



Analysing the Demand for Islamic Financial Products: the Role of Religiosity and Financial Literacy (A case study of District Peshawar, Khyber Pakhtunkhwa)

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ABSTRACT

Theory of demand is one of the core areas in Micro Economics. Various price and non-price factors exists to determine consumer demand for a particular good or service, but the modern economists, mainly behavioral economists gradually suggests that psychological factors may also affect the individual decisions regarding demand for a good and service. Therefore, the present study seeks to analyze personal religiosity together with financial literacy as a determinant of consumer demand for Islamic financial products. Fieldwork was carried out for the study in three Public sector Universities of District Peshawar, Khyber Pakhtunkhwa. The data was collected from a sample of 679 Muslim male and female through structured questionnaire. The econometric technique used to test the data includes Ordered Logistic regression. The key findings of the study suggests that religiosity and financial literacy has a significant impact on consumer demand through directly influencing their buying attitude and purchase intention towards Islamic financial goods and services, concluding them as an important determinant of demand for Islamic financial products within an Islamic society.

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1. Introduction

One of the non-price factors affecting individual and market demand of a product is the taste and preferences of the consumer. These preferences are influenced due to various economic, social, psychological and cultural factors. Religion is an important element of culture having great influence on the individual's life. Though Cultural dimensions are very vibrant and dynamic, but religion forms a static pillar in the society, considered as an important construct in understanding consumer behavior. Therefore, it is essential to study the

impact of religion on consumer choices. Personal religiosity influences the preferences of the consumer when buying different products that ultimately affects his buying decision (Y. Choi et al., 2013; Muhamad & Mizerski, 2013; Swimberghe et al., 2011; Y. Choi, 2010). Religiosity is one of the key concepts in shaping consumer behavior and influencing his preferences. It has not only impact on people's attitudes and values but has also influence on their behavior (Kim, 2004; Chamberlain and Zika, 1992; McDaniel and Burnett, 1990; Taylor, 1979). Theory of consumer behavior provides a base for understanding the demand for a product. The conventional consumer under micro economic theory is always rational, would choose to consume a good or service that maximizes his utility. The person with a higher religiosity derives a higher satisfaction or utility from the consumption of the goods and services that comply with his religion. Therefore religiosity plays an important role in determining consumer demand by influencing their behavior towards consumption of a certain product.

Numerous studies are available on the relationship between religiosity and consumer buying behavior, with the common conclusion that the relationship is true. Though different aspects of the consumer buying behavior are being studied with the influence of religiosity by many researchers, yet it is felt that such a complex behavior cannot be properly understand with merely the study of the consumption of perishable or durable goods. In fact, religiosity is the internal belief and a feeling that reflects in the acts of the consumer, therefore, such an impact on consumer behavior can best be captured by the consumer personal financial decisions. Muslims consumers with high religiosity refer to their religion while making consumption decisions, expected to buy products that are comply with shariah (Hanzaee & Ramezani, 2011; Shah Alam et al, 2011). Muslim consumers value the products not contradictory to their religious faith; they have a positive influence of Halal brand logo on their purchase intention (Ali et al, 2018; Aziz & Chok, 2013). The Muslim consumers of Sweden highly prefer and consume halal products which show the impact of religiosity on their consumption choices (Campanella, 2016). The highly religious people are more inclined towards the purchase of non-alcoholic soft drinks as compared to the less religious people in Burkina Faso (Nasse et.al. 2019). Consumers having strong religious belief have a positive approach towards religious products (Agarwala, 2019). Religiosity has a considerable impact on consumption decisions of the consumer (Andria et al, 2012; Alam et al, 2011; Taks & Shreim, 2009). It is an important factor that forms people's insight about life, including issues related to safety and security of life. Religious people believe that a dependence on life insurance is just similar to challenge God's will. Conventional Insurance is not in accordance with the Islamic faith because of the essentials of riba (interest) and uncertainty (gharar) (Rahaman, 1979). The impact of Islamic belief on the demand for life insurance policies in Nigeria was examined, resulted as Islamic belief have a strong impact on demand for life insurance policies. It was found that more religious Muslims have less demand for conventional insurance policies as compared to less religious Muslims (Samson and Bamidele, 2013).

