

Customer Perception Regarding Car Loans in Islamic and Conventional Banking

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Abstract

Purpose: To see the customer perception regarding car loans in Islamic and conventional banking.

Methodologies: This study is based on primary data. These followed by only Bahawalpur corporate customers are taken as the sample research. Firstly the persons have been identified of the selected banks that are the financial affairs of those banks. When these people show their willingness then questionnaire has been filled by them and the required data has been collected. The statistical technique chi-square had been adapted for analysis the data.

Findings: Total **120** questionnaires have been distributed among different banks and out of which **104** were get completed and returned. Peoples prefer conventional banks for car loans as compared to Islamic banks.

Key Words: Islamic Banking, Corporate Customer, Car Financing.

Introduction

The term "Islamic financial system "is comparatively new, emerged only in the middle of the 1980's the literature suggests that the Islamic principle were tried to be studied in the field of "Interest free" or "Islamic banking". Islamic banking prohibits the receipt or payment of the interest as major activity, but this is supported by the other principle of the Islamic doctrine. A new system is introduced profit-loss sharing (PLS) which most likely is response to the interest free banking system. Currently the Islamic banking is working with 250 institutes all over the world. The Islamic concept is not only limited to the banks, but it also expanded its operations in other financial markets etc. Islamic banking is seems to be a good competitor

for conventional banking system that is currently in operation, targeted Islamic and non Islamic countries both.

The growth rate of Islamic financial market is considered to be about 15-20%. Pakistan is considered to be a Muslim state that is working and trying to implement a complete Islamic financial system. The idea of Islamic banking system in Pakistan is traced from the inception of this country banking system when, inaugurate state bank of Pakistan 1st July 1948; Today in 2011, the network of Islamic banking system is expended to about over 200 branches operating in Pakistan. Today the strength of Islamic banks Assets are close to Rs.135 billion, Islamic deposits and financing stands at 2.4% to 2.9% of the market share.

As we are going to discussed car loans are affected by difference factors that effects the customer perception towards Islamic banks and conventional banks. Interest, Religion, Products and Services, Culture are being discussed in literature review how the effect customer perception among Islamic and conventional banks.

Literature Review

Religion:

Holy Quran does not contain only moral techniques but it also offers guidance in all aspects of life. It should not be so surprising as Holy Prophet (PBUH) was a successful businessman, known for his honesty and integrity. In His techniques He regulates family inheritance, behavior, property, contracts and use public and private goods.

The religion is a fusion can be spiritual and temporal aspect of life. Islam is a lifestyle and differentiates from other two monotheists religious, because no division can be made the religion itself and the state. In major macroeconomic goals, Islamic economy tends to achieve full employment and a positive economic growth rate and stable value of money. A rate of profit is admissible and must derive from one's own work.

Historically Riba condemnation has root during the Prophet time when the matured debt was not paid back, the amount was doubled due to creditors. Prophet advocated sharing the risk associated to any lawful business, so "profit comes with liability". This was the base for the profit and loss sharing economic scheme. Islamic banking is also on the base of prohibition of interest, which is not founded on the economics principles other than Islam. According to Islamic banking rules, the practice of charging interest in is an injustice to borrowers. While Islamic banking deals with the creation of equity (by profit and loss sharing system) and rental income while the pillar of conventional banking is debt through interest. Islamic banking is built on the base of brotherhood and cooperation; it stands for a system of equity and risk sharing. Initially Islamic banking system was only for Muslims and now non-Muslims are welcomed. Islamic banking strictly prohibited interest but it does permit profit from a trading activity. Islamic banking system is totally different from conventional banking because interest is prohibited in Islam and a bank is not allowed to offer a fixed rate of return on deposit or to charge interest on loans.

Whether the religious aspects are the inelastic factor in the care of the bank is still in dispute. Contrary to the age of (1992) and Metawa and Almossawi (1998), and Errol Sharm Budur (1989) argues that other factors such as expectations of the return are more important than the principles of Islamic finance so as to customers in the Islamic countries would not differentiate between the services offered by the conventional and Islamic banks (Eroletal1990). We believe, however, that religion is a powerful engine for the preferences of individual consumers. All Islamic financial system exists because of the interpretation of existing debt on the economy.

Customer Satisfaction

Introduced the Islamic banking practices by State Bank of Pakistan (SBP) at the beginning of 21. The subsistence of two banking streams that is, Islamic banking system and conventional banking system created contest among banks to have fulfilled customers needs and perceptions.

