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Examining the Role of FinTech Services on Customers Retention of Islamic Banks in Pakistan: An Empirical Assessment

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ABSTRACT

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The objective of this research is to examine the influence of several variables, such as fintech payments, advisory services, and fin-tech financing, on the retention of customers in Islamic banks. The researcher used quantitative research design and positivistam philosophy to conduct this research. The target population comprises Islamic banking customers, with the sample drawn from 300 individuals holding accounts in the Punjab province of Pakistan. Data collection was facilitated through an adopted questionnaire administered to respondents. The findings reveal a significant impact of FinTech Payments, Advisory Services, and FinTech Financing on customer retention within the Islamic banking industry, showcasing the importance of these elements in shaping customer loyalty. This study stands out for its comprehensive examination of various facets related to FinTech and their direct and indirect effects on customer retention within the unique context of Islamic banking. However, it's crucial to acknowledge a limitation regarding the generalizability of the results beyond the studied population. Despite this constraint, the research offers valuable insights for Islamic financial institutions aiming to bolster customer retention through strategic utilization of FinTech-related elements and the cultivation of trust among their clientele. By embracing these findings, Islamic banks can enhance their customer relationship management strategies and maintain a competitive edge in the evolving financial landscape.

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1.0 Introduction

The financial technology sector is now experiencing a fast and extensive transformation, a phenomenon that is also seen in the Islamic banking industry, whereby significant transformations are taking place. In several nations, such as Pakistan, Islamic financial institutions have used the incorporation of financial technology (FinTech) solutions to augment their operating procedures and improve customer service (Alfarizi, 2023). The primary distinguishing feature of the Islamic banking system is in its complete adherence to Islamic principles, namely the prohibition of transactions based on interest. FinTech services provide a promising solution for Islamic financial institutions to address complex challenges such as regulatory compliance, risk mitigation, and customer satisfaction (Lutfi & Prihatiningrum, 2023).

"Financial technology" (FinTech) refers to the use of technical tools in a similar context to ease monetary transactions. The services provided by financial institutions include a wide variety of activities, as stated by Fauzi and Suryani (2019). These activities include online payment systems, digital wallets, crowdfunding platforms, mobile banking, and robo-advisory services. The rising need for better, more cost-effective financial services, together with the rising demand for digital and mobile financial services, may explain the expansion of FinTech businesses. The advent of financial technology (fintech) has significantly enhanced the accessibility, personalization, and cost-effectiveness of financial goods and services for consumers (Al-Khawaja et al., 2023). According to the findings of Sajid et al. (2023), the promotion of financial inclusion is contingent upon the expansion of people' access to financial services, including those who were previously excluded from conventional financial services.

The rise of FinTech services may be attributed to technological improvements like as the widespread use of smartphones, the growing acceptance of big data analytics and artificial intelligence, and the progress made in blockchain technology. FinTech services have brought to heightened competition, innovation, and the emergence of novel business models in the financial industry (Albaity & Rahman, 2021). FinTech services have prompted inquiries over cybersecurity, data privacy, and adherence to regulatory obligations. Consequently, governmental entities have been compelled to implement new rules and standards in order to address the potential hazards associated with these services (Aslam, 2022).

It is vital and important to pay attention to the impact of FinTech services on customer loyalty in Pakistan, particularly in relation to Islamic banks. However, shah et al. (2023) note that there are gaps in research and possible directions for further studies in this area. The effect of financial technology (FinTech) services on customer retention in Islamic banks in Pakistan is not well studied in the present corpus of research (Firmansyah et al., 2023). The effect of Financial Technology (FinTech) on the customer retention rates of traditional banks and e-commerce platforms has been the subject of much academic study. Nevertheless, academic studies that focus on the unique features and challenges faced by Pakistan's Islamic banking sector are few (Hasan et al., 2020). The findings have important implications for consumers, banks, and the society at large. This study's overarching goal is to collect data on how Islamic financial institutions' use of FinTech services affects customer happiness and loyalty.

2.0 Literature Review

The term "FinTech services" in the context of Islamic banking pertains to the use of technology innovations and innovative approaches to enhance the caliber of financial services in accordance with Islamic principles and Shariah law (Jayaprakash, 2023). Islamic banking is based on the fundamental values of fairness, transparency, and the avoidance of interest. It also prohibits dangerous activities such as gambling and uncertainty. Customers may access a diverse array of financial services, including account administration, payments and transfers, investment products, financing alternatives, and wealth management, all of which adhere to Shariah regulations (Alfarizi, 2023).

