

# Customer Perception about Car Ijarah Financing in Pakistan: In-depth Interview Study

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## Abstract

The aim of the study was to explore the perception of customers about car Ijarah financing provided by Islamic banks of Pakistan through an in-depth interview study. A sample of 14 respondents was taken for conducting semi-structured convergent interviews. The purpose or judgmental along with snowball sampling technique was applied to rally to the objectives of the study. The study concludes that although Ijarah has attained a remarkable position in the Islamic banking parallel to conventional lease due to its reliance on Shariah rulings, still there exists a perception which compels the customers of Islamic banks to take Ijarah financing as merely a gimmick of exchange of terminology and gives the impression that Ijarah financing is similar to the conventional lease. Hence, it is still a requisite necessity for Islamic banks to coach their customers in understanding the salient features and high profitability of Ijarah financing. This study is helpful for the decision-makers, policyholders, and service providers of Islamic banks to get a better insight into the dominating factors that influence the Islamic banks for car Ijarah process. Furthermore, it can be valuable in order to fill the gap between customers and Islamic banks by understanding the beliefs and thoughts which the customers have in the context of products and service of Islamic banks. Efforts should be made to enhance customer awareness on Islamic banking products. Additionally, employee training sessions and targeted marketing campaigns can effectively communicate the benefits and principles of Islamic finance. This study contributes to the existing literature by examining customer preferences for Islamic banks, specifically in the context of Ijarah financing. It sheds light on the significance of a riba-free and Shariah-based system, religiosity, Fatwas, and trust in influencing customer choices.

**Keywords:** car ijarah financing, customer perception, Shariah compliant, Pakistan

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## 1. Introduction

The financial sector is considered the mainstay for the economic system of a country. Hence, the stronger economic system is extremely reliant on the strong banking system (Chapra, Ahmed, Rehan & Hussain, 2018). The two modes of contemporary banking systems are conventional banking and Islamic banking. Both the systems are diverse from each other in several conducts (Chapra et al., 2018). The very base of the conventional banking system is interest that is typically earned on loans and other investment transactions. While in Islamic finance, the transactions that involve interest, gambling, and uncertainty are banned according to Shariah rules (Wahla, Hasan & Bhatti, 2018). Interest-based conventional banking systems should be substituted by Islamic banking system with a profit/loss sharing (PLS) system and even by structuring conventional finance collections along the lines like Islamic finance. Any random shock arising because of the crisis in conventional finance can be gripped in Islamic finance as it is designated up by actual tangible assets (Wahla et al., 2018).

At present, in relation to the asset, 71 percent of the entire Islamic financial industry is owned by Islamic banking while the number of Islamic banks is 505 in 69 different countries (Saleem & Mansor, 2020). With the passage of time, the demand for the alternate to the conventional financial system is increasing in the Muslim world to make consistent their belief according to Shariah guidelines. It is necessary for Islamic banks to introduce innovative Shariah based financial products for the rapidly growing Muslim population in Muslim majority and minority countries. Therefore, to meet their targets, Islamic banks are offering a wide range of products. The widely-used Islamic financial products are Murabaha, Mudarabah, Musharakah, Salam, Istasna and Ijarah, Sukuk and Bai' Mu'ajal (Chaudhry, Roomi & Dar, 2020).

Pakistan, primarily being a Muslim country with 95 % of its Muslim population, has the frequency to adopt Islamic banking still at a low level (Butt, Ahmed, Naveed & Ahmed, 2018). It is a general perception that like other developing countries, relocation of Pakistani consumers from conventional products to Islamic products is consequently creating a large demand for Islamic financial products. Amid other modes of Islamic finance, Ijarah financing is one of the most adopted choices for Islamic bank customers. While comparing the various banking products, auto financing or car leasing is one of the most significant products that maintain a healthy banking association with their customers and allows banks to generate a huge amount of revenue (Chapra et al., 2018). In Islamic banks, lease is identified as Ijarah and is considered the shariah compliant form of conventional lease.

Usmani (1999) narrated that in Islamic Shariah, the term Ijarah refers to giving something on rent. Hence, in Ijarah, the usufruct of the commodity is transferred to the lessee for a pre-agreed rent (ujar) for a specified period while ownership sustains with the lessor. In Shari'ah Standard No. 9, Ijarah and Ijarah Muntahia Bittamleek issued by (AAOIFI, 2017), it is stated that the form of leasing contract being used in Islamic Financial Institution is Ijarah Muntahia Bittamleek. This leasing contract holds another contract of promise parallel to the contract of lease. Under this contract of promise the lessor relocates the title of ownership of the asset to the lessee either at the ending of lease contract or by stages during the terms of contract.