The main differences between Islamic and conventional banks and objectivity, and transactions of asthma and risk-sharing practices (Ahmed et al, 2010).

There is increasing competition between Islamic banks and conventional banks to capture new customers, as well as maintaining existing customers. SBP to play an active role for the establishment of a sound system of Islamic banking in Pakistan and in accordance with the principles of law as stated in its mission statement to read "to promote and develop the Islamic banking industry in line with international best practices, and ensure compliance and law transparency" (SBP, 2007).

The investigation Metawa Almoosawi (1998) the behavior of banking customers of Islamic banking in Oman through the collection of data from 300 customers. It aims to know the awareness and level of customer satisfaction among Islamic banks by looking at demographic characteristics. The results showed that we are satisfied the great majority of customers with products and services of Islamic banks.

It is said that there is a positive relationship between customer satisfaction and word of mouth communication (Athanasopoulos et al, 2001).

Customer satisfaction has become important due to increased competition as it is considered a very important factor in determining the competitiveness of the bank (Bartell, 1993; Aaron et al, 1994).

The Clinical (1996) that the implementation of the customers of banking transactions is less due to the low income and other social barriers. Found to be influenced by the role of gender by cultural factors, social and religious. In Muslim countries, the implementation of most financial and banking activities by members of the male (Obbe, 1980; Kinsey, 1988; Ogenyi, 1997; Iheduru, 2002).

Said Khalifa and Liu (2003) and measured by the satisfaction of the perceived disparity between the performance and perception, such as expectations or desires. There are many factors that achieve customer satisfaction and quality of service is but one of them.

Found that customer satisfaction results of several breeds, such as repeat purchase; loyalty, positive word of mouth and long-term profitability (Wirtz, 2003). Is to explore that there is a direct and positive relationship between perceived quality and level of satisfaction (Iglesias and Guille'n, 2004). Suggests that the bank can create customer satisfaction through the integration of trustworthy behavior, and proper communication of information, a reflection of a genuine commitment to provide quality services, and the settlement of disputes and improve the overall quality of customer relationships (Nelson and Chan, 2005).

The included key indicators of customer satisfaction, trust, commitment, communication, service satisfaction the quality of services, and dealing with the service (Nelson, 2006).

Customer age groups, educational level and also contributed to their decision whether to stay current with the bank or not.

Product and service

There has been no single study in Pakistan to shows how corporate customers behave towards Islamic banking. To individual customers and literature that supports the back so good on the studies that depict individual customers and studies. But if one were to look for corporate

clients and very few studies have been conducted on their perception about the Islamic banking system. The same happened with the traditional banking system, where the perceptions of customers of companies do not consider much by researchers.

Another study conducted by Rosenblatt et al (1988) and the sample size was 423. Targeted members of the treasure of a different company in Canada, who were considered to be officers in the selection decision of the banking institution. In this research, the researchers found that about 50% of the personal and solely responsible in a choice of banks. In all of these researchers found that there is great importance or two of the factors that affect the selection decision is more, the branch network and quality of services provided to its customers.

A study was conducted by the Sharm el-Budur Errol (1989) found that Islamic banks attract customers towards Islamic banking system is not only due to religious factors, but they are attracted towards the Islamic banking system due to the return received from him.

Aaron and Planisek also found that responded that it had established a relationship with the Islamic banking system after obtaining knowledge about the functions of the banking sector and is active. The researchers also tried to express the senior management of the Islamic banking system to target not only for Muslim customers, but they have to target other customers as well, for this they have to consider the time value of money. The researchers targeted Aaron and others (1994) for clients from Malaysia to learn how to Muslim customers in Malaysia, select the banking system. And found that there are three important factors too that affect the selection criteria of Muslims on the banking system, there are factors, the availability of effective services through the banking system and, secondly, the speed of transactions and finally conduct personal banking and there was another important factor which also plays a role in the selection of the banking system, which is new knowledge offered by the producers to customers by the Bank. Very large number of clients and non-Muslim, Muslim, suggesting that they will adopt the Islamic banking system if they get knowledge about the practical activities of the banking system.

Study that had been explored before and Errol Budur in the newspaper (1989) and in Errol (1990) and considered to be a leader in the care of research and studies in the field of Islamic banking system. By targeting the customers of Islamic banking and conventional banking system and the researchers found. Customers who support the Islamic banking system is that there are three most important criteria in the selection of the banking system, and this is the efficient delivery of services, the bank's reputation and image of bank secrecy. I did Noraffifa Ahmed Haroun and Sudin (2002) study on the perception of customers of the companies towards Islamic banking in Malaysia. They found that the products and services, Islamic banking has not done enough to educate customers and market their products. And other important results that were selected client companies, banks, while there is the cost of services and products.

