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# SELECTION CRITERIA FOR ISLAMIC HOME FINANCING: A CASE STUDY OF PAKISTAN

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ABSTRACT

The aim of this research is to examine the selection criteria of customers for Islamic home financing in the context of Pakistan and also examine these factors with respect to gender, age, income and occupation. This study uses a quantitative approach to investigate the choice criteria for Islamic home financing. All 18 independent variables are taken from previous researches and for analysis descriptive statistics, independent sample t-test and ANOVA was used. Data gathered from the customers of Islamic banking who uses the services of Islamic home financing. Sample size consists of 200 respondents. For the collection of data questionnaire technique was used and close ended questions asked by using 5 point likert scale. The questionnaire designed into two sections one section consists of demographic information and second section consists of selection criteria of Islamic home financing. For this study I selected meezan bank, bank islami, Alflah bank limited (Islamic banking) and Dubai Islamic bank. This study is beneficial for practioners in Pakistan by offering insight into choice criteria for Islamic home financing. This paper would be also beneficial for Islamic bank managers who are also policy makers they can study and plan for attractive schemes and policies for customers through which they can fulfill their needs and expectations. For the researcher, this study will also add the value to the existing body of knowledge by providing an investigation to the selection criteria for Islamic home financing. So far no study has been conducted of selection criteria of Islamic home financing in Pakistan. Study on this topic has never been conducted in the perspective of Pakistan, so this study initiates the choice criteria for Islamic home financing among Pakistani banks customers. This paper provides the useful information for both customers (in selecting Islamic bank) and bank managers to identify the factors to attract the customers. The limitation is based on sample area for the study which is confined to Lahore, Pakistan and due to limited sample size findings can not be generalized. Secondly for this study only four banks are in consideration.



## 1. INTRODUCTION

This study considers the Islamic home financing in Pakistan. Islamic banking gained popularity in Muslim countries and also in those western countries where Muslims are in minority. At the time of competition with conventional banks and financial crises, Islamic banking industry is flourishing and gaining success day by day. Now the concept of Islamic windows opened by conventional banks is also booming in different countries and they provide shariah based products. Islamic bank is a mediator and trustee of other customer's money as argued by Dar and Presley (2000). Islamic banking can be considered as banking with a sense of right and wrong and ethics. Islamic banks each have a Shariah board made up of Shariah researcher and financial experts who are responsible for decisions what activities or actions are & are not based on shariah-compliant. Islamic banking is based on two financial principles: first is interest free-financing and second is financial instruments should be based on profit & loss sharing and also risk sharing (Al-Rifaee.) The fundamental teachings of Islam provide strategies for economic behavior and a draft of plan of how economic system should be organized. (Khan *et al* 1992). Khir *et al.* (2007); Olson and Zoubi (2008) found two important features of Islamic banking, one is prohibition of interest because riba includes in credit system which directs to an inequitable circulation of income in society and other feature is risk sharing.

Many researchers have done work on preferences of customers for Islamic banking and also for Islamic mortgages such as Jalil *et al* (2010), Hanudin *et al* (2009), (Haron, 2005; Hanudin, 2008), Hanudin (2008), Mylonakis (2007), Lymperopoulos *et al* (2006), Devlin (2002), Ford and Jones (2001). Researchers found various factors of selection specific to Islamic home financing. Factors include religion, fast and quality services, reputation, profit, financing payments, location, recommendation etc. The main purpose of this study is to investigate the selection criteria of customers for Islamic home financing in Pakistan because Pakistan is one of the major Muslim countries and for the growth of Islamic home financing, there is a need to find out the factors that affect the selection decision of customers for Islamic mortgages. Further paper contains section 2 of literature review, section 3 of methodology, results and findings on 4th part and at the last conclusion, recommendation are given.

### 1.1 Objectives of the study

- The objective of this study was to investigate the ranking of a variety of selection criteria for Islamic home financing among Pakistani bank customers.
- This study also investigates various selection criteria for Islamic home financing with respect to demographic factors such as gender, age, occupation and income level.