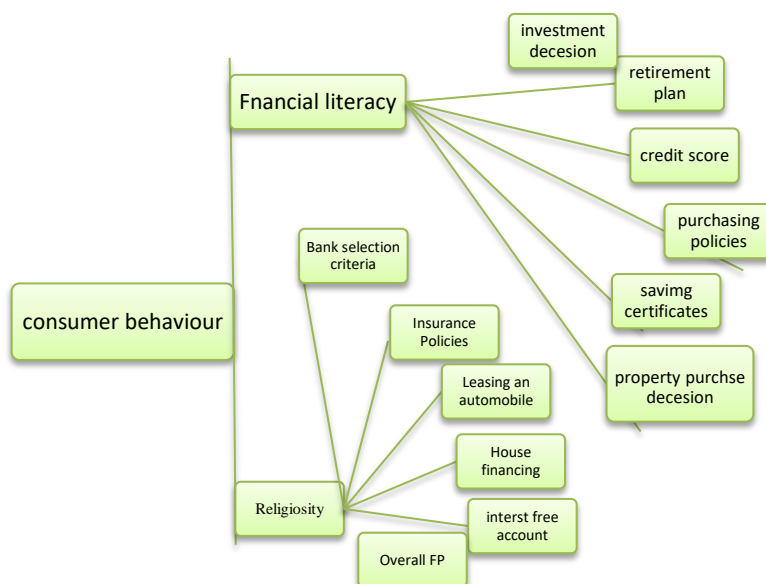
Further work was done by different researchers to examine the importance of Islamic issues in bank selection criteria. It was found that 70 percent of the Muslims in Jordan give value to religious attributes when they choose an Islamic bank. More than 60 percent of the people interviewed in a financial survey prefer Islamic products over conventional products, regardless of the price (Naser, Jamal, and al-Khatib, 1999). Similarly, in Turkey, the majority the customers interviewed of the Islamic banks gave a response that religion was the prime motive for them to use Islamic products and services (Okumkus, 2005; Metwally, 1996). The construct of religiosity have a considerable impact on the bank selection criteria of the customers. Religiosity has appeared to have a significant impact for Islamic banking services in Pakistan on the Purchase Intention of the customers (Bakar et.al. 2019). Similarly, Religious motivation was found to be one of the factors affecting costumer's decision making regarding Islamic bank services in Malaysia. (Zainuddin et al, 2004). The influence of religiosity on buying behavior of Muslims in Bangladesh in selecting Islamic financial products was found to plays a significant role in the purchase intension to select Islamic financial products (Farhana, 2014). The buying behaviors of Muslim consumers towards financial goods are greatly affected by religiosity (Ashraf, 2016).

Religiosity is said to have a great influence on the demand for Islamic financial instrument as religious people are more attracted towards it but, an important construct is derived from the literature that is also having an influence on financial decision making. That is, financial literacy. It is the ability of an individual to understand financial instruments and terms to plan his finance in an effective way. It is the individual's knowledge and skill that allows him to make well informed and effective financial decisions (Thilakam, 2012).

Financial literacy is one of the most researched areas more than the last few decades (Agnew et al. 2015; Bhushan et al, 2013). Numerous studies indicates that male execute financially better as compared to females (Arrondel et al, 2013; Kharchenko & Olga, 2011; Koenen and Lusardi, 2011; Al-Tamimi & Hussain, 2009; Lusardi and Mitchell, 2008). Financial literacy increases the management abilities regarding day to day financial matters and hence reduces the undesirable consequences of bad financial decisions (Delafrooz and Paim, 2011). It is showed that financially illiterate people may end up with low accumulation of wealth; further such people are also less likely to utilize the amount after retirement (Lusardi et.al, 2010). The low financial literacy ultimately increases the likelihood of poor decisions regarding financial matters, while the improved financial literacy carries about higher involvement in financial planning (Shafii et. al, 2009). Financial literacy helps in taking sound financial decisions by the consumer. It is the ability to plan individuals finance in an effective way. OECD conducted a relevant study in 14 countries around the world, concluding that financial illiteracy is widespread in countries, irrespective of their development or under development (Atkinson and Messy (2012).

