

Religious Value as the Main Influencing Factor to Customers Patronizing Islamic Bank

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Abstract: Islamic bank in Malaysia was established in 1983. The development of the Islamic bank is increasingly challenging with the participation of more conventional banks offering banking products and services based on Islamic principles. This paper analyses the factors considered as important by academicians in public institutions of higher learning in selecting a particular bank. A sample of 250 Islamic bank customers in seven Malaysian Public Institutions of Higher Learning in the East Coast of Peninsular Malaysia was surveyed. The study revealed that religious value appears to be the most important factor. Other factors perceived to be important include ATM services, financial security, cost and benefit and attractiveness. It is to be concluded that, even though there are a lot of determining factors the religious value practised by the consumers plays a vital role in influencing them to patronize Islamic banking. For future studies, it is recommended to add more samples from other categories of consumers from different parts of the country.

Key words: Selection criteria • Islamic bank • Religious value • Malaysia

INTRODUCTION

Islamic banking which started in 1983 in Malaysia, refers to a system of banking that complies with Islamic law which also known as Shariah law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties and the assurance of fairness for all transactions based on an underlying business activity. It does not allow any transactions based on interest (*riba*), gambling (*maisir*) and speculative trading (*gharar*) at all cost¹. The progress of Malaysian Islamic banking system in its two decades of development has shown another significant milestone in the year 2004. The issuance of three new Islamic bank licences to Islamic Financiers from the Middle East has developed and liberalised the Islamic banking sector. Moreover, domestic banking groups and foreign Islamic

Banking Scheme (IBS) banks were also encouraged to set up Islamic Subsidiaries (IS), which were licensed under the Islamic Banking Act of 1983. By the year 2008, there were thirty nine commercial banks in Malaysia including seventeen Islamic banks involved in the Islamic banking system. Some of these were twenty domestic banks and nineteen locally-incorporated foreign banks which operate in Malaysia [1].

According to a study [2], bank customers will patronize the Islamic bank based on cluster. Different clusters will select different factors of which members of cluster 1 reported a tendency to select mortgage banks on the basis of service provisions while the members of cluster 2 reported a tendency to select mortgage banks on the basis of elements of Shariah and Islamic principles. While those members in cluster 3, reportedly chose Islamic mortgage providers on the basis of pricing.

¹ Bank Negara Malaysia, (2010). Overview of Islamic Finance in Malaysia.

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In terms of products and services, there are more than 40 Islamic financial products and services that may be offered by the banks using various Islamic concepts such as Mudharabah, Musyarakah, Murabahah, Al-Bai Bithaman Ajil, Al-Ijarah, Al-Takjiri, Qard Hasan, Al-Wakalah, Al-Kafalah and Wadiah [3].

Due to the challenging international financial environment in several major economies of the world, Islamic banking and finance has become an alternative to the conventional system. Public support and acceptance of Islamic banking system in Malaysia is technically reflected by the increasing amounts of total deposits and total financing based on Islamic principles that are placed by Muslim and non-Muslim customers, as well as the usage of Islamic banking products offered by the conventional financial institutions which started in 1994, the first year in which selected commercial banks were legally allowed to introduce Islamic deposit facilities. From this moment, a total of RM1, 463 million deposits were recorded collected [4].

Therefore, the objective of this study is to determine the factors considered important by academicians in seven selected Public Institutions of Higher Learning in the East Coast of Peninsular Malaysia where the importance of ranking will be provided. The study gathered information about the sample's demographic data, as well as products and services subscribed by the respondents. This paper facilitates bank marketers to understand the factors that influence selection criteria by the customers. It will assist the bank marketer to customise marketing efforts towards attracting customers as account holders. The findings of the study would also contribute to the limited data, presently available, about Islamic banking behaviour of academicians in Malaysia, which has not been given much attention in previous studies.

Literature Review: A review of literature reveals that much has been written about bank selection criteria [3, 5, 6]. A few researchers [7] in their study, found that customer service appears more important than price and that customers use additional criteria beyond price, speed and access to evaluate and choose between banks. However, another study [8] concluded that cost and benefit become two of the most important factors considered in bank selection decisions. More recently, [9], a study conducted at two local universities in Singapore found that undergraduates place high emphasize on the pricing and product dimension of bank services. The pricing strategy consists of high interest rate, low charges

and low loan rate. Meanwhile, quality of services and self-banking facilities are in the categories of product dimension. Similarly, the importance of product pricing is also emphasized in the other studies [10, 11].