## 2. LITERATURE REVIEW

### 2.1 Islamic Home Financing

Islamic home financing is a Shariah-based home financing, where elements of interest rate and uncertainty are outlawed (Haron, 2005; Hanudin, 2008). By definition, mortgage loans or home loans are secured by real property and provide a schedule of payments of interest and repayments of the principal to a bank (Tse, 1997). Islamic home financing is equity based while conventional home financing is debit based as argued by Omar (2010). Unlike conventional mortgage loans, Islamic mortgage financing have the emphasis on flat rate or profit rate instead of interest rate (Hanudin, 2008). As such, the monthly payment will be unchanged from the beginning of the settlement. This rate will not fluctuate, even during the time of price rises. Islamic banks have developed a range of "mark-up" instruments for that purpose. With respect to Islamic home financing, the bank customer specifies the house he wants to buy and the bank purchases the house from the supplier/ developer at its normal price, for cash, and resells it to the client at a higher price, in which the mark-up is applied. The customer then pays back the price on an installment basis (Maali et al., 2006). The difference between the market price (cost price) and the mark-up price (selling price) is the profit for the bank, which is acceptable in an Islamic home financing context (Rosly, 1999). As it is, mark-up is allowable in the Islamic framework, as it is conducted on the defer basis and it is the way sale contracts are conducted (Rosly, 1999). Charging interest is not permissible in an Islamic home financing perspective, as it leads to an unfair division of income in society (Olson and Zoubi, 2008).

### 2.2 Selection criteria for Islamic home financing

This study focuses on the customer's choice criteria, their attitudes and perceptions towards Islamic home financing. Jalil *et al* (2010) investigated the choice criteria for home financing of Islamic and conventional Bank among Malayan Banking Berhad customers. They found that advantages of products and services and advice from third party are important factors. A study has done by Hanudin *et al* (2009) in eastern Malaysia on the customer's selection of Islamic mortgages. They investigated the factors along with gender, religion, age, income and ethnicity. Data collected from bank customers by using 211 questionnaires and for data analysis frequencies, descriptive and factor and cluster analysis was used. In cluster one mostly respondents are males and author found that service provision is considered important factor for the selection criteria of Islamic mortgage. In second cluster mostly customer's choice criteria was based on shariah and Islamic principles that is prohibition of riba and transparency in transactions. Cluster three mostly comprises females as compared to males and they found that the reason behind choosing the Islamic mortgage provider is pricing factor. Hanudin (2008), study in Malaysia to investigate the choice criteria for Islamic home financing by Using questionnaire technique data gathered from 141 bank customers. Findings showed that shariah principle, 100 percent financing, lower monthly payment, transparency practice, interest-free practice are most important factors affecting the decision of bank customers to select the Islamic home financing. Location, recommendation from third party, product range and longer financing period are least important criteria for bank customers.

Mylonakis (2007) investigated selection criteria for home loans in Greece. Data collected from 200 Greece bank customers who used the services of home financing. Findings revealed that interest rate, lend amount, advice from bank, influence from media advertisement, flexibility, low repayment penalty are the major factors affecting the decision criteria of home loans. Constantine *et al* (2006) examined the choice criteria for home loans market in Greece and they concluded that quality service, interest rate, lend amount, previous relationship, location, less queue, pleasure period, advice are significant factors in choosing banks for home financing. Devlin (2002) conducted a study in UK on selection criteria of banks for home loans and collected data from 4200 bank customers. For the data analysis he used descriptive statistics, ANOVA, T-test. His finding showed that most common factor that motivates the customer for selection of bank is professional advice, but customers also considered interest rates, loans availability, and previous relationship with bank. As argued by Devlin and Ennew (2005), professional advice and interest rate are most significant factors for all customers particularly for younger customers who use the services of mortgage. Ford and Jones (2001) conducted research review on choosing a mortgage in London; they suggest that previous experience with bank, advice by any third party, and reputation is the most important factor that affected the selection decision of customers for home financing.

