Customer Preferences Towards Selection Of Islamic Banking: A Quantitative Approach

Muhammad Nazir[1] , Atiq Ur Rahman[2] , Usama Zeerak[3] , Zafar Anwar[4] , Shehroz Khan[5]

[1]*Senior Lecturer and Research Coordinator Department of Economics Govt. Postgraduate College Nowshera KP, Pakistan Corresponding author muhammad.nazir1987@gmail.com*
[2]*Lecturer Department of Economics Govt. Postgraduate College Nowshera KP, Pakistan atiq46@hotmail.com*
[3]*BS Economics Department of Economics Government Postgraduate College Nowshera Usamazeerak05@gmail.com*
[4]*Head Master Elementary and Secondary Education Department Khyber Pakhtunkhwa, Pakistan zafaranwar3637@gmail.com*
[5]*BS Economics, Department of Economics Govt. Postgraduate College Nowshera KP, Pakistan*

Abstract: Islamic Banking Industry is growing and expanding with the passage of time in Pakistan. This study conducted in District Nowshera of Khyber Pakhtunkhwa province of Pakistan. The study aimed to explore the factors that affect the selection of Islamic banking. The main variables of the study were religious inclination, service quality and financing products. Primary data were collected from 364 respondents through an adopted questionnaire. The study's main findings explored that religious inclination and service quality are primary factors influencing towards selection of Islamic banking. Moreover, financing products also lead customers to adopt Islamic banking. Suggestions and recommendations are made for policy makers, banking industry and government.

Keywords: Customer preferences, selection, Islamic banking, quantitative, Pakistan

1. Introduction: Islamic finance is a banking system compatible with Islam's spirit, ethos, or value system and ruled by the principles established by Islamic jurisprudence. Islamic bank operates on profit and loss basis. If the business person or investor has suffered a loss, the bank will share these losses through the Modaraba and Musharaka mode of finance. Islamic banks' functions and operating modes are based on Shariah's principles. According to Islamic Shariah, Transactions involving interest (Riba), uncertainty (Gharar), and gambling (Maiser) are prohibited. Islamic banking transactions are Gharar-free (certain) transactions. It ensures mutual benefit, covering and spreading risks of both counterparties to the contract by clarifying each one's obligations (Thaker et al, 2020).

Islamic banking system is based upon the principles of Islamic Law followed by Islamic economics. The two basic principles behind the Islamic banking system: profit and loss Sharing and prohibiting the payment and collection of Interest (Riba) by lenders and investors. Collecting Riba (any excess compensation without due consideration) is not allowed under Islamic Law. Many Revelations in the Quran and Hadiths regarding the Prohibition of Riba are Present. Islamic Banking's principles follow Shariah law based on the Holy Quran and the Hadith (Akhtar et al, 2016).

History of Islamic Banking: The origin of Islamic banking dates back to the very beginning of Islam in the seventh (7th) century. The Prophet Muhammad (S.A.W.)'s first wife, Khadija (R.A.), was a merchant, and Muhammad (S.A.W.) acted as an agent for her business by using many of the same principles used in young Islamic banking. In the middle Ages, trade and business activity in the Muslim

world depended on Islamic banking principles. These ideas are spread throughout Spain, the Baltic States, and the Mediterranean, arguably providing some of the bases for western banking principles (Ahmad et al, 2010).

Moreover, the first step regarding establishing the Islamic banking system was taken in 1963s in Egypt, but that was unsuccessful due to inappropriate marketing and management strategy. Malaysia took a successful step in 1980 toward the Islamic banking system (Ali & Hong, 2015).

Main Modes of Islamic Financing: In Islam, lending out money at interest is prohibited, so that's why Islamic rules on transactions, called Fiqh al-Muamalat, have been created or generated to prevent these activities. However, the basic principles of Islamic banking are based on risk-sharing, which is a part or component of trade, rather than risk transfer which is highly seen in conventional banking. As a result, Islamic banking introduced concepts such as Mudarabah, Musharakah, Murabahah, Iijara, Salam, and Istisna (Usmani, 2021).

Musharakah is a partnership in which all partners share the profit between themselves according to a specific ratio they set before starting the business. In contrast, they share the loss according to the ratio of the contribution to the business. Mudarabah is a kind of Partnership in which one partner provides money or capital to another partner for investment. The profit will be shared in the predetermined ratio, while the loss will be only borne by the person who provides capital. The partner who provides capital is called Rab-ul-Maal, and the partner who does management work is called Mudarib. Murabaha is a mode of financing in which the seller discloses the cost price of the sold commodity to the client by adding some profit. There are some conditions for the sale commodity which must be fulfilled at the time of sale, i.e., the commodity must be present, the commodity must be in the ownership of the seller, the seller transfers the

possession and ownership of the commodity to the buyer, the commodity should have value, the commodity should be pointed out or identified to the buyer, the commodity should not be used for an un-Islamic purpose. Salam is a mode of financing in which the seller receives the total cash in advance from the buyer and supplies the specific goods at a future date. The time of delivery is fixed. This mode of financing is beneficial for both buyer and seller. In Istisna, the buyer gave an order to manufacture a specific good(s). He can pay the price in advance or at the time of delivery. In Istisna, the time of delivery is not necessary to be fixed. If the purchaser wants to fix the time of delivery so, then they fix the maximum delivery time (Usmani, 2021).

