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Evaluation of Customer Satisfaction and Economic Efficiency: A Study of Conventional and Islamic Insurance Industry in Pakistan

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ABSTRACT

This study investigates customer satisfaction and economic efficiency within the conventional and Islamic insurance sectors in Pakistan. A modified SERVQUAL model is employed to assess customer satisfaction, utilizing primary data collected from 179 respondents affiliated with the insurance industry. To evaluate economic efficiency, ratio analysis is conducted using secondary data from five conventional and five Islamic insurance companies for the period 2018–2023. The findings reveal no statistically significant difference in customer satisfaction between the two sectors ($p > 0.05$, Cohen's $d = 0.21$). Nonetheless, customers of Islamic insurance demonstrate a higher level of awareness and exhibit a stronger preference for Sharīʿah-compliant insurance products compared to their conventional counterparts. Ratio analysis indicates that conventional insurance companies exhibit greater economic efficiency, with average ROA and ROE surpassing Islamic providers (ROA: 2.5% vs. 0.7%; ROE: 5.2% vs. 2.1%). The study recommends that both sectors enhance their service quality and operational efficiency, especially by embracing digital platforms to bridge convenience gaps. Strategic efforts should target potential customers among middle-income, younger, and private sector segments. Islamic insurers must emphasize Sharīʿah audit transparency to bolster trust.

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1. Introduction

The insurance sector is one of the pillars of economic stability and financial planning in both advanced and emerging economies (Sher & Chan, 2024). The insurance sector in Pakistan is divided into conventional and Islamic insurance (Takaful). Wang, Zhao and Huchzermeier (2021) ascertain that both streams have the same objective of ensuring financial protection and risk management, but they differ in their basic concepts and working models. Conventional insurance is risk transfer-based, interest-driven, and uncertainty-managed through profit-making processes, while Islamic insurance is founded on principles of mutual aid, risk sharing, and the strict application of Sharīʿah, or Islamic law (Sarker, 2022). The dichotomy between the two sectors presents valuable insight to examine and compare economic efficiency with customer satisfaction in a common regulatory and economic framework (Tukker, 2015). According to Yoon, Lee and Oh (2023), Pakistan's insurance industry is still underpenetrated, with a penetration rate of only 0.87% of GDP in 2023 which is well below regional counterparts such as India (4%), Sri Lanka (1.25%). The sector has 42 insurance firms collectively posting gross premiums of Rs 631 billion, an increase of 14% from last year (Tarr et al., 2023). Life insurance leads the way, with 64% of premiums, compared to 36% contributed by non-life insurance. The Islamic Insurance business is witnessing strong growth, with contributions totaling Rs 62 billion in 2023, an 11% increase compared to the previous year (Hassan et al., 2024). There are challenges in the sector, however, such as outdated regulation, restricted

public awareness, and negligible digital take-up, with internet premiums being less than 1% of total premiums (Tirole, 2023).

The insurance industry in Pakistan is going through an era of transformation with the focus being on customer satisfaction as well as economic efficiency becoming the key determinants of its growth path(Iqbal, 2024). To meet these challenges, the Securities and Exchange Commission of Pakistan (SECP) has initiated a five-year strategy to raise insurance penetration to 1.5% of GDP and the insured populace to 15 million by 2028 (Rovidad, 2020). The economic interventions played a crucial role in the development of the insurance industry. Macroeconomic variables, such as strong economic development, growth in the trade industry, and rising per capita income, have played a role in the improved performance of the insurance industry (Financial Stability Review, 2024). Akber (2024) believed that the dynamics of customer satisfaction and economic efficiency are at the core of the development of the insurance industry of Pakistan. Thus, filling gaps in service quality, enhancing corporate governance, and adopting digital innovations are key ways to build a more robust and customer-oriented insurance sector (Balaji, 2024). Over the past few years, consumer aspirations in Pakistan have changed with heightened financial awareness and exposure to international standards. Customers now expect not only financial security but also ethical concerns, transparency, and customized services (Amiri et al., 2024). In response, Islamic insurance emerged as a pragmatic alternative for clients looking for Sharīʿah-compliant financial services (Uddin, 2023). Nevertheless, the traditional insurance industry remains dominant in market share, asset base, and outreach (Salmi, 2023). This contrast leads to pertinent questions about the appropriateness, efficiency, and customer orientation of both models. Particularly, the lack of comparative empirical research measuring service quality and financial performance in these industries has left a huge literature and policy-making gap(Talib, Rahman, & Qureshi, 2010)

The main aim of this research is to assess and compare customer satisfaction levels and economic efficiency of the traditional and Islamic insurance industries in Pakistan. It aims to respond to three research goals: (1) How satisfied are customers with services in the Islamic and conventional insurance industries? (2) What is the comparison between the economic efficiencies of the two industries? (3) How different are the Islamic and conventional insurance companies in Pakistan in terms of customer satisfaction and economic efficiency? These questions are examined using a mixed-method approach that incorporates both primary data from customer surveys and secondary data from financial statements of insurance companies. This study fills a notable gap by providing a comprehensive comparison of both customer satisfaction and economic efficiency between Islamic and conventional insurance providers, using a mixed-method approach (SERVQUAL model and financial ratios) that prior Pakistani and Muslim-majority studies post-2020 (e.g., (Amiri et al., 2024); Hassan et al. (2024) lacked. Earlier studies focused solely on either financial performance or service quality but not both, especially not in Pakistan's dual insurance context. Additionally, the COVID-19 impact on service expectations (e.g., digital service delivery, customer empathy) is indirectly covered, which is rare in post-pandemic local studies. The rationale for this study lies in its potential to offer a comprehensive performance assessment of Pakistan's dual insurance systems. While past studies have predominantly focused on the banking sector or isolated performance metrics, this study integrates customer service dimensions and financial performance indicators to offer a holistic analysis. This integration is particularly relevant given the increasing policy emphasis on financial inclusion, ethical finance, and sustainable development within the financial services sector. Moreover, the findings could aid policymakers in crafting balanced regulations that support both sectors' growth while ensuring consumer protection and satisfaction.

2. Literature Review

2.1. Measurement of Service Quality

The insurance sector is inherently characterized as a service-oriented industry. Parasuraman, Zeithaml and Berry (1988) developed a SERVQUAL model that assesses service quality by quantifying the disparity between users' expectations and their actual perceptions of the service received. Service can be characterized as an action or performance provided between two entities; by its very nature, it lacks physical form, and its delivery does not result in any transfer of ownership (Kotler & Keller, 2006). The American Society for Quality (ASQ) notes that while the concept of quality is subjective, it can technically be described as the

ability of a product to meet user satisfaction and the elimination of flaws and deficiencies in the service (Laman, 2022).Santos (2002) highlighted that while assessing the quality of tangible goods may be straightforward, evaluating the quality of intangible goods, such as services, is more complex. Another perspective on quality is that it involves "satisfying customer needs" Salieiev (2024), which necessitates understanding customer requirements and tailoring services accordingly. The evaluation of service quality is carried out to assess it either throughout or following the service experience (Jayawardhena, 2010). Customer's behaviour toward services is significantly shaped by the perceived quality of service that is delivered by organizations (Brady & Cronin, 2001). Amerta and Madhavi (2023) argued that meeting customer satisfaction poses a significant challenge in any industry, particularly within the service sector where fulfilling customer expectations can be particularly difficult. Numerous studies have been conducted to explore the service quality gap utilizing the SERVQUAL model (e.g., (AlOmari, 2021; Mauri, Minazzi, & Muccio, 2013; Siami, 2012). Safakli (2007) found that perceived service quality was below an acceptable level, revealing a notable service quality gap within the SERVQUAL dimensions. In the banking sector of Northern Cyprus, findings revealed that customer expectations surpassed their perceptions (Ozatac, Saner, & Sen, 2016). Similarly,Khalid et al. (2011) study conducted within Pakistan's banking industry reported that the highest levels of customer satisfaction were associated with the dimensions of responsiveness and reliability, where only a marginal disparity was observed between expectations and perceived service quality(Dhivya et al., 2023; Ragmoun & Ben-Salha, 2024).