### 2.3 Selection criteria for Islamic banking

A study conducted in Bahrain to examine the choice selection of conventional and Islamic banks. They included three types of bank clients in study: those who deal with conventional bank, who deal with Islamic bank and those who use both kinds of bank. The result showed that religious belief, social responsibility and cost benefit are the most important factors to select a bank and customers have knowledge regarding the Islamic products and services. (Al-Ajmi *et al* 2009). A study conducted by Gait and Worthington (2008), on the perceptions and knowledge of Islamic financial products and services. Survey shows that religious factor is the main factor that considered by customers in Islamic finance, further pricing, bank reputation and quality service are also very important criteria for bank customers. Almossawi (2001) conducted study in Bahrain found that banks reputation, parking space close to the bank, friendly attitude of bank with customers, provision of ATM, are the important factor that considered by customers when selecting the services of conventional banks. Kennington *et al* (1996) study in Poland aimed at selection criteria for banks, they found that banks reputation is the main important factor that considered by customers when selecting the services of conventional banks. They also concluded that price, service, friendly attitude, pleasurable dealing, solidity, continuity and efficiency of bank are significant for bank customers. These studies are consistent with the findings of Boyd et al. (1994), they identified most important factors for the selection of bank i.e. bank reputation, interest on saving accounts and loans, location and quality service. Zainuddin *et al.* (2004) also surveyed Malaysian bank customers to demonstrate the different perceptions of users and non-users of Islamic banking services. They concluded that mostly Islamic bank users were older than thirty with relatively stable family incomes. On the other hand, most non-users were single, aged less than 30 years with low incomes. One important finding in this study was that the decision-making processes of Islamic banks' users were affected by friends and relatives, as well as religious factor. The feeling of secure, safe and knowledge are the most significant reasons for bank selection (Gerard and Cunningham, 2001).

Erol and El-Edour (1989) investigated the choice criteria for Islamic banking in Jordan. This study showed that banks reputation and image, confidentiality, fast and proficient services are main factors that influenced the selection decision of bank customers in both conventional and Islamic bank. Study also found that customers were aware of Islamic banking products but religious factor didn't seem crucial factor in bank selection. This research is consistent with the results of Haron et al. (1994) they also found that fast and efficient services, friendliness of bank with customers, confidentiality of bank are essential causes moving towards banking selection. Findings also indicated that to grasp the attention of customers banks didn't need to rely only on religious factors they should also concentrate on speedy and quality service. These two studies showed that both spiritual and non-spiritual factors should be considered in selecting banks. While Ahmad and Haron (2002) found that religious factors are chief factors in selecting bank. Furthermore, good services, reputation, benefits, location are also considered important in choosing bank. As argued by Hegazy (1995), religious factor is more important for customers. Haron *et al* (1994), Dusuki and Abdullah (2007) worked on banking selection in Malaysia; they found that quality service and financial status are the major reasons influencing the decisions of customers to choose.

A study conducted by Metawa and Almossawi (1998) on the Islamic banks of Bahrain to examine the perceptions or behavior of Islamic Bank customers. Results of the study showed that customers were awfully satisfied with the products and services of Bank, and bank-selection decisions by customers are mostly due to religious principles. A study conducted on Jordan Islamic banking Naser *et al* (1999), the finding shows a vast majority of the participants expressed a high degree of satisfaction towards the Islamic bank's products and services. Some customers strongly agreed that reputation was a key factor while 70 per cent agreed that religious factor was important. Metwally (1996), also study the attitudes of Muslims towards Islamic banks in dual-banking systems of Kuwait, Saudi Arab and Egypt. The findings showed that there is no much difference in the benefits and costs, fast efficient services of both Islamic and conventional banking but religious motivation is primary factor in the selection of Islamic banks. Al-Sultan (1999) measured the attitudes of customers towards the products and services offered by the interest-free Kuwait Finance House. Author confirmed that devotion to Islam was the key motivating factor for Kuwaitis. This result is consistent with the results of metwally (1996), naser *et al* (1999), Ahmad and Haron (2002), Metawa and Almossawi (1998), Omer (1999) and Edris (1997) showed that the religious factors are very important for customers in selection of bank.

## 3. METHODOLOGY

### 3.1 Sampling

For the collection of primary data questionnaire technique was used. In this study the sample size are 200, the targeted respondents are customers of Islamic home financing. With 200 samples, this paper is still able to contribute significantly to the existing body of knowledge at least at exploratory level because there is a lack of research studies on selection criteria for Islamic mortgages in Pakistan. In this study three banks have been included, Meezan Bank, Bank Islami and Bank Alflah (Islamic banking). All these banks are working on Islamic principles and they are offering shariah compliant financial products. Table I presents the information regarding the demographics variables of the data. This table represents the frequency or percentile of variables. With respect to gender, majority of the respondents are males (96.5%) and females (3.5%) are less likely to use the services of mortgage financing because in Pakistan mostly females have not awareness of Islamic home financing and mostly no trend has been found in females to use the services of home loans. finding shows that majority of customers (43.0%) rang between 30 to 40 years of age. it has been found that high ratio of respondents are from private sector (58.5%) preferred the Islamic home financing. result also shows that customers considered Islamic home loans having income level (84%) 40,000-100,000. these demographic elements are employed for further analysis.