1.2 Rationale of the study: Over time, growth has occurred in the field of Islamic banking system. Initially, people think there is no difference between conventional banks and Islamic banks, but gradually, people understood that there is a difference between these two concepts. The Islamic banking system is now getting mature. The study is conducted to determine the essential factors that affecting the customer preferences to choose Islamic banking because conventional banks also fulfill customer needs. So in this competitive environment, there are some factors that Islamic banks should adopt to attract customers which include religious inclination, service quality, and financing products. The specific objective of the study is to point out the impact of Religious Inclination, Service Quality and Financing products on selecting Islamic banking. While the general objective of the study is to explore the influencing factors of Islamic banking selection.

2.1 Literature Reviews: Islamic banking is a fast growing sector which offers services and products according to Islamic sharia law. Certain factors which convince Muslim customers to shift from conventional to Islamic banking include ethical organization, Islamic

values and reputation (Haque et al 2020). The most significant indicator showing peoples interest towards Islamic banking is considered to be the observed usefulness of the Islamic banking system (Ayyub et al 2019). The variables such as religion, high profit & Low service Charges, influence of friends, service quality, responsive attitude of staff and bank image etc. are all related to customer satisfaction (Awan et al 2014). Apart from Muslims non Muslim's were also driven towards choosing Islamic Banks by certain variables including Convenience, product pricing, reliability and responsiveness, operational risk and security and value added services (Thaker et al 2019). According to Muthia (2020) Staff Friendliness, sharia compliance and fast and efficient banking services are factors prioritized by the customers in choosing Islamic banks. Senapati et al. (2016) studied the customer choices decisions to adopt Islamic baking in South Africa. The targeted population was students above 18 years both genders and various religions. 250 sample were collected by random sampling. The findings of the study depicted that customer's awareness, product knowledge, community influence, social norms, and religious obligations significantly influenced customer's choice for bank choice. Akhtar et al. (2016) studied factors affecting customer satisfaction in Islamic banking in Pakistan. They collected 120 non-probability sample. They took customer satisfaction dependent variable and service quality and customer loyalty as the independent variable and concluded that the quality of services plays an important role in the selection of Islamic banking, customer loyalty positively affects customer satisfaction. Abdullah and Yazd far (2016) conducted a study to evaluate factors influencing toward Islamic Bank for youth in Pakistan. Collected 100 samples through convenient sampling. The study used selection criteria as the dependent variable and awareness and knowledge, rate of return, Islamic teaching, family/friends, service satisfaction, and low service charges as

independent variables. The study concluded that service quality and friends and family are the main influencing factors for customers' selection of Islamic banking. The study concluded that religious reading also influences customers to choose Islamic Bank. Naeem et al. (2016) studied Pakistan banking sector and explored the factors that influence customer perception in Islamic banking. The study selected 180 samples. The study used Religion, awareness regarding products and services, financial teaching of Islam, advertisement, networking, and reputation as independent variables. The findings of the study concluded that all the variables significantly impact customers' perception of Islamic banking. Nain Tara et al. (2014) explored the factors influencing the adoption of Islamic banking, collected data from 180 respondents through questionnaires in different cities of Pakistan, according to the findings of the Study, Religion, awareness of the financial teaching of Islam, the number of branches of Islamic banks, and reputation are the influential factors in the adoption of Islamic Banking. Abdul Ghafoor et al. (2014) states that consumer select Islamic banking not only based on religious motives but other factors that influence their decision the quality of services, high profit and low service charges, mass media, bank reputation/image, the behaviour of the bank staff, a recommendation from family and friends. Ayesha et al. (2015) argued that Religion does not influence the selection of Islamic banking in Malaysia, the excellent service of Islamic banking impressed people to choose Islamic banking. Muhammad et al. (2015) studied the factors affecting the intention to use Islamic personal financing in Pakistan. They took a 484 sample size and used a non-probability sampling technique. They used social influencing, principles of Islamic financing, religious obligation, and government support as independent variables. They concluded that pricing, religious obligation, and government support significantly impacted the intention to use Islamic personal financing, in which only government support has a positive impact. In

addition, attitude and social influence also have a positive but insignificant impact on the intention to use Islamic personal financing

