

QUALITATIVE RESEARCH

How Customer-Centricity Approach Creates a Win-win Situation? An Analysis of *Murābahah* Product

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Keywords

Islamic Finance
Murābahah
Financial Inclusion
Low Income Group
Customer Centricity

Received: 10 August 2020

Accepted: 15 February 2021

Abstract.

Purpose: Financial inclusion, through the provision of financial products and services, for the Low Income Group (LIG) of the society is critical. The purpose of this study is to investigate how customer-centric *murābahah* product created a win-win situation for all stakeholders.

Methodology: A case study approach using personal interviews and analysing ke documents was used for in depth analysis. The main research questions of the study are: how the customer-centricity approach leads to a win-win situation for an Islamic Financial Institution (IFI) and the beneficiary LIG employees and their employer? And how operational and default risks can be minimized by modifying the existing product?

Findings: The benefits for the bank are: minimized risk, reduced operational cost, improved profitability, and a sound banker-customer relationship. The employees are happy with social up-gradation, time-saving, and owned transportation facility. Organizational productivity is improved because of employees' loyalty and satisfaction. More demand for the product from other organizations is also found.

Significance: The in-depth investigation of a product through a case study research based on the personal interviews from bank officials, employer, and the beneficiary of the products (employees) is a unique feature of the research.

Limitations: Generalization may not truly reflect the findings of this study as only one product and one bank is studied in this research.

Practical and Social Implications: Uplifting the LIG status without losing their self respect can attract more Islamic Financial Institutions to work for this social cause.

KAUJIE Classification: K1, K6

JEL Classification: M10, M6

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INTRODUCTION

Financial exclusion is referred to the unavailability of basic financial services to the vulnerable people (Devlin, 2005). The World Bank (Demirguc-Kunt *et al.*, 2020) report states that economic growth and poverty reduction is restricted and constrained by financial exclusion. According to the report, around 2.5 billion adult people are unable to avail any formal financial services. Among these vulnerable people, low income group (LIG) has been the most affected segment causing the slowdown of poverty reduction and economic growth process. Delvin (2005), stated three factors: demographic, socio-cultural, and economic conditions as the key precursor of financial exclusion. Because of these factors, LIG left behind in terms of economic development resulting in income inequality. Collard *et al.* (2003) and Kempson and Whyley (1999) found that non-availability of financial services may be due to "Access Exclusion", "Condition Exclusion", "Price Exclusion", and "Marketing Exclusion". Access exclusion may be due to the closures of a branch or unfavorable assessment of risks. The exclusion of individuals from availing of financial services because of some specific conditions attached with the products or services is termed as condition exclusion. In the Under price exclusion situations, individuals are left excluded due to the un-affordability of the price of the products. Marketing exclusion happens when certain groups of people are overlooked by the firms for marketing activities relating to the offering of financial services (Collard *et al.*, 2003; Kempson & Whyley, 1999).

Financial Service Providers (FSPs) generally claim to offer customer-centric financial services to their customers. But their core focus has been on delivering the products and services to the bankable customers instead of providing solutions to the needs of the non-bankable LIG segment of the population (Heckl & Moormann, 2007). Islamic Banks are no exception to this behaviour. For example, banks offer customers only products and services that solve isolated problems, such as liquidity, financing, and investment services, and fail to reflect the intrinsic requirements (customer-centric) services such as procurement, order fulfillment, and sales. Because of this, the customers are rarely satisfied (Heckl & Moormann, 2007). According to Shah *et al.* (2006) customer-centric products development need a strong commitment from the leadership, organizational re-alignment, supportive systems & processes, and improved financial metrics.

Customised services help the clients in meeting their daily needs, achieving business goals, and fighting against vulnerability (Kilara & Rhyne, 2014). Therefore, to provide customer-centric products and services, FSPs have to effectively understand the needs and customers' aspirations through tailored-made business strategies and decisions. This will help FSPs to attract the LIG segment by creating customer value through the provision of customer-centric financial products and services. While this debate continues, we have an exceptional initiative by the Bank of Khyber (BOK) to ensure effective financial inclusion by developing a customer-centric *murābahah* product for LIG to reap the benefits of Islamic banking in the Khyber Pakhtunkhwa (KP) province of Pakistan. The bank has been using other Sharī'ah compliant products based on customer-centric approach e.g a case of *ijārah* based product is discussed by (Jamal Khan *et al.*, 2021).

