INDIVIDUAL INVESTOR’S INVESTMENT BEHAVIOUR TOWARD ISLAMIC BANKING

1. Mr. Zain Ullah, City University Peshawar
2. Dr. Shams-ur-Rehman, Qurtuba university Peshawar
3. Mr. Abdul Waheed Khan, City University Peshawar
4. Khurshed Iqbal, Brains Institute

Abstract

The main objective of the current study is to examine what are the factors in Islamic banking that motivate investors toward Islamic banking. The main consideration of this research paper is to make a research-based model which is having six phenomenon with the investor’s perception of interest-free system. The study considers six factors as independent variables & takes investment perception of investors as a dependent variable. To observe the view of investors on interest-free banking sector in Pakistan the data has been collected through questionnaires from investors. The results of this survey shows that there is a positive perception of investors towards main 6 concepts named as religious factor, knowledge of a good Islamic product, service and financial element, the way of utilizing promotion to enhance bank’s productivity, how to utilize networking as an internet banking in Islamic banking field and last but not least is to maintain a good reputation of Islamic banking which influenced investors towards these banks. It reveals a strict need to focus on the awareness of these products & services especially in Pakistan.

Key Words

Islamic banking, Perceptions, Investor’s behavior, perception, products & services

INTRODUCTION

The role of Islamic banks is vital in the development of Islamic world. Unfortunately, the share of Islamic banking in all over the world is very low due to management constraints & unawareness of this industry. The conventional banking is that system where transactions are made on the basis of interest. Contrary to conventional banking, the Islamic banks dealt with sharia rule. In Islam, there is no space for interest. Islam strongly prohibits interest because interest is illegal/ Haram. The Islamic banking transactions are on profit & loss basis when an investment has been made. This is the main reason Islamic banking increases from the last 30 years in all over the world. Due to its greater influence, not only Muslims but those who are not Muslims also follow these transactions through Islamic banks. (Marimuthu, 2010).
Religion is the only factor which influences investor’s perception by following Islamic transactions. Islamic banks are to some extent is similar in characteristics but on the other hand, it differentiates here on the basis of adopting sharia’s laws (Henry and Wilson, 2004). Unfortunately, there is little knowledge that how one invests in Islamic banks & how much would be the return on it? Information regarding Islamic banking is necessary for increasing the economic share. The advertisement in commercial banking is very necessary to attract investors on behalf of attributes of banking products & services. Often the management of these banks hire the well-known celebrities for the promotion of banks. The Islamic banks have usually less intention towards advertisement. This is one of the reasons of falling share of Islamic banks as opposed to the conventional banking system. (Doraisamy, 2011).

Different researchers suggest that for making transactions in a good way, one must need an efficient advertisement through the word of mouth. The word of mouth simply means that how to reduce advertisement expenditures? While on the other side there is no impact on productivity & efficiency of banks/companies. (Parsa, 2015). One of the key factors in banking field is networking. As we know that we are in a golden era for advancement in technology & it is not only limited to some particular fields. Now the usage of technology as networking in the banking sector is very obvious. With the help of networking technology, one can pay billing at their door, to check their account statements & also can see their balance. It saves our lot of time even when banks are closed & avails services of banks. Internet banking is one of the good examples of networking.

There are conventional & Islamic banking sectors where one deals with the principles of interest-based system while the second one is based on Riba. The main theme here is that the Islamic banking system is developing very rapidly in Pakistan which means more of the investors prefer Islamic banking. The question is what are the main factors that motivate investors toward Islamic banking in Pakistan?

There are lots of financial institutions including both conventional & Islamic banks. The major problem is to select one of the financial institutions which meet the criteria of investors’ satisfaction which is subject to meeting their expectations from their investments.
The objective of this research study is to identifies main factors motivating investors toward Islamic banking and their impact level i.e. religion, information regarding product & service, Islamic teachings on the financial element, advertisement campaign, networking quality & reputation of Islamic financial institutions.

Islamic banking is a vast field. Its implications are not only limited to the Muslim world but it plays a significant role in not-Muslim countries as well. Although the share of Islamic banking is not at a high level but with the passage of time its importance & significance level has been increased due to its genuine & real principles. For Muslims, there is no doubt it shows a good and smooth way of the transaction because there is no interest. The Islamic banks make transactions on profit & loss sharing basis. The current study is very beneficial for investors and banking institutions as well as investors will get to know the attractive features of Islamic banking, while the banks will understand their customers taste and preferences which will lead to Islamic banking development in Pakistan.