2.1 Conceptual Framework: This study used selection of Islamic banking as the dependent variable while religious inclination, service quality, and financing product as independent variables that influence the customer preference towards the selection of Islamic banking.
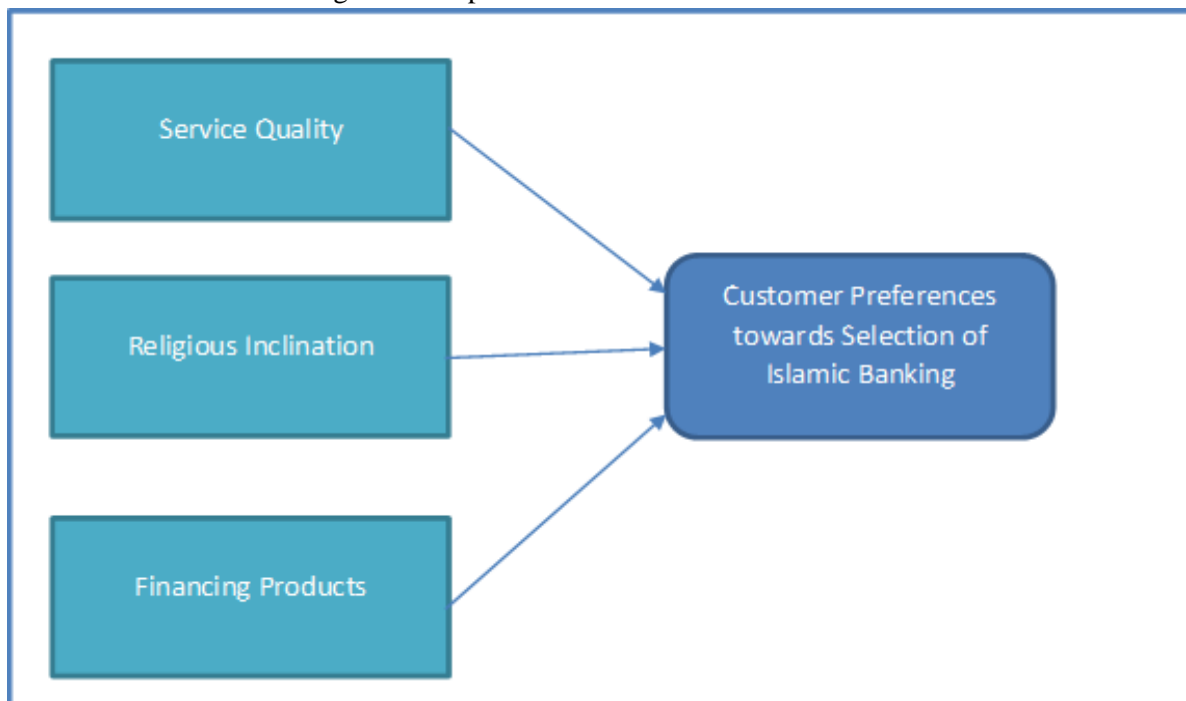
3. Research Methods

3.1 Research Design**:** The present study is descriptive as well as quantitative in nature. Data was collected through an adopted questionnaire from account holders only. The primary purpose of this study is to find out the relationship between customer preferences with religious inclination, service quality, and financing products.

3.2 The Target Population: The Study is conducted in District Nowshera. Nowshera is the most historical and famous place in the Province of Khyber Pukhtunkhwa. It is a centrally located region, so it has great significance due to its strategic position. The area of district Nowshera is 1748 km square. Traders of textile come from every corner of the country to Nowshera district for business activities. These people need bank to fulfill their transactions. This study targeted males and females in Nowshera district that have bank account with Islamic and conventional banks.

The population of this study comprised 4000 customers.

3.3 Sampling Design and Sample Size: Questionnaire were distributed among 364 male and female bank customers of age 20 and above of Islamic and conventional banks. In this study, non-probability sampling techniques (convenient Sampling) were used.

To determine the sample size, Yamani's formula was used.

$$n = \frac{N}{1+N\,(e)^2}$$

……………………………………… Eq. 1

where: n = Sample size

N = Population size

e = Sampling error

$$n = \frac{4000}{1+4000\,(0.5)^2} \quad , \quad n = \frac{4000}{1+4000\,(0.0025)}$$

$$n = \frac{4000}{1+10}$$

$$n = \frac{4000}{11}, \quad n = 363.63$$

By using Yamani's formula, the study decided to take a sample size of 364.

3.4 Data collection instruments and procedures: The Study collected Primary data through a adopted questionnaire. Questionnaire was consisted of two sections. The first section was about demographic information of the respondents while second part was comprised on religious inclination, service quality, and financing product. Three hundred sixty-four questionnaires were distributed, 311 responses found correct and considered for analysis, 53 questionnaires were found incomplete and excluded.