Various studies have also examined the service quality within the insurance sector, such as those conducted by Ahmad and Sungip (2008); Upadhyaya and Badlani (2011), and Amiri et al. (2024), as well as within the banking industry, including works by Awan and Tahir (2015) across various countries. Given their shared characteristics as financial institutions, insurance can be compared to banking. While there is a greater volume of research about banking, the SERVQUAL instrument, which is widely utilized for assessing customer satisfaction, is also effectively applied in the insurance sector. Service quality can vary significantly among different firms, meaning that one company may provide superior services compared to another (Akbaba, 2006). Previous research has indicated that the overall SERVQUAL gap for Islamic banks is notably larger than that of conventional banks (Saleh et al., 2017). Within Malaysian banks differing expectations regarding convenience, along with varying perceptions of tangibility and convenience (Talib, Rahman, & Qureshi, 2010). Several researchers have proposed the inclusion of compliance, particularly Sharīʿah compatibility in business operations, as an additional dimension to the traditional SERVQUAL framework. These studies have demonstrated that compliance is a crucial factor influencing the selection of Islamic financial institutions that provide Islamic products in the marketplace (Osman, Mohamad, & Mohamad, 2015). Islam, Ahmed and Razak (2015) revealed a significant gap between customer perceptions and expectations regarding reliability, responsiveness, and empathy within the Malaysian insurance industry. Additionally, in the Indian life insurance industry another investigation found that service quality in terms of reliability, responsiveness, and empathy was perceived as less satisfactory (Upadhyaya & Badlani, 2011).

2.2. Measurement of Efficiency through Ratio Analysis

Financial ratios are widely recognized as essential instruments for assessing organizational performance across various sectors, particularly within the financial domain such as banking and insurance (Akash, Reza, & Alam, 2024). Financial ratios are considered a conventional yet effective and straightforward approach for conducting financial analysis and strategic planning (Kabajeh, Al Nu'aimat, & Dahmash, 2012). This method proves instrumental in reviewing the financial position of a business and facilitates meaningful comparisons across different periods or with other entities (Pastor et al., 2017). Given the size variations within the insurance industry, ratio analysis proves particularly useful for comparative assessment (Diacon, Starkey, & O'Brien, 2002). Latief, Nasution and Ginting (2024) investigated the Indonesian insurance sector during the period from 2005 to 2009. This study employed profitability and solvency ratios to assess the sector's performance. A significant disparity in performance between the top seven and bottom seven joint venture general insurance companies was revealed, with superior performance being demonstrated by the top seven. Similarly, Rahman, Kakakhel and Ali (2017) examined the Pakistani insurance sector and concluded that profitability is positively influenced by the size and capital volume of a firm. Through this analysis, the effectiveness of financial ratios in evaluating the performance and

operational efficiency of insurance firms has been highlighted, and a comprehensive framework for comparative assessment has been established(Dhivya et al., 2023; Ragmoun & Ben-Salha, 2024).

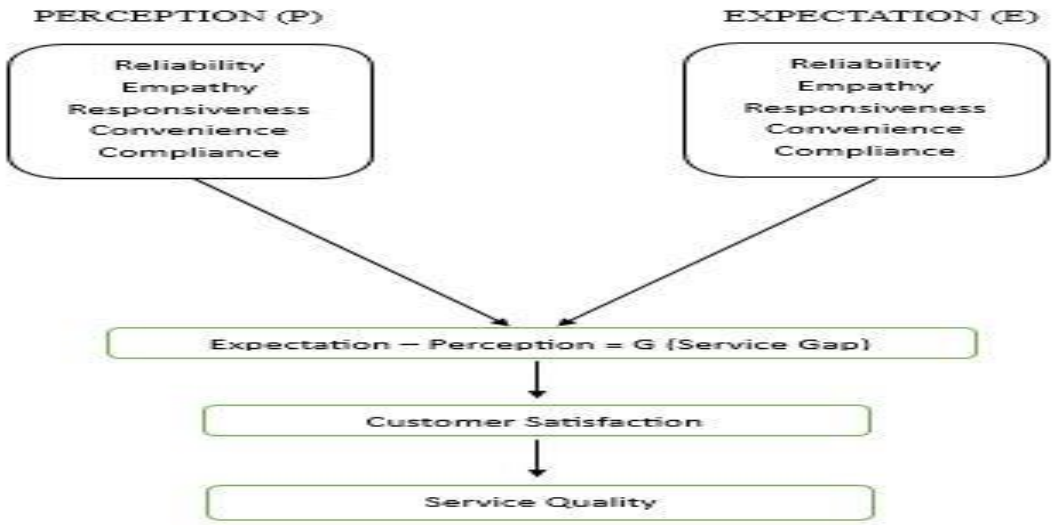
2.3. Research Gap

A critical review of existing literature reveals that prior research has examined service quality using the SERVQUAL model developed by Parasuraman, Zeithaml and Berry (1988). This model assesses service quality through five dimensions: reliability, responsiveness, empathy, assurance, and tangibility. In Islamic finance contexts, scholars have recommended replacing assurance and tangibility with Sharīʿah compliance and convenience to better reflect customers' expectations. The SERVQUAL model was adapted to include Sharīʿah Compliance and Convenience, as these are critical for Islamic insurance customers who prioritize adherence to Islamic principles (Islam, Ahmed, & Razak, 2015; Osman, Mohamad, & Mohamad, 2015). Conventional SERVQUAL dimensions like tangibility and assurance were found less relevant in Islamic finance contexts (Saleh et al., 2017). Convenience was added to reflect customer demand for digital access and ease-of-use (Amerta & Madhavi, 2023) , especially relevant in Pakistan's urban centers post-COVID-19, where digital services and service convenience have become essential. This study fills this gap by evaluating service quality through modified SERVQUAL dimensions and assessing economic efficiency using twelve key financial ratios.

3. Theoretical Framework

The theoretical framework of this research is anchored in the SERVQUAL model and financial ratio analysis. The modified SERVQUAL model comprises five dimensions: responsiveness, reliability, empathy, convenience, and Sharīʿah compliance. Responsiveness measures the promptness and willingness of service providers to help customers. Reliability assesses the accuracy and dependability of the service offered. Empathy captures the personal attention and care provided to clients. Convenience evaluates how easily customers can access services, and Sharīʿah compliance reflects the extent to which Islamic principles are incorporated into business operations. These dimensions collectively provide a comprehensive measure of customer satisfaction. In this study, the evaluation of service quality for both Islamic and conventional insurance firms was conducted using a model derived from the SERVQUAL framework. In this research SERVQUAL model is not fully implemented, the fundamental concept of gap analysis is derived from it, and several constructs from the model have been incorporated into the current study. Figure 1 outlines the underlying framework of the adapted SERVQUAL model.

Figure 1: Modified SERVQUAL Model



This model is particularly appropriate for the current research for the following reasons:

(i) A significant number of prior studies have employed this model, demonstrating the confidence researchers have in its ability to assess service quality; (ii) It has been widely applied across diverse service industries, regardless of cultural context, underscoring its universal relevance; and (iii) Adaptations of the SERVQUAL framework,

featuring only minor modifications, have been represented by the other models discussed earlier.