Han et al. (2021) conducted research which revealed that customer loyalty is significantly influenced by service quality and trust. The findings of Malik and Annuar's (2021) study indicate that customer loyalty in mobile banking is positively influenced by factors such as perceived utility, perceived ease of use, trust, and customer happiness. There has been a significant body of study focused on investigating the impact of ease and accessibility on customer loyalty. According to the research conducted by Hwang and Kim (2018), online banks exhibited superior customer retention compared to traditional banks, mostly due to their superior service quality and ease. In addition, Khan et al. (2022) demonstrated that the perceptions of enjoyment and user-friendliness had a crucial role in determining customer loyalty within the crowdfunding industry.

FinTech payments encompass cutting-edge and technology-fueled approaches that streamline the movement of monetary assets and improve the effectiveness of financial transactions through digital procedures and tools. The financial technology sector has made significant advancements that have revolutionized payment systems, providing accelerated, secure, and convenient alternatives to conventional payment methods (Anifa et al., 2022). Recent research has shown that the adoption of FinTech payment solutions is influenced by several factors, such as user-friendliness, convenience, and perceived security. The study done by Luu et al. (2021) highlights the importance of social influence and habituation in maintaining customers' acceptance of FinTech payment options. Although there has been a growing body of study on FinTech payments, there is a dearth of knowledge on the long-lasting effects of these services on customer retention. Additional research might be undertaken to explore the effects of fintech payment methods on customer loyalty and retention over a prolonged duration (Roh et al., 2022).

During recent years, there has been a significant increase in the demand for financial technology advising services, namely robo-advisors. These services provide clients the chance to get tailored support about their financial investments at an affordable price. In recent research done by Murad and Ahmad (2023), the authors highlight the importance of trust, perceived value, and simplicity of use as key factors influencing customers' acceptance and continued use of robo-advisory services. An illustration of this phenomena may be seen in the research conducted by Wei et al. (2021), where they presented empirical findings that demonstrate the significant impact of trust and perceived usefulness on customers' inclination to interact with robo-advisory services. Nevertheless, a deficiency in comprehending the significance of customer engagement and communication in the retention of consumers seeking FinTech advisory services has been identified (Nyagadza et al., 2023). Further investigation might be conducted to examine the potential of using tailored communication and engagement tactics to enhance customer loyalty within this particular context.

Recent research has shown that the adoption of FinTech payment solutions is influenced by several factors, such as user-friendliness, convenience, and perceived security. The study done by Luu et al. (2021) highlights the importance of social influence and habituation in maintaining customers' acceptance of FinTech payment options. Although there has been a growing body of study on FinTech payments, there is a dearth of knowledge on the long-lasting effects of these services on customer retention. Additional research might be undertaken to explore the effects of fintech payment methods on customer loyalty and retention over a prolonged duration.

3.0 Methodology

The researcher used the positivist philosophy in conducting the study, according to its core principles to guide the investigative process. Scholars have used many research designs, including quantitative, qualitative, and mixed method approaches, to investigate different methodologies. In a recent study, the researcher chooses to use a quantitative research approach in order to investigate the subject matter. The present research used a quantitative methodology, which included completing a comprehensive literature review and distributing surveys to the chosen unit of analysis. The present study examined the realm of the Islamic banking sector, focusing specifically on its customer base as the primary demography being studied. The researcher purposefully chooses to conduct a comprehensive examination of the customer base of all active Islamic banks in Pakistan, namely Meezan Bank, Faisal Bank, Bank Islami, Dubai-Islamic Bank, and Al-Barka Bank.

The researcher aimed to use convenience sampling methods in order to provide a practical and feasible methodology for data collection. For the purpose of this inquiry, a sample size of 300 customers from Islamic banks was estimated. The sample size for this particular study was chosen in a methodical manner, using the item-to-rate approach. The process of data collection was conducted with specifically designed questionnaires in order to enhance the effectiveness of obtaining primary data. The surveys were systematically categorized into two distinct portions, each serving a distinctive purpose in advancing the objectives of the research. The first component of the study was dedicated to the meticulous collection of demographic data from the research participants. This procedure was crucial in understanding the characteristics of the population being studied, enabling a detailed understanding of the individuals involved in the research and providing further context to the reader on the main research subjects. Throughout the duration of the research, the collected data underwent thorough analysis using the SPSS (25 version) software. The researcher used an extensive methodology that included many statistical techniques to get meaningful results from the dataset. The process of data interpretation included many statistical methodologies, including reliability assessment, descriptive statistics, correlation analysis, and multiple regression analysis.