Fig. 1 below shows the summary of the different dynamics on the literature conducted on the link with religiosity and financial literacy with consumption behavior of an individual towards the financial products.

Literature Review: Fig 1.



2. Problem statement and Research question:

The Islamic religion has a strong impact on the purchase decisions of Muslim consumers (Alam et. al, 2011). The notion of religiosity can best clarify the differences in behavior among various consumer groups. It is an important factor influencing consumer buying behavior (Delener, 1990). Religiosity is the commitment of a person to his or her religion which may be reflected in his attitudes and behaviors (Johnson, et. al, 2001). Literature shows that people having financial understanding and knowledge are expected to take sound financial decision. Lacking the knowledge regarding Islamic financial products may lead to affect the consumption decision of the individual. Therefore, a higher degree of religiosity requires a greater financial knowledge of the attributes of the product as well so as to exhibits their true impact on the demand regarding Islamic financial instruments.

This may put the research question that:

- What is the impact of personal religiosity on consumers demand for Islamic financial Products in an Islamic society? (Captured through the purchase of Islamic Insurance policy, shares, leasing automobile and opening a bank account).
- Does Financially Literacy have an impact on Consumer demand for Islamic Financial Products?

3. Objectives:

The main objectives of the study are:

- To find out whether personal religiosity influence behavior of the consumers (buying attitude and purchase intention as proxy) towards demand for Islamic financial Products in a positive manner.
- To investigate whether financial literacy of the consumers has influence on their buying attitude and purchase intention towards Islamic financial products.

4. Hypothesis

The null hypotheses to be tested are presented as below:

- H01:** the higher degree of religiosity has no impact on the purchase intention of Muslim consumers towards Islamic financial products.
- H02:** the higher degree of religiosity has no impact on the buying attitude of Muslim consumers towards Islamic financial products.
- H03:** the higher financial literacy has no impact on the purchase intention of Muslim consumers towards Islamic financial products.
- H04:** the higher financial literacy has no impact the buying attitude of Muslim consumers towards Islamic financial products.

5. Research Method:

Data was collected through purposive random sampling from 679 faculty members of the three major government sector Universities of District Peshawar namely, University of Peshawar, University of Agriculture, Peshawar and Islamia College University Peshawar. The primary data was collected through structured questionnaires that contain number of items to test consumer behavior, financial literacy, personal religiosity and other demographics.

6. Composition of the Questionnaire:

A five section questionnaire was developed comprising questions regarding religiosity, buying attitude, purchase intention, financial literacy and demographic. The first section brings out information that how different dimensions of religious belief, religious practice and knowledge about religion, religious experience and consequence make a contribution to the Muslims religiosity. The next section shows attitudes and interest of the people towards buying the Islamic financial products. The third section depicts information on consumer intentions behind purchasing the Islamic financial products. The next section of the questionnaire provided information on consumer financial literacy level, which may contribute to the choice of financial products and the last part shows age, marital status, qualification and monthly income of the respondents. The participants were requested to rate majority of the questions on an ordered 7-point Likert scale to measure the strength of their response. It is to note that 1 show strongly disagreement where 7 indicate a strong agreement. A Likert scale with 7 ranking is more reliable as it allows more differentiation of responses as compared with a 5-point Likert scale (Lietz, 2010; Munshi, 1990). The structure of the questionnaire is shown in Table: 1 below.