**Literature Review**

Alam, (2012) conducted an empirical study on the perception of investors in Islamic banking. The sample size for his study was 300 various age groups & income of respondents were taken under consideration for research purpose. Their finding reveals positive & significant relationship between investors’ perception in Pakistan & Islamic banking. In this study, the researchers find out that what are the perceptions of Pakistan on Islamic banking & what they usually expect from these banks? As all Muslims have a strong belief in religion so that’s why their expectations from Islamic banking are very high in this regard.

Diab, (2015) carried a research study in Sudan, on 268 respondents in a university to identify what would be the role of religion in affecting investors’ view on banking through advertisement by famous personalities? The researchers for this purpose used a questionnaire method & different analysis of t-testing, descriptive & frequency distribution. The scholar concluded that there is a strong positive association between the advertisement and the decisions of investors in Islamic banking; they concluded that more efforts are needed in this regard for future research workers & management of banking sector.
Anjum, (2012) conducted One of the same nature studies in Peshawar with sample size for this study was only 45. Questionnaire method is used for the collection of data. For analysis purpose, multiple linear regression techniques is used. The results of this analysis show an effective & positive impact of getting loans with no interest in Islamic banking as compared to interest-based banking. This study also shows a close association between religion & the selection of Islamic financial institution. In Pakistan, investors have awareness regarding Islamic banking but researchers examined that large transactions are made through conventional banks. So it means that more work is needed to enhance Islamic banking such as to improve online banking services as it is the key requirement in today’s era of the banking sector.

There are different views on Islamic banking that it is not very different from conventional banks. The commercial banks operate through interest-based system where on the other hand it is unacceptable in Islam. This violates the true principles of our religion if transactions were made on basis of *Ribā*/*Riba* interest. The Islamic based banking system is totally different from commercial banks. It is based on profit & loss sharing. Ahmad, (2014) carried One of the major studies to examine how investors switch from commercial banks to Islamic banks, the scholar analyzed time-series data in order to understand the results that transactions in Islamic banks are according to rules of sharia. The study also concluded that the investors feel free as there is very limited risk involved in transaction of Islamic banking. The customer is one of the most important sources of a business. It is a good source of any business. For the satisfaction of investors, it is the duty of Islamic banks to enhance the quality & services of their institutions. In this way, not only Muslims but non-Muslims will also become a part of Islamic banking. One of the studies was conducted in Malaysia on 1153 respondents. This study shows that good quality products & services are the main considerations of selection of Islamic banks by investors (Saad, 2012).

This study was conducted on 150 investors of conventional & *Ribā* free banks of Peshawar. Mostly people of Peshawar is religious minded so that’s why they preferred Islamic banking over conventional banks. For analysis purpose, correlation method was used the results confirms a positive relationship between investors’ satisfaction & the quality service provided by Islamic banks in Peshawar city. (Liaqat, 2013). One of the studies was conducted in Kedah a state of Malaysia. In this study, researchers found that people prefer Islamic bank transactions over commercial banks. The result of this study shows that people do not prefer interest on loans but
prefer profit and loss which is the main reason why people prefer Islamic banking over conventional or interest-based banking. (Doraisamy, 2011).

Nasir, (2013) conducted a researchers study and concluded that there are most of the people have little knowledge about different products & services of Islamic banking. This study was conducted to investigate the perception of investors on Islamic banking. It suggests that management should concentrate on quality products in Qatar in Islamic banking.(Nasir, 2013).

One of the elements in the banking industry is a tough competition & the quality of products which makes these products to be superior from other banks. It means that management of banks should keep this factor in priority as it increases the volume of Islamic banking compared to conventional banks. In this regard, one study in Tunisia was conducted by Echchabi, (2013) on interest-free banking that how it affects the decisions of investors? One hundred questionnaires are used for taking data from investors. Only 93 questions are applicable due to its validity. For analysis of data, the researcher uses multiple regressions and t-statistics which described that knowledge regarding Islamic banking is having an effective role on investors' investment behavior.