3.5 Data Analysis and Presentation: The study used the logit model because the dependent variable is binary in nature. The below binary logit regression model was used to explore the relationship between dependent and independent variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_i$$
………………………………………………
……………………………… Eq. 2

Where Y = Customer Preferences towards Selection of Islamic Banking

β_0 = Constant Term

X_1 = Religious Inclination

X_2 = Service Quality

X_3 = Financing Product

β_0, β_1, $\beta2$, β_3 = Coefficients of independent variables

ε_i = Error Term

4. DISCUSSIONS AND ANALYSIS

4.1 Response Rate: Data were collected from four full fledge Islamic banks and other banks operating in District Nowshera. The 364 Questionnaires were distributed among the account holders in District Nowshera. Out of these, 311 questionnaires were received, giving an 85.43% response rate. This percentage is adequate because Mugenda (2003) argued that the research study is adequate with 75% and above response rate.

4.2 Background Information: The questionnaire consisted of two sections. The first section was designed to gather demographic information, including gender, qualification, income, age, marital status, and job nature. In contrast, the second section was designed to gather information regarding the three predictors: religious inclination, service quality, and financing product.

4.2.1 Gender of the Respondents: The study established that 68.2 % of the respondents were male, while the remaining 31.8 % were female.

Table 4.1 Customer Preferences and Gender Cross Tabulation Table

Customer Preferences		Gender		Total
		Male	Female	
Conventional Bank	Count	58	29	87
	% of Total	18.6%	9.3%	28.0%
Islamic Bank	Count	154	70	224
	% of Total	49.5%	22.5%	72.0%
Total	Count	212	99	311
	% of Total	68.2%	31.8%	100.0%

The above table shows 87 respondents preferred conventional banks, of which 58 were male while 29 were female. Moreover, 224 out of 311 respondents preferred Islamic Bank, of which 154 were male, and the remaining 70 were female.

4.2.2 Qualification of the Respondents: The study measure qualification of the respondents through five categories: primary, matric, intermediate, bachelor, master, and above. Accordingly, the study shows that 9.0 % of respondents had primary education, 13.5 % of respondents had matric education, 22.5 % had intermediate education, 25.1 % had bachelor's education, and 29.9 % of respondents had master's & above education level.

Table 4.2 Frequency Distribution Table on Qualification of the Respondents

Qualification	Frequency	Percent
Primary	28	9.0
Matric	42	13.5
Intermediate	70	22.5
Bachelors	78	25.1
Master and Above	93	29.9
Total	311	100.0

4.2.3 Marital Status of the Respondents: The study measured the respondent's marital status in four categories, including married, unmarried, divorced, and widow. The study shows that 58.8 % of the respondents were married, 36.3 % of the respondents were unmarried, 3.9 % of the respondents were divorced, and 1.0 % of the respondents were widows.

4.2.4 Job Nature of the Respondents: The research findings show that 28.9 % of respondents were government employees, 48.9 % were private employees, 16.1 % were self-employed, and the remaining 6.1 % were homemakers.

Table 4.3: Frequency Distribution Table on Job Nature of the Respondents

Job Nature	Frequency	Percent
Govt. Employee	90	28.9
Private Employee	152	48.9
Self Employed	50	16.1
Housewife	19	6.1
Total	311	100.0

4.2.5 Income of the Respondents: This study shows that 29.9 % of respondent's incomes were between 15000-25000, 29.6 % of respondent's incomes were between 25000-35000, 19.9 % of respondent's incomes were between 35000-45000, 13.2 % of respondent's incomes were between 45000-55000 and 7.4 % respondent's income was above 55000.

Table 4.4 Frequency Distribution Table on Income of the Respondents

Income	Frequency	Percent
15000 - 25000	93	29.9
25001 - 35000	92	29.6
35001 - 45000	62	19.9
45001 - 55000	41	13.2
Above 55000	23	7.4
Total	311	100.0

4.2.6 Age of the Respondents: The findings of the study show that 1.6 % of respondent's age were between 20 and less, the respondents whose ages were between 21-30 years their percentage were 44.7 %, 37.3 % were between 31-40 years, 10.9 % were between 41-50 years and the respondents whose ages were above 51 years, so they were 5.5 %. So the study shows that most respondents were between 21-30 years, as shown in the table.

Table 4.5 Frequency Distribution Table on Age of the Respondents

Age	Frequency	Percent
20 years or less	5	1.6
21 - 30 years	139	44.7
31 - 40 years	116	37.3
41 - 50 years	34	10.9
51 years or more	17	5.5
Total	311	100.0

4.2.7 Response of Bank Account Holders: The study explored that 210 persons had accounts in Islamic banks, 70 persons had an account in Conventional banks, and 31 persons had accounts in both conventional and Islamic banks.

Table 4.6 Frequency Distribution Table on Response of Bank Account Holders

Account Holders' Bank Name	Frequency	Percent
Islamic Bank	210	67.5
Conventional Bank	70	22.5
Both	31	10.0
Total	311	100.0

4.2.8 Account Type: This Research found that most persons had current accounts, as shown in the table and graph below as 63.7 %. There 15.1 % of persons had savings accounts. 4.8 % in fixed, and 16.4 % had P.L.S. accounts.