Table: 1. Composition of the questionnaire

Section of the Questionnaire	Variables	No. of Questions	Rating Scale
A	Religiosity	9	Categorical
B	Buying Attitude	6	7-point Likert scale
C	Purchase Intention	4	7-point Likert scale
D	Financial Literacy	11	7-point Likert scale
E	Demographics	5	Categorical

7. Econometric Model:

The dependent variable of the study is the consumption behavior of the individual towards demand for Islamic financial instruments, proxies by buying attitude and purchase intention while the independent variable is religiosity and financial literacy including a set of control variables. The ordered logistic regression is applied

to show the consumer preference for the Islamic financial products. The dependent variable is ranked at 7 point Likert scale ordered from strongly disagree to strongly agree.

$$Y = \beta_0 + \beta_1 rel + \beta_2 finlit + \beta_3 age + \beta_4 gen + \beta_5 marst + \beta_6 qual + \beta_7 inc + u_i$$

where,

Y= Consumer Demand for Islamic financial instruments

rel = Religiosity

finlit=Financial Literacy

age= Age

gen = Gender

marst= Marital Status

qual= Qualification

inc= Income

u_i = Error term

8. Measurement of variables:

8.1 Religiosity

Religiosity is a multidimensional concept therefore; the use of a multi-item model of religiosity provides a good understanding of its nature and provides a high validity (Wilkes et al. 1986). Religiosity is divided into five dimensions that are belief, practice, knowledge, experience and consequence (Ilyas, 1992). These dimensions of religiosity are measured through Glock and Stark model (1968) with some modifications according to the need of the study. The dimension of practice comprises questions relating to actions set by religion. The first dimension is prayer (Nimaz). The next is reciting Quran (Tilawat), performing nawaafil and giving obligatory financial payments, i.e Zakat. The religious dimension of knowledge contains questions regarding basic knowledge of an individual about religion. The experience of religion depicts the practice of the religion that is the good and bad feelings while doing something according or against faith, being afraid of Allah, the faith of punishment and reward by Allah for doing something against or according to the will of Him. The fifth dimension of religiosity that is consequence refers to the significance of religion in one's life and how religion influence an individual decisions about different aspects of life including economic and financial decisions.

8.2 Buying Attitude

Consumer buying attitude is the favorable and unfavorable feeling of a person towards a good. The dependent variables of the study to signify consumer demand for Islamic financial products are saving certificates, insurance policy, saving accounts and leasing of automobiles. Each of these instruments is a proxy for financial decision making of individuals. In order to measure the influence of religiosity on consumer demand for Islamic financial products, two aspects of consumer behavior are used, the buying attitude and the purchase intention (Farhana, 2014). It is measured through consumer's assessment, feelings and inclination towards Islamic financial products.

8.3 Purchase intention

Purchase intention demonstrates the individual decision to execute an action. It indicates the choice of an individual while carrying out a specific course of action. It is the willingness to buy a product. Purchase intention of consumer regarding Islamic Financial Products is measured through an individual's plan to perform some action in definite period of time.

8.4 Financial Literacy

Financial literacy is measured through items modified accordingly (Taqadus, 2013) about basic financial knowledge and terms along with each person's use of standard financial services. Basic literacy items were designed to measure basic financial knowledge of an individual. The financial literacy is calculated by asking questions related to basic financial knowledge, financial behavior and attitude of the individual. They were asked to provide information on their understanding regarding financial knowledge. Difficult And complicated terms

and questions were avoided to ask as the purpose of the measurement of financial literacy was to assess the basic knowledge about the use of financial product rather than checking scores for accounting and numerical concepts.

8.5 Demographic Variables

The degree of Religiosity, consumer buying behavior and the significance of selection criteria vary among consumers of diverse demographic. The consumers with different age, marital status, gender, qualification and income level may exhibit difference in their selection criteria towards different goods. Hence, in the present study, to examine the moderate influence of religiosity on consumer buying behavior, these demographic factors are taken into consideration. The consumer demographic profiles included in the questionnaire consist of consumer’s age, his gender, marital status, qualifications and monthly income.