Islamic Financial Institutions (IFIs) provide financial facilities through multiple modes of

financing based on Sharī'ah rulings. In its essence, *murābahah* is not a mode of financing per se; instead, it is referred to a special type of sale transaction in which the seller discloses the purchase price or acquisition cost of an asset or commodity to the buyer and then adds a mark-up on the purchase price and sells it to the buyer. The mark-up can be a percentage of the total cost or can be a lump sum amount (Atal *et al.*, 2020). *Murābahah* is generally applied in retail finance, working capital, and trade financing in which an IFI sells the asset to the customer against a deferred payment, usually on installments. The operationalization of contemporary *murābahah* is a lengthy process and involves multiple contracts. The operational risk remained with IFI until the final transaction for the transfer of ownership takes place (Habib, 2018; Khan *et al.*, 2018; Tlemsani *et al.*, 2020).

Keeping in view the lengthy process and risks associated with *murābahah*, LIG customers are generally unable to avail the financing facility from IFIs. BOK came up with an innovative and customer-centric approach and modified the *murābahah* product process for LIG employees of General Post Office (GPO)-a public sector organization. The process is simplified by eliminating some of the steps by introducing the employer (GPO) acting as guarantor for BOK and LIG employees of GPO, making a win-win situation for all three parties. By doing so, the risk associated with operations and default is minimized. The availability of the desired product has become easy with fewer efforts and lesser amount of documentation for both BOK and employees. The benefits for employers include satisfied, loyal, and motivated employees. The other objectives of the product are banking the unbanked; uplifting the social status of LIG, and alleviating poverty.

This research applied a case study approach to investigate the factors behind the success story of a modified *murābahah* product developed and launched by BOK for LIG employees. The key research questions of the study are:

1. How customer-centric approach leads to a win-win situation for an Islamic Bank and the beneficiary LIG employees and their employer?
2. How operational and default risks can be minimized through customer-centric product modification?

The following sections discuss the literature on LIG and Financial Exclusion/Inclusion, Customer-centricity, *murābahah* financing, and research methodology, followed by a discussion on research findings, and conclusion sections.

LITERATURE REVIEW

Low Income Group (LIG) and Financial Exclusion / Inclusion LIG people usually fulfil their financial needs through informal sources such as family, relatives, neighbours, and credit suppliers etc. According to Collard *et al.* (2003), LIG prefers local funding organizations because of easy access. Although they want the availability of financial services by well-established and professionally trained staff but avoid due to the miss-trust in mainstream financial institutions, multi-facets costs in terms of money, time, and emotional stress on LIG customers (Stahl *et al.*, 2017). On the other hand, research on LIG and other financially excluded segments highlights many factors such as non-availability of credit, absence of savings and bank accounts, non-availability of assets, and non-accessibility to monetary ad-

vice and insurance services (Jones, 2008). Therefore, to bring them into the formal financial network, LIG customers must be provided with greater value, increased level of trust, easy to access financial services, less documentations, and financial awareness for increased financial inclusion.

According to Delvin (2005), there are several potential precursors for financial exclusion. These include demographic, socio-cultural, and economic conditions. Because of these factors, LIG left behind in terms of economic development resulting in income inequality, and low-income mobility. Financial exclusion is referred to the unavailability of basic financial services mainly due to the lack of access to these services by vulnerable people (Devlin, 2005). Collard et al. (2003) and Kempson and Whyley (1999) found that non-availability of financial services may be due to "Access Exclusion", "Condition Exclusion", "Price Exclusion", and "Marketing Exclusion". Access exclusion may be due to the closures of a branch or unfavorable assessment of risks. The exclusion of individuals from availing of financial services because of some specific conditions attached with the products or services is termed condition exclusion. In the Under price exclusion situations, individuals are left excluded due to the un-affordability of the price of the products. Marketing exclusion happens when certain groups of people are overlooked by the firms for marketing activities relating to the offering of financial services. Moreover, the households who have been disengaged or never been engaged in financial services also come under the financial exclusion.