### 3.2 Measurement

The questionnaire for this study was designed into two sections. The first part consisted of demographic information of the respondent (gender, age, income and occupation) and the second section consisted of selection criteria for Islamic home financing. The measures employed in this study are drawn from relevant earlier studies. The following are the selection criteria employed to fulfill the objectives of the study.

- Shariah principle (Hanudin, 2008 and Edris, 1997)
- Fast and efficient services (Haroon *et al* 1994)
- Profit rate (Hanudin, 2008)
- Price (Nichols *et al* 2005)
- Terms and condition of product flexibility (Constantine *et al*, 2006; Mylonakis, 2007)
- Lend amount (Nichols *et al*, 2005; Devlin, 2002; Constantine *et al*, 2006; Mylonakis, 2007; Hanudin, 2008)
- Fast approval of loan (Hanudin, 2008)
- Longer financing period (Hanudin, 2008)
- Knowledge (Gerard and Cunnigham, 1997)
- Advice from bank (Devlin,2002; Constantine *et al*, 2006; Mylonakis, 2007; Hanudin, 2008)
- Friendly atmosphere (Haroon *et al* 1994)
- Banks reputation (Erol and El- Edour, 1989; Fords and Jones, 2001)
- Financial position (Dusuki and Abdullah 2007)
- Influence from relatives/friends (Metawa & Almossawi 1998)
- Advice or arrangement from housing developer (Jalil, Yusoff and Mahmud, 2010)
- Advertisement promotion (mylonakis, 2007)
- Current trend (Jalil, Yusoff and Mahmud, 2010)
- Life style (Jalil, Yusoff and Mahmud, 2010)

For estimating the above selection criteria, a five point likert-type scale ranking from 1=strongly disagree to 5=strongly agree was used. This approach was also employed by Hanudin (2008), Devlin *et al* (2002a, b), lymperopoulas *et al* (2006) and Haroon *et al* (1994).

**Table1.** Descriptive Statistics

| Sr. No. | Demographic variable | items | Frequency | Percentile |
|---|---|---|---|---|
| 1 | Gender | male | 193 | 96.5 |
| | | female | 7 | 3.5 |
| 2 | Age | 20-30 | 24 | 12.0 |
| | | 30-40 | 86 | 43.0 |
| | | 40-50 | 61 | 30.5 |
| | | Above 50 | 29 | 14.5 |
| 3 | Occupation | public sector | 40 | 20.0 |
| | | self employment | 43 | 21.5 |
| | | private sector | 117 | 58.5 |
| | | Student | - | - |
| 4 | Income | Less than RS. 10,000/- | - | - |
| | | 40,000-100,000 | 84 | 42.0 |
| | | 10,000-40,000 | 34 | 17.0 |
| | | above 100,000 | 82 | 41.0 |

## 4. DATA ANALYSIS

In order to carry out the raw data analysis SPSS was employed in this study. A number of statistical analysis were executed, notably frequency analysis which employs to take out the characteristics of the respondents. Mean analysis was used to rank the selection criteria for Islamic home financing. Two analyses were also used, independent sample t-test and ANOVA to study the differences between selection criteria and demographic elements. Independent sample t-test was used to compare the means for gender and used to test whether the difference in means of one factor in two groups of respondents (male and female) is significantly from zero. ANOVA uses to compare the means of factor for more than two groups of cases. In this paper ANOVA is used to compare the means of selection criteria for more than two groups of cases (age rang, occupation and income level).

## 5. RESULTS AND FINDINGS

### 5.1 Mean and selection criteria

Table 2 depicts the mean, SD, and ranking of all factors that influencing the selection criteria for Islamic home financing. Result shows that most of the respondents believed that "shariah principle" is the chief factor that influencing them in choosing home financing. The second important factor for bank customer is "fast and efficient services" of bank. The third important criteria is "price", the price means lower monthly payment and service charges paid by customers. Selection criteria number fourth is "banks reputation" and fifth important factor considered by respondents in choosing Islamic home financing is "terms and conditions of product flexibility". The five least important factors are trend, life style, and advertisement promotion, advice from bank and advice or arrangement from housing developer. These factors are less likely use by customers for selecting mortgage providers.