9. Results and discussion:

With Ordered logistic regression, the econometric model is estimated. The dependent variable of the study is consumer demand for Islamic financial product captured through the consumer buying attitude and purchase intention. Consequently, we have two Ologit regression models. Starting with the purchase intention as dependent variable, the coefficients and their associated probabilities may be seen at Table 2. The coefficient of religiosity is estimated as 1.66. it may be said that for a one unit increase in religiosity (i.e., going from lower to high), there is 1.6% increase in the log odds of higher purchase intention towards IFP with all other variables in the model held constant. Similarly, for a one unit increase in financial literacy (i.e., from lower to high), we would expect a 0.86% increase in the log odds of higher purchase intention towards IFP, assuming all other variables of the model as constant. A positive sign of coefficient indicates an increase in the predictor enhance the predicted probability. It may be seen that, religiosity and financial literacy are statistically significant in the model. This shows their strong influence on consumer purchase intention towards Islamic financial products.

Table: 2. Ordered logistic regression:

Purchase int.	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
religi~y	1.663796	.442265	3.76	0.000	.7969716	2.53062
financ~y	.3524048	.896238	3.93	0.000	.767452	5.28064
age	.6897486	.1587115	4.35	0.000	.3786797	1.00081
gender*	-.2184323	.2676157	-0.82	0.414	-.7429495	.306084
marita~s*	.6290914	.4798	1.31	0.190	-.3112994	1.56948
qualif~n	1.3415	.330928	4.05	0.000	.6928918	1.990108
Income	1.04646	.2723919	3.84	0.000	.3786797	1.00818

Table: 3. Ordered logistic regression

Buying at..	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
religi~y	.9516368	.194900	4.88	0.000	.569638	1.33363
financ~y	.8644631	.281637	3.07	0.002	.3124631	1.416463
age	.419299	.145139	2.89	0.004	.1348315	.703766
gender*	-.2936285	.357184	1.81	0.457	-1.0682	.480943
marita~s*	.6478909	.837265	2.17	0.070	-.052178	1.34796
qualif~n	1.815722	.145749	4.88	0.030	3.45673	.1747115
Income	.7111498	.395196	-0.74	0.000	.4254854	.9986142

Regressing for buying attitude, Table 3 summarizes the results of Ologit. In a very similar way, we may interpret the value of coefficients as, a one unit increase in religiosity; a 0.95% increase in the log odds of more favorable buying attitude towards IFP with other variables as constant. In a same manner, when the individual

moves from lower to higher financial literacy, the likelihood of choosing Islamic financial goods and services increased by 0.86%. It is important to mention that the sign of coefficient from estimation of the ordered logistic regression cannot exactly determine the path of the relationship between the predictor variable and the likelihood of choosing an alternative; the predicted probabilities (marginal effect) needs to be computed for true understanding. Table 4 shows that the probability of a religious consumer of being higher purchase intention towards Islamic financial product is 0.36. For buying attitude, it is likely to say that the probability of a religious consumer of being more favorable buying attitude towards Islamic financial product is 0.017. The probability of a higher financially literate consumer towards purchasing IFP is 0.48 while the likelihood of his being more favorable attitude towards buying IFP is 0.034.

Table: 4. Marginal effects:

Purchase int. P> z	dy/dx	Std. Err.	z	P> z	Buying at.. P> z	dy/dx	Std. Err.	z	
religi~y	.3612563	.09182	3.93	0.00	religi~y	.017195	.0083	2.11	0.035
financ~y	.4875986	.12035	4.05	0.000	financ~y	.091259	.0346	2.63	0.009
age	.0090796	.00496	-1.83	0.067	age	.006288	.00365	1.72	0.085
gender*	.0028754	.00379	0.76	0.448	gender*	.005917	.0091	0.65	0.515
marita~s*	-.0093898	.00938	-1.00	0.317	marita~s*	-0.9378	.01036	-1.33	0.183
qualif~n	.6478909	.01812	1.67	0.095	qualif~n	.282027	.16013	1.76	0.078
Income	.0140363	.00788	1.75	0.081	Income	.013838	.00593	2.33	0.020