Nevertheless, with the rapid evolution of Islamic banks and conversion of conventional to Islamic banks, it is a worldwide issue for the customers of Islamic banks having ambiguity about Shariah compliance of Islamic Financial products. However, amid other challenges, differences in Shariah interpretation of Islamic financial products also exist globally and it makes the consumers not only hesitant for investing in Islamic banks but also raises questions about the Shariah compliance of Islamic banks (Saleem & Mansor, 2020). Due to this, the customers usually perceive the Islamic financial products as the products of conventional banks. In Pakistan, Shariah compliance for Islamic financial products is also a sensitive challenge. Although Ijarah is being frequently used in Islamic banks in Pakistan, but the customers are still unaware of its originality and salient features (Wahla et al., 2018). They use the facility of Ijarah financing just as a financial contract to meet their needs. Therefore, they must have the cognizance about the fundamental and dynamic principles according to which the Islamic banks operate and to distinguish Islamic products from conventional products. Besides this, Islamic banks services play a vital role for the furtherance of Islamic banks (Chapra et al., 2018).

Thus, the area that encapsulates the customer perception regarding Islamic financial products has insufficient number of studies in spite of the great emergence of the utmost banks and financial institutions to the Islamic financial industry (Adeinat, Rahahleh & Bhatti, 2019). Moreover, for paralleling Ijarah to other modes of financing there are fewer studies about customer perception regarding Ijarah financing. In the context of customer perception about car Ijarah financing, the quantitative research is clued-up by using nonparametric test and simple regression models (Wahla et al., 2018), while another study quantitatively connects customer perception to customer satisfaction (Adeinat et al., 2019). These studies have several limitations to encapsulate the entire phenomenal issue of customer perception about car Ijarah. Hence, there is still a need for a qualitative in-depth interview-based study regarding the customer perception about car Ijarah financing that can concisely brief the entire

phenomenon. Previously the customer perception regarding car Ijarah financing has been studied quantitatively, hence by keeping in consideration the methodological gap, a qualitative research is requisite that can provide a new line of research (Miles, 2017). The objectives of this research include:

1. To explore and analyze the perception of customers regarding car Ijarah financing provided by Islamic banks in Pakistan.
2. To examine the factors that influence customers' perception of Ijarah financing, including their understanding of Shariah principles, the presence of Fatwas, trust in the bank, and religiosity.
3. To identify the challenges and misconceptions faced by customers in differentiating Ijarah financing from conventional leasing and to understand the implications of these perceptions on the acceptance and profitability of Ijarah financing in Islamic banking.

## 2. Literature Review

### 2.1 Origin of Islamic Financial Products

The Islamic finance emerged in the mid twentieth century (Riaz, Khan & Naimat., 2017). Belouafi and Chachi (2014) also associated the practice of Islamic financial operations to the 7<sup>th</sup> century AD when the Prophet Muhammad (PBUH) forbade the dealings that engage Riba (interest), Gharar (deception), Qimar (gambling), Mujazafah (speculation) and Ihtikar (monopoly). The Holy Prophet Muhammad (PBUH) also permitted the operations such as Musharakah, Murabaha, Ijarah, and Mudarabah.

By giving the examples of Islamic Financing models, Awan (2009) quoted the reference of the time of Holy Prophet Muhammad (PBUH) when Khadija bint Khuwailid hired the services of Prophet Muhammad (PBUH) for trade. Moreover, the author also explained that Hazrat Usman bin Affan used to provide financial support generously and also give the loan of money to a Jewish merchant of Medina, to keep going with his financial dealings during the era of second Caliph of Muslims-Hazrat Ummer bin Khattab.

Usmani (1999) elaborated that the Islamic modes of finance are based on a set of such laws, values and regulations that are in accordance with Shariah rules. These rules distinguish Islamic banking from conventional banks that rely on interest. Hence the negligence to these rules and regulations may create confusion between the Islamic banking and conventional banking. Riaz, Burton and Monk (2017) described that Islamic finance not only persuades societal fairness via its products but also endorses moral values and acts to approach equal allocation of wealth and income.