To address the issue of financial exclusions, FSPs design and implement financial inclusion products, services, and processes for not only generating profits but also facilitating the economic uplift of LIG. According to Demirguc-Kunt et al. (2020) "financial inclusion is a key lever to reduce poverty and achieve inclusive economic growth". Dev (2006), defined financial inclusion as the "delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups". He viewed credit facility as one of the most important elements of financial inclusion. Other components include savings, payments, insurance, and remittance facilities. For improving the living conditions of the vulnerable groups, financial inclusion plays an important role. Access to financial services involves not only benefits e.g., savings and interest, or credit but also costs such as bank fees and commissions etc. (Ouechtati, 2020). According to Sarma and Pais (2011), financial inclusion is the process that makes sure for all members of an economy, the easy accessibility along with the availability, and usability of the financial system in a formal way. Financial inclusion, therefore, efficiently facilitates the allocation of productive resources, reduces the cost of capital, and significantly improves the day-to-day management of financial services. More than 50 countries have set their national targets for expanding financial inclusion with innovative models. Financial inclusion and access have generated a buzz among the transformational business models (Pearce, 2014).

Financial inclusion may cater for the needs of LIG customers through innovative models and out of box thinking to develop new and modify the existing products. As a commercial venture, it is difficult for a banker to extend boundaries beyond the acceptable margin of risk. However, there are always some remarkable professionals who take initiatives with the conviction to succeed. One such individual (the name is excluded for anonymity) got

motivation from the World Bank metadata report about the unbanked population of Pakistan and started to develop a product for LIG employees of GPO. The World Bank (Demirguc-Kunt *et al.*, 2020) report states that economic growth and poverty reduction is restricted and constrained by financial exclusion. According to the report, around 2.5 billion adult people are unable to avail any formal financial services such as the availability of a bank account. Among these, LIG has been the most affected segment causing the slowdown of poverty reduction and economic growth process. However, the updated report (Demirguc-Kunt *et al.*, 2020) states that between 2011 and 2017, about 1.2 billion adults worldwide opened an account at a financial institution or through a mobile money provider. The numbers are considerably improved during this period showing 69 percent of adults account, up from 62 percent in 2014 and 51 percent in 2011. The percentage in high-income economies is 94 percent of adults while it is 63 percent in developing economies. This shows that the importance of financial inclusion is on the agenda of the global economic forefront with increasing prominence.

Islam encourages the balanced distribution of wealth. Qur'ānic principle in this regard is very clear as stated in the following verse:

"Whatever God restored to His Messenger from the inhabitants of the villages belongs to God, and to the Messenger, and to the relatives, and to the orphans, and to the poor, and to the wayfarer; so that it may not circulate solely between the wealthy among you (Qur'ān, 59:7)"

Therefore, Islamic Finance can play a significant role in enhancing financial inclusion, particularly in Muslim dominant countries, through adaptation of the mechanism of conventional banks by applying Sharī'ah principles (Jouti, 2018).

Customer Centricity

The customer-centric approach has been widely considered as the important factor for an organizational long-term success. Many firms are struggling to build such an approach (Shah *et al.*, 2006). To be successful, viable, and competitive, a firm must have customer-centric capabilities. The profitability lies in the customer relationships, and to have strong relationships; the firms need to be able to do business according to the wishes of the customers (Galbraith, 2005). Customers increasingly evaluate the firms based on their long-term accumulated experience rather than their perception based on one transaction only. Therefore, an organizational ability to generate continuously a great customer experience has become the driving lever for a truly customer-centric organization. This status can be achieved by the strategic transition of an organization from its traditional approach to a focused one. Doing so, organizations perform their activities to leverage resources and competencies for achieving customer-centric business performance (Jaworski, 2018; Ulaga, 2018).

Although FSPs claim themselves to be customer-centric, their focus is generally on product delivery instead of solving the customers' needs (Heckl & Moormann, 2007). For example, banks provide their customers with services that solve their problems related to the needs of liquidity crunch, financing shortage, and investment opportunities. They are required to consistently align their financial services to customer needs for achieving the competitive ad-

vantage through customer satisfaction (Heckl & Moormann, 2007). The factors that prevent an organization to become customer-centric include organizational culture, organizational structure, processes, and financial metrics. Therefore, FSPs are required to follow the path of customer-centricity driven by a strong commitment of leadership, organizational alignment, systems and processes support, and improved financial metrics (Shah *et al.*, 2006).