This study shed light on the concept of corporate clients in the Islamic banking system. In this researcher research tried to understand the aspects of the current use of Islamic facilities of the banking system, and try to understand the customers of the companies that control to understand the features of Islamic banking, the role that control the decision to switch from the organization and personal opinion to control the direction of the Islamic banking system.

They have used four variables which affects the perception of corporate customers toward Islamic banking.

These variables are:

- I. Awareness/knowledge of customers towards Islamic banking
- ii. Marketing strategy of Islamic banking
- iii. Cost of the services that offered by the Islamic banking.
- iv. Different products that are offered by the Islamic banking

Culture

Islam does not stop from taking car. It is a way of conveyance and should be adapted if one can afford for the convenience. Only interest free finance culture affect the Islamic car loan. More Islamic monetary associations have surfaced in recent times that provide various types of Islamic financing and *riba* / interest free loans. A few of these services may contain basic business loans, personal loans, loan consolidation opportunities, and more. Those people who are living in muslim countries, it is easy for them to obtain interest free loan. But in western countries it is difficult to get such loans because of limited options.(El-Gamal 2000). Islamic law harshly bans the giving or receiving of interest. Muslims trust in maintaining economic synchronization in any financial transaction. It is not okay for a well-off person to benefit from lending money to someone less fortunate. Money is collective as a way to help the community prosper. That idea can shape how Muslims finance a car, a house or an education, how they establish a business, how they pay bills and how they use credit cards. The payment of interest is either a chief or slight hindrance, depending on how traditional a Muslim is. Many traditional Muslims in the identical Cities don't own a house or have a bank savings account. If they have a savings account, they characteristically contribute the interest to charity. (Sarah S. Al-Rifae). Financing contracts acceptable under Islamic law include buy-sell and buy-lease agreements, cost-plus-profit contracts, interest-free loans, stock investments and partnerships.

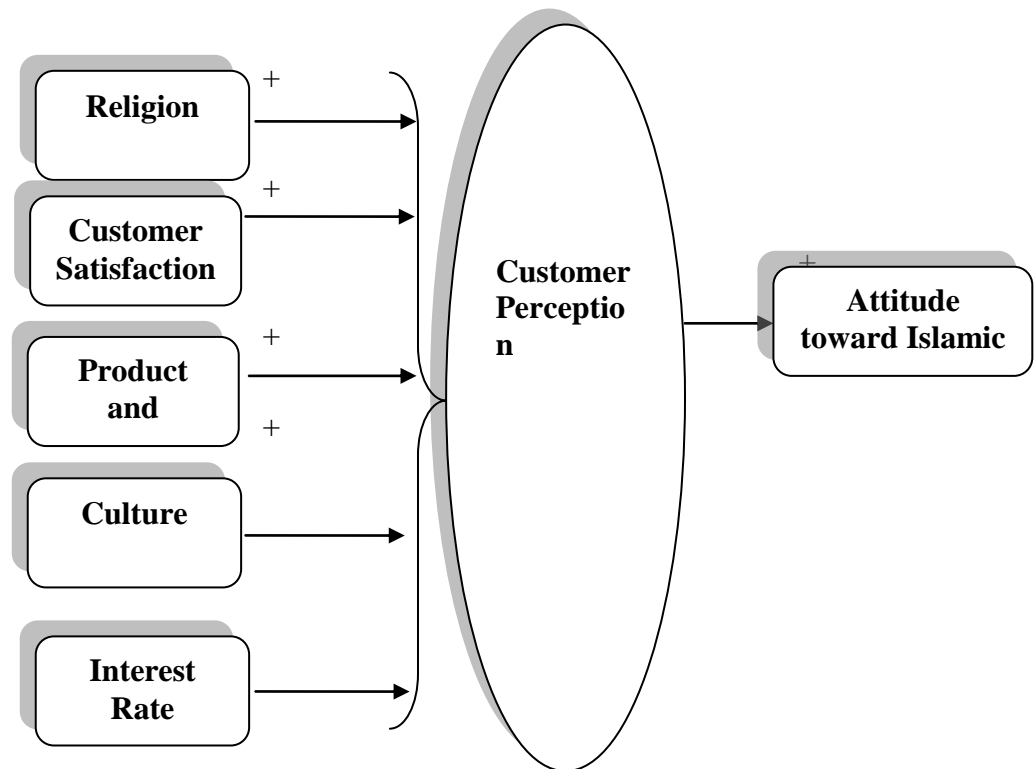
Interest

Interest from the borrower's assets to use as a form of compensation paid to the owner the The highest price paid for the use of borrowed money, or money received by the Funds.