## 2.2 Categorization of Islamic Financial Products

Ahmad, Awan and Malik (2014) also categorized the Islamic financial products firstly, as short-term products such as Murabaha, Istisna, Salam and Bai Mu'ajal to fulfill the financial needs for a business entity, secondly as the medium-term products like Ijarah and Ijarah-Wa- Iqtina to facilitate their customers, and thirdly long-term products consisting of Musharakah, Mudarabah and Diminishing Musharakah that deals on Profit and Loss Sharing. In accordance with SBP (2008; 2020) Islamic banks are trying to facilitate their customers with a large variety of their Shariah based products that may include trade and corporate business. In addition to these, they also offer products and services in the form of Banking Investment to their customers. Auto Ijarah and Muskan Financing fall in the category of consumer financing and Islami Current Account, Islami Bachat Account, Islami Amadni Certificate, Islami Mahana Munafa Account etc. are dealt as Retail Banking Products. Whereas, Corporate Products and services may contain Murabaha Financing, Working Capital finance, Trade financing, medium and long term finance, Leasing or Ijarah facility, Islamic Export refinance scheme etc. (Zafar & Sulaiman, 2020). Besides all these, Islamic banks also offer Sukuk arrangement, Financial Advisory, Private Placement, Syndication, Trusteeship, Underwriting, Structured Finance, Listing on Capital Markets, Project Financing, Mergers & Acquisitions etc. in the form of Investment Banking products (Chaudhry et al., 2020).

## 2.3 Growth of Islamic Financial Products

Chaudhry et al. (2020) illustrated Musharakah, Murabaha, Mudarabah, Istisna', Salam, Ijarah, Bai' Mu'ajal and Sukuk, as the primary financial products of Islamic banks. Khan and Bhatti (2008) further provided an overview on Islamic financial products and considered these products the fundamentals of Islamic financial industry. For the duration of 2004 to 2006, 6.34% of the entire financing of Islamic monetary sector consisted of Mudarabah as well as Musharakah. Keeping in consideration the Ijarah financing, the average Ijarah financing of ten Islamic banks was 16.31% of the total financing for the year 2004 to 2006 while Murabaha and Bai Salam/Bai Istasna respectively represented 54.42% and 5.60% of the total financing of ten Islamic banks during the same tenure of 2004-2006. Razak, Ariffin, and Kassim (2015) pointed out Murabaha and Ijarah (mark-up products) as the most trending and the dominating products of Islamic banking industry.

Some consider the substantial demand for Islamic financial products and services (Riaz et al., 2017), although Dusuki (2007) argued that existence of some motives persisting to believe the demand of Islamic products based on profit loss share as an illusion. The reason for this belief is that the share of

these products is less than 5% of the financing of Islamic banks. Some believe that the growth of Islamic banking is still unsatisfactory and the Islamic banks could not acquire the required expansion level (Rashid & Hassan, 2009).

Khan and Bhatti (2008) pointed out the extraordinary growth and extension of Islamic banking products regarding takaful (Islamic insurance), Sukuk (Islamic bonds), hedge and equity funds, risk and liquidity management, real estate, and corporate finance. Islamic financial products based on Shariah principles are a good alternative to the conventional interest based products. According to IFSB (2019), by the year 2018, the takaful industry will continue to grow at the expansionary tendency of the previous eight years at the growth rate of 8.5% (2011-2018).

#### **2.4 Portfolios of Islamic Financial Products in Pakistan**

Zafar and Sulaiman (2020) gave a detailed view of the average share of Islamic financial products in Islamic banking of Pakistan from the year of 2014 to 2018. According to the author, the average financing percentage of Murabaha, Ijarah, Musharakah, Diminishing Musharakah, Salam and Istisna are 19.42%, 6.74%, 16.5%, 0.02%, 32.60%, 3.88% and 8.52% respectively. According to SBP (2020), in terms of Islamic modes of finance, Diminishing Musharakah stayed at the highest growth rate of 33.6% followed by Musharakah (22.7%) and Mudarabah (13.7%); whereas, the share of Ijarah remained 4.8%. Salam and Istasna revealed the percentage of 1.9 and 8.3 respectively.

#### **2.5 What is Ijarah?**

Ijarah is an Arabic word that refers to giving something on rent. Ijarah, the Islamic lease is primarily a rental based agreement. In this contract, the usufruct of an asset or commodity is assigned from one participator to the other on the basis of a substitution of specific indemnification (Yasser, Naz & Khalid, 2018). In this contract, Islamic banks offer the financing of the equipment, house or automobile to their customers for a pre-agreed duration against the pre-decided rent (Wahla et al., 2018). Consequently, in an "Ijarah" contract the ownership of the leased asset sustains with the lessor whereas the rights for the usage of asset are transferred to the other party (the lessee). Hence, all the liabilities and risks are to be borne by the lessor except the expenses occurred due to the negligence of lessee and the operating cost (Atmeh & Serdaneh, 2012). Ijarah contract is mentioned in the Shari'ah Standard No. 9 - Ijarah and Ijarah Muntahia Bittamleek issued by the AAOIFI (2017) as follows:

"The basic rule behind the Ijarah contract is that it is permissible, and its supporting evidence is present in the Quran, Sunnah, Ijma (consensus) and common sense".<sup>1</sup>

## 2.6 What is Ijarah Muntahia Bittamleek?

Naqvi et al. (2014) illustrated that the banks provide the short to medium term financing to lease the objects that may consist of real estates, buildings, equipment, machineries, computers, motor vehicles and other permissible objects but not the impermissible that are forbidden according to Shariah. The form of Ijarah that is commonly used in Islamic financial institutions is the Ijarah Muntahia Bittamleek. Moreover, the client or the bank owns a unilateral responsibility to hold or transfer the ownership of leased assets respectively at the end of the lease contract. This agreement of promise will be undertaken independently and will not be made part of the lease agreement as an obligatory condition (Wahla et al., 2018). Khan and Bhatti (2008) stated that Islamic financial institutions use Ijarah Muntahia Bittamleek in the real estate, retail, industry, and manufacturing sector to meet their financial needs.

Naqvi et al. (2014) elaborated the following basic features of Ijarah Muntahia Bittamleek:

- The title of the ownership of asset retains by means of the lessor throughout the lease contract and only the usufruct of the concerned commodity or asset is moved to the client or lessee.
- It is an obligation of the Ijarah contract to make a decision of the duration of lease financing.
- The rental of the asset must also be prescribed and specified.
- It is mandatory to charge the rental cost after the transfer of the asset to the lessee.
- Either concerned party unilaterally undertakes to purchase or sell the leased asset in return for a specific consideration after the termination of Ijarah contract.
- The lessor owns the responsibility to bear the cost of all the ownership related expenses.
- The lessee has to bear the cost of operating expenses.
- The risk is relocated to Islamic insurance Takaful.
- In case of any postponement in rental cost, the penalty is charged; however, it is not permissible for Islamic banks to have keeping of that amount rather it is given to the specified charity accounts as per the guideline of the State Bank of Pakistan.
- Unlike the conventional lease, in case of stolen or complete wipe out of the asset, the rental would not be charged. Because in case of complete disorder, the Ijarah contract will be void and also the rent is associated with the usufruct of the commodity.

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<sup>1</sup> The verses 26-27 in Surah Al Qasas represent the evidence of Ijarah from Sunnah of Holy Prophet Muhammad (PBUH) the evidence of Ijarah can be found by Hdith narrated by Ahmad, Abu Dawud, and Al Nasa'y as "for the time period of the Prophet (PBUH), the farmers used to give rental fee for the land in water and seed. He (PBUH) forbade them from doing that, and ordered them to use gold and silver (money) to pay the rent."

By keeping in consideration, the features and process flow of the Ijarah financing, a clear distinction can be found between conventional lease and Ijarah financing. Both are providing the similar facilities to their customers; however, in order to be more beneficial and favorable than conventional banks, Islamic banks should offer better services to their customers ( Abdullah & Dusuki, 2006).

### **2.7 Car Ijarah in Islamic Banks**

In Pakistan, Ijarah financing was offered by the Banking Companies in accordance with the Act of 1962 which led to the creation of some modes in the light of Islamic finance. These modes of finance also include lease and hire-purchase (Sohail, Hamza, Ijaz & Azeem, 2014). From the time of independence of Pakistan, Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP) have been struggling for establishing an efficient financial system. Hence, the first leasing company was established in 1984 (Alam, Raza, Farhan & Akram 2011).

Generally, the Islamic banks in Pakistan offer car financing through Ijarah to their customers in the following manner:

- The customer approaches the Islamic bank and shows his intentions to avail the facility for car financing through Ijarah.
- The bank purchases the car from the market after signing a “promise to lease agreement” with the customer. It makes sure that the customer will take the car on lease from the bank. Hence, the bank holds the title of ownership.
- Now the Islamic bank leases the car to the customer against a pre-agreed rental for a pre-agreed duration. The ownership of the car remains with the bank throughout the lease agreement.
- The rent is commenced after the transfer of usufruct of the car to the customer.
- All the ownership related expenses are borne by the Islamic bank.
- After completion of lease contract, the Islamic bank either gifts or offers to sell the car to the customer. If the customer agrees to purchase the car, then the bank transfers the title of ownership to the customer on an agreed payment.

