

**An Empirical Analysis of Banking Sector in Pakistan:
Islamic Versus Conventional Banks**

Submitted to

School of Business and Economics

in Partial Fulfillment of the Requirements

for the Degree of

MASTERS OF SCIENCE in FINANCE

by

Bushra Shafiq – 13005096002

July, 2015

RESEARCH COMPLETION CERTIFICATE

It is certified that the research work contained in the thesis “An Empirical Analysis of Banking Sector in Pakistan: Islamic Versus Conventional Banks” has been conducted under my supervision by **Bushra Shafiq**, ID, **13005096-002**, of MS Finance program.

Signature: _____

Date: 24th July, 2015

Supervisor's Name: Muhammad Mahmood Shah Khan

CERTIFICATE OF APPROVAL

The Thesis Titled

**“An Empirical Analysis of Banking Sector in Pakistan: Islamic
Versus Conventional Banks”**

By

Ms. Bushra Shafiq
ID # 13005096002

has been examined by the undersigned panel of examiners and has received full approval for
acceptance in partial fulfillment for the degree of
MS Finance

Dated this 01-08-2015



Supervisor
Mr. M. Mahmood Shah Khan
Assistant Professor
School of Business & Economics
University of Management & Technology



Examiner
Dr. Ali Qamar Jibrán
Assistant Professor,
Management Sciences / Centre of Islamic Finance
COMSATS University, Lahore



Mr. Abdul Rafay
Chairperson,
Department of Finance
School of Business and Economics
University of Management & Technology



Dr. Rukhsana Kalim
Dean,
School of Business & Economics,
University of Management & Technology

**School of Business and Economics
University of Management and Technology**

DECLARATION

I Bushra Shafiq, ID # 13005096-002, hereby declare that the work entitled “An Empirical Analysis of Banking Sector in Pakistan: Islamic Versus Conventional Banks” is my own work and no part of this dissertation has been copied from any other source except where explicit acknowledgement is made in the text.

I certify that this thesis is being submitted in partial fulfillment of the requirements for the Master of Science degree in Finance.

This thesis is my original work, and the data/material presented herein has not been used for the acquisition of any other degree from any institution.

The Similarity Index is below permissibly limit.

Researcher Signature: _____

Date: _____ 15th July, 2015

Researcher Name: _____

Confirmed By

Supervisor's Signature: _____

Date: _____ 24th July, 2015

Supervisors Name: Muhammad Mahmood Shah Khan

DEDICATED

To

My Parents and Teachers

ABSTRACT

Purpose – The purpose of this research study is to determine the impact of service quality being provided by the Islamic and Conventional banks on customer's judgments towards their satisfaction level on different parameters of Islamic banks in the region of Lahore, Pakistan.

Design/Methodology/Approach – A preliminary questionnaire has been employed to determine the factors of customer satisfaction and SQL in both banking streams in Pakistan. A questionnaire was formulated to obtain data from the 300 respondents using a convenience sampling technique. T-tests, correlation, ANOVA and regression analysis used to test the extent of relationship among SQL and CS for the both banking sectors of Pakistan.

Findings – The consequences depict that there is a strong positive association among SQL and CS in the banking segment. Further results illustrate that the extent of affiliation among SQL and CS is larger in Islamic banks as contrasted to conventional banks.

Originality/Value/Implications – In Pakistan, there are fewer studies that raised the issue of SQL and CS in Islamic and Conventional banks within a single study. Also, as Islamic banking is a new phenomenon which is getting increasing market share in terms of market size and deposits, so this comparison is also of great importance. This study has a number of inferences for bankers, policy makers and academicians.

ACKNOWLEDGEMENT

With the name of Allah the most merciful, the most beneficent, I am very grateful to Him for His countless blessings and always pray for entire success in this life and life after this. Allah equipped humans with the illumination of awareness and knowledge in the time of darkness of illiteracy. All Humans are sacred by the set of directions given by the Creator of this world.

I convey my warm thanks to Mr. Muhammad Mahmood Shah Khan for their kindness, support and guidance as a supervisor in providing important suggestions to make my work easier and complete my thesis on time.