When money is borrowed, interest, *usually* as a percentage of principal paid on the lender, amount is owed the principal percent of the time (typically one month or years) to a specified period, the fee is paid as interest rates as a bank deposit interest Bank deposit is paid for use of assets, sometimes loan with interest money, shares, consumer goods through hire purchase, major assets such as aircraft and even entire factories in finance lease arrangements are included in the payment. Interest paid to the lender's risk of principal loss for , which is called credit risk, and b) other assets with borrowed capital that could the opportunity cost of forgone investments are known . . If the borrower using the assets ahead of effort required for payment of their benefits, while the lender for the privilege fee paid by the borrower is the beneficiary.

Simple interest on the principal amount or principal amount remains unpaid on the shares is calculated. Economics, interest on the loan value, therefore, it is also subject to deterioration due to inflation. nominal interest rate, the inflation Before adjusting for inflation rate means the *consumer* price (the loan contract, credit card statements, etc. interested in the tag) is one of the show. real interest rates, inflation and the nominal interest rate is based on other

factors. Variables need to add something to consider: Term credit car loans, often between one and five years of a term, although some can run for seven years; Interest rates - down the debt, financial institutions, debt offer. The loan amount whether you want a variable or fixed rate period can vary depending on; Other fees and charges - one for payment of delinquent fees, annual fees out loan fees and charges for early payment fine print checks. Return - you can return weekly or fortnightly? It often saves money during the loan period, and It sounds obvious, but just a loan that you can be sure that you have pledged to do



(Independent Variables)

(Dependent Variable)

Hypothesis

H0: there is no significance relationship between the component of customer perception religion and attitude toward Islamic & conventional banking.

H1: there is significance relationship between the component of customer perception religion and attitude toward Islamic & conventional banking.

H0: there is no significance relationship between the component of customer perception customer satisfaction towards Islamic & conventional banking.

H1: there is significance relationship between the component of customer perception religion and attitude toward Islamic & conventional banking.

H0: there is no significance relationship between the component of customer perception interest toward Islamic & conventional banking.

H1: there is significance relationship between the component of customer perception religion and attitude toward Islamic & conventional banking.

H0: there is no significance relationship between the component of customer perception product and services attitude toward Islamic & conventional banking.

H1: there is significance relationship between the component of customer perception religion and attitude toward Islamic & conventional banking.

Methodologies

Data collection

This study based on primary data. Due to time factor only Bahawalpur corporate customers are taken as the sample research. First the persons have been identified of the selected banks that are the financial affairs of those banks. When these people show their willingness then questionnaire has been filled by them and the required data has been collected. Total of **120** questionnaires have been distribute among different banks and out of which **104** were get completed and returned.

Data Analysis

The data has been tried to improve that analysis by using some statistical technique. And chi-square technique had been adapted for analysis of the data.

The results are shown below.....

VARIABLE	MEAN	S.D.	VARIANCE	Chi-Square	Level of Association	Remarks
Gender	2.4135	1.2511	1.565	16.048	moderate	Accept Ho
Service quality	2	1.03342	1.068	13.824	Weekly	Accept Ho
Education level	2.9135	1.26269	1.594	26.694	Strongly	Reject Ho
Awareness	1.9038	0.00034	0.00	9.183	Weekly	Accept Ho
Market strategies	3.1442	1.13564	1.29	27.053	Strongly	Reject Ho
Age	2.1827	0.96305	0.927	17.779	Moderate	Accept Ho
Service charges	2.3462	1.09517	1.199	22.106	Strongly	Accept Ho
Interest rate	2.1346	1.14957	1.322	13.443	Weekly	Accept Ho
customer interest	2.1731	1.03757	1.077	8.337	Weekly	Accept Ho
Difficulty	2.4423	1.21341	1.472	13.649	Weekly	Accept Ho
Economy factor	2.5288	1.14872	1.32	17.915	Moderate	Accept Ho
Customer perception	2.2596	0.95526	0.913	15.361	Weekly	Accept Ho
Profit and loss	2.4712	1.07898	1.164	16.803	Weekly	Accept Ho
Car loans	2.6442	1.21414	1.174	17.023	Moderate	Accept Ho

Gender

Since the calculated values of $\chi^2=16.048$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that gender has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of gender effect is 2.4135. This indicates that the average response of corporate customers is agreed with the gender effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.077 indicate that customers are lying between strongly agree and indifferent.