On the economic efficiency front, twelve financial ratios are used to gauge performance. These are divided into profitability ratios (Return on Assets, Return on Equity, Return on Investment, Earnings per Share), operational efficiency ratios (Net Claims to Net Premium, Underwriting Profit to Profit After Tax, Claims Incurred to Net Premium, Investment Income to Net Premium), and solvency ratios (Debt Ratio, Debt-to-Equity Ratio, Investment to Total Assets, Shares Internal Value). One of the advantages of financial ratio analysis is its ability to remove disparities caused by differences in company size, allowing for meaningful comparisons. It serves as an effective method for evaluating and contrasting financial performance across companies or periods.

3. Methodology

The methodology adopted in this study combines primary and secondary data collection methods. A structured questionnaire was distributed to 179 respondents, with 100 from Islamic insurance and 79 from conventional insurance. The questionnaire, adapted from SERVQUAL, included demographic questions and 24 service quality indicators rated on a 5-point Likert scale about policyholders' expectations concerning the services provided by the respective insurance companies and customer expectations concerning the services provided by the respective insurance companies. Additionally, seven items assessed customer preferences in choosing insurance providers. The questionnaire was administered in English to improve accessibility. The questionnaire underwent pilot testing (n=30) in Islamabad, with adjustments made based on clarity and response patterns to ensure applicability in Pakistan's dual insurance market. Cronbach's alpha values ranged 0.76–0.88 across constructs, indicating acceptable reliability. Content validity was established via expert review. To enhance the representativeness of the sample, random sampling was utilized to select participants from among the customers of the respective insurance companies. The majority of the sample was obtained from the Rawalpindi and Islamabad regions owing to constraints in time and financial resources. For financial performance analysis, audited annual reports of selected insurance companies were examined to compute the designated financial ratios. A total of 12 financial ratios were utilized in this study, selected for their applicability to both general and life insurance operations within the frameworks of conventional and Islamic insurance providers in Pakistan. These ratios were systematically classified into two broad categories: profitability or efficiency ratios, and solvency or liquidity ratios. A detailed account of the financial ratios for each category is provided below in Table 1.

Table 1: Key Financial Ratios

Ratio	Formula	Description
Profitability and Efficiency Ratios		
Return on Assets (ROA)	(Net Profit / Total Assets) × 100	Measures the firm's ability to generate profit from total assets. Indicates how efficiently assets are being used to generate net income.
Return on Equity (ROE)	(Net Profit / Total Equity) × 100	Indicates the return on shareholders' equity. A direct measure of profitability attributable to shareholders.
Return on Investment (ROI)	(Net Investment Income / Investments) × 100	Assesses the efficiency of investment resources in generating returns. Commonly used to evaluate investment performance.
Earnings Per Share (EPS)	Net Profit / Number of Ordinary Shares	Indicates the amount of profit attributable to each ordinary share. Relevant in evaluating profitability per share in the insurance sector.
Net Claims to Net Premium (NC/NP)	(Net Claims Expense / Net Premium) × 100	Reflects operational efficiency; a high ratio may indicate poor underwriting performance.
Underwriting Profit to Profit After Tax (UP/PAT)	(Underwriting Profit / Profit After Tax) × 100	Assesses underwriting efficiency relative to overall profit. Highlights control over underwriting costs.
Claims Incurred to Net Premium (CIN/NP)	(Claims Incurred / Net Premium) × 100	Measures claim management efficiency. Helps evaluate the adequacy of premium pricing against incurred claims.
Net Investment Income to Net Premium (IIC/NP)	(Investment Income / Net Premium) × 100	Evaluates how effectively premium income is used to generate investment returns.

Shares Internal Value (SIV)	Total Equity / Number of Ordinary Shares	Measures intrinsic value per share. Reflects the equity backing each ordinary share.
Solvency Ratios		
Debt Ratio	Total Liabilities / Total Assets	Reflects the proportion of a firm's assets financed by debt. Commonly used to assess the degree of financial leverage and financial risk.
Debt to Equity Ratio (D/E)	Total Liabilities / Total Equity	Indicates the relative proportion of liabilities to shareholders' equity. Serves as a measure of financial leverage and capital structure.
Investment to Total Assets (I/TA)	(Investments / Total Assets) × 100	Shows the extent to which total assets are allocated to investments. Especially relevant in assessing the investment orientation of insurance firms.

3.1. Ethical Considerations

During data collection, informed consent was obtained from all participants, ensuring they voluntarily agreed to take part in the study. Participants were assured of complete anonymity and confidentiality, with no personally identifiable information recorded or disclosed. The data was used solely for academic research purposes.

4. Results and Findings

The findings from the survey reveal no statistically significant difference in overall customer satisfaction between conventional and Islamic insurance sectors. However, Islamic insurance customers showed a higher awareness of and preference for Sharīʿah-compliant services. This underscores the role of religious beliefs in shaping consumer behaviour. In terms of SERVQUAL dimensions, both sectors exhibited service quality gaps, particularly in responsiveness and empathy. Islamic insurers scored higher on the compliance dimension, reflecting customer confidence in their religious alignment.

4.1. Analysis of Service Quality

This section begins with the application of a one-sample t-test, followed by a paired samples t-test for comparative analysis. Subsequently, the overall service quality of the industry is assessed, and finally, a frequency analysis is conducted to further explore the data.

4.2. Analysis of Overall Industry on Customers' Expectation

The findings derived from the comprehensive analysis of the entire insurance industry, encompassing both conventional and Islamic insurance, are presented in Table 2. It is indicated by the data that the expectation of Reliability, identified as the primary construct for customer satisfaction in this questionnaire, is associated with an average value of 1.42. This suggests that expectations regarding reliability were rated between "strongly agree" and "agree," with a tendency toward "strongly agree." Within this construct, a significant level of demand was expressed for the fourth variable, which emphasizes that services should be delivered at the earliest possible opportunity.

Table 2: Mean of Expectation and Perception of all Variables

Variables	GAP
Reliability (REL)	
REL 1	-0.35
REL 2	-0.59
REL 3	-0.69
REL 4	-0.78
REL5	-0.68
REL6	-0.76
Responsiveness (RES)	
RES 1	-0.64
RES 2	-0.73
RES 3	-0.61
RES 4	-0.84
RES 5	-0.7
Empathy (EMP)	
EMP 1	-0.56
EMP 2	-0.72
EMP 3	-0.67
EMP 4	-0.7
Convenience (CON)	

CON 1	-0.81
CON 2	-0.67
CON 3	-0.79
CON 4	-0.5
CON 5	-0.36
Compliance (COM)	
COM 1	-0.96
COM 2	-0.93
COM 3	-0.86
COM 4	-0.86

With a mean value of 1.45, the second construct is Responsiveness, reflecting a high level of agreement.' The requirement expressed by respondents surpasses that of the first construct in this construct. Within this category, the highest demand pertains to the first and second variables, specifically that company employees should deliver prompt services and consistently be willing to assist customers. The average for the third construct, Empathy, is also 1.45, signifying that the demand for this construct is equivalent to that for Responsiveness. Here, the highest demand is for the first variable, which emphasizes that the company should offer personalized customer support. An average score of 1.53 was recorded for the fourth construct, Convenience, reflecting a generally high level of agreement among respondents regarding the convenience of services. In this construct, respondents exhibit greater demand for the first and third variables. This indicates that customers are particularly insistent that the company prioritize services for elderly or disabled individuals, provide sufficient guidance and information regarding the use of insurance services and facilities, and ensure prompt and hassle-free claims settlement. Conversely, there is less demand for convenient hours and locations of branches. The next construct is Compliance, which pertains to the adherence to Sharīʿah rules by Islamic insurance companies. This construct has an average score of 1.17, which is close to 'strongly agree,' indicating a strong demand from respondents for Sharīʿah compliance among Islamic insurance providers. This may reflect the growing demand for Sharīʿah-compliant products in Pakistan. Lastly, the mean score for the expectations of reliability, responsiveness, empathy, and convenience is 1.46, which falls between 'strongly agree' and 'agree.' The expectations of respondents across all constructs are relatively uniform, indicating a consensus that they are nearing 'strongly agree.'