Table 4.7 Frequency Distribution Table on Account Type

Account Type	Frequency	Percent
Current	198	63.7
Saving	47	15.1
Fixed	15	4.8
PLS	51	16.4
Total	311	100.0

4.4 Religious Inclination: The study's first objective was to see the effect of religious inclination on customer preferences toward Islamic banking. For this purpose, the variable is measured on three items. The result of these items is shown in table 4.8. The study finds that the majority of the respondents which is 45.0 % agreed that the prohibition of Riba influences customer preferences toward the selection of Islamic banking in District Nowshera. 34.1 % strongly agree. Moreover, 14.1 % of respondents disagreed, and 6.8 % strongly disagreed that the prohibition of Riba affects customer choice.

Regarding religious preference, the study indicates that 46.3 % of respondents agreed and 25.7 % strongly agreed that religious preference affects the selection of customers towards Islamic banking. Moreover, the study finds that 19.0 % of respondents disagreed and 9.0 % strongly disagreed that religious preference affects customer selection.

In terms of Islamic education, the study shows that 65.6 % of respondents' Islamic education was Nazira. 12.9 % of respondents have Islamic Education While 18.0 % read Quran with Translation, and 3.5 % of respondents were Aalim.

Table 4.8: Frequency Distribution Table on Religion Inclination

Religious Inclination	Category	Code	Frequency	Percentage
Prohibition of Riba	Strongly Disagree	1	21	6.8 %
	Disagree	2	44	14.1 %
	Neutral (Cannot Say)	3	0	0.00 %
	Agree	4	140	45.0 %
	Strongly Agree	5	106	34.1 %
Select Islamic banking due to Religion	Strongly Disagree	1	28	9.0 %
	Disagree	2	59	19.0 %
	Neutral (Cannot Say)	3	0	0.00 %

	Agree	4	144	46.3 %
	Strongly Agree	5	80	25.7 %
Islamic Education	Nazira	1	204	65.6 %
	Halifax	2	40	12.9 %
	Quran with Translation	3	56	18.0 %
	Knowledge of Hadith	4	0	0.00 %
	Aalim	5	11	3.5 %

4.5 Service Quality: Another objective of the study was to establish the effect of service quality on the selection of Islamic banking. The result of table 4.9 indicates that in terms of staff behaviour, the study established that most customers (58.5 %) agreed that staff behaviour in Islamic banking influences the selection of customers towards Islamic banking. 19.9 % strongly agreed, and 16.7 % could not say anything. This study also finds that 4.5 % of respondents disagreed and only 0.3 % strongly disagreed that Staff behaviour influences the customer's selection of Islamic banking in District Nowshera.

Regarding fulfilling market needs, the study determined that 60.8 % of respondents agreed that fulfilling the market needs of customers by Islamic banks influences customers to choose Islamic banking. However, 14.1 % of respondents strongly agreed, 17.4 % could not say anything, 6.1 % disagreed, and 1.6 % strongly disagreed that fulfilling market needs influences the customer choice of Islamic Bank.

In terms of fast service, table 4.10 points out that the majority of the respondents, 62.1 %, agreed that the fast services of Islamic banks affect customer selection. 10.0 % of respondents strongly agree that fast services influence the selection of customers towards Islamic Bank. Moreover, 20.3 % could not say anything, 6.8 % of respondents disagreed, and 1.0 % of respondents strongly disagreed that fast service influences customer selection towards Islamic banking.

In terms of competitive services provided by Islamic banks to their customers, the study finds that most of the customers, 42.8 %, were agreeable. In comparison, 31.5 % of customers strongly agree that Islamic banking services are competitive compared to conventional banks, which compiles customers to adopt Islamic banking. The study shows that 17.0 % of respondents could not say anything, 3.5 % disagreed, and 5.1 % strongly agreed.

Table 4.9: Frequency Distribution table on Service Quality

Service Quality	Category	Code	Frequency	Percentage
	Strongly Disagree	1	1	0.3 %
	Disagree	2	14	4.5 %

Staff behaviour of Islamic banking	Neutral (Cannot Say)	3	52	16.7 %
	Agree	4	182	58.5 %
	Strongly Agree	5	62	19.9 %
The services of Islamic banking are according to market needs.	Strongly Disagree	1	5	1.6 %
	Disagree	2	19	6.1 %
	Neutral (Cannot Say)	3	54	17.4 %
	Agree	4	189	60.8 %
	Strongly Agree	5	44	14.1 %
Services of Islamic banking are fast and improved than conventional banks.	Strongly Disagree	1	3	1.0 %
	Disagree	2	21	6.8 %
	Neutral (Cannot Say)	3	63	20.3 %
	Agree	4	193	62.1 %
	Strongly Agree	5	31	10.0 %
Islamic banks are more competitive than conventional banks in terms of the quality of services.	Strongly Disagree	1	16	5.1 %
	Disagree	2	11	3.5 %
	Neutral (Cannot Say)	3	53	17.0 %
	Agree	4	133	42.8 %
	Strongly Agree	5	98	31.5 %

4.6 Financing Product: The third objective of the study was to determine the effect of financing products on the selection of Islamic banking. This factor is measured on three items. The data was collected from 311 customers randomly, out of which 141 customers (45.3 %) agreed on Shariah-based products. 20.6 % strongly agreed, 12.2 % of customers could not say anything, 15.4% disagreed, and 6.4 % strongly agreed. This result gave a weighted mean of 3.58, which shows that Shariah-based products contributed to financing products, influencing the customer choice to adopt Islamic banking in the Nowshera district.