Customer centricity is to understand the preferences, behaviors, and limitations of the target customers. According to Kilara and Rhyne (2014), FSPs are supposed to invest in knowing the needs of LIG customers so that suitable products could be developed. This focus on customers' needs should be the center of business strategies and decision-making. To achieve, FSPs should re-engineer their operations, investment efforts, resources mix, and organizational mindsets. Well-tailored products and services can help customers fulfilling their daily needs and achieving their personal and business goals. This will make them capable to resist vulnerability (Demirguc-Kunt & Klapper, 2012; Stahl *et al.*, 2017). Overcoming these challenges, FSPs are required to make modifications to their existing products or to develop new and innovative products focusing on the specific group of the society. This requires incremental progress over time for creating significant value for both customers and FSPs.

There are common building blocks for customer-centric organizations. These organizations understand the needs and demands of the customers and design their business model around the customer to generate profit sustainably. For this purpose, the financial behavior of LIG customers needs to be understood and modeled by creating an insightful mechanism for systematically generating a deep understanding of the customers for making their operational designs for making implementation practical. The intention of the top management to provide value to customers should be the corporate culture in a customer-centricity approach. This should be reflected in the strategy-performance relationship. This model should assume the questions such as: "does the mission statement reflect customer-centricity?" "Is customer focus reflected in performance goals?" An important component of the customer-centric approach is to shift the focus from profitability analysis to total customer profitability and customer value over a longer period (Kilara & Rhyne, 2014).

***Murābahah* Financing**

Islamic Financing modes are based on the principles of assets or commodity-backed facilities resulting in real economic activities. Islamic Financing products can be broadly classified into three categories: Participatory Modes of Financing (*mushārahah*, *muḍārahah*, diminishing *mushārahah*); Trade-based Modes of Financing (*murābahah*, *salam*, and *istiṣnā'*); and lease based financing (e.g. *ijārah*).

The word "*murābahah*" comes from the Arabic word "*riḥh*", which means "profit". In its essence, *murābahah* is not a mode of financing per se; instead, it is referred to a special type of sale or transaction in which the seller discloses the purchase price or acquisition cost of an asset or commodity to the buyer and then adds a mark-up on the purchase price and sells it to the buyer. The mark-up can be a percentage of the total cost or can be a lump sum amount (Atal *et al.*, 2020). A *murābahah* sale can be operationalized with or without an early promise to buy. An ordinary *murābahah* referred to the transactions where there

is no early promise to buy from the buyer towards the seller. A banking Muabaha term is used if someone wants to buy an asset or commodity through an Islamic bank promises the bank that he/she will buy the asset from the bank after the bank has acquired it from the supplier. It is also known as *murābahah* purchase (Atal *et al.*, 2020; Tlemsani *et al.*, 2020). *Murābahah* is the Trade based mode of financing that is particularly used for retail, working capital, and trade financing. Here, the financier sells the asset to the client against a deferred lump-sum payment or on instalments (Habib, 2018). It is a "cost-plus" sale transaction or contract, where the seller expressly mentions the purchase price (i.e. cost of acquisition) of the asset and adds up his overhead share of the profit against a lump sum payment or payments through instalments in future. *Murābahah* has two distinct features. First, the seller in this case must express his purchase price of the asset along with the profit (or profit rate) that will be charged over and above the purchase price. Second, the financier (the bank) is selling a commodity. It is not a loan transaction where the bank credits money in the customer's account and the customer has to repay it periodically along with interest (Khan *et al.*, 2018).

Different Aspects of *Murābahah*

Being a sale transaction, the rules related to the subject matter, the options of the buyer, avoiding *gharar*, and interest etc. are applied to *murābahah* transaction. Based on contemporary literature on Islamic Banking and Finance (Ansari, 2007; Ayub, 2011; Habib, 2018; Khan *et al.*, 2018; Usmani, 2002; Usmani, 2005). Some of the important rules are briefly presented below:

Rules of the Subject Matter in *Murābahah*

1. The subject of sale (asset) must exist at the time of the sale because the non-existence of the subject matter makes the contract void.
2. The subject matter should be in the ownership of the seller at the time of sale.
3. The subject of sale must be in physical or constructive possession of the seller at the time of sale.
4. The subject matter should be a valuable asset as an asset without a value cannot be sold or purchased.
5. The price of the assets must be certain which is a necessary condition for a valid sale.