Another survey was undertaken by researchers [3] to analyze the selection criteria used by Muslims and non-Muslims in a dual banking environment. Both Muslim and non-Muslims who patronized commercial banks have a common perception in selecting their banks. They value their time highly and expect their banking transaction to be completed as quickly as possible. In addition, the Islamic bank should be aware that only 40 percent of Muslims believe that religion is the main factor behind the reason why people maintain an account with Islamic bank.

However, researchers [12] who conducted a survey of 480 working Malay Muslims in Lembah Klang found that religiosity is a motivating factor for them to patronize Islamic banks. It shows that workers who are more religious tend to choose Islamic Banking for depositing money or financing purposes. Factor analysis reveals another three important factors, namely services, electronic services/payments and transport facility. In term of ranking, the five most influential factors for bank selection were widespread availability of ATM machines, fast and efficient services, availability of deposit cheque/cash machines, friendliness of staffs, variety of services offered and no interest charged on services.

According to yet another study [13] five factors were identified, namely which are convenience, price, product selection, service and ambience that customers perceive as important for selecting their financial services providers. A study [7] was conducted in Bahrain to examine the motive that disposes clients of conventional and Islamic banks to choose a specific bank. A total sample of 655 clients of Islamic bank through the branches of three Islamic banks and two branches of conventional banks, each with an Islamic window, was surveyed in the study. They found that Islamic religious belief and social responsibility are the most important factors that determine bank selection. Cost and benefit is the third most important factors considered in bank selection. It was also found that clients of Islamic banks are more familiar with the products/services that comply with Islamic shariah and widely offered by Islamic financial institutions to retail clients compared with customers of other conventional banks.

Another review found that undergraduate students place more emphasis on secure feeling, ATM services and financial benefit when choosing a bank to patronize.

The next three criteria were service provision, proximity and branch location that can be grouped as moderate factors. By contrast, the students considered non-people influence as an added attraction. Attractiveness and people influence did not play significant roles in inducing their decision in selecting the bank [14]. Researchers, [15] identified several search attributes which are typically accessible and can be evaluated prior to the purchasing act. Interest rate, fees charged, banking hours, new bank service and overdraft privileges emerged as prominent indicators of search dimension for customers in a south eastern city in the USA.

Another survey conducted [10] involving 750 respondents from four different regions in Malaysia revealed that the selection of Islamic banks appears to be predominantly a combination of Islamic banks and financial reputation and quality services offered by the bank. The quality of services includes factors like treating customers with courtesy and respect, staffs ability to convey trust and confidence, efficiency and effectiveness in handling any transaction and knowledge and readiness to provide solutions and answers concerning Islamic banking products and services. Other factors perceived to be important include good social responsibility practices, convenience and product price. A study [16] emphasized that an individual in Indonesia, puts shariah issue in patronizing a particular bank, recognizes the impermissibility of bank interest and puts reason of safety of fund during the financial crisis, has a greater potential to patronize Islamic banks. Furthermore, bank's marketing and advertisement also greatly influences individuals to patronize Islamic banks.

Methodology: A sample of 250 Islamic bank customers in seven Malaysian Public Institutions of Higher Learning in the East Coast of Peninsular Malaysia was surveyed. Out of the 250 samples, 129 were returned and deemed usable, thereby yielding a response rate of about 52 percent. Such a response rate was considered sufficient for statistical reliability and generalisation [17]. The population is about 2,400 and the majority of the population comprises of Muslims. The selection of the samples was based on non-probability sampling (convenience) and the customers were using Islamic products and services in both commercial and Islamic banks. The data was collected through self-administered questionnaires that were distributed and duly returned.

The questionnaire contained two sections: the first section was designed to gather information about the

sample's personal, demographic and customers' knowledge on Islamic banking. In the second section, the respondents were asked to indicate on a five-point Likert Scale ranging from 'Least Important' = 1, 'Of Little Importance' = 2, 'Moderately Important' = 3, 'Important' = 4 and 'Very Important' = 5. Twenty five different factors were listed in this category and most of these were derived from similar studies conducted in other countries [18, 19].