In terms of Awareness regarding Islamic products, the study finds that 49.8 % of

customers agreed that awareness regarding Islamic financing products influences the customer's selection to choose Islamic banking. 21.2 % of customers strongly agreed. 16.1 % of customers could not say anything, while 11.3 % of customers disagreed, and 1.6 % of customers strongly disagreed.

In terms of affordability, the study indicated that 50.8 % of customers agreed and 13.5 % of customers strongly agreed that product affordability affects customer selection towards Islamic Bank. However, 10.0 % could not say anything, 17.0 % disagreed, and 8.7 % strongly agreed that affordable product affects the customers who choose Islamic banking.

Table 4.10: Frequency Distribution table on Financing Product

Financing Product	Category	Code	Frequency	Percentage
Islamic financing products are Shariah-based.	Strongly Disagree	1	20	6.4 %
	Disagree	2	48	15.4 %
	Neutral (Cannot Say)	3	38	12.2 %
	Agree	4	141	45.3 %
	Strongly Agree	5	64	20.6 %
Awareness of Islamic financing products	Strongly Disagree	1	5	1.6 %
	Disagree	2	35	11.3 %
	Neutral (Cannot Say)	3	50	16.1 %
	Agree	4	155	49.8 %
	Strongly Agree	5	66	21.2 %
Islamic banking products are more affordable than conventional banks.	Strongly Disagree	1	27	8.7 %
	Disagree	2	53	17.0 %
	Neutral (Cannot Say)	3	31	10.0 %
	Agree	4	158	50.8 %
	Strongly Agree	5	42	13.5 %

4.7 Regression Analysis: In regression analysis, we use data from dependent and independent variables to estimate the values of intercept and slope parameters.

Table 4.11: Regression Analysis

```
Logistic regression                          Number of obs   =         311
                                             LR chi2(3)      =      309.69
                                             Prob > chi2     =      0.0000
Log likelihood = -29.486919                  Pseudo R2       =      0.8400
```

customerpreferences	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
religioninclination	1.423038	.2190762	6.50	0.000	.9936569	1.85242
servicequality	.5949642	.1399142	4.25	0.000	.3207375	.869191
financingproduct	.3187193	.1556717	2.05	0.041	.0136082	.6238303
_cons	-22.55692	3.459479	-6.52	0.000	-29.33738	-15.77647

Table 4.11 customer preferences are the dependent variable, and religious inclination, service quality, and financing product are the study's independent variables. The above table shows that the R square value is 0.84, which indicates that the independent variables explain 84 % of the variation in the selection of the Islamic Bank in the model; on the other hand, the remaining 16 % variation is due to those factors which are not included in the model. The P value of all variables is significant at the level of 5%, indicating that all variables significantly impact the selection of Islamic banking.

The religious inclination coefficient value is 1.423, which is a positive value, and its P value is 0.000, which is less than 0.05 at a 95 % confidence level, indicating that religious inclination is statistically significant in influencing customer preferences to select Islamic banking. There is a positive relationship between customer preference towards the selection of Islamic banking and religious inclination.

The service quality coefficient value is 0.594, which is also positive, and its P value is also 0.000, which is less than 0.05 at a 95 % confidence level, indicating that service quality is also statistically significant in affecting the dependent variable, customer preferences, to adopt Islamic banking.

The P value of the financing product is 0.041, which is less than 0.05 at a 95 % confidence level and the coefficient value of the financing product is positive, which is 0.318; it shows a positive relationship between customer preferences and financing products. Financing product is statistically significant in influencing customer preferences toward the selection of Islamic banking.

Now we will see the marginal effect of each variable on the dependent variable, and for this, we need table 4.14, which is given below.

Table 4.12: Marginal Effect Table

```
Marginal effects after logit
      y  = Pr(customerpreferences) (predict)
         =  .95145773
```

variable	dy/dx	Std. Err.	z	P>|z|	[95% C.I.]		X
religi~n	.0657243	.02798	2.35	0.019	.010877	.120572	9.09325
servic~y	.027479	.0109	2.52	0.012	.006123	.048835	15.3826
financ~t	.0147203	.00808	1.82	0.069	-.001123	.030564	10.7942

From table 4.11 above, we will relate the result of the marginal value of each independent variable with table 4.12. From table 4.13, the value of the coefficient of religious inclination is positive, which is 1.423, and its P value is less than 0.000, which is highly significant. The marginal value of religious inclination in table 4.14 is 0.065, indicating that a unit increase in religious inclination will cause customer preferences to increase by 0.065 units or increase by 0.6 %.