Rules Related to Delayed & Early Payment

The *murābahah* sale gives rise to liability on the part of the customer which is to be paid in the form of a deferred lump sum or instalment payments. To safeguard the risks, the bank asks for providing security or guarantee against such payments. The rules regarding securing the risk are:

1. The status of security in Islamic transactions is to prevent the client from exploiting or committing fraud with the institution.
2. Security can be in the form of a mortgage, hypothecation or some kind of lien or charge.
3. In the case of a third-party guarantee, it should be ensured that the guarantor is not allowed

to charge the customer for any fee against providing his guarantee as it would be tantamount to charging interest and would invalidate the guarantee and the whole *murābahah* transaction. However, the guarantor may charge the client for any documentation expenses incurred in registering the guarantee.

Rules Relating to a Penalty on Defaults and Rebates on Earlier Payments

There are specific Sharī'ah injunctions regarding the penalty for delayed payment and rebates on early payments. In conventional banking, an additional amount is automatically charged once the instalment is delayed from its due date which includes an element of *ribā*. Similarly, conventional banks usually cover rebates on the early payment of the instalment. The ruling of Sharī'ah is different in both cases. However, since the bank is the custodian of the depositors and to deal with dishonesty and wilful default, such customers should be made liable to pay compensation for the loss incurred on account of default. To avoid the wilful default, the following conditions are imposed (Khan *et al.*, 2018):

1. The debtor or borrower may be given a grace period.
2. If the client found as a willful defaulter and proved as such then compensation can be demanded from the client.
3. The proceeds of this penalty for wilful default must not be part of the profit. Such income must be deposited in a charity account maintained by the Islamic bank.
4. An unconditional rebate can be given, at the discretion of the bank. For earlier payment on case to case basis especially to help the client if he needs it. However, third-party should not be involved as the case in discounting the bills.

METHODOLOGY

Qualitative research methods were developed in the social sciences to enable researchers to study people and the social and cultural contexts within which they live. According to Patton (1991), data sources of qualitative methods include personal and professional observation, fieldwork (participants' observation), interviews, questionnaires, documents, texts, and the researcher's impressions and reactions. Qualitative methods allow the researcher to study issues in depth to expand and generalize the theories. The level of understanding in qualitative research is based on a detailed knowledge of the particular (Cepeda & Martin, 2005).

The case study method is one of the important techniques for in-depth analysis of a phenomenon. The case study method is used to investigate a phenomenon within its real-life context. The research paradigm based on case study can be positivist, interpretive, or critical analysis depending upon the philosophical foundation and the underlying assumptions of the researcher (Cepeda & Martin, 2005). Hyde (2000) posits that if studied with a sufficient rigour, even a single case can provide the basis for a theoretical explanation of a general phenomenon.

The case study method is applied for this study where the sources of information include interviews, documents, and personal observations. Interviews were conducted from three key persons of BoK employees: one each from product development section, operations

section, and from Resident Sharī‘ah Advisor. Two persons from GPO were interviewed are the Station Master and the head of Accounts section while two employees who availed the products were also interviewed. Interviews were recorded using smartphones and transcribed by the three members of the researcher team separately. The notes were also taken by all members of the research team. The findings from the transcription and notes were discussed and agreed upon by the research team after going through a series of meetings. The documents (product design, operational processes, and the contract of agreements) were also studied in detail.

Interviews with the Bank Officials, Management of GPO, and GPO Employees

To analyse the product features, benefits, risks, and future directions, we interviewed the bank officials, GPO Officials, and the LIG employees. The respondents from the bank were the head of product development, Sharī‘ah advisor, branch manager, and operational manager. Postmaster general and accounts officer (the focal person for the whole process) were interviewed on behalf of the employer while three employees who availed this facility represented the LIG employees were also interviewed. Most of the questions are similar but were asked separately from the respondents so that their perspective can be highlighted. The findings of the interviews are summarized in the subsequent sections. The respondent-wise questions are presented in Table 1.

