knowledge about the profit margin of Islamic banks shows positive significance at a 5% level of significance relationship with consumer preferences, which means that if customer knowledge about the profit margin of Islamic banks increases, the probability of the consumer preference for Islamic banks will also increase. Dusuki and Abdullah (2007) have also studied the same results. Consumer awareness about the insurance policy of Islamic banks coefficients shows a positive and insignificant relationship with consumer preferences, which means that if consumer awareness about the insurance policy of Islamic banks increases, the probability of consumer preference for Islamic banks will also increase. Coefficients of Customer awareness about the service quality of Islamic show a positive and significant relationship with consumer preferences, which means that if consumer awareness about the service quality of Islam increases, the probability

of the consumer preference for Islamic bank will also increases, and the same positive and significant results have also been studied by Doraisamy et al. (2011).

In Islamic banking, customer insurance policy according to Shariah laws, the coefficients are shown positive and significant at a 5% level of significance. Which means that if the customer insurance policy an Islamic bank by Shariah, and then the probability of the consumer preferences on Islamic bank will also increase. The coefficient of leasing policy according to Shariah laws shows a positive and significant relationship with consumer preferences, which means that if the leasing policy according to Shariah increases, and then the probability of the consumer preferences on Islamic banks will also increase. Similar work has been done by Chapra (2000) and Economist (2012).

According to Shariah laws, the coefficient of a customer's deposit policy shows a positive and significant 5% relationship with consumer preferences, which means that if the customer's deposit policy, according to Shariah laws, then increases the probability of the consumer preferences on Islamic bank will also increase. The results show a positive but insignificant relationship with consumer preferences, which means that if the customer landing policy according to Shariah increases, then the probability of the consumer preferences on Islamic banks will also increase same results have also been studied by Bitner and Hubbert (1994). Customer satisfaction with the profit rate of Islamic banks shows a positive but insignificant relationship with consumer preferences, implying that if consumer satisfaction with the profit rate increases, the probability of consumer preference for Islamic banks will also increase.

Table 1: Results of Binary Logistic Regression

Variables	Odds Ratio	Std. Err.	p > z
Consumer Knowledge:			
About Profit margin offered by all banks (CKAIB1)	3.188	1.178	0.002**
About Cost of borrowing offered by all banks (CKA1B2)	4.234	1.599	0.000***
About insurance policy offered by all banks (CKA1B3)	4.206	1.526	0.000***
About service quality offered by all banks (CKA1B4)	2.617	0.942	0.008**
Sharia Compliance:			
Insurance policy offered by Islamic bank is A/C to Shariah (SC1B1)	3.544	1.242	0.000***
Leasing policy offered by Islamic bank is A/C to Shariah (SC1B2)	2.647	0.936	0.006**
Deposit policy offered by Islamic bank is A/C to Shariah (SC1B3)	2.767	1.014	0.005**
Landing policy offered by Islamic bank is A/C to Shariah (SC1B4)	1.905	0.670	0.067*
Consumer Satisfaction:			
Satisfied with profit rate offered by Islamic Bank (CSIB1)	0.817	0.276	0.551
Satisfied with prompt service by Islamic Bank (CSIB2)	0.827	0.293	0.594
Satisfied with Islamic bank charges (CSIB3)	0.345	0.129	0.005**
Satisfied with assurance of Islamic bank product (CSIB4)	0.645	0.222	0.204
Satisfied with terms & conditions set by Islamic banks (CSIB5)	1.083	0.372	0.814
Satisfied with own decision of choosing Islamic Banks (CSIB6)	1.107	0.397	0.776
Satisfied with general Islamic bank services (CSIB7)	0.886	0.300	0.722
Demographic Variables:			
Education	1.150	0.061	0.009**
Age	1.276	0.016	0.015*

Region	0.669	0.240	0.265
Family Income	0.999	2.00	0.505
Married	0.834	0.299	0.615
Gender	0.906	0.308	0.773
Religion	0.055	0.452	0.909
_CONS	0.015	0.0197	0.001***
R2	0.259		
Log likelihood	-116.18		
Chi sq.	81.44***		

*** indicates that results are highly significant, **indicate that results are significant in 5%, * indicate that results are significant in 10%

Customer satisfaction with service quality from Islamic bank coefficients shows a positive but insignificant relationship with consumer preferences. If consumer satisfaction increases, the probability of consumer preferences on Islamic banks will also increase. Similar work has been done by Bitner and Hubert (1994), Dusuki and Abdullah (2007); Erol et al. (2007) and Okumus (2005). Bank charges coefficients in Islamic banking shows positive significance at a 5% level of significance relationship with consumer preferences, which means that if the bank charges are less, then the probability of the consumer preferences for Islamic bank will also increase. The same positive results have also been studied by Ball et al. (2004).