4.3. Analysis of Overall Industry on Customers' Perception

The reliability construct has an average perception score of 2.1, indicating a general agreement among respondents. The highest perception within this construct is associated with the first variable—related to the trustworthiness, confidence, and honesty of company employees—scoring 1.76. In comparison, the sixth variable received a score of 2.18, implying that respondents perceive a lack of sufficient information regarding the services offered by the insurance company. An average score of 2.12 is recorded for the second construct, responsiveness, placing it between the 'agree' and 'neutral' categories.' This suggests a lower level of satisfaction among respondents regarding this aspect. Specifically, the perception of the fifth variable, which addresses the facilitation of services through mobile and internet platforms, is comparatively lower than that of other variables within this construct. The third construct, empathy, also has a mean score of 2.12, similarly falling between 'agree' and 'neutral.' In this case, respondents express less satisfaction with the fourth variable, which concerns employees' ability to understand the specific needs of customers. In the fourth construct, convenience, the average response from respondents is 2.15, again situated between 'agree' and 'neutral.' Here, the perception of the first variable, which states that the company provides priority services to elderly or disabled individuals, is high, while the fifth variable, concerning the convenience of operating hours for customers, receives a lower rating. Finally, the fifth construct, compliance, has an average perception score of 2.1, indicating agreement among respondents that Islamic insurance companies adhere to Sharīʿah rules in their decision-making processes. The average assessment of reliability, responsiveness, empathy, and convenience stands at 2.12, indicating a position between 'agree' and 'neutral.' The findings suggest that organizations must enhance their efforts to elevate client perceptions across all dimensions. Respondents have rated their perceptions as low across the board, with particular emphasis on the areas of responsiveness and convenience, where companies should intensify their initiatives to improve perception levels.

4.4. Analysis of Overall Industry Customers' Satisfaction

Customer satisfaction is determined by the extent of the gap between expected and perceived service quality (Expectation - Perception = Service Quality). A larger gap indicates lower customer satisfaction, while a smaller gap suggests higher satisfaction. The results presented in Table 4.2 indicate a statistically significant gap, with a value of E - P = -0.657, signifying that customer expectations exceed their perceptions. The industry must enhance service quality across various dimensions, including reliability, responsiveness, empathy, and convenience, to elevate customer satisfaction levels.

4.5. Comparative Analysis of Islamic and Conventional Insurance Companies

A comparative analysis of service quality between Islamic and conventional insurance companies is conducted as one of the objectives of this study. To carry out this analysis, an independent samples t-test is employed, with the overall sample being divided into two sub-samples. The results indicate that the difference in overall service quality between the two types of insurance providers is not statistically significant, as evidenced by a p-value of 0.69, suggesting that the observed mean difference is likely due to random variation. This trend of statistical insignificance is also observed across other constructs related to perception and expectation.

Table 3: Customer Perception and Expectations in Insurance Companies

Construct	Type	Perception (Mean)	Expectation (Mean)	Significance (2-Tailed)
Reliability	Islamic	2.08	1.42	0.70 / 0.86
	Conventional	2.04	1.41	0.70 / 0.86
Responsiveness	Islamic	2.17	1.48	0.76 / 0.41
	Conventional	2.14	1.42	0.76 / 0.41
Empathy	Islamic	2.11	1.52	0.99 / 0.39
	Conventional	2.12	1.36	0.99 / 0.39
Convenience	Islamic	2.17	1.57	0.60 / 0.49
	Conventional	2.12	1.47	0.60 / 0.49
Compliance	Islamic	1.77	1.18	0.00 / 0.97
	Conventional	2.47	1.17	0.00 / 0.97
Overall	Islamic	2.14	1.50	0.73 / 0.31
	Conventional	2.10	1.42	0.73 / 0.31
Knowledge	Islamic	0.92	—	0.00
	Conventional	0.61	—	0.00
Service Quality	Islamic	-0.64	—	0.69
	Conventional	-0.68	—	0.69

Major variations have been observed in the average scores for the construct of knowledge. In the questionnaire (Annex-C), knowledge of Islamic insurance was recorded as either "yes" or "no," represented by the values 1 and 0, respectively. A score of 0.92 was reported by respondents from Islamic insurance companies, which is closer to 1, while a score of 0.60 was reported by respondents from conventional insurance companies. These results suggest that a greater understanding of Takāful is possessed by customers of Islamic insurance compared to those of conventional insurance. Table 4 illustrates the gap between expectation and perception for each SERVQUAL construct across both Islamic and conventional companies. The analysis of the constructs for Reliability, Responsiveness, Empathy, and Convenience reveals no significant differences, indicating that variations in these variables are negligible.

Table 4: Service Quality Gap Analysis between Insurance Companies

Variable	Type	Mean of Gap	Significance (2-Tailed)
Reliability	Islamic	-0.66	0.81
	Conventional	-0.63	—
Responsiveness	Islamic	-0.70	0.86
	Conventional	-0.72	—
Empathy	Islamic	-0.59	0.19
	Conventional	-0.76	—
Convenience	Islamic	-0.60	0.83
	Conventional	-0.64	—
Compliance	Islamic	-0.60	0.00
	Conventional	-1.30	—

A significant difference is evident in the Sharīʿah Compliance variable within the Islamic insurance sector, with a p-value of 0.000 (where values ≤0.05 indicate significance, while

those above this threshold are considered insignificant). The mean service quality gap for Islamic insurance companies is recorded at -0.60, in contrast to -1.30 for conventional insurance companies. These results suggest that customers of Islamic insurance firms perceive a greater degree of Sharīʿah compliance in their services compared to the offerings of conventional insurance providers. The independent samples t-test revealed that customers affiliated with Islamic insurance providers tended to demonstrate a more nuanced comprehension of essential Sharīʿah tenets governing insurance, accompanied by a heightened perception of their institution's alignment with Sharīʿah principles. In contrast, across the remaining dimensions of service quality, no statistically meaningful distinctions were discerned between the two customer groups.

4.6. Company-wise Analysis on Customer Satisfaction

An evaluation of the service quality of various companies is conducted in this section. The comparison is grounded in the disparity between customer expectations and their actual perceptions. A larger gap indicates lower satisfaction levels, while a smaller gap suggests higher satisfaction. The findings presented in Table 5 reveal that there is no notable difference in customer expectations, as these are uniformly high across all firms. However, significant variations are observed in customer perceptions among the different companies.

Table 5: Service Quality Gap Analysis by Insurance Company

Company Name	Type	Expectation	Perception	Service Quality Gap
Askari General Insurance	Conventional	1.74	1.91	-0.17
EFU Life	Conventional	1.40	2.16	-0.76
EFU General	Conventional	1.09	2.41	-1.31
Pak-Qatar General Takaful	Islamic	1.60	2.16	-0.56
Pak-Qatar Family Takaful	Islamic	1.45	2.08	-0.63
Dawood Family Takaful	Islamic	1.53	2.21	-0.68
Pak-Kuwait Takaful	Islamic	1.25	2.03	-0.77
Overall Results		1.46	2.12	-0.66

As shown in Table 5, superior performance is exhibited by Askari General Insurance, as evidenced by a comparatively narrower service quality gap relative to its competitors. As a result, higher levels of customer satisfaction are reported, suggesting that the quality of service provided surpasses that of other firms. Within the Islamic insurance sector, the second-best performance is attributed to Pak-Qatar General Takāful, owing to its relatively smaller service quality gap. In contrast, the lowest satisfaction levels are expressed by customers of EFU General Insurance. Immediately above EFU, Pak-Kuwait Takāful is positioned second-to-last in terms of service quality, based on the observed gap.