TABLE 1
Research Question Matrix

Questions	Respondents		
	Bank	Employer (Agent/Guarantor)	Employees (Customers)
1. Why existing product was modified?	√	-	-
1. What are the salient features of the product? Are you satisfied with the product features?	√	√	√
2. What is the payment Mechanism?	√	√	√
3. What are the benefits of the product? Or how you define the success of the product?	√	√	√
4. Tell us some of the shortcomings or issues related to the product?	√	√	√

Source: Authors

RESULTS AND DISCUSSION

Customer-Centricity and Product Modification

To fulfil the LIG needs, organizations are required to create value and trust (Collard *et al.*, 2003; Stahl *et al.*, 2017) as well as develop and extend customer-centric financial services (Delvin, 2005; Jones, 2008). Among these services, credit needs are the most important factor for uplifting the LIG (Dev, 2006). Keeping in view these observations, the BoK staff explored a possibility to serve LIG employees, because of the groups’ financial constraints and non-accessibility to the financial services. Accordingly, BoK modified the *murābahah* product and made it more customer-centric for LIG employees of GPO, Peshawar KPK, one of the oldest government departments in Pakistan. The design of the product is depicted in the Figure 1. When we asked the in charge product development team, the question "why the product was modified?" He elaborated that keeping in view the lengthy process and risks associated with *murābahah* product, LIG employees were unable to avail this facility.

The process of recovery, in case of default, is very lengthy and sometimes the cost is more than the benefits. Besides this, the bank and the GPO also wanted to uplift the LIG employees by transferring the actual benefits of Islamic banking to the otherwise un-bankable segment.

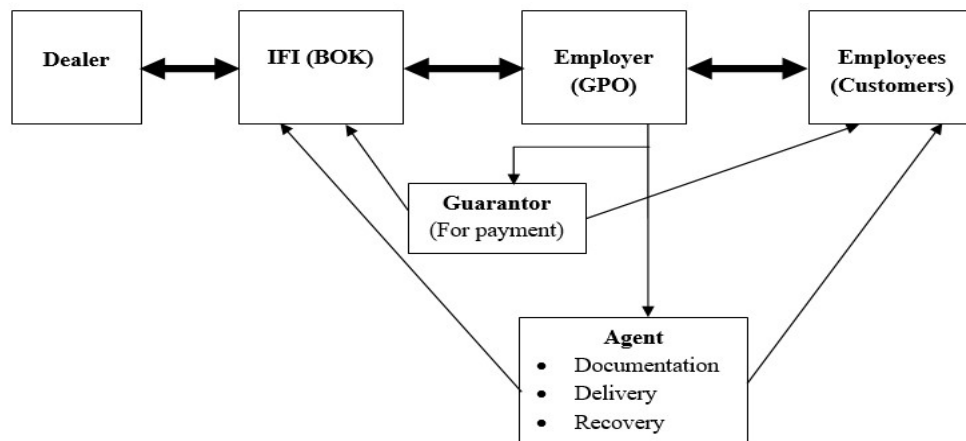


FIGURE 1. Process diagram for modified *Murābahah*

Source: Authors

Keeping in view the LIG characteristics, the *murābahah* product process was modified by eliminating some of the steps through the introduction of the employer acting as guarantor for BOK and employees. The modification created a win-win situation for all three parties: minimization of operational and default risks for BOK; access to a financing facility for LIG employees with less effort and documentation; and satisfied, loyal, and motivated employees for GPO. Because of this modification in the existing product, the flow of transaction for the *murābahah* product is also modified (Figure 2). In a modified form of *murābahah*, Bank makes direct payment to the supplier against the delivery of the assets to the bank or the employer directly. Also, the bank deals with the employer who plays the role of agent for both bank and employees. The employer also acts as the guarantor for both banks and employees. The key points of the flow of modified *murābahah* transaction are listed below:

1. Bank initiates the process and approaches to the Employer for availing the *murābahah* facility for LIG employees
2. The employer asks for the options from the employees to avail the facility on the terms and conditions mentioned by the bank. Employer, on the behalf of the employees' options, promises to purchase the asset from the bank on deferred payment and provides the guarantee in case of default
3. Bank makes the payments in cash to the supplier/manufacturer of the asset
4. Supplier/manufacturer delivers the asset to the bank
5. If the number of items is larger, the supplier deliver directly to the employer in the presence of the bank and the employees
6. the actual sale of the asset is materialized as the asset is transferred to the employees with ownership and risks