### **2.8 Customers Perception towards Islamic Financial Products**

Masood, Rehman, and Abdul Rehman (2014) executed a research to explore the cognizance of the customers in accordance with Islamic financial products offered by Islamic bank of Pakistan. The research revealed more awareness about the Islamic banks and its operations but less understanding about the



Islamic financial products such as Murabaha, Musharakah, Ijarah, Sukuk and takaful etc. IFSB (2014) discovered that 73% of respondents were pointed out for having deficient awareness about the Islamic banking products and services for developing Islamic banking products

The first wave of Islamic products came into sight in the way that it proved beneficial for a large number of Muslims. Islamic banks get hold on the products and services for the initial few years, so it misled the rest of population to assume that the growth of Islamic financial products would sustain for an indefinite period. The fact is that a decline has been observed in the growth of Islamic banks and the providers of these products are facing the challenge to sustain their same customers (Riaz *et al.*, 2017). The statistical analysis of the research of this study revealed the positive influence of awareness, knowledge, and religiosity level on the perception of customers about Islamic financial products in Pakistan. The level of perception can be increased by making better marketing policies and by organizing conferences etc.

Haq (2019) highlighted that small and medium enterprises are more interested to choose Islamic financial products to accommodate their needs for financing than the conventional banks. While Ahmad and Haron (2000) argued that the less adoption of Islamic financial products is due to the inadequate provision of the knowledge and awareness to the customers by the providers of these products. Besides this, Islamic banks should also market their products more efficiently. The research suggested the providers of these products to lower the cost than that of the conventional banks products. Lajuni, Ming, Yacob, Ting, and Jausin (2017) suggested the providers of Islamic financial products to develop an appropriate cost strategy for the products.

### **2.9 Customer Perception towards Ijarah Financing**

Chapra *et al.* (2018) analyzed awareness level for Ijarah finances and preference of Ijarah financing over the conventional lease. The results indicated that comfortable and convenient provision of Islamic banking products is the motive for Ijarah rather than conventional lease in Islamic banks and Islamic windows of conventional banks. Moreover, the awareness about Ijarah benefits, Shariah compliance of Islamic financial products, Halal income and investment are also important factors. Additionally, other factors like awareness about Ijarah and perception of other Shariah compliant products are also the important factors that affect individual decision to prefer Islamic Ijarah financing over conventional automobile financing in Pakistan.

Wahla *et al.* (2018) used Kruskal-Wallis and Mann-Whitney test (non-parametric) and regression model (parametric) to quantify the customer perception and satisfaction about financing a car by Ijarah transaction in Islamic

banks and Islamic financial institutions of Pakistan. This research revealed the positive attitude of Islamic bank customers regarding car Ijarah financing. The demographic effects such as age, gender, income, marital status, and income were also investigated to identify the degree of Shariah compliance quality and the Islamic banks services quality for car Ijarah financing selections.

Adeinat et al. (2019) in his research, examined the mediating role of clarity and accuracy (CAA) between customer perceptions and customer satisfaction. This study kept its focus to connect the customer perception about Islamic banks to their satisfaction in a quantitative way. It was concluded that customer perceptions affect customer satisfaction directly and indirectly. The author suggested that Islamic banks should improve the perception of their customers by practicing more and more marketing campaigns and by guaranteeing their customers for the high prices of their products. Islamic banks need to communicate to their customers that high prices of Islamic financial products are because of the Shariah compliance of Islamic financial products. The statement concerning the assessment about perception of "Ijarah financing as a good alternative to conventional lease" showed the lowest mean in the research.

### **3. Methodology**

As this research has the specifications about the car Ijarah financing in Islamic banks of Pakistan, so it aims to observe the general perception of Islamic bank customers in accordance to car Ijarah financing in Pakistan and to assess the perception regarding the differences between the conventional lease and Ijarah financing. Besides this, the research also emphasizes to explore further whether the customers of Islamic banks are satisfied with the services the Islamic banks provide to their customers for car Ijarah financing.

Hence, the qualitative research method was preferred to achieve these objectives. Sutton and Austin (2015) elaborated that a quantitative research method is generally adopted to determine how many people are undertaking a particular behavior; whereas, the qualitative research method helps the researcher to comprehend how and why this particular behavior is taking place? Qualitative research proves to be helpful for the researcher to access the thoughts and feelings of research participants which can enable development of an understanding of the meaning that people attribute to their experiences.

#### **3.1 Convergent Interview Method**

Convergent interview is the series of in-depth interviews that enables a researcher to refine the questions at the end of every interview. The process of convergent interview is incredibly structured but the content is gradually developed to make it more structured after each interview (Perry & Rao, 2006). Williams and Lewis (2005) also described convergent interviewing as a

technique that collects qualitative information in accordance to the feelings, beliefs, and behavior of people with the help of interviews.