The coefficient of consumer assurance on the product shows a positive but insignificant relationship with consumer preferences, which means that if the bank assurance of the product increases, the probability of the consumer preferences for Islamic banks will also increase. On this variable, the coefficient of the security policy of Islamic banks shows a positive but insignificant relationship with consumer preferences, which means that if the security policy of a bank increases, the probability of the consumer preferences for Islamic banks will also increase, resulting in the work Muhamad et al. (2006). The coefficient of consumer satisfaction on purchases of Islamic banks shows a positive but insignificant relationship with consumer preferences, which means that if the consumer is satisfied with purchases of Islamic banks, the probability of the consumer preference for Islamic banks also increases. The coefficient of satisfaction variable with Islamic banking experience shows a positive but unimportant relationship by the consumer satisfaction with Islamic banking increases the probability of the consumer preferences on Islamic bank will also increase same positive but insignificant results have also been studied by Amin and Isa, (2008); Arasli et al. (2005) Raza et al. (2015). The factor of customers' age shows a positive but insignificant relationship with consumer preferences, which means that if the consumer's age increases, the probability of the consumer preference for Islamic banks will also increase. The coefficient of consumer region (rural & urban) shows a positive but insignificant relationship with consumer preferences, which means that if life in a rural area increases, the probability of the consumer preference for Islamic banks will also increase. The same positive but insignificant results occurred in the works of Rehman and Masood (2012), Okumus and Genc (2013), and Srouji et al. (2015).

Customer Income variable coefficients show a positive but insignificant relationship with consumer preferences, which means that if the income of the consumer increases, the probability of the consumer preference for Islamic banks will also increase. The coefficient of marital status shows a positive but insignificant relationship with consumer preferences, which means that if the consumer is married, the probability of the consumer preference for Islamic banks will increase. The same results occurred in Ahmed et al. (2008) work, Mansour and Niazi, (2010). The coefficient of customers' education shows a positive but significant relationship with consumer preferences, which means that if the customer's education of the consumer increases, the probability of the consumer preference for Islamic banks will also increase. The coefficient of gender shows a positive but insignificant relationship with consumer preferences, which means that if the male of the consumer increases, the

probability of the consumer preference for Islamic banks will also increase. The same results occurred in the work of Mansour and Niazi, (2010). The coefficient of consumer's religion shows a positive but insignificant relationship with consumer preferences, which means that if the consumer is Muslim, then the probability of the consumer preference for Islamic banks will also increase. Ahmed et al. (2008) and Muhamad and Abdul Mu'min (2006) have also studied the same positive but insignificant results.

5 Conclusion

This research examined determinants of Islamic banking services preference by consumers in Faisalabad, Pakistan, based on a binary logistic regression model applied to a survey of 230 respondents. The results are Islamic bank profit margin knowledge, knowledge of service quality, Sharia-compliant insurance and leasing policies, deposit policies, bank charges, education, and age—have statistically significant positive effects while demographic elements (region, marital status, gender, religion) and some awareness-type variables (Islamic insurance policies, Sharia-compliant lending policies, satisfaction with the profit rate, and service quality) had positive but statistically insignificant correlations with consumer preferences. These findings indicate that financial literacy, perceived Sharia compliance, and service quality play significant roles in influencing depositors' behavioral intentions and Islamic banking preferences. The research emphasizes the importance of customer education by Islamic banks, product innovations, and the building of confidence through open Sharia governance to increase adoption.

5.1 Policy Recommendation

To promote the take-up and competitiveness of Islamic banking, policymakers and financial institutions ought to concentrate on diversifying Sharia-compliant products (such as mortgages, digital banking products), building up independent Sharia governance through standardized audits and supervisory boards, and enhancing financial literacy through targeted awareness campaigns. In addition, investing in banker training in specialized areas and partnering with FinTech companies can stimulate innovation, while networking with religious leaders and regulators can facilitate harmonization of terminologies and consumer confidence. These actions will guarantee sustainable growth and increased market reach for Islamic banking in Pakistan.

5.2 Future Research of the Study and Limitations

The use of Faisalabad-specific samples in the study introduces generalizability limitations, as the city's demographic and economic characteristics may not be extrapolated across the country's heterogeneous population. This geographical limitation has a risk of sampling bias, which might distort results by underrepresenting the variability of the national banking customer base. Moreover, data quality can be compromised with surveys conducted within business hours; clients who are busy with transactions can offer hurried, incomplete, or socially desired responses that reduce the validity of findings. To overcome these limitations, subsequent research must take a multi-city approach, including urban and regional cities like Lahore, Sargodha, Sheikhupura, Chiniot, and Hafizabad. Conscious choice of cities of different population bases, industrial characteristics, and cultural settings would increase sample heterogeneity, enhancing the quality and generalizability of inferences. Technical improvements—like online questionnaires (to promote ease and precision), collaboration with several banks (to reduce institutional biases), and stratified sampling (to obtain balanced demographic representation)—would further enhance the study's rigor. Taken together, these interventions would provide more rich insights into Pakistan's banking sector.

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