Keong, (2012) carried a study in Malaysia in order to understand the behavior of investors regarding Islamic banking, 280 respondents’ views were observed on Islamic banking by the researcher. Two techniques i.e. ANOVA & correlation are used for analysis of data. The results show that more than half of population are aware of Islamic banking but they have little knowledge about its main products & services. So it reduces the share of Islamic banking due to lack of knowledge. Bashir, (2014) investigated the quality of product and services of Islamic banking using a random sample of 200 respondent using analysis tools i.e. correlation, regression & descriptive analyses. The researcher concluded that there is very limited knowledge of product & service of Islamic banking. Faisal, (2013) investigated the investment behavior of Muslims and non-Muslims in Pakistan and concluded that Muslims are more aware of Islamic banking services than non-Muslims. According to Hozoori, (2015) Today the problem facing by different banks is how to convince investors regarding their products & services, as there is a tough competition among banks. The investors are well-aware of their needs & they know how to get quality products in low expenses? This study was conducted to investigate the relationship
between investor’s loyalties with E-banking using questionnaires. The results reveal a significant relationship between loyalty and E-banking in Islamic banking.

Ghaith, (2010) investigated the Saudi Arabian 651 respondents through questionnaires and concluded that superior products & providing quality products by banks can change the perception of investors in Islamic banking. Alagheband, (2006) argues that in different banks of Iran online banking system has been introduced. This system saves lots of time & reduces the expenses. Investors are not using this service as they have little knowledge about this service. There are certain risks linked with this service & the future researchers should work on it.

Parsa1, S. Y. (2015) investigated the impact of quality of service and advertising on investment behavior of investors regarding Islamic banking, the author concluded that services provided by Islamic banks having the key role in influencing the investor behavior. Further, the advertising is very necessary and has a significant impact on investor’s intention towards Islamic banking but the advertising should not be against the ethics of Islamic values. Abuznaid, (2009) asserts that credit availability is necessary for every financial institution. This credit is used for advertisement. Thus TV and internet advertisement play an important role in Islamic banking because more investors are attracted through these channels rather than spending money on billboards. Additionally, by analyzing the 248 respondents in various financial institutions, the author concluded that product innovation in financial institutions plays a vital role. The study demonstrates a positive relationship between product innovation and investors perception regarding investments.

Figure 1: Conceptual framework
Conceptual Framework

**RESEARCH HYPOTHESIS**

H₁ There is an impact of religion on the investment perception of investors in Islamic banking.

H₂ There is an impact of product & service knowledge on the investment perception of investors in Islamic banking.

H₃ There is an impact of advertisement on the investment perception of investors in Islamic banking.

H₄ There is an impact of knowledge of financial aspect on the investment perception of investors in Islamic banking.

H₅ There is an impact of networking on the investment perception of investors in Islamic banking.

H₆ There is an impact of Bank reputation on the investment perception of investors in Islamic banking.

**METHODOLOGY AND ANALYSIS**

The current research used the quantitative data which was collected through questionnaires from the respondents. Initially, 180 questionnaires were distributed in which 150 was returned that
was filled completely while there were 12 more questionnaires which were not complete thus only 150 questionnaires has been used for analysis purpose. The sampling technique was a convenient sample as it was difficult to trace a complete list of all investors and the bank’s policy.

**Table 1: Reliability test**

<table>
<thead>
<tr>
<th>Analyzing Reliability Test</th>
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<tbody>
<tr>
<td>Cronbach's Alpha</td>
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<tr>
<td>0.600</td>
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</tbody>
</table>

It can be clearly seen from above table that the variables which are used by researchers of this study are showing valid results. 0.600 level of Cronbach’s alpha suggests that variables are reliable. All number of 32 items is valid for the measurement purpose which influences investors’ view on Islamic banking.

**Table 2: correlation matrix**

<table>
<thead>
<tr>
<th>Correlations</th>
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<tbody>
<tr>
<td>religion</td>
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<tr>
<td>religion</td>
</tr>
<tr>
<td>F.K.B</td>
</tr>
<tr>
<td>A.R.P.S</td>
</tr>
<tr>
<td>Advertising</td>
</tr>
<tr>
<td>Reputation</td>
</tr>
<tr>
<td>Networking</td>
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<tr>
<td>I.P</td>
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</tbody>
</table>

**, Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix above reveals a strong positive and significant association among independent variables i.e. religion, knowledge regarding Islamic banking, awareness regarding product and services of Islamic banking, advertising, reputation, networking or technology and
investors perception. The Pearson correlation values of all the variables under study above 0.05 asserting that there is a significant positive correlation among all these variables.