**Table 2.** Ranking and Descriptive Statistics of Factors

| | Minimum | Maximum | Mean | Std. Deviation | Ranking |
|---|---|---|---|---|---|
| shariah | 2 | 5 | 4.50 | .558 | 1 |
| fast_services | 4 | 5 | 4.23 | .419 | 2 |
| price | 1 | 5 | 4.08 | .701 | 3 |
| reputation | 2 | 5 | 4.06 | .777 | 4 |
| terms_condition | 1 | 5 | 3.93 | 1.007 | 5 |
| lending_amount | 2 | 5 | 3.84 | .755 | 6 |
| knowledge | 1 | 5 | 3.81 | .914 | 7 |
| approval_loan | 1 | 5 | 3.81 | .853 | 8 |
| financial_position | 1 | 5 | 3.71 | .933 | 9 |
| atmosphere | 2 | 5 | 3.57 | .943 | 10 |
| longer_period | 1 | 5 | 3.53 | 1.156 | 11 |
| recommendation | 1 | 5 | 3.51 | 1.432 | 12 |
| profit | 1 | 5 | 3.35 | 1.268 | 13 |
| trend_life_style | 1 | 5 | 2.84 | 1.201 | 14 |
| advertisement | 1 | 5 | 2.78 | 1.353 | 15 |
| advice_bank | 1 | 5 | 2.78 | 1.237 | 16 |
| life_style | 1 | 5 | 2.73 | 1.256 | 17 |
| housing_developer | 1 | 4 | 2.42 | 1.320 | 18 |

### 5.2 Independent sample T-test

The independent sample t-test was performed to develop the insights into the factors affecting the selection criteria for Islamic home financing. This test measures the differences between the means for two cases such as gender. This t- test was also employed by (Devlin 2002 a, b and Hanudin, 2008) to compare the mean ratings. Table III depicts the ranking of selection criteria for Islamic home financing among males and females. The majority of the respondents are from male category. According to the respond of male customers, the main factor that they consider for selecting Islamic home financing is "Shariah principle" and followed by "fast and efficient services", "price", "banks reputation", and 'terms and condition of product flexibility". according to the answer of the female customers the more important criteria for selection is also "shariah principle" and second important criteria is "price", third is "fast and efficient services", fourth is "terms and condition of product flexibility" and fifth important criteria is "fast approval of loan". Table III also shows the value of t-test and significance. Results show that shariah principle is statistically significant at 5 per cent for both males and females.

Both believed that shariah principle is main factor in choosing banks for Islamic home financing ($t = 2.528$, $p = .039$) this leads to the rejection of null hypothesis. Profit is also significant factor ($p = .023$) but bank customers does not consider as much important as shown by ranking. Lend amount and advertisement promotion is also significant at 5 per cent ($p = .002$ and .014 respectively). However, the remaining factors are found to be insignificant.

**Table 3.** Selection criteria for Islamic home financing & Gender

| | Male | | Female | | Independent Samplet-Test | |
|---|---|---|---|---|---|---|
| Selection criteria | Mean | Ranking | Mean | Ranking | t- statistics | Sig. |
| fast_services | 4.23 | 2 | 4.14 | 3 | .528 | .598 |
| Profit | 3.39 | 13 | 2.29 | 17 | 2.296 | .023 |
| Price | 4.07 | 3 | 4.29 | 2 | -.809 | .420 |
| terms_condition | 3.92 | 5 | 4.14 | 4 | -.377 | .719 |
| lending_amount | 3.83 | 6 | 4.00 | 7 | -3.091 | .002 |
| Approval_loan | 3.80 | 8 | 4.14 | 5 | -1.051 | .294 |
| longer_period | 3.53 | 12 | 3.57 | 11 | -.096 | .923 |
| atmosphere | 3.59 | 10 | 3.14 | 13 | 1.236 | .218 |
| reputation | 4.06 | 4 | 4.14 | 6 | -.269 | .788 |
| financial_position | 3.70 | 9 | 3.86 | 8 | -.440 | .660 |
| shariah | 4.48 | 1 | 4.86 | 1 | -2.528 | .039 |
| knowledge | 3.82 | 7 | 3.71 | 9 | .296 | .767 |
| advice_bank | 2.79 | 15 | 2.57 | 15 | .330 | .752 |
| recommendation | 3.54 | 11 | 2.71 | 14 | 1.511 | .132 |
| advertisement | 2.75 | 16 | 3.71 | 10 | -3.206 | .014 |
| housing_developer | 2.44 | 18 | 1.71 | 18 | 1.684 | .138 |
| trend_life_style | 2.81 | 14 | 3.57 | 12 | -1.734 | .130 |
| life_style | 2.73 | 17 | 2.57 | 16 | .329 | .743 |