The marginal value of service quality in table 4.14 is 0.027. The value of the coefficient of service quality is 0.594, and the P value is statistically highly significant. The marginal value of 0.027 indicates that a unit increase in service quality will cause to increase the customer preferences towards the selection of Islamic banking by 0.027 units.

In financing products, the coefficient value of this variable is 0.318, and the P value is 0.041 in table 4.13. The marginal value of the financing product is 0.014 in table 4.14, which indicates that a unit increase in financing product will cause to increase in the dependent variable (customer preferences) by 0.014 units.

5. Conclusions: The objective of study was to see the effect of religious inclination, service quality, and financing products on customer preferences towards the selection of Islamic banking in district Nowshera. The study sought to determine the factors that affect customer preferences in adopting Islamic banking in district Nowshera. The main objective was to indicate the effect of religious inclination, service quality, and financing products on customer preference towards selection of Islamic banking. Collected data from 311 customers who had accounts in different conventional and Islamic banks through a structured questionnaire that included two sections. Descriptive analysis revealed that 212 male customers and 99 female customers, in which 58 males and 29 females were customers who preferred conventional banks. Moreover, 154 male and 70 female customers preferred Islamic bank due to religious inclination, service quality, and financing products. The majority of the customers were aged 21 – 30 years. The study ensures that all transactions must be on Shariah bases, prohibiting Riba so more customers will come towards Islamic banking.

This study also concludes that the pleasant staff behaviour, fast services provided by the Islamic Bank, and services that fulfill market needs compel customers to come towards Islamic banking. The more quality services Islamic Bank provides; the more customers will adopt Islamic banking. It was observed from the findings that Shariah-based products compelled customers to choose Islamic banking. When customers have awareness regarding Islamic financing products like mudarabah, musharakah, Murabaha, Salam, Cristina, Ijara, etc., people then select Islamic banking. Also, affordability affects the selection level. When the product is readily available and convenient to customers, they will select Islamic Bank to fulfill their social needs, etc.

5.1 Recommendations: The following recommendations should be incorporated by the Islamic banking industry and the Government of Pakistan.

1. The study reveals that if Islamic banks give interest free finances to customers so more customers will attract by Islamic baking. Islamic banking industry should follow the interest-free financing facility for customers. It will lead to an increase in investment in the country and an increase in the use of modern banking services.

2. The study also recommends that fast service and the behaviour of the bank staff are other factors that should be improved and revised by the Islamic banking industry. If the staff behaviour of Islamic banking is polite and pleasant with customers, then more customers will select Islamic banking. The industry can increase its customers in such a manner. The quality and processing time of available facility and services of Islamic banking is also essential for customers. The banking industry should focus on these factors as it will increase the use of modern Islamic banking services in the country.

3. The study also reveals that Shariah-based products and affordability are other factors that should be improved and revised by the Islamic banking industry; when products are more affordable, more customers will come towards Islamic banking.

References

1. Aden, S. A. (2014). Factors influencing Islamic banking in Kenya: A case study of Nairobi County (Doctoral dissertation, United States International University-Africa).

2. Ahmad, A., ur Rehman, K., & Saif, M. I. (2010). Islamic banking experience of Pakistan: comparison between Islamic and conventional banks. International Journal of Business and Management, 5(2), 137.

3. Akhtar, Naeem., Shoukat, U., Raza, A., Akhtar, H. M. A., Ijaz, M., & Maqsood, T. (2016). Factors Affecting Customer Satisfaction in Islamic Banking in Pakistan. International Review of Management and Business Research, 5(2).

4. Akhtar, N., Mehmood, M. T., Pervez, M. Z., Aslam, F., & Akhtar, H. M. A. (2016). Factors Influencing Customers' Perception in Islamic Banking: A Case Study in Pakistan. International Review of Management and Business Research, 5(3), 844.

5. Ali, M., & Chin-Hong, P. (2015). Factors affecting intention to use Islamic personal financing in Pakistan: Evidence from the modified T.R.A. model.

6. Anwar, M. (2014). Factors influencing the profitability of Islamic banking in Kenya; Case of Gulf African Bank (Doctoral dissertation, Kabarak University).

7. Asdullah, M. A., & Yazdifar, H. (2016). Evaluation of factors influencing youth towards Islamic banking in Pakistan. ICTACT Journal on Management Studies, 2(1).

8. Asma'Rashidah Idris, K. N. M., Naziman, S. S. J., Asari, F. F. A. H., Muhammad, N., Sabri, S. M., & Jusoff, K. (2011). Religious value is the main influencing factor to customers patronizing Islamic Bank. World Applied Sciences Journal, 12, 8-13.