Dick (2014) suggested the criteria to develop the interview by deciding the opening question besides precise and probing questions by keeping in consideration the objectives of the study to collect the specific information .

Hence, in the context to explore the customer perception about car Ijarah financing in Pakistan, the in-depth convergent interview method was found to be more appropriate to conduct this research.

For this reason, the following core questions were developed based on the study (Wahla et al., 2018) to deal with during this research:

Q1: What do you know about the basic features of Ijarah for financing a car?

Q2: Do you think that Ijarah is a good initiative of Islamic banks?

Q3: Do you think that Ijarah is different from conventional lease or that both are the two sides of the same coin?

Q4: Are you satisfied with the services provided by Islamic banks for Ijarah financing in Pakistan?

### 3.2 Sampling Technique

Tongco (2007) Suggested that purposive sampling is a widely used sampling technique enclosing the qualities of informant and it can be a focused choice to get to the bottom of things. Snowball sampling technique is used to gather information to approach a specific group of people. It helps the researchers to target the susceptible population (Goli, Naderifar & Ghaljaei, 2017). Hence, to make it convenient to approach the targeted population and to rally to the objective of the study, the snowball sampling technique was applied along with the purposive sampling technique.

### 3.3 Unit of Analysis

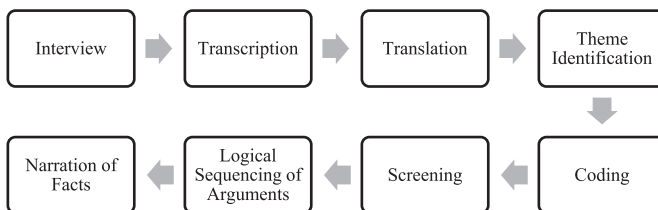
The method of convergent interview was applied to collect a real data set of customers of Islamic banks for car Ijarah financing in Pakistan to see the general perception of the customers about Ijarah financing. For the study, the targeted population for data collection was the educated and experienced customers of Islamic banks regarding Ijarah financing, all the Shariah committee members, executives of Islamic bank, and managers of the Islamic banks who also had experience in car Ijarah financing. The sample of the study was taken from Lahore, one of the major cities of Pakistan. The selected respondents were educated and articulated, having the ability to understand and respond to the detailed questions concerning the perception of car Ijarah financing.

### 3.4 Sample Size

Cobern and Adams (2020) elaborated that in qualitative research, the sample size does not rely on the estimation of time as how many people to interview but on the probability of unique opinion. The interviews are kept on being conducted until the researcher assesses the point for getting a distinctive or unique opinion. Cobern, Gibson and Underwood (1999) argued that the researchers usually quit at 16 interviews having the approach to saturation and redundancy. In the light of the above arguments, the sample size for the research was expected to be the number of interviews in anticipation of the distinctive opinions from the interviewees. Hence, 20 interviews were conducted in this regard, while 6 interviews were discarded for being unclear and hazy. Therefore, the sample size consisted of 14 respondents.

### 3.5 Data analysis

The interviews were recorded with the consent of the interviewees. After conducting the interviews, they were transcribed and translated. Moreover, the method of inductive data coding or data driven coding was applied to the conducted interviews and different themes relevant to the research objectives were drawn. The themes were coherent, and repetitions were excluded by reducing the volume of raw information. Finally, meaning from data was drawn and subsequently a logical chain of evidence was tried to build.



**Figure 3.1: Process of Data Collection and Data Analysis**

### 3.6 Demographical Profile of the Respondents

The profiles of the respondents are presented in Table 3.1 below which presents a breakdown of the respondents according to five characteristics namely: gender, age, education, occupation, and experience.

**Table 3.1: Demographic Profile of the Respondents**

Respondent No.	Gender	Age	Education	Experience with Islamic banking
1	Male	35-40	Masters	5 years
2	Male	40-50	MBA	15 years
3	Male	40-45	MBA	10 years
4	Male	35-40	MBA	7 years
5	Male	40-45	Masters	12 years
6	Male	40-45	Masters	8 years
7	Male	40-45	MBBS	13 years
8	Female	40-45	Masters	7 years
9	Male	30-35	MBA	9 years
10	Male	30-35	Masters	4 years
11	Male	30-35	Masters	5 years
12	Male	35-40	Masters	8 years
13	Male	45-50	MBBS	12 years
14	Male	30-35	Masters	3 years

#### 4. Results and Discussion

As the study is an interview-based qualitative research having the specification of car Ijarah financing in Pakistan; therefore, this chapter includes the analysis and discussion that encompass the general perception of Islamic bank customers in accordance with car Ijarah financing in Pakistan. The themes are analysed on the basis of Miles and Huberman (1994) thematic model for the thematic analysis process. It consists of three link stages or streams, i.e. data reduction, data display, and data conclusion-drawing/verifying. By keeping in consideration the research objectives of the study, the interviews were conducted and the following themes were drawn from the respondents' interpretations (Table 4.1).