Thirty-two (32) selection criteria were gathered from past studies. Before the final questionnaire was sent out, a pilot study was conducted to determine the relevance of these factors in the instruments. All the selection criteria are chosen as the factors. The response obtained were analyzed using factor analysis Kaiser-Meyer-Olkin (KMO) and Bartlett's test. Then, principal component analysis (PCA) was applied to reduce the number of factors where the eigenvalue having a value of more than one was the criterion used in determining the number of factors. The responses within various factor groups were tested for internal consistency and reliability using Cronbach alpha tests. Importance rank is indicated by using mean analysis.

RESULTS AND DISCUSSION

Frequency Analysis: Frequency distribution is obtained for personal data or classification variables from Section A. Examination of the respondents (N =129) indicated a majority of females (85.3%) compared to males (14.7%). The over-representation of female respondents is expected since the population of female staffs in universities in Malaysia is 60% and only 40% males. 71.5% of the respondents describe themselves as from non-science stream staffs (business and economics, language, human science, public administration and political science, accounting, office management, hotel and Islamic studies) compared to 29.5% from the science stream. About half of the respondents are academicians from Terengganu (51.1%), Kelantan (28.7%) and Pahang (20.2%).

Table 1 presents that saving account is the most popular product subscribed by academicians amounting to approximately 122, followed by hire purchase and housing loan which are 26 and 21 respectively. The three least popular products belong to personal loans, fixed deposit accounts and insurance. The bank managers should increase their marketing efforts on these products and services. Academicians prefer using Islamic bank

Table 1: Services Utilized

| No | Items | Sum |
|----|-----------------|-----|
| 1 | Saving account | 122 |
| 2 | Current account | 6 |
| 3 | Fixed account | 2 |
| 4 | Housing loan | 21 |
| 5 | Hire purchase | 26 |
| 6 | Unit trust | 3 |
| 7 | Insurance | 2 |
| 8 | Credit card | 9 |
| 9 | Personal loan | 5 |

Table 2: Islamic bank and Non-Islamic bank (Islamic Window) Subscribed

| No | Items | Sum |
|----|-----------------------------------|-----|
| 1 | Islamic Bank | 125 |
| 2 | Non-Islamic Bank (Islamic Window) | 54 |

Table 3: Table 3. KMO AND Bartlett's Test

| KMO and Bartlett's Test | |
|--------------------------|-------|
| Kaiser-Meyer-Olkin (KMO) | 0.842 |
| Bartlett's Test | 0.000 |

services compared to the Non-Islamic bank which provides some kind of Islamic based products. Almost all the staffs are subscribing to the Islamic banks since the majority of the staffs are Muslims (Table 2).

Table 4: Overall Result

| No | Factors | Items | Factor Loadings | Eigenvalue |
|--------------------------------|--|---|-----------------|------------|
| 1 | Religious value ($\alpha = 0.856$) ($\sigma^2 = 13.344$) | Does not involve gambling or acts against syariah | 0.814 | 4.403 |
| | | Justice and honesty based on Holy Quran and Sunnah | 0.794 | |
| | | Contribute towards zakat payment | 0.791 | |
| | | Offers no riba charges | 0.774 | |
| | | Free from doubtful transaction | 0.769 | |
| | | Regulations do not burden customers | 0.705 | |
| | | Islamic regulations facilitate better performance | 0.696 | |
| 2 | Cost and Benefit ($\alpha = 0.939$) ($\sigma^2 = 34.662$) | Higher profit margin on saving account | 0.803 | 11.439 |
| | | Better profit than interest given by conventional institution | 0.803 | |
| | | Low penalty for late payment | 0.794 | |
| | | Gives incentives | 0.758 | |
| | | Imposes low services charges | 0.757 | |
| | | Low lending rate on loan | 0.729 | |
| | | Fixed lending rate on loan | 0.724 | |
| Paid competitive profit margin | 0.714 | | | |
| 3 | Financial Security ($\alpha = 0.896$) ($\sigma^2 = 6.863$) | Less risk in investment | 0.792 | 2.265 |
| | | Secure transaction | 0.757 | |
| | | Confident with size of bank | 0.741 | |
| | | Bank financial stability | 0.676 | |
| | | Bank confidentiality | 0.606 | |
| 4 | ATM Services ($\alpha = 0.869$) ($\sigma^2 = 4.852$) | Convenience of location | 0.856 | 1.601 |
| | | Available for 24 hours | 0.816 | |
| | | Use simple and understandable instructions | 0.814 | |
| | | Available in several location | 0.770 | |
| | | Very easy and fast | 0.550 | |
| 5 | Attractiveness ($\alpha = 0.881$) ($\sigma^2 = 7.311$) | Class of people who patronized bank | 0.811 | 2.413 |
| | | Attracted by the building | 0.810 | |
| | | Appearance and staffs attire | 0.802 | |
| | | Pleasant bank atmosphere | 0.781 | |
| | | Bank interior decoration | 0.697 | |
| | | Confidence with bank manager | 0.528 | |
| | | Friendliness of bank personnel | 0.521 | |