## 5.3 ANOVA by age rang

Table 5 represents the ranking of selection criteria and age rang for bank customers who use the services of Islamic mortgages. For those aged between 20 and 30 years, the top five factors are shariah principle, profit, fast and efficient services and price. Those customers of Islamic home financing aged between 30 and 40 years, considered shariah, fast and efficient services, banks reputation, terms and condition of product flexibility, and price are important factors. For those aged between 40 and 50 years, the top most criteria is shariah, followed by price, fast and efficient services and reputation. With respect to those aged above 50 years, the main factors in choosing Islamic home financing are terms and conditions, fast and efficient services and shariah principle. This table also shows the results of F statistics and significance of factors. Six factors are found to be statistically significant for different age groups, Fast and efficient services (p-value = .000), profit (p-value = .000), price (p-value = .000), terms and conditions (p-value = .000), financial position (p-value = .021) and advertisement promotion (p-value = .014). Those respondents aged above 50 are more likely to select Islamic home financing on the basis of term and conditions of product flexibility. While fast and efficient services found more important in choosing banks among age groups of 30-40 and above 50. Price is found important criteria for those aged 40-50. For those aged 20-30 years, profit is chief criteria in choosing mortgage provider.

**Table 4:** Selection criteria for Islamic home financing & Age

| Selection criteria | 20-30 | Rank | 30-40 | Rank | 40-50 | Rank | Above 50 | Rank | F | Sig. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | | Mean | | Mean | | Mean | | | |
| Fast services | 4.25 | 3 | 4.14 | 2 | 4.15 | 3 | 4.62 | 2 | 12.364 | .000 |
| Profit | 4.29 | 2 | 3.58 | 11 | 3.18 | 13 | 2.28 | 17 | 15.430 | .000 |
| Price | 3.92 | 5 | 3.98 | 5 | 4.44 | 2 | 3.72 | 8 | 10.226 | .000 |
| Terms condition | 2.75 | 16 | 3.99 | 4 | 3.95 | 6 | 4.66 | 1 | 20.931 | .000 |
| Lending amount | 3.54 | 8 | 3.87 | 7 | 3.84 | 8 | 3.97 | 5 | 1.578 | .196 |
| Approval loan | 3.58 | 7 | 3.95 | 6 | 3.67 | 9 | 3.86 | 7 | 1.972 | .119 |
| Longer period | 3.21 | 12 | 3.55 | 12 | 3.64 | 10 | 3.52 | 11 | .806 | .492 |
| atmosphere | 3.38 | 9 | 3.64 | 10 | 3.64 | 11 | 3.41 | 13 | .870 | .458 |
| reputation | 4.17 | 4 | 4.06 | 3 | 4.03 | 4 | 4.07 | 4 | .172 | .915 |
| Financial position | 3.38 | 10 | 3.65 | 9 | 3.98 | 5 | 3.55 | 10 | 3.312 | .021 |
| Shariah | 4.50 | 1 | 4.51 | 1 | 4.44 | 1 | 4.55 | 3 | .302 | .824 |
| knowledge | 3.67 | 6 | 3.80 | 8 | 3.85 | 7 | 3.90 | 6 | .324 | .808 |
| Advice bank | 3.04 | 13 | 2.78 | 15 | 2.70 | 15 | 2.72 | 15 | .449 | .718 |
| recommendation | 3.25 | 11 | 3.45 | 13 | 3.62 | 12 | 3.69 | 9 | .583 | .627 |
| advertisement | 3.00 | 14 | 2.67 | 16 | 2.52 | 17 | 3.45 | 12 | 3.605 | .014 |
| Housing developer | 2.00 | 18 | 2.57 | 18 | 2.44 | 18 | 2.24 | 18 | 1.369 | .253 |
| Trend life style | 2.71 | 17 | 2.95 | 14 | 2.56 | 16 | 3.21 | 14 | 2.433 | .066 |
| Life style | 2.92 | 15 | 2.63 | 17 | 2.89 | 14 | 2.52 | 16 | .953 | .416 |

## 5.4 ANOVA by occupation

Table 5 shows ranking of selection criteria and occupation. According to the ranking those respondents who belong to public sector believe that shariah, fast and efficient services and knowledge are most important factors for selection of Islamic home financing. Private sector considers the shariah principle, profit and reputation are the three more important factors in choosing Islamic home financing. Self-employment respondents focus on fast and efficient services followed by, shariah and fast approval of loan. As results shown in table, fast and efficient services, profit, price, terms and conditions, approval of loan, longer financing period are found to be statistically significant as their p-values are less than .05.