**Table 4.1: Themes of Content Analysis**

Sr.	Themes
1	Bank Preference for Ijarah Financing
2	Ijarah-Shariah Compliant Product
3	Duration of Documentation Process
4	Documentation Relevancy
5	High Profitability on Ijarah Financing
6	Access to Ijarah
7	Satisfaction with the Bank

#### **4.1 Theme 1: Bank Preference for Ijarah Financing**

It is no longer a matter of two opinions that Islamic banking is growing rapidly at global level and is gaining popularity and success in several Muslim and non-Muslim countries. Given that Pakistan is an Islamic Republic with a predominantly Muslim population, Islamic banking has emerged as the preferred choice for meeting the financial requirements of its residents. In the response of question asked about the preference to select Islamic bank for car Ijarah financing, *riba* free banking, Shariah based banking, religious motive, existence of fatwas, and trust in bank came into view as the sub-themes for bank preference for car Ijarah financing.

The respondents believe in an Islamic banking system based on a *riba* free and Sharia based system. The factors of religion, the existence of Fatwas at the back of Islamic banking and satisfaction with products also play an important role in the bank selection and bank preference criteria. The awareness about the fact that the base of Islamic banking is erected on a system which has its roots in the objectives of Shariah rules and regulation attract the customers towards Islamic banks. Consequently, the customers feel contented and satisfied to deal with Islamic banks for the fulfillment of their financial needs.

#### **4.2 Theme 2: Ijarah-Shariah Compliant Product**

Shariah Compliant operations at Islamic banks is an attention-grabbing area for the customers. Majority of the respondents believes that car Ijarah financing is permissible as per Shariah perspective and is different from the conventional lease from its commencement to the completion.

Despite this positive approach towards Ijarah financing and the existence of Fatwas at the back of Islamic banking industry for the permissibility of their products, a range of customers are availing the Ijarah facility merely to meet to their needs, but they still have ambiguities and are constrained to perceive 'Ijarah' as just a trundling of the terminology due to the same cost of Ijarah as conventional lease. It is still a matter of debate whether Islamic banking is a realistic approach to the objectives of Shariah. The Islamic banks do not provide awareness to their customers about the distinct and basic principles of the Ijarah contract. In addition to it, the bench mark the Islamic banks use to calculate profit compels the customers to show the ambiguous attitude towards Ijarah.

#### **4.3 Theme 3: Duration of Documentation Process**

A diversity in views was observed when the respondents were asked about the duration of documentation for car Ijarah by comparing to conventional lease. As some of the respondents experienced the process of the provision of car based

on Ijarah financing as a lengthy and extensive process, they considered the inadequate staff and less resources as the reason for the delayed process due to which the customers usually get annoyed, while the negligence of the staff in Islamic windows of conventional banks to some extent also causes this extension. A few respondents spotted the unavailability of cars in the market and not the Islamic banks as the reason for the extensive process. They perceived that Islamic banks complete their work within time. Whereas some respondents did not feel documentation duration for car financing as lengthy or time consuming.

#### **4.4 Theme 4: Documentation Relevancy**

When the respondents were asked about relevancy of the documents required for ijarah financing to observe the satisfaction of Islamic banks customers about the amenities that the Islamic banks are providing to their customers for Ijarah, most of the respondents showed their satisfaction in this regard. They believed that the Islamic banks demand only for the relevant documents as they have to verify the customers' capability to pay the rental installments but the general perception is that the Islamic banks demand for more documents as compared to conventional bank because the Islamic banks do the transactions in different stresses such as rental, agency agreement, and sale-purchase agreement. Some respondents thought that Islamic banks have a strong scrutiny level for the decontamination of customer's capability for engaging in Ijarah financing and also for the fulfillment of Shariah obligations. Unfortunately, this may cause the reluctance in Islamic bank's customers to avail Ijarah financing.