Table 3: Regression results

<table>
<thead>
<tr>
<th>Regression Analysis</th>
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<tr>
<td>$R^2 = .686$, $F= 20.160$</td>
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</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-2.233</td>
<td>0.627</td>
<td>-3.563</td>
<td>.000</td>
</tr>
<tr>
<td>Religious</td>
<td>0.275</td>
<td>0.082</td>
<td>0.232</td>
<td>3.370</td>
</tr>
<tr>
<td>K.I.B</td>
<td>0.337</td>
<td>0.077</td>
<td>0.288</td>
<td>4.354</td>
</tr>
<tr>
<td>A.R.P.S</td>
<td>0.343</td>
<td>0.095</td>
<td>0.245</td>
<td>3.614</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.326</td>
<td>0.073</td>
<td>0.368</td>
<td>4.480</td>
</tr>
<tr>
<td>Networking</td>
<td>0.326</td>
<td>0.095</td>
<td>0.213</td>
<td>3.437</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.032</td>
<td>0.072</td>
<td>0.033</td>
<td>0.446</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Perception of investors

The regression output above the $R^2$ value of 0.686, asserting that 68.6 % variation independent variable investment perception regarding Islamic banking is explained by the variables included in model i.e. religion, financial knowledge, awareness regarding Islamic banking product and services, advertising and networking. Thus it is concluded that model is quite fit. The F value is 20.160 asserting that the model is statistically significant and appropriate for policy purpose.

The regression result shows a significant positive impact of all independent variables on the investment perception of investors regarding Islamic banking except the reputation of the bank. This leads to the conclusion that the entire hypothesis $H_1$, $H_2$, $H_3$, $H_4$ and $H_5$ has been accepted on the basis of regression output above but the reputation as does not show any significant impact thus the $H_6$ cannot be accepted. The regression output shows the positive impact of religion on investment perception regarding Islamic banking because in Pakistan all the citizens are Muslims and they are motivated by religious principals. In Islam the interest ($Riba$) is prohibited thus investors are motivated toward Islamic banking as there is no prohibition and there is no interest involve in Islamic banking.
The financial literacy has a positive impact on the investment perception regarding Islamic banking because the financial literacy makes investors think and analyze the risk returns trade off before investment, as the returns are not fixed and on profit & loss basis and there are countless evidence that Islamic banks are paying higher returns than that of conventional banks. Thus considering the risk return trade off and high return by Islamic banks the financial literate persons are more intended toward investment in Islamic banks rather than conventional banks.

Awareness regarding product and services has positive impact on the investment perception of investors because if investors are aware of the product and services they will analyze and think about but if they are not aware of the product and service what will they think about and what will they decide about that thing thus if awareness increases the investment intention of investors regarding Islamic banking will increase the same is the scenario of advertising. If there is more advertising there will be more awareness if no advertisement then low or no awareness.

Networking means the latest technology used by the banks for customer facilitations. If the banks are providing more and more facilities to their customers, in the form of E-Banking, then more and more customers will be motivated towards Islamic banking.

The reputation of the bank has no impact on the investment perception of investors regarding Islamic banking as there are few choices with investors for Islamic banking. There are much more conventional banks but very few Islamic banks due to which investors of Islamic banks have low or approximately no choice to choose among many avenues for investment.

**CONCLUSION**

The role of investor both in conventional as well as Islamic banks cannot be ignored. Thus the banks must understand the investor’s perception and expectation to motivate them to invest in banks. The current study has been conducted under one of such objective. In this regards that data has been gathered from 150 respondents on various factors i.e. religion, financial knowledge, awareness regarding product and services if Islamic banks, advertising networking and banks reputation. The Cronbach's alpha test confirmed the reliability of the scale used the correlation and regression model reveals that there is the significant positive impact of all these variables except reputation of the bank on the investment perception regarding Islamic banks. Thus it is recommended that id religious beliefs, financial knowledge, knowledge regarding
product and services of Islamic banks and advertisement increased there will be an enormous increase of investments in Islamic banks.

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