4.7. Analysis of Preferences of Respondents for Insurance Industry

The respondents' preferences are explored in the final section of the questionnaire. Respondents were inquired about their motivations for selecting an insurance policy and the significance they attribute to various factors, Classified into four levels of importance—high, medium, low, and not important—these categories are denoted by the integers 1, 2, 3, and 4, respectively. The results are summarized in Table 6. The first preference variable pertains to the Sharīʿah compliance of the insurance business, which 54% of respondents identified as highly important, whereas 27% regarded it as unimportant. The second variable concerns religious motivation; 41% of respondents considered it a highly significant factor in selecting an insurance provider, while 15% attributed little to no importance to it. The third preference relates to the availability of interest-free insurance, with 57% of participants assigning it high importance and 10% indicating it held no significance. The final variable involves risk management, to which 89% of respondents assigned high to medium importance, underscoring its role as a critical factor in the decision-making process for acquiring insurance coverage.

Table 6: Preferences of Respondents Regarding Insurance Industry Factors

Preference	Level	Frequency	Percentage (%)
1. Sharīʿah Compliance	High	96	53.6
	Medium	36	20.1
	Low	20	11.2
	No Preference	27	15.1
	Total	179	100

2. Motivation from Religion	High	74	41.3
	Medium	52	29.1
	Low	26	14.5
	No Preference	27	15.1
	Total	179	100
3. Interest-Free Business	High	102	57.0
	Medium	36	20.1
	Low	23	12.8
	No Preference	18	10.1
	Total	179	100
4. Risk Management	High	80	44.7
	Medium	78	43.6
	Low	17	9.5
	No Preference	4	2.2
	Total	179	100
5. Low Cost	High	72	40.2
	Medium	84	46.9
	Low	17	9.5
	No Preference	6	3.4
	Total	179	100
6. Profitability/Return	High	52	29.1
	Medium	87	48.6
	Low	23	12.8
	No Preference	17	9.5
	Total	179	100
7. Easy Access	High	111	62.0
	Medium	57	31.8
	Low	3	1.7
	No Preference	8	4.5
	Total	179	100

Affordability emerges as the fifth preference, with a substantial majority, that is, 87% of respondents indicating it as a factor of high or moderate importance in their choice of an insurance provider. The sixth consideration involves the relevance of profitability and returns; 29% of participants rated this criterion as highly important, 47% assigned it moderate importance, and 10% deemed it unimportant. The seventh and final preference centres on ease of accessibility, with 62% of respondents emphasizing its high importance, 32% acknowledging moderate importance, and only 5% expressing indifference toward this aspect.

4.8. Analysis of the Preferences of Respondents for Conventional Insurance Industry

The respondents' preferences related to the conventional insurance sector are explored in this portion of the analysis, with the corresponding data presented in the following table. For the first preference—Sharīʿah compliance in business practices—only 15% of respondents assigned high importance to this factor, while 32% did not consider it important. In terms of the second preference, which addresses religious motivation as an influencing factor, 19% viewed it as highly important, whereas an equal 32% placed no importance on it. The third preference highlights the importance of operating without interest; here, 37% of respondents considered it a top priority, while 20% regarded it as insignificant.

Table 7: Preferences of Respondents Regarding Conventional Insurance Factors (n=78)

Preference	Level	Frequency	Percentage (%)
1. Sharīʿah Compliance	High	12	15.4
	Medium	23	29.5
	Low	18	23.1
	No Preference	25	32.1
	Total	78	100
2. Motivation from Religion	High	15	19.2
	Medium	19	24.4
	Low	19	24.4
	No Preference	25	32.1
	Total	78	100
3. Interest-Free Business	High	29	37.2
	Medium	17	21.8

	Low	16	20.5
	No Preference	16	20.5
	Total	78	100
4. Risk Management	High	33	42.3
	Medium	35	44.9
	Low	9	11.5
	No Preference	1	1.3
	Total	78	100
5. Low Cost	High	29	37.2
	Medium	39	50.0
	Low	9	11.5
	No Preference	1	1.3
	Total	78	100
6. Profitability/Return	High	16	20.5
	Medium	42	53.8
	Low	12	15.4
	No Preference	8	10.3
	Total	78	100
7. Easy Access	High	49	62.8
	Medium	27	34.6
	Low	1	1.3
	No Preference	1	1.3
	Total	78	100

Risk management is identified as the fourth preference, with 42% of respondents rating it as highly important and 45% as moderately important when selecting an insurance policy. The fifth preference focuses on the affordability of insurance policies in comparison to other companies, where 37% of participants deem it highly important and 50% assign it medium importance. Consequently, the cost of insurance policies emerges as a significant factor. The sixth preference relates to profitability and returns, with 20% of respondents viewing it as highly important, while 10% regard it as unimportant. Lastly, the seventh preference addresses the accessibility of the insurance company, with 63% considering it highly important and only 1% view it as unimportant.

4.9. Analysis of Preferences of Respondents for Islamic Insurance Industry

The respondents' preferences within the Islamic insurance sector are analysed in this study, specifically regarding the factors they deem significant when selecting an insurance policy and provider. The findings are presented in Table 8. The foremost preference is compliance with Sharīʿah principles, with 83% of respondents indicating it is of high importance in their decision-making, while 2% assign it no importance. The second preference pertains to motivation derived from religious beliefs, where 58% regard it as highly important, and 2% view it as unimportant. The third preference concerns the necessity for the insurance business to be free from interest, with 72% considering this aspect highly important, while 2% do not find it significant. The fourth preference relates to risk management, with 89% of respondents rating this factor as highly or moderately important, whereas 3% deem it unimportant when selecting an insurance policy. To conclude, the relatively affordable cost of insurance policies was viewed as highly important by 43% of respondents, while just 5% did not consider it to be a significant factor.

Table 8: Preferences of Respondents Regarding Islamic Insurance (n = 100)

Sr.	Preference	Response Level	Frequency	Percentage (%)
1	Sharīʿah Compliance	High	83	83.0
		Medium	13	13.0
		Low	2	2.0
		No Preference	2	2.0
		Total	100	100.0
2	Motivation from Religion	High	58	58.0
		Medium	33	33.0
		Low	7	7.0
		No Preference	2	2.0
		Total	100	100.0
3	Interest-Free Business	High	72	72.0
		Medium	19	19.0

		Low	7	7.0
		No Preference	2	2.0
		Total	100	100.0
4	Risk Management	High	46	46.0
		Medium	43	43.0
		Low	8	8.0
		No Preference	3	3.0
		Total	100	100.0
5	Low Cost	High	43	43.0
		Medium	44	44.0
		Low	8	8.0
		No Preference	5	5.0
		Total	100	100.0
6	Profitability/Return	High	36	36.0
		Medium	44	44.0
		Low	11	11.0
		No Preference	9	9.0
		Total	100	100.0
7	Easy Access	High	61	61.0
		Medium	30	30.0
		Low	2	2.0
		No Preference	7	7.0
		Total	100	100.0

Profitability and return are identified as the sixth priority, with 80% of respondents rating it as either highly or moderately important, while 9% deem it unimportant. The seventh and final priority is ease of access, which 61% of participants regard as highly important, and 30% view as moderately important. Additionally, 7% of respondents assign no significance to this aspect. It is noteworthy that participants from Islamic insurance companies place considerable emphasis on Compliance with Islamic legal frameworks.

