

Abstract

The Holy Quran forcefully prohibits 'riba'. The prohibition covers all kinds of interest on money borrowed or lent, by banks, other corporate bodies or individuals. That is why government of Pakistan promulgated interest-free banking in 1985. In interest-free banks depositors can open a current account or an investment account. Current account holders get no return but their deposited amount is guaranteed in full as in interest based banks.

However investment depositors in an Islamic bank are treated like shareholders; they receive exposed profit of the bank, and they lose capital if it suffers a loss.

However, along with the change of regime the progress of Islamic banking deteriorated on the pretext of lacking of Islamic ethical norms in the business environment. That is why in December 1999, the Supreme Court of Pakistan ruled out that all existing laws and regulations that allowed the operation of an interest based economy would cease to exist on June 30, 2001 but last year the government expressed its inability to build the required infrastructure to meet the deadline and sought one year extension, which the court granted. Though the extension has lapsed on June 30, 2002, but still the government has not made any serious steps towards making the banking sector of Pakistan interest free.

The position now is that the bulk of financing by banks in Pakistan is being done on a markup basis which is nothing but interest according to many renowned jurists. The depositors are not being paid actual profit on an equitable and just basis. As a result majority of depositors continue to be exploited by the banks under the so called profit and loss system of Islamic banking. If the present sad state of affairs is allowed to continue, even many innocent Muslims may develop doubts about the feasibility, practicability and usefulness of the real Islamic system of banking.

The objective of research is to directly obtain the viewpoint and perception of bank consumers about interest-free banking in Pakistan. It is investigated whether or not the consumers are aware of interest-free banking. Then, an effort is made to identify those factors due to which consumers

may have been unwilling to deal with interest-free banks and to find out the opinion of the consumers about the present banking system.

Bank consumers in Pakistan can be classified into two categories on the basis of this research. One category comprises of those consumers who are unaware of Islamic banking and its methodology due to lack of education. Such consumers are generally of the view that dealing with interest based banks is the only and perhaps the best option available to them. These customers are not inclined to search for new avenues or switch over to new methods of banking.

Second category comprises of those consumers who are educated and are well aware of the existence of interest-free banking. However, many of such consumers preferred interest based banks over Islamic banks. The probable reasons for their conflicting behavior could be superior reputation of interest based banks and customer inertia.

Some customers in second category deal with interest based banks but they place their deposits only in current accounts because current accounts don't earn any interest. They do not consider return on savings and time deposit accounts to be halal. Such customers hesitate in shifting their bank accounts from interest based banks to Islamic banks due to transaction costs. The involvement of transaction costs in changing a bank reduces the mobility of such consumers. Opting for a new bank may bring them additional costs to deal with and may also require time to execute this change.

By using Pearson's correlation test it comes out that there is negative correlation between the educational level of the consumer and customer inertia. The lesser the educational level of the consumer the greater the customer inertia and vice versa. Education is a vital factor in reducing customer inertia in banking. Similarly the transaction costs in changing a bank and the desire of the consumer to shift from one bank to another are also negatively correlated so greater the transaction costs both in terms of time and money, the lesser the desire of the consumer to change a bank. It is also ascertained that the customers consider the reputation of bank as a reliable criterion for selecting a bank.

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Dedication

It's so common to be almost traditional to dedicate a research to one's teachers, or to one's parents, as the first teachers. As if one felt the need to give back for what has been taken.

But a Research always includes a big amount taking from previous researchers, and teachers. Then adding a little bit, according to one's ability, and then giving back, not to one's teachers, but to the whole community, and to other people as well, who might find the work interesting , and bring it on. It is for those people that this work has been written. And to them that is dedicated.

So,

My Research Thesis is dedicated to whoever might find it interesting.

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