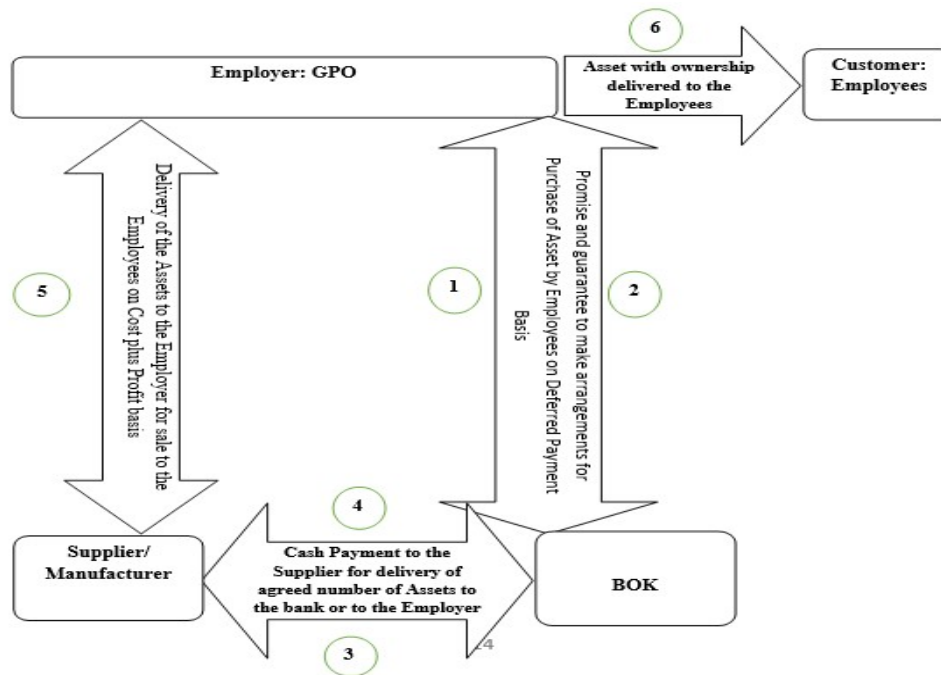


FIGURE 2. Flow of Transaction in Modified *Murābahah*

Source: Authors

Payment Mechanism

The payment mechanism for BOK was two-fold: one, for making payment to the dealer while the other is receiving payment from the customer. The payment to the manufacturer or dealer of a motorcycle is made in cash on the day of delivery of the motorcycle. While the beneficiary (employees) have authorized the bank through an authorization letter to deduct the instalment amount from their bank account with BOK. All the stakeholders are aware of the payment mechanism. Provision is also made for recovery of the outstanding amount in case of the death of an employee.

Key features of the product

The key features of the product are summarized in Table 2.

TABLE 2
Salient Features of the Modified *Murābahah*

Salient Features	Details
Salient Features	Details
Product Name:	BOK Motorcycle <i>Murābahah</i> Scheme
Financing Type:	<i>Murābahah</i> Finance
Financing Category:	Consumer
Customers:	Employees of the GPO, Peshawar
Eligibility Criteria:	Employees recommended by GPO Peshawar if he/she: is not a defaulter of any other financial institution is a permanent employee of GPO, Peshawar has take-home salary equivalent to three times of monthly instalment of motorcycle <i>murābahah</i> has not more than 57 years of age has remaining service more than the facility period has served for more than 02 years in GPO 03 Years (36 months).
Maximum Tenor:	Rs.150,000/- (Rupees One Hundred & Fifty Thousand)
Maximum Limit :	Applicable profit rate to be added to the cost to the bank at the time of <i>murābahah</i> execution shall be as per the bank's monthly circular ¹
Profit Rate:	The Motorcycle <i>murābahah</i> Finance cases under the scheme will
Security:	be secured against: Institutional Guarantee of GPO, (through MOU) that in case of default/ death of the customer, GPO, Peshawar will adjust the outstanding bank liabilities of the concerned employee from his/her terminal benefits. Personal Guarantee of the employee

Source: BOK document on modified *murābahah* product

We asked the question regarding the salient features of the product from the employer and the employees who availed this facility to ascertain the awareness about the structure and

features of the product. The responses of the respondents were compared with the document of the product obtained from BOK. It was found that both the employers and the employees were well aware of the features and the structure of the product. For a customer-centric approach, communication and the understanding of the product or service is key for the successful banker-customer relationship.