4.10. Comparison of Conventional and Islamic Insurance Industry on Preferences

Significant differences in preferences among respondents are revealed through a comparison between the conventional and Islamic insurance industries. Notably, individuals associated with Islamic insurance companies place a greater emphasis on the Sharīʿah compliance of these firms compared to their counterparts in the conventional insurance sector. For instance, when assessing the importance of Sharīʿah compliance, 83% of respondents from Islamic insurance view it as highly significant, whereas only 15% of those from conventional insurance share this perspective. Additionally, the influence of religious motivation is another key factor; 91% of Islamic insurance customers regard this aspect as highly or moderately important, In contrast, it is considered highly important by only 45% of respondents affiliated with the conventional insurance sector.

Table 9: Comparison of Preferences: Conventional vs. Islamic Insurance Companies

Sr.	Preference	Company Type	High (%)	Medium (%)	Low (%)	No (%)	Total (%)
1	Sharīʿah Compliance	Conventional	15.4	29.5	23.1	32.1	100
		Islamic	83.0	13.0	2.0	2.0	100
2	Motivation from Religion	Conventional	19.2	24.4	24.4	32.1	100
		Islamic	58.0	33.0	7.0	2.0	100
3	Interest-Free Business	Conventional	37.2	21.8	20.5	20.5	100
		Islamic	72.0	19.0	7.0	2.0	100
4	Risk Management	Conventional	42.3	44.9	11.5	1.3	100
		Islamic	46.0	43.0	8.0	3.0	100
5	Low Cost	Conventional	37.2	50.0	11.5	1.3	100
		Islamic	43.0	44.0	8.0	5.0	100
6	Profitability/Return	Conventional	20.5	53.8	15.4	10.3	100
		Islamic	36.0	44.0	11.0	9.0	100
7	Easy Access	Conventional	62.8	34.6	1.3	1.3	100
		Islamic	61.0	30.0	2.0	7.0	100

The third factor pertains to the necessity for the insurance business to be interest-free, a significant 72% of Islamic insurance customers regard this aspect as highly important. In contrast, only 37% of conventional insurance customers share this sentiment. Regarding risk management, the responses from both groups are quite comparable, with 89% of Islamic

insurance respondents and 87% of conventional insurance respondents deeming this factor to be of high or medium importance. The next consideration is the low cost of policies, which holds equal significance for both groups, as 87% of respondents from each type view it as highly or moderately important. The sixth preference pertains to profitability and returns, where 80% of Islamic insurance respondents and 74% of conventional insurance respondents consider this factor to be of high or medium importance. Lastly, the aspect of ease of access is noted, with ratings of high or moderate importance assigned by 91% of respondents from the Islamic insurance sector and 97% from the conventional sector. Based on these responses, it can be inferred that the primary distinction in preferences is attributed to the emphasis placed on Sharīʿah compliance within the insurance business, while the remaining four factors are perceived in a relatively similar manner by both groups.

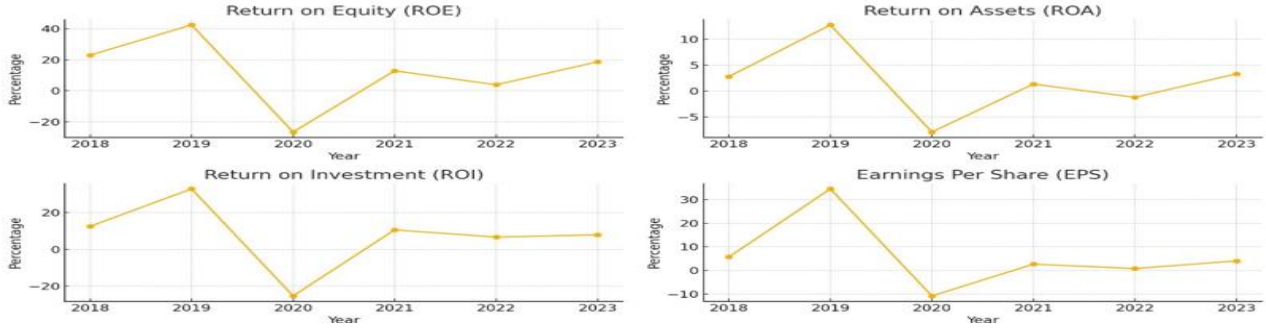
4.11. Efficiency of Insurance Industry through Ratio Analysis

An alternative approach is employed to examine the efficiency of the insurance sector in this section, specifically utilizing ratio analysis. Ratio analysis serves as a robust instrument for assessing the financial efficiency of any organization. It evaluates the interrelationships among various components of financial statements, thereby assessing a company's financial standing and operational performance, while also facilitating comparisons with prior years' results or among industry peers. The sector's overall efficiency is set to be examined, with emphasis placed on a comparative evaluation of Islamic and conventional insurance companies. Measures of profitability and efficiency, capital structure, and investor-related ratios will be used to conduct the assessment.

4.12. Efficiency of Conventional Insurance Industry

The financial ratio analysis of Pakistan's conventional insurance industry from 2018 to 2023 in Figure 2 reveals significant volatility, indicating operational inefficiencies and exposure to economic uncertainty. Key profitability indicators such as Return on Equity (ROE) and Return on Assets (ROA) displayed sharp fluctuations, with ROE peaking at 42.51% in 2019 but plunging to -26.54% in 2020, and ROA following a similar trend. Such instability suggests weaknesses in risk management and capital utilization, which is consistent with findings by Cummins and Weiss (2014), who highlight that emerging market insurers are particularly vulnerable to macroeconomic shocks. Return on Investment (ROI) and Earnings per Share (EPS) also exhibited inconsistency, reflecting volatile investment income and underwriting performance. Investment-related ratios such as Investment Income to Net Premium (IIC/NP) and Investment to Total Assets (I/TA) demonstrate the industry's reliance on investment returns to offset underwriting losses—a common practice in insurance sectors worldwide. However, the sharp decline in ROI and IIC/NP during 2020 signals poor portfolio diversification and heightened market risk. The underwriting performance indicators, including Commission to Net Premium (CIN/NP) and Underwriting Profit to Profit after Tax (UP/PAT), reveal inefficiencies in client acquisition and heavy dependence on commission-driven sales, corroborating the concerns of (Outreville, 2013) regarding cost control challenges in developing markets. Furthermore, despite growth in Sum Insured Value (SIV), which indicates market expansion, the Net Claims to Net Premium (NC/NP) ratio stresses the need for better claim management to protect profit margins. Debt-related ratios (Debt-to-Equity and Debt Ratio) suggest high financial leverage, exposing firms to liquidity risk during downturns. Overall, the industry's inconsistent financial performance reflects structural weaknesses and environmental challenges, as documented by Alhassan and Biekpe (2016), emphasizing the necessity for strategic reforms to ensure sustainable growth and investor confidence.