**Table 5.** Selection criteria for Islamic home financing & occupation

| Selection criteria | Public sector | Rank | Self-employment | Rank | Private sector | Rank | F | Sig. |
|---|---|---|---|---|---|---|---|---|
| | Mean | | Mean | | Mean | | | |
| Fast services | 4.25 | 2 | 4.60 | 1 | 4.08 | 4 | 33.183 | .000 |
| profit | 2.50 | 17 | 3.67 | 9 | 3.53 | 2 | 12.969 | .000 |
| Price | 3.85 | 7 | 3.88 | 4 | 4.22 | 11 | 6.586 | .002 |
| Terms condition | 3.88 | 6 | 3.58 | 11 | 4.07 | 5 | 3.844 | .023 |
| Lending amount | 3.82 | 8 | 3.63 | 10 | 3.91 | 6 | 2.297 | .103 |
| Approval loan | 3.32 | 11 | 4.07 | 3 | 3.88 | 7 | 9.626 | .000 |
| Longer period | 3.95 | 5 | 3.33 | 13 | 3.46 | 13 | 3.611 | .029 |
| atmosphere | 3.78 | 9 | 3.56 | 12 | 3.51 | 12 | 1.163 | .315 |
| reputation | 4.08 | 4 | 3.86 | 5 | 4.14 | 3 | 2.012 | .136 |
| Financial position | 3.70 | 10 | 3.70 | 8 | 3.71 | 9 | .003 | .997 |
| Shariah | 4.50 | 1 | 4.42 | 2 | 4.52 | 1 | .532 | .588 |
| knowledge | 4.10 | 3 | 3.79 | 6 | 3.73 | 8 | 2.549 | .081 |
| Advice bank | 2.68 | 14 | 2.95 | 14 | 2.75 | 14 | .595 | .553 |
| recommendation | 3.22 | 12 | 3.72 | 7 | 3.54 | 10 | 1.285 | .279 |
| advertisement | 2.68 | 15 | 2.47 | 15 | 2.93 | 15 | 2.041 | .133 |
| Housing developer | 2.50 | 18 | 2.47 | 18 | 2.37 | 18 | .188 | .829 |
| Trend life style | 2.68 | 16 | 2.98 | 16 | 2.85 | 16 | .656 | .520 |
| Life style | 2.82 | 13 | 2.72 | 17 | 2.69 | 17 | .165 | .848 |

## 5.5 ANOVA by income level

In the table 6 rank, mean values, and F- statistics of selection criteria with respect to different income levels of bank customers are shown. Respondents of income level are 10,000-40,000; the important factors are shariah principle, fast and efficient services and reputation for choosing Islamic home loans. Those customers with income level of 40,000-100,000 considered shariah, fast and efficient services and terms and conditions of product flexibility are important factors. Those respondents with income level of above 100,000 considered shariah, price and fast and efficient services are most important factors. Statistically speaking, fast and efficient services, profit are found to be more significant at the level of 5 per cent ($p = .000$). Price and terms and conditions are also found significant ($p = .001$). Lend amount and advertisement factors are also statistically significant ($p = .009$) for different income levels.