4.0 Data Analysis

4.1 Reliability Analysis

The reliability statistics for the given data suggest a high degree of internal consistency among the measured items because of Cronbach's Alpha coefficient of .821. Looking at the item-total correlations, each item demonstrates a positive correlation with the whole scale, and the corrected item-total correlations range from .507 to .799. Nevertheless, removing any one item from the scale would lead to a little difference in the mean and variance of the scale, which would indicate that each item makes a unique contribution to the scale. Specifically, the item "Fin_Tech_Financing" exhibits the highest corrected item-total correlation (.799) known as the strongest association with the overall construct, whereas "Customers_Retention" has a relatively weaker but still significant relationship (.507).

Tabel 1: Reliability Statistics

Cronbach's Alpha	N of Items
.821	4

Tabel 2: Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
FP	11.0540	3.038	.621	.789
AD	11.1852	2.926	.684	.757
FF	11.1100	3.142	.799	.713
CR	11.0853	3.650	.507	.832

FP=Fintech_Payments, AD=Advisory_Services, FF=Fin_Tech_Financing, CR=Customers_Retention

4.2 Factor Analysis

The factor analysis results imply a satisfactory adequacy of the sample for analysis, which is represented by the KMO measure of sampling adequacy of .691. Besides that, Bartlett's Test of Sphericity returned a significant result with a chi-square value of 791.943 and 6 df, implying that correlations between variables are far enough from zero to continue with factor analysis. This implies that the data is a good candidate for factor analysis, which suggests that there might be hidden factors or dimensions in the dataset that can be extracted and explored.

Tabel 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.691
Bartlett's Test of Sphericity	Approx. Chi-Square	791.943
	df	6
	Sig.	.000

4.3 Correlation Analysis

The correlation analysis shows high correlations among the variables investigated. Extremely positive correlations exist between Fintech_Payments and Advisory_Services (r = .612), Fintech_Payments and Fin_Tech_Financing (r = .658), and Advisory_Services and Fin_Tech_Financing (r = .627). Moreover, a moderate positive correlation is revealed between Advisory_Services and Customers_Retention (r = 0.444) as well as Fin_Tech_Financing and Customers_Retention (r = 0.629). On the other hand, the correlation between Fintech_Payments and Customers_Retention is relatively low (r = .285). All correlations are statistically significant at the 0.01 level (2-tailed), indicating that these relationships are probably not due to chance. This result indicates co-dependency among the variables that might be part of some patterns or chains leading to further research.

Tabel 4: Correlations

		FP	AS	FF	CR
FP	Pearson Correlation	1	.612**	.658**	.285**
	Sig. (2-tailed)		.000	.000	.000
	N	450	450	450	450
AS	Pearson Correlation	.612**	1	.627**	.444**
	Sig. (2-tailed)	.000		.000	.000
	N	450	450	450	450
FF	Pearson Correlation	.658**	.627**	1	.629**
	Sig. (2-tailed)	.000	.000		.000
	N	450	450	450	450
CR	Pearson Correlation	.285**	.444**	.629**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	450	450	450	450

**. Correlation is significant at the 0.01 level (2-tailed).

4.4 Regression Analysis

The model summary indicates that the regression model, which has Fin_Tech_Financing, Advisory_Services, and Fintech_Payments as predictors, explains a considerable portion of the variance in Customers_Retention (R^2 = .441). This implies there is 44.1% of the variability in Customers_Retention can be explained by these predictors. The adjusted R Square (.437) also implies that the model is an appropriate fit. Standard error of the estimate (.49166) is the average difference between the observed and predicted values of Customers_Retention. The ANOVA findings are also in line with the model's effectiveness, showing a significant regression (F =

117.347, p < .001), which indicates that the predictors, collectively, are significant in the prediction of Customers_Retention.