9. Awan , A.G.; Azhar,M. "Customer behavior towards Islamic banking in Pakistan" European Journal of Accounting Auditing and Finance Research Vol.2, No.9,pp.42-65, November 2014

10. Awan, A. G., & Azhar, M. (2014). Consumer Behavior towards Islamic Banking in Pakistan. European Journal

of Accounting Auditing and Finance Research, 2(9), 42-65.

11. Ayyub, S.; Xuhui,W.; Asif,M.; Ayyub, R.M.; "Determinants of intention to use Islamic banking" International Journal of Islamic and middle east Finance and management Vol. 13 No. 1,2020 pp. 147-163.

12. Bassir, N. F., Zakaria, Z., Hasan, H. A., & Alfan, E. (2014). Factors influencing the adoption of Islamic home financing in Malaysia. Transformations in Business & Economics, 13(1), 31.

13. Bodibe, S., Chiliya, N., & Chikandiwa, C. T. (2016). The factors affecting customers' decision to adopt Islamic banking. Banks and Bank Systems, 11(4), 144-151.

14. Haque, A. K. M., Osman, J., & Ismail, A. Z. (2009). Factor influences selection of Islamic banking: a study on Malaysian customer preferences. American Journal of Applied Sciences, 6(5), 922-928.

15. Hasan, S. A., Subhani, M. I., & Osman, M. (2012). Consumer criteria for the selection of an Islamic Bank: Evidence from Pakistan.

16. Hoque, M.N.; Rehaman, M.K.; Said, J.; Begum, F.; Hossain M.M. "What factors influence customer attitudes and Mindsets towards the use of services and products of Islamic banks in Bangladesh" Sustainability 2022 , 14, 4703.

17. Imtiaz, N., Murtaza, A., Abaas, M. A., & Hayat, K. (2013). Factors affecting the individual's behaviour towards Islamic banking in Pakistan: An empirical study. Educational Research International, 1(2), 106-111.

18. Khattak, N. A. (2010). Customer satisfaction and awareness of the Islamic banking system in Pakistan. African Journal of Business Management, 4(5), 662.

19. Marimuthu, M., Jing, C. W., Gie, L. P., Mun, L. P., & Ping, T. Y. (2010).

Islamic banking: selection criteria and implications. Global Journal of Human-Social Science Research, 10(4).

20. Muthia, F., & Widiyanti, M. (2020, May). Customers' Preference in Choosing Islamic Banks. In 5th Sriwijaya Economics, Accounting, and Business Conference (SEABC 2019) (pp. 204-207). Atlantis Press.

21. Othman, A. & Owen, L. (2001). Adopting and measuring customers service quality (S.Q.) in Islamic banks: a case study in Kuwait finance house. International Journal of Islamic Financial Services, 3(1), 1-26.

22. Polat, A., Yesilyaprak, M., & Kaya, R. (2014). Understanding Islamic bank selection of customers: field Research from Turkish participation banks. International Journal of Financial Research, 5(4), 22.

23. Ramadan, Z. S. (2013). Jordanian criteria for Islamic banks selection. Evidence from the Jordanian banking sector. International Journal of Academic Research in Accounting, Finance and Management Sciences, 3(3), 139-145.

24. Rehman, M. U. (2012). Customer's tendency towards the selection of Islamic banking system in Pakistan. African Journal of Business Management, 6(5), 2064.

25. Roy, S. (2014). Customer's preference towards Islamic banking: religious belief or influence of economic factor.

26. Sari, I. M., Wibowo, H., & Suprapto, E. (2015). Factors that Influenced People to Become Islamic Bank customer: a study on kancana VIllagers. Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah, 7(1), 73-86.

27. Shahid, A., Mehmood, T., Ahmad, N., Ahmad, H., & Shafique, M. N. (2015). Malaysian Consumer Preferences for Islamic Banking Attributes. Journal of

Philosophy, Culture, and Religion, 9(1), 11-14.

28. Tara, N., Irshad, M., Khan, M. R., Yamin, M., & Rizwan, M. (2014). Factors influencing adoption of Islamic banking: A study from Pakistan. Journal of Public Administration and Governance, 4(3), 352-367.

29. Thaker, H. M. T., Sakaran, K. C., Nanairan, N. M., Thaker, M. A. M. T., & Hussain, H. I. (2020). Drivers of loyalty among non-Muslims towards Islamic banking in Malaysia: Evidence from SmartPLS. International Journal of Islamic and Middle Eastern Finance and Management, 13(2), 281-302.

30. Usmani, M. M. T. (2021). An introduction to Islamic finance. Brill.

31. Wakhid S. C., & Efrita S. (2007). Adapting Islamic Banks' CARTER model: an empirical study in Riau's Syariah Banks, Indonesia.