#### **4.5 Theme 5: Profitability on Ijarah**

Among other principles on which the Islamic banking system depends, profit loss sharing is an important factor in the financial sector. Hence, profitability on Islamic financial products influences the customers' tendency towards Islamic banks. With respect to the question asked about the profit ratio the Islamic banks have on Ijarah financing, majority of the respondents considered the profit ratio justified and satisfactory because Islamic banks have to remain competitive in the market. In Ijarah, the bank has the more chance of risk being the owner of the asset; therefore, the bank can have an appetite for risk. Moreover, the Islamic banks have compliance obligations due to which more due diligence is required for Islamic banks as compared to conventional banks. In addition to this, more expenses of Islamic banks generate more profits. While another group of respondents can be observed in its antagonism that perceive the high ratio of profit on Islamic financial products. They expect from the Islamic banks to offer their products at a lower profit ratio as compared to conventional banks.

#### **4.6 Theme 6: Access to Ijarah**

During the interviews, when the respondents were asked what they think a common person has access to Ijarah or not? Different opinions were gathered in this context. It was revealed from the respondents' replies that although the Islamic banks launched this product for all their customers, but bank substantiates the customers' capability to pay the rental to manage the anticipated risk. Hence, the persons having the capability to pay rental can approach it conveniently. According to a few respondents, mostly the customers having a handsome salary package or heavy income generating business have access to Ijarah financing.

#### **4.7 Theme 7: Satisfaction with the Bank**

It is no longer a matter of two opinions that the customer's satisfaction with the bank reports the desirability of customers towards the bank in the context of its products and services. Hence customer satisfaction is essential for the bank to own the market share. When it was asked whether the respondents were satisfied with the products of Islamic banking, they responded the question in different aspects. Most of the respondents articulated that they were satisfied with the Islamic banking products while the rest of the respondents showed their satisfaction to some extent. The respondents' behavioral intention and satisfied attitude towards the Islamic financial products articulated their good perception and awareness for these products. It also reflects their willingness to avail the financial engagements through Islamic banks.

### **5. Conclusion**

The study reveals that the customers preferred the Islamic banks for Ijarah financing having its dependency on *riba*-free and Shariah-based systems and due to religiosity, existence of Fatwas, and trust in banks. As far as the Fatwas are concerned, the respondents incriminate the Ulmas if they are misleading the community. It is reflected that customers have insufficient knowledge about Islamic banks for purely rallying to Shariah objectives. It was concluded whether the Islamic banks do not provide a comprehensive knowledge to their customers is still debatable.

Some respondents experienced that car Ijarah costs like the conventional lease, while some respondents perceived that the high cost is due to the reason that it is requisite on Islamic banks to have Shariah board and Shariah Compliance department. Moreover, the usage of KIBOR, known as Karachi Interbank Offered Rate, to calculate the rent also constrained the customers to perceive that Ijarah is merely a gimmick to use acceptable terminology to make it



different from conventional lease; otherwise, Ijarah is like conventional lease. The respondents experienced the documentation period for financing a car through Ijarah as an extensive and extended process due to which the customers usually get annoyed.

It is the need of the time that the Islamic bank should provide comprehensive and sufficient knowledge to their customers for developing a frame of mind that Ijarah and other Islamic financial products are Shariah based. The awareness about Islamic banking products can be increased by publishing books and brochures and by holding seminars publicly at a large scale. Also, more training sessions must be organized to train the employees so that they can communicate with the customers. Moreover, marketing campaigns should be run to interact with the general public. These campaigns will also be helpful to compel decision-makers, policyholders and service providers of Islamic banks to educate clients and to get the message out to the general community.

Islamic banks should make the scrutiny level flexible for their customers concerning Ijarah financing. The documentation process for Ijarah financing should be completed swiftly as it often causes the customers annoyance, and it is inappropriate for Islamic banks to be slow in today's fast life. Besides, Islamic banks should introduce their own benchmark to replace KIBOR for the rental calculation. The religious scholars and Ulmas should come at the front and contribute by providing their services to make the community consistent and persistent to deal with Islamic banks for their financial needs.

In terms of future research, several areas can be explored to enhance the understanding of customer perceptions and experiences with Islamic banking particularly regarding car Ijarah financing. Firstly, investigating the effectiveness of customer education initiatives implemented by Islamic banks such as organizing seminars and conducting training sessions can shed light on the level of awareness and understanding among customers. Comparative studies between Ijarah financing and conventional leasing can provide valuable insights into the distinct features, costs, and customer experiences potentially dispelling misconceptions and influencing customer preferences. Additionally, examining the role of religious scholars and Ulmas in educating the community about Islamic banking and their influence on customer perception can contribute to the development of effective marketing strategies and community engagement efforts. Lastly, exploring the impact of technology, including digital banking solutions, on customer perceptions and experiences with Ijarah financing can uncover opportunities for improvement and streamlining processes in the digital age.

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