**Table 6.** Selection criteria for Islamic home financing & income

| Selection criteria | 10,000 – 40,000 | Rank | 40,000 – 100,000 | Rank | Above 100,000 | Rank | F | Sig. |
|---|---|---|---|---|---|---|---|---|
| | Mean | | Mean | | Mean | | | |
| Fast services | 4.18 | 2 | 4.36 | 2 | 4.11 | 3 | 8.054 | .000 |
| profit | 2.71 | 16 | 3.26 | 13 | 3.72 | 8 | 8.698 | .000 |
| Price | 3.97 | 4 | 3.90 | 6 | 4.29 | 2 | 7.228 | .001 |
| Terms condition | 3.41 | 9 | 4.18 | 3 | 3.88 | 6 | 7.644 | .001 |
| Lending amount | 3.62 | 7 | 3.74 | 9 | 4.02 | 5 | 4.857 | .009 |
| Approval loan | 3.76 | 6 | 3.85 | 7 | 3.79 | 7 | .135 | .874 |
| Longer period | 3.38 | 10 | 3.60 | 12 | 3.52 | 12 | .410 | .664 |
| atmosphere | 3.35 | 11 | 3.61 | 11 | 3.63 | 11 | 1.155 | .317 |
| reputation | 4.03 | 3 | 4.05 | 4 | 4.10 | 4 | .128 | .880 |
| Financial position | 3.56 | 8 | 3.80 | 8 | 3.67 | 9 | .894 | .411 |
| Shariah | 4.44 | 1 | 4.50 | 1 | 4.51 | 1 | .199 | .820 |
| knowledge | 3.97 | 4 | 3.92 | 5 | 3.65 | 10 | 2.445 | .089 |
| Advice bank | 2.59 | 17 | 2.94 | 15 | 2.70 | 17 | 1.313 | .271 |
| recommendation | 3.35 | 12 | 3.64 | 10 | 3.45 | 13 | .632 | .533 |
| advertisement | 2.97 | 13 | 2.44 | 17 | 3.05 | 14 | 4.774 | .009 |
| Housing developer | 2.41 | 18 | 2.38 | 18 | 2.45 | 18 | .058 | .943 |
| Trend life style | 2.82 | 14 | 2.98 | 14 | 2.71 | 16 | 1.045 | .354 |
| Life style | 2.82 | 15 | 2.63 | 16 | 2.78 | 15 | .418 | .659 |

## 6. CONCLUSION

This paper has examined the factors of selection criteria for Islamic home financing; case study at Pakistan. By using primary data, questionnaire technique was used for data collection and information was collected from 200 respondents. Our findings indicate that shariah principle is most important component considered by customers. Pakistan is a Muslim country; the top priority of the people is shariah principle (prevention of riba) for choosing an Islamic bank. The second essential reason fast and efficient service is highly valued by bank customers, as in the era of competition and fast life people prefer banks who providing fast and good services. The third important criteria was found by researcher is price as price means lower monthly payments and lower service charges; are important factors preferred by customers to select a bank. This study suggests that fourth preference of customers is banks reputation and plays an important role when choosing an Islamic bank because majority customers are satisfied with banks status and reputation so they are likely to remain with their bank. This finding is in line with previous researchers such as Erol & El-Edour (1989), EL-Erol (1990) and Almossawi (2001). The investigation shows that respondents put terms and condition of product flexibility on fifth important criteria. Mostly customers banked with Islamic banking due to reasonable and flexible terms and condition of products and services. This paper also attempts to examine these factors along with demographic factors. As independent sample t-test was employed for gender where shariah principle was found to be statistically significant for both males and females. In this test where males and females were found to be statistically difference in lending amount and profit. ANOVA results show that some factors were found to be statistically different for different age groups, occupation and income level of customers in selecting a bank. Mostly respondents are males, aged 30-40 years and vast majority belongs to private sector.

### 6.1 Recommendations

- as finding reveal that shariah principle is chief factor for customers so bankers should try to develop strategies to attract the customers and to create the awareness of shariah compliant products among customers and should also familiarize their customers with the Arabic terms of all products.
- In the age of competition with conventional banks, Islamic banks should provide fast and efficient services with low chargers to retain their customers.
- As the Islamic banking is growing industry in Pakistan and for the stability & progress in the financial market, Islamic banks policy makers should try to focus on price (lower monthly payment, lower service charges) and try to offered products on those prices which are reasonable and affordable for every customer having different income and occupation.
- For the success of Islamic banking in Pakistan bankers must try to have good image and repute so their customers feel confident and comfortable to deal with them. Bank should also establish the client's confidence in conducting its operations and disclosing information.

### 6.2 Limitations

Due to limited time and resources this study is only confined to one city. Researcher could not done cross city study so our sample size is not much large and results can not be generalized. Even with these limitations, this paper has explored Islamic home financing selection criteria among bank customers. So this paper fills the gap in literature and also benefited for both practitioners and researchers. Practically, this paper can help the decision makers and policy makers to identify the significant factors that may determine the bank selection decision. This study is also useful in designing the marketing strategies and policies for attracting customers. Future study should also need to examine the selection criteria for both Islamic and conventional mortgage provider and also need to compares the customer's satisfaction towards both Islamic and conventional banking products.

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