Finally, I would also like to thank my parents, friends and all the people who provided me with the conveniences being required for final thesis as a partial fulfillment for my MS degree in Finance.

May Allah award us courage and blessings to go behind the directions of the Holy Quran and the practices of the Holy Prophet Muhammad (Peace be upon him).

Thank you,

Bushra Shafiq

TABLE OF CONTENTS

ABSTRACT	i
ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF NOTATIONS	v
CHAPTER # 01	Error! Bookmark not defined.
1. INTRODUCTION	Error! Bookmark not defined.
1.1 Background of the Study.....	Error! Bookmark not defined.
1.2 Conventional Banking.....	Error! Bookmark not defined.
1.3 Islamic Banking.....	Error! Bookmark not defined.
1.4 Difference between Islamic and Conventional Banking.....	Error! Bookmark not defined.
1.5 Banking Sector of Pakistan	Error! Bookmark not defined.
1.6 Main Problem Area	Error! Bookmark not defined.
1.7 Identification of Knowledge Gap.....	Error! Bookmark not defined.
1.8 Problem Statement	Error! Bookmark not defined.
1.9 Objective of the Study.....	Error! Bookmark not defined.
1.10 Significance of the Study.....	Error! Bookmark not defined.
1.11 Study Sequence.....	Error! Bookmark not defined.
CHAPTER # 02	Error! Bookmark not defined.
2. LITERATURE REVIEW	Error! Bookmark not defined.
2.1 Services	Error! Bookmark not defined.
2.2 Service Quality (SQL).....	Error! Bookmark not defined.
2.3 Dimensions of Service Quality	Error! Bookmark not defined.
2.4 Service Quality in Islamic Banking	Error! Bookmark not defined.
2.5 Customer Satisfaction (CS).....	Error! Bookmark not defined.
2.7 Customer Satisfaction in Banking.....	Error! Bookmark not defined.
2.8 Earlier Studies on Banking Sector	Error! Bookmark not defined.
2.9 SQL and CS in Banking Sector.....	Error! Bookmark not defined.
2.10 Theoretical Framework.....	Error! Bookmark not defined.

2.11	Conceptual Model	Error! Bookmark not defined.
CHAPTER # 03		Error! Bookmark not defined.
3.	RESEARCH METHODOLOGY	Error! Bookmark not defined.
3.1	Population & Sampling Technique	Error! Bookmark not defined.
3.2	Sample	Error! Bookmark not defined.
3.3	Pilot Study	Error! Bookmark not defined.
3.4	Main Study	Error! Bookmark not defined.
3.5	Questionnaire to Bank Customers	Error! Bookmark not defined.
3.6	Measures and Instruments	Error! Bookmark not defined.
3.7	Reliability Analysis	Error! Bookmark not defined.
CHAPTER # 04		Error! Bookmark not defined.
4.	RESULTS AND FINDINGS	Error! Bookmark not defined.
4.1	Respondent's Demographics	Error! Bookmark not defined.
4.2	Descriptive Statistics	Error! Bookmark not defined.
4.3	Testing Hypothesis	Error! Bookmark not defined.
4.4	Regression Model Results	Error! Bookmark not defined.
4.4.1	Dimensions of Service Quality and Customer Satisfaction	Error! Bookmark not defined.
4.4.2	Service Quality and Customer Satisfaction	Error! Bookmark not defined.
4.5	Comparison between IB and CB Model	Error! Bookmark not defined.
CHAPTER # 05		Error! Bookmark not defined.
5.1	Conclusion	Error! Bookmark not defined.
5.2	Recommendations	Error! Bookmark not defined.
5.3	Future Research	Error! Bookmark not defined.
5.4	Research Limitations	Error! Bookmark not defined.
APPENDIX		Error! Bookmark not defined.
Appendix – A: Questionnaire		Error! Bookmark not defined.
Appendix – B: A Synopsis of All Variables of this study		Error! Bookmark not defined.
Appendix – C: Plagiarism Report		Error! Bookmark not defined.

LIST OF NOTATIONS

CB	Conventional Banking
CS	Customer Satisfaction
ESP	Economic Survey of Pakistan
GDP	Gross Domestic Product
IB	Islamic Banking
SQL	Service Quality
SBP	State Bank of Pakistan