Table: 5. Summary of the results

Predictor Variable	Response variable	
	Purchase intention	Buying attitude
Religiosity	***	**
Financial Literacy	***	***
Age	*	*
Gender	-----	-----
Marital Status	-----	-----
Qualification	*	*
Income	*	**

*** indicates significance at $p \leq 1\%$; ** indicates significance at $p \leq 5\%$; * indicates significance at $p \leq 10\%$. The dashed line indicates insignificance.

The results suggest that consumers with difference in religiosity exhibit substantial differences in their intention towards purchase of Islamic financial products. Consumers with higher degree of religiosity have tended to have more interest in financial products compliant with shariah (Omer, 1992). The existent research related to religiosity with that of purchase intention offered diverse results about the influence of religiosity on consumer purchase intention towards Islamic financial goods. Most of the studies have found religiosity as the central cause for Muslims consumers to purchase Islamic financial goods. The findings of the present study support the previous researches and declared that religiosity plays a vital part in the determination of consumer purchase intention of Islamic financial products. The study reveals that religiosity affects Muslim consumers buying attitude and purchase intention. It is recommended that Muslims consumers with higher level of religiosity tend to purchase Islamic Financial goods, as it is comply with their financial desires and do not challenge their religious values (Yun, et al., 2008). It is found that consumers with higher level of religiosity give greater importance to Islamic financial products then consumers with low level of religiosity. This contemporary finding of the present study can be supported by previous similar studies where it was found that religiosity is an important construct in influencing consumers buying attitudes towards Islamic financial products (Farhana,

2014). This finding indicates that consumers with higher religiosity place momentous importance on product characteristics and are more conscious about its qualities while purchasing financial goods or services. This study clearly reveals that religiosity is an important determinant that enhances the likelihood of consumer buying attitude to be more favorable towards Islamic Financial Products in Muslim consumers. The findings of the study clearly indicate that financial literacy has considerable effects on consumer buying attitude and purchase intention. This is the direct effect of the financial literacy on dependent variable; however, we may examine its indirect effect on religiosity as well. Previous literature is available on the similar relationship, e.g. Smith, (2007) studied the relationship of religiosity and financial decision making, showing that more religious people tend to have more conscious about making financial decisions that is quite line up with findings of this study, as it is found that consumers with higher financial literacy tend to have more influence of religiosity on their buying behaviour, but the same finding is not supported by Murphy, (2013). Another study by Renneboog & Spaenjers, (2009) studied the relationship of religion and consumer financial decision making, it is found that, people having religious believes are more tend to save and invest less in risky assets, this finding also supports the results of this study and proves that religiosity have an impact on financial decisions. Similar results are given by Hilary et al, (2008) who found that positive relationship exists between ones religiosity and risk taking or aversion. Shu et al, (2010) also examined that religious people are more risk averse and religious beliefs influence the investment decisions and risk taking behaviour. Hess, (2010) studied the impact of religiosity on consumers financial decisions and found that more religious people have considerably higher credit scores indicating religion have strong impact on their financial decisions.

10. Conclusion

Religiosity has becoming a key factor in determining consumer behavior, it as an important determinant of consumer demand towards Islamic financial products. This study used the construct of religiosity in explaining consumer buying behavior towards Islamic financial products and has provided empirical evidence of the overall influence of religiosity in an Islamic background. The study arrived with the conclusions that religiosity is a strong predictor of consumer behavior that may have significant impact on the consumer demand for Islamic Financial Products through influencing their attitude towards buying and intention towards purchasing them. This study also concludes that financial literacy has affirmative effect on consumer buying behavior with a partial effect of qualification and income. The effect of other demographic variables like gender and marital status on buying behavior is nil. The study provides evidence that religiosity plays a crucial role in influencing buying behavior of Muslim consumers regarding Islamic financial products and provide vital suggestions for policy making.

