

# Acceptance of Islamic banking as innovation: a case of Pakistan

## 1. Introduction

Over the past decades, the Islamic banking sector is flourishing and showed consistent improvement. It is due to the active participation of local and foreign stakeholders which has generated a competition among the financial institutions to attract more customers. Iqbal and Molyneux (2005) investigation have also highlighted the importance of Islamic banking adoption among the Muslim and non-Muslim customers. The operations and services offered by Islamic and conventional banks are almost the same. But, the Islamic bank distinguished itself to provide interest free transactions and follows the Islamic principles guided by Sharia rules (Iqbal and Mirakhor, 2007). The Islamic laws are mainly concerned with interest (riba), uncertainty (gharar) and the other factors that make financial transaction against the Sharia laws. In contrast with the conventional banks, the products and services are interest based which is not permissible in the concept of Islamic business (Haron and Shanmugam, 2001). Not only this, it is also restricted by the Quran (the holy book of Muslims). The argument is that, the society suffers with injustice of wealth under the interest based economy. On the same token, Fazlanand Mohammad (2007) study highlighted the emergence of Islamic banking for the country's economy. Their study further argued that Islamic banks can play a pivotal role as an interest-free institution under the shadow of Islamic laws.

The global perspective of Islamic banking has achieved great attention of Muslim customers (Ali et.al. 2015). It is due to the good performance of Islamic banks when conventional banks were declined during the financial crisis (Hamid and Masood, 2011). In the countries like Asia and Middle East, a wide range of Islamic banking products is available for customers with Sharia compliance (Newell and Osmadi. 2009). These products include Ijarah, Murabaha, Musharakah, Istisna and Salam. In addition, these products are available in general banking, investment banking, consumer finance, trade finance corporate/SME banking. One study of Amin et.al. (2014) further argued that the Islamic banking products attaining a competitive advantage and high profits. However, the more concentration of Islamic banking is observed in the economies like Malaysia, UAE, Kuwait, Bahrain and Iran (The city UK, 2012).