Factor Analysis: In order to verify the data set, it is suitable to use factor analysis Kaiser-Meyer-Olkin (KMO) and Bartlett's test. Table 3 depicts the value of Kaiser-Meyer-Olkin (KMO) at 0.842 and Bartlett's test shows significance level of 0.000. It measures the sampling adequacy and verifies the appropriateness of the factor model. Subsequently, principal component analysis (PCA) was applied to reduce the number of factors where the eigenvalue having a value of more than one was the criterion used in determining the number of factors. The result shows that five factors are extracted and explained more than half of the variance observed in the variables (67.03%), which satisfies the percentage of variance criterion for social science research [20]. Each of the identified factors is based on the factor loading value which is more than 0.4. An accepted method of interpretation of factor loadings is to regard as significant any variable with a loading of 0.4 or greatest as associated with the appropriate factor [20].

Table 4 presents the five factors along with scores for each variable and to what the factors belong to. These identified factors are cost and benefit, religious value,

Table 5: Ranking importance of Islamic Bank criteria factors

| Rank | Factors | Mean score |
|------|--------------------|------------|
| 1 | Religious value | 4.411 |
| 2 | ATM service | 3.856 |
| 3 | Financial security | 3.746 |
| 4 | Costs and benefits | 3.740 |
| 5 | Attractiveness | 2.907 |

attractiveness, financial security and ATM services. Of the variance explained these factors were represented as 34.662%, 13.344%, 7.311%, 6.863% and 4.852% respectively. After the factors were identified, a reliability test was used to ensure the consistency of each factor in order to verify the measurement of an item working together as a set and to independently measure the same construct. The items should be consistent in what they indicate relating to the concept being measured. The Cronbach alpha was employed to measure internal reliability by unit weighting items with salient loadings in a factor where Cronbach's alpha coefficient at 0.5 or higher was considered acceptable [20]. These factors produced alpha coefficient between 0.856 and 0.939, indicating high internal consistencies and reliability as shown in Table 4.

Determinants of Islamic Bank Selection Criteria: Based on the five factors identified, a ranking table was produced showing the mean score of each factor. Mean score was calculated to determine the level of importance for each factor in selecting an Islamic bank. Table 5 presents findings with respect to relative importance of bank selection criteria factors. The most important factor in selecting Islamic bank is religious value (mean=4.411) and followed by ATM service provided by Islamic bank (mean=3.856). While, the least important is attractiveness (mean=2.907). The outcome where religious value is the most important factor is similar to a study done earlier [7].

The religious value includes factors like Islamic bank is not involved in any regulations or acts against shariah that could spiritually burden customers, free from doubtful transaction, no riba is charged or offered and contributes towards zakat payment, justice and honesty based on the Holy Quran and Sunnah. Other significant factors are ATM services, financial security, costs and benefits and attractiveness. One should not conclude that Islamic banks do not need to address the issue of services provided including convenience and availability of ATM service in several locations at any time they are needed, user friendly and able to provide fast and efficient service.

Therefore, Islamic banks should not ignore the expectations of their customers by assuming that they are prompted to deal with Islamic banks solely based on religious consciousness, rather they also should promote quality service that can satisfy customers. In addition, another issue which requires attention is the need to intensify public knowledge towards Islamic banks and the products themselves. Bankers ought to educate the public concerning the benefits, unique characteristics of Islamic banking and the wide-range of financial products offered. The important insights identified on the ranking of various banking selection criteria imply the need for Islamic banks to enhance the factors that influence the customers that can be considered as the organization's competitive edge.

CONCLUSION

The study has revealed that religious value stands as the most important factor to academicians who patronize Islamic banks especially those from the East Coast of Peninsular Malaysia. For future studies, it is recommended to add more samples from other categories of consumers from different parts of the country.

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