Figure 2: Graphical Representation of Conventional Insurance Industry Ratios



4.13. Efficiency of Islamic Insurance industry

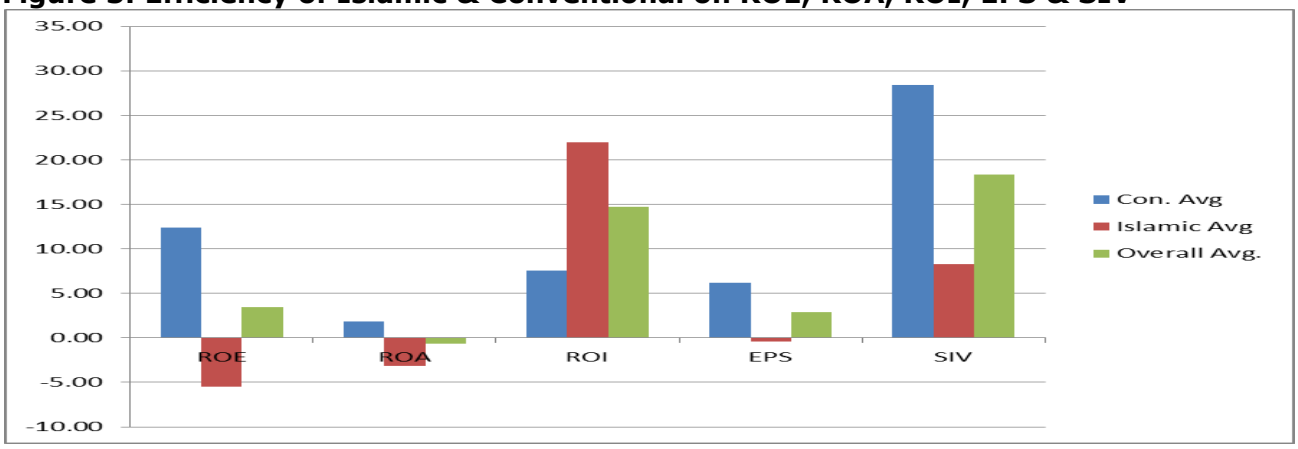
The efficiency analysis of Pakistan's Islamic insurance sector from 2018 to 2023 reveals gradual but cautious improvement after years of underperformance. The Return on Equity (ROE) and Return on Assets (ROA) remained negative until 2022, reflecting poor profitability and underutilized assets, consistent with findings by Almajali, Alamro and Al-Soub (2012), who highlighted inefficiency in equity deployment in underdeveloped Islamic insurance markets. However, positive ROE (1.85) and near-zero ROA (-0.35) in 2023 indicate early recovery, possibly driven by cost control and improved risk management. Investment Return (ROI) remained robust, suggesting that investment functions compensated for weak underwriting, as also noted by Ismail, Alhabshi and Bacha (2011), where Islamic insurance operators relied heavily on investment income. The shift to positive Earnings per Share (EPS) in 2023 signals regained profitability and investor confidence. The underwriting performance improved as Claims Incurred to Net Premium (CIN/NP) reduced below 100, reflecting better claims handling and pricing, aligning with Hussain and Pasha (2011), who emphasized the role of underwriting discipline in Islamic insurance efficiency. However, volatile Underwriting Profit to Profit after Tax (UP/PAT) ratios and reliance on investment income suggest that core operations remain unstable. Investment Income to Net Premium (IIC/NP) increased steadily, underlining the sector's dependence on investment returns, similar to the trends observed by Kader et al. (2014). Operational efficiency improved as Net Commission to Net Premium (NC/NP) declined, indicating cost control. A rising Debt Ratio and Debt to Equity (D/E) highlight growing leverage, raising potential solvency risks if profitability lags, consistent with warnings in the literature on excessive Islamic insurance gearing (Ahmad & Sungip, 2008). Overall, the industry shows promising recovery signs but must focus on sustainable underwriting and prudent financial management to ensure long-term efficiency.

4.14. Efficiency of Islamic and Conventional Insurance Industry

A comparison at the company level between Islamic and conventional insurance companies for the period 2018–2023 is undertaken in this section. Superior performance in

terms of ROE, ROA, ROI, EPS, and SIV ratios is demonstrated by EFU when compared to its competitors, as indicated by the findings. Among Islamic insurance firms, Pak-Kuwait Takāful exhibits the most favourable results in these same ratios. This may be attributed to the company's longevity and established presence in the Pakistani market. The subsequent figure illustrates the comparative results of various profitability and efficiency ratios within the industry (see Figure 3).

Figure 3: Efficiency of Islamic & Conventional on ROE, ROA, ROI, EPS & SIV



According to the findings, superior performance in ROE, ROA, EPS, and SIV ratios is exhibited by conventional insurance companies in comparison to their Islamic counterparts, with return on investment (ROI) being the sole exception. As previously mentioned, these ratios are largely influenced by the net profits of the firms, which are higher for conventional insurance companies compared to their Islamic counterparts. This disparity may be attributed to factors such as the age of the companies and the broader range of investment opportunities available to conventional insurers.

Figure 4: Efficiency of Islamic & Conventional on CIN/NP

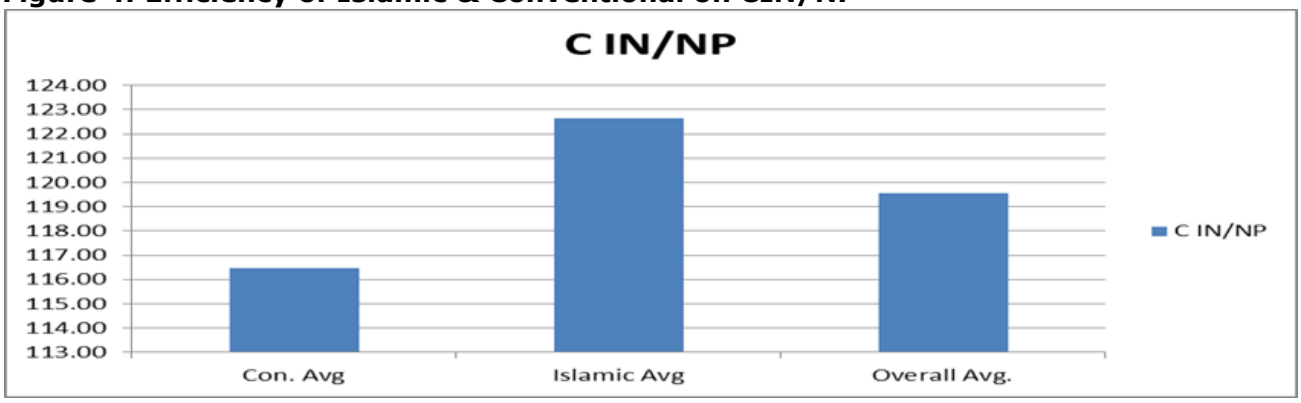
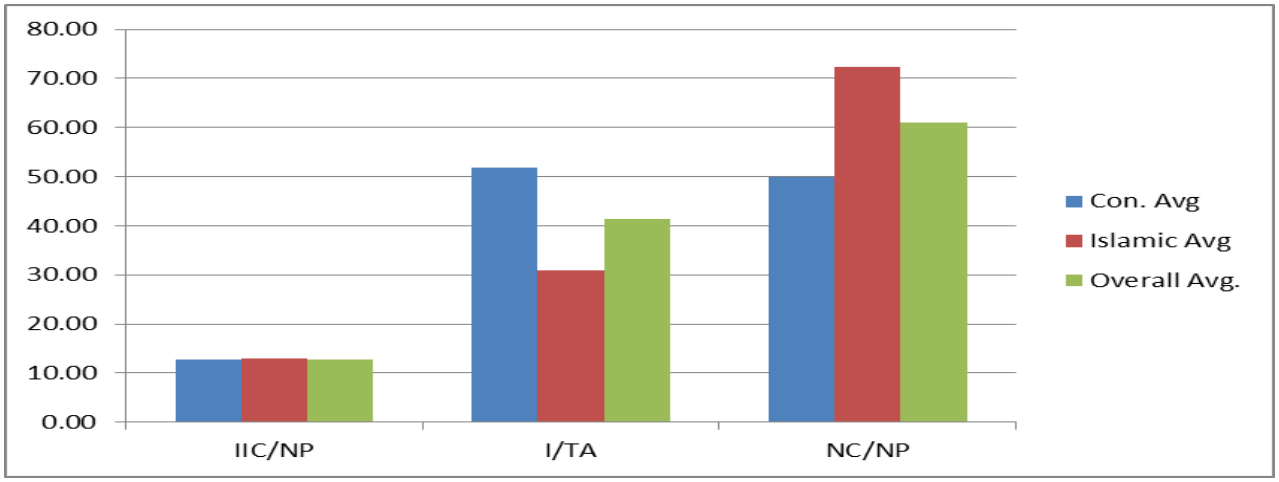


Figure 4 shows an analysis of the claims incurred to net premium (CIN/NP) ratios which reveals that conventional insurance companies outperform their Islamic counterparts. The consistently lower average CIN/NP ratio observed in the conventional sector implies more effective management of claims, investments, and overall profitability. The results for underwriting profits to profit after taxes (UP/PAT) are presented in Table 20, further illustrating that superior performance was achieved by the conventional insurance sector compared to the Islamic insurance sector during the period under review. The average UP/PAT ratio for the Islamic insurance sector is negative, whereas the results for the conventional insurance sector are positive.