11. Significance and Contribution:

The empirical testing of the construct of religiosity in determining consumer demand is a major contribution of this study. The construct of religiosity has not been examined for its influence on consumer behavior to assess their demand for financial instruments in Pakistan. The research is unique in investigating empirically the influence of religiosity on consumer demand for financial instruments in the context of Pakistani Muslim culture, which has not been tested so far. The results of the study reveals that religiosity may considerably influence the consumer behavior by influencing his buying attitude and purchase intention, signifying that religiosity is a key determinant in influencing consumer behavior. Thus, to convert or divert the consumer behavior in favor of their products, the marketers and policymakers may benefit from the construct of religiosity. Utility is an important concept in consumer behavior literature, defined as the degree of satisfaction derived from the consumption of a product or service. If we relate the concept of utility with religiosity, it interestingly gives a new dimension. The consumer, who is getting higher utility from Islamic financial goods and services, or from other conventional goods like food items, clothing, cosmetics, medicine etc depending on his religiosity, might not consider price as an important determinant to influence his demand. Thus, the firms may have benefit from this less elastic demand based on different degrees of consumer's religiosity. The consumer financial understanding plays a crucial role in affecting the demand for financial products; therefore, the promotion of new financial products must be executed with providing the consumer with an awareness and understanding of the attributes of the product so as to achieve the desired result.

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APPENDIX “A”

Theoretical Framework: Fig 2.

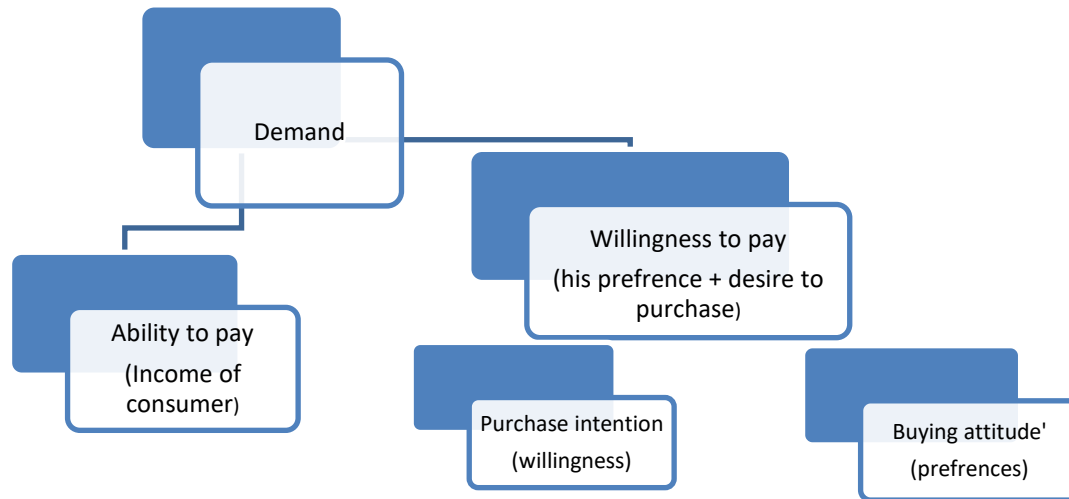


Table 6: Descriptive Statistics of the Overall Sample Size:

Categories	No. of Sample	%age of Total Sample
Age		
24-30	75	11%
31-37	170	25%
38-44	190	28%
45-51	122	18%
52- above	122	18%
Gender		
Male	509	75%
Female	170	25%
Marital Status		
Unmarried	217	32%
Married	462	68%
Qualification		
Master’s Degree	115	17%
M.Phil. Degree	285	42%
P.H.D Degree	204	30%
Post P.H.D Degree	75	11%
Monthly Income		
Less than Rs.60000	0	0%
Rs.60001-70000	190	28%
Rs.70001-80000	136	20%
Rs.80001-90000	156	23%
Rs.90000 and above	197	29%