Benefits of the Product

The customer-centric approach is considered the driver of long-term success for organizations (Shah *et al.*, 2006). The success and profitability lie in developing customer relationships (Galbraith, 2005). Organizations are advised to design the strategies for developing and /or modifying the products (Jaworski, 2018; Ulaga, 2018) along with the commitment from top leadership, organizational alignment, and supportive systems (Shah *et al.*, 2006) in a way to create a win-win situation for all stakeholders.

In this context, the response to the question regarding the potential benefits of the product was analyzed to make a list of these benefits. The benefits for the bank are minimized cost and time; minimized operationally and default risk; and satisfied customer. The employer is happy with customer loyalty, punctuality, and more work productivity. Employees are benefitted through easy and competitive instalments, quick process, social status up-gradation, time-saving, and easy and comfortable commutation etc. Overall, there is a win-win situation for all parties: employees, the bank, the supplier, and the employer. The overall benefits are listed below:

- The documentation process is easy, quick, and cost-effective.
- No requirement for employees to visit the bank time and again
- Employers play the role of the promisor, guarantor, and agent for bank and employees
- The risk of default is almost eliminated
- The recovery process is easy, quick, and cost-effective
- The employer-employee relationship strengthened
- Employee efficiency increased because of the saving of time wasted on public transport
- Employee loyalty and social status is increased
- The arrangement of agency agreement usually with the client is eliminated making *murābahah* transaction more reliable and authentic as the chances of buy-back transaction is eliminated which was one of the major criticism on *murābahah*.
- The benefit of discount provided by the supplier, because of bulk purchase, was transferred to the client
- The convenience of delivery for bank, dealer, and employees

- Due to the asset-based financing nature of Islamic Banking, the actual asset with all its benefits are transferred to the end-user making this facility a real contribution to uplift the LIG employees.
- Win-Win situation for all parties: Employees, Bank, Supplier, and the Employer

Issues Related to the Product

Although, the overall satisfaction level was high and despite the number of benefits listed above, there are some issues related to the products. These issues are well recognized by all the stakeholders and BOK has already made improvements in the subsequent arrangements with other institutions. Some of the important issues highlighted during the study are listed below:

- In the case of the death of an employee, payment is recovered from his/her pensions and other claims over the employer. The recovery mechanism is unfriendly and non-sympathetic.
- In case of dismissal of an employee, the system is not clear how the settlement will be done?
- Lack of communication on some of the latest developments on the product
- Contractual employees can not avail of this facility
- Non-existence of some sort of risk covering plan (e.g. *takāful* arrangement) in case of accidental death or termination of an employee.

Conclusion

The purpose of the case study was to highlight the success story of financing the LIG of BOK through product modification and a customer-centric approach. For this purpose, an in-depth analysis was done based on the documents, personal interviews, and relevant literature review answering the research questions: how customer-centric approach leads to a win-win situation; and how operational and default risks can be minimized through product and process modification? The benefits for the bank include: minimized operational and default risks; reduced administrative cost; improved profitability; and sound banker-customer relationship. The employees are happy with social up-gradation, time-saving, and ownership of a real asset. Employer's productivity improved because of employees' loyalty, punctuality, and satisfaction. Overall, the true benefits of the asset-backed financing nature of Islamic banking were transferred to the LIG segment of the society. The success of the product created more demand from other institutions such as Universities, TMA, Peshawar, and other public sector organizations for their LIG employees. The product is being replicated in other cities and by other banks as well. Some issues are also highlighted such as the recovery procedure in case of death and termination of an employee need improvement. *Takāful* arrangements in such cases are also recommended.

There are some implications for managers and researchers as well. Building on prior

knowledge about the relevance and role of customer-centricity, and the success of this product, FSPs must understand how customer centricity can create a win-win situation for all stakeholders. Managers and researchers can explore how to design and implement the strategies for the development and/or modification of other Islamic finance products to make them customer-centric. For this purpose, managers must encourage and facilitate the emergence of new behaviours, help employees grow competencies and skills in new areas, change existing management processes, systems, and performance metrics, and transform organizational cultures to address the LIG segment of the society for sustainable development.

More specific studies on other modes of financing should be done to unearth the practical application and implications of Islamic banking and finance. Products for financing the corporate sector can be another area for future research. Besides success stories, the cases for problematic happening can be investigated to highlight the issues for IFIs, Sharī‘ah boards, and regulators for the promotion and development of Islamic finance.

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