The constant term is 1.396 (p < .001) which means that when all predictor variables are equal to zero, the expected Customers_Retention value is around 1.396. All the predictor variables are significant in explaining Customers_Retention, as shown by their standardized coefficients (Beta). Fin_Tech_Financing has the highest impact (Beta = .708, p < .001), followed by Fintech_Payments (Beta = .289, p < .001), and Advisory_Services (Beta = .177, p < .001). These coefficients are the amount of change in Customers_Retention for a one-unit increase in each predictor that is not affected by the other predictors in the model. The t-values of each predictor are all significant (p < .001), which means they are individually important for predicting Customers_Retention. Therefore, it can be concluded that Fin_Tech_Financing has the greatest impact, followed by Fintech_Payments and Advisory_Services, on retaining Customers.

Tabel 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.664[a]	.441	.437	.49166

a. Predictors: (Constant), Fin_Tech_Financing, Advisory_Services, Fintech_Payments

Tabel 6: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.099	3	28.366	117.347	.000[b]
	Residual	107.811	446	.242		
	Total	192.911	449			

a. Dependent Variable: Customers_Retention

b. Predictors: (Constant), Fin_Tech_Financing, Advisory_Services, Fintech_Payments

Tabel 7: Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.396	.142		9.853	.000
	FP	.242	.042	.289	5.784	.000
	AS	.149	.041	.177	3.660	.000
	FF	.729	.052	.708	13.953	.000

a. Dependent Variable: Customers_Retention

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4.0 Conclusion

Previous researches have highlighted the part of the innovative payment solutions which are provided by the fintech companies in the process of customer retention. The positive coefficient for Fintech_Payments finds that an increase in the adoption or satisfaction with fintech payment solutions positively correlates with Customers_Retention. This is consistent with the studies that show that the convenient payment and efficient method play important role in customer loyalty in the fintech sector (Choi & Mattila, 2020). In addition, the dominant power of Fin_Tech_Financing on Customers_Retention indicates the importance of financial products and services provided by fintech companies. Such follows the literature that highlights the growing role of alternative financing options facilitated by fintech companies, such as P2P lending and crowdfunding, in reshaping traditional banking and financial services (Demirgüç-Kunt et al., 2018). Customers who are attracted to such innovative financing schemes are more prone to remain faithful to fintech providers. Besides the good effect of Advisory_Services on Customers_Retention illustrates the role of personalized financial advice and guidance in building up long-term relationships with customers. It has been found out that fintech companies that provide customized advisory services and financial planning tools can boost customer trust and satisfaction which result in higher retention rates (Huang & Rust, 2018).

Overall, it becomes evident that a multi-pronged approach incorporating diverse fintech offerings including payment solutions, financing options and advisory services is really vital for customer loyalty and retention in the fintech industry. Being aware of the unique requirements and expectations of customers in respect to these services allows fintech companies to build more efficient retention strategies and stay competitive in the field of financial industry which is rapidly developing.

Implications, Limitations and Recommendations

The conclusions which were drawn from regression analysis results emphasize several important points for both researchers and practitioners in fintech industry. Firstly, the role of fintech payment solutions, financing options, and advisory services in Customers_Retention is indicative of the complex nature of customer relationships in the fintech industry. This implies that the firms should adopt customized approach to customer retention strategies by offering diverse services to meet different customer needs and choices. On the other hand, the predictors identified offer valuable insights for fintech companies which are aimed at the improvement of customer loyalty and retention. Through the emphasis on the creation and enhancement of these imperative offerings, companies can be more inclined to their business strategies with customer expectations and market demands.

Nevertheless, it is important to mention the drawbacks of the research. The outcome is derived from a particular set of data and does not necessarily represent the full spectrum of customer retention dynamics in the fintech contexts and markets. In addition to this, the cross-sectional type of data makes it difficult to establish causal or long-term trends in customer retention. The future research, however, should be improved by utilizing longitudinal designs or comparative studies across the fintech spectrum to shed more light on the factors that affect customer retention.

In order to overcome these limitations, a number of suggestions can be made for future research and practice in the fintech sector. Secondly, researchers need to examine other predictors or moderator variables that affect customer retention including customer demographics, technological innovation or regulatory factors. By applying modern analytical methods, for instance, machine learning algorithms or natural language processing, it would also be possible to gain more knowledge about the consumer behaviors and preferences in the fintech area. Furthermore, practitioners should utilize the results to develop customized retention strategies, based on unique needs and preferences of their customers.

Waheed Ilyas: Problem Identification and Theoretical Framework
Raafay Haider Khan: Data Analysis, Supervision and Drafting
Aiman Arif: Literature Search,Methodology, and Drafting

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