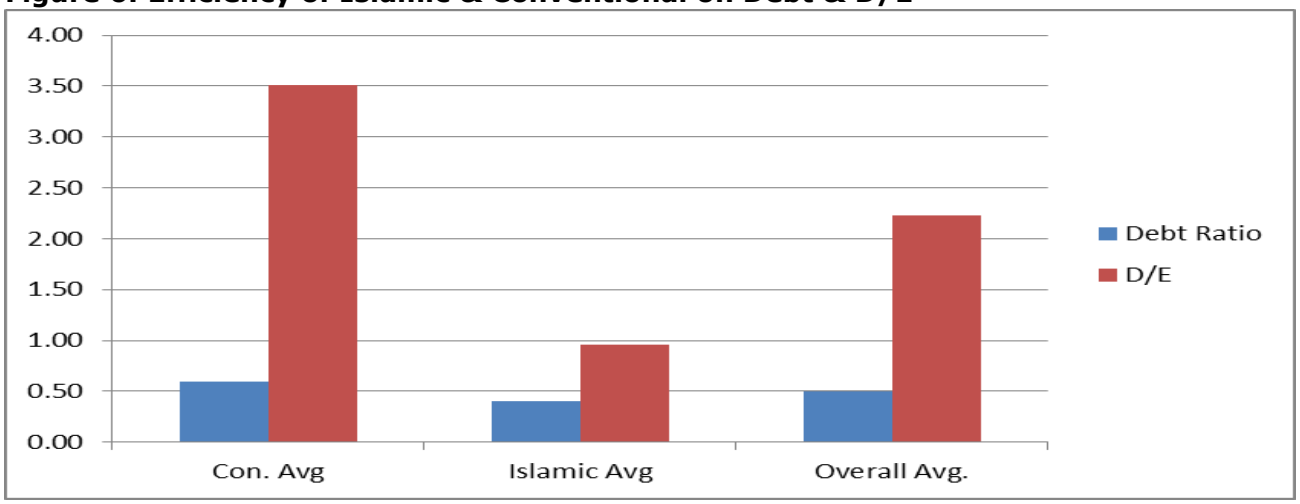
The analysis presented in Figure 5 demonstrates that the investment income to net premium (IIC/NP) ratio shows no substantial variation between conventional and Islamic insurance companies, as the values for both remain closely aligned. However, conventional insurance firms demonstrate superior performance in the NC/NP ratio, with a lower average for conventional firms compared to a higher average for their Islamic counterparts.

Figure 5: Efficiency of Islamic & Conventional on IIC/NP, I/TA & NC/NP



As previously mentioned, a high NC/NP ratio indicates poor performance by the firm. Moreover, the Islamic insurance sector demonstrates more favourable debt and debt-to-equity ratios compared to the conventional insurance sector, as evidenced by consistently lower values. These findings concerning capital structure are illustrated in the subsequent figure 6.

Figure 6: Efficiency of Islamic & Conventional on Debt & D/E



Shariah prohibits interest-based debt, which may contribute to the lower debt ratios observed in Islamic insurance companies compared to their conventional counterparts. Consequently, an analysis of these ratios suggests that, on average, the efficiency of the conventional insurance sector in Pakistan surpasses that of the Islamic insurance sector. This disparity may arise from the fact that Islamic insurance companies have not demonstrated superior profitability results during the analysis period when compared to conventional firms, with most ratios focusing on the profitability of the insurance industry. Additionally, the expansion of their networks and elevated expenses may lead to diminished profitability within the Islamic insurance sector.

5. Conclusion

The study concludes that while both insurance models serve essential roles in Pakistan's financial ecosystem, each has distinct strengths and weaknesses. Conventional insurers lead in economic efficiency, but Islamic insurers hold a moral and ethical appeal for a significant segment of the population. The absence of a strong link between satisfaction and efficiency implies that companies must balance financial performance with customer-centric strategies to ensure long-term sustainability. Based on these findings, several recommendations are proposed. Islamic insurers should enhance Sharīʿah compliance mechanisms and improve service delivery to strengthen consumer trust. This includes regular Sharīʿah audits, transparent disclosures, and investment in employee training. Conventional insurers, on the other hand, should focus on improving responsiveness and empathy to elevate customer experiences. Both sectors can benefit from digital transformation initiatives to enhance

convenience and operational efficiency. This research contributes to the academic discourse on Islamic finance and insurance by offering empirical evidence on the comparative performance of conventional and Islamic insurance models in Pakistan. It highlights the multifaceted nature of customer satisfaction and underscores the importance of aligning financial efficiency with ethical and service quality considerations. By addressing both operational and perceptual dimensions, the study provides a roadmap for sustainable growth and customer-centric development in Pakistan's insurance industry. This study acknowledges its limitations, including a modest sample size and geographic concentration in urban centres. The sample of 179 respondents from Rawalpindi/Islamabad reflects a significant portion of Pakistan's urban insurance customers where insurance awareness is highest. While it improves relevance to urban markets, generalizability to rural or less-educated populations remains limited. The study's findings are thus best applied to urban, middle-income, educated customers, and future research could extend to rural areas to enhance representativeness. Moreover, time and cost constraints restrict geographical coverage. Future research could expand the scope to rural areas, incorporate qualitative methods, and explore emerging trends such as digital insurance and micro-Takāful. Longitudinal studies could also provide deeper insights into the evolving dynamics of customer satisfaction and financial performance.

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Annex-II: Analysis of Respondent's Demographics

Insurance Category			**Education Level**		
Category	**Frequency**	**Percent**	**Education**	**Frequency**	**Percent**
Motor Vehicle	50	27.9	Under Matric	1	0.6
Fire & Property	12	6.9	Matric	6	3.4
Engineering	6	3.4	FA/FSC	25	14
Travel	4	2.2	BA/BSC	43	24
Health	16	8.9	BS/MA	75	41.9
Group Life	14	7.8	Above	28	15.6
Individual Life	73	40.8	Total	178	99.4
Others	4	2.2			
Total	179	100			
Type of Education			**Age**		
Type	**Frequency**	**Percent**	**Age**	**Frequency**	**Percent**
Finance/Business	82	45.8	18-25	49	27.4
Medical	8	4.5	26-35	58	32.4

Engineering	15	8.4	36-50	65	36.3
Arts	61	34.1	50-60	5	2.8
Others	11	6.1	61 & Above	2	1.1
Total	177	98.9	Total	179	100
Profession			**Income Range**		
Profession	**Frequency**	**Percent**	**Income (000 Rs/Month)**	**Frequency**	**Percent**
Student	33	18.4	5-15	21	11.7
Private Employee	93	52.0	16-25	30	16.8
Govt. Employee	20	11.2	26-35	36	20.1
Self Employed	30	16.8	36-45	37	20.7
Others	3	1.7	46 -55	22	12.3
Total	179	100	56 & Above	30	16.8
			Total	176	98.3