Service Quality

Since the calculated values of $\chi^2=13.824$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that service quality has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of service quality is 2.00. Which indicates that the average response of corporate customers is agreed with the service quality effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.068 indicate that customers are lying between strongly agree and indifferent.

Education Level

Since the calculated values of $\chi^2=26.694$ is greater than the table value of $\chi^2=26.296$.so it falls in critical region, hence we conclude that education level has effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of education level is 2.9135. This indicates that the average response of corporate customers is agreed with the education level effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.26269 indicate that customers are lying between strongly agree and disagree.

Awareness

Since the calculated values of $\chi^2=9.183$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that awareness has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of awareness is 1.9038. This indicates that the average response of corporate customers is agreed with the awareness effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 0.00034 indicate that customers are strongly agreed.

Market Strategies

Since the calculated values of $\chi^2=27.053$ is greater than the table value of $\chi^2=26.296$.so it falls in critical region, hence we conclude that market strategies has effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of market strategies is 3.1442. This indicates that the average response of corporate customers is indifferent with the service quality effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.13564 indicate that customers are lying between strongly agree and disagree.

Age

Since the calculated values of $\chi^2=17.779$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that service quality has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of age factor is 2.1827. This indicates that the average response of corporate customers is agreed with the age factor effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 0.96305 indicate that customers are lying between strongly agree and indifferent.

Service Charges

Since the calculated values of $\chi^2=22.106$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that service charges has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of service charges is 2.3462. This indicates that the average response of corporate customers is agreed with the service charges effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.09517 indicate that customers are lying between strongly agree and indifferent.

Interest Rate

Since the calculated values of $\chi^2=13.443$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that interest rate has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of interest rate is 2.1346. This indicates that the average response of corporate customers is agreed with the interest rate effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.322 indicate that customers are lying between strongly agree and indifferent.

Customer Interest

Since the calculated values of $\chi^2=8.337$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that customer interest has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of customer interest is 2.1346. This indicates that the average response of corporate customers is agreed with the customer interest effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.077 indicate that customers are lying between strongly agree and indifferent.

Difficulty in Loans Payments

Since the calculated values of $\chi^2=13.649$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that difficulty in loans payments has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of difficulty in loan payments is 2.4423. This indicates that the average response of corporate customers is agreed with the difficulty in loan payments effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.472 indicate that customers are lying between strongly agree and disagree.

Economy Factor

Since the calculated values of $\chi^2=17.915$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that economy factor has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of economy factor is 2.5288. This indicates that the average response of corporate customers is agreed with the economy factor effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.32 indicate that customers are lying between strongly agree and disagree.

Profit and Loss

Since the calculated values of $\chi^2=16.803$ is less than the table value of $\chi^2=26.296$.so it falls in acceptance region, hence we conclude that profit and loss has no effect on customer perception regarding car loans in Islamic and conventional banking.

The mean value of profit and loss factor is 2.4712. This indicates that the average response of corporate customers is agreed with the profit and loss factor effect on customer perceptions regarding car loans in Islamic or conventional banking. But with the deviation value 1.164 indicate that customers are lying between strongly agree and indifferent.

Conclusion

From this study it could be easily conclude that if the Islamic banking wants to survive in the Current financial market, they must have to adopt some new polices and have to improve some weak areas which must be considered. From this study it has found that there are some factors which effect the perception of the corporate customer very much. The first thing is the level of knowledge towards Islamic banking. If the Islamic banking does not have made some strong policies for the improvement of the knowledge level of the corporate customers toward Islamic banking, then it would be difficult for them to strike the conventional banking system.

Another thing is the marketing strategy of the Islamic banking. Islamic banking system must have to improve their marketing strategy they could enhance the corporate customers.

Cost and services both are the important factors in the perception of corporate customers. It means that if the Islamic banking produce different products but with good services and having low cost then they could easily attract their both individual and corporate customers.

Recommendation

From the study it could be recommended that if that Islamic banking system improves their Strategy towards marketing, cost efficiency of the products and services provision, and to improve the knowledge level of Islamic banking to their customers by arranging different Workshops, seminars. Then they will be able to get more market shares and will get more corporate customers in the market.

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