

Non-Muslim Perception on Islamic Banking Products and Services in Malaysia

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Abstract: In this recent years, Islamic banking and finance has shown positive growth around the world among non – Muslim due to its broader product coverage and the ability to traverse the globe economy. Being one of pioneer members of Islamic Banking, Malaysia has been promoting the idea of implementing Islamic Banking system with the purpose to expand among Muslim as well among non – Muslim. Islamic banking is a banking system that comply with Islamic Shariah principles and teaching with the concept of fair distribution and utilization of fund for all the banking operations start from the transaction and the prohibition of interest earning and rewarding. However, to what extent that Islamic Banking is accepted by Non – Muslim in Malaysia and what is their perception towards products and services that offered under Islamic Banking. The perceptions of non-Muslims towards Islamic banks are various among themselves. This study also provides theoretical and managerial implications for the Islamic bankers to attract non-Muslims customers and suggestion for future research in Islamic Banking. For the degree of perception, the link between religion and education could not be established with the perception that the establishment of Islamic banking will improve the overall banking facilities since most of the respondents were unsure of Islamic banking products and services are gaining popularity among non-Muslim. Most respondents strongly thought that Islamic banking would dominate conventional banking in Malaysia, in the near future. The purpose of this article is to review and discuss past scholars and researcher who did empirical research and thorough studies on this topic matter. In this article, we mainly discussed few journals that focused on non- Muslims’ perception on Islamic banking products and services.

Key words: Banking • Economic • Islamic • Shariah

INTRODUCTION

Banking sectors plays crucial role in the business segments and in the economic development of a country. Generally, the banking system, comprising commercial banks, investment banks and Islamic banks, is the primary mobiliser of funds and Malaysia is one of the most progressive Muslim country who promotes the ideas of implementing Islamic Banking (IBS). Basically, Islamic banking varies from conventional banking in numerous ways, such as prohibition of interest payment and respective banks required to carry out a bank’s operation with certain procedures through the use of certain financial mechanisms. Furthermore, the working structure of Islamic banking is a type of instrument that used to present to overcome with the challenges of interest and risk [1]. However, under Islamic banking context, most of

the products and services that offer is similar with what conventional banks offered.

Malaysia is one of the Muslim countries that is committed to develop a complete set of Islamic financial system where Islamic banking system is a subset of it. In year 1983, Islamic banking system was introduced through the commencement of first Islamic Bank, Bank Islam Malaysia Berhad (BIMB). The Malaysia government intends to develop the Islamic banking system parallel to conventional system. In year 1993, the Malaysia government had ornamented the banking industry further by allowing the conventional banks to provide Islamic banking products through an “Islamic platform” by implementing the dual banking system, when Islamic banking system operates side – by side with the conventional banking system. This banking system has been recognized by many Islamic countries as the model

of banking system and other countries have shown their interest to implement the model for their respective country.

Despite its name, Islamic banking is gaining its headway among Non-Muslim worldwide due to its strict leading principles which reflects industry efforts to go beyond religious beliefs to gain greater market share. Considering Shariah finance is a mixture of Islamic economic and modern lending principles, its products can be sold to Muslim and non – Muslims alike. Furthermore, ethical values and inherent commitment to transparency is the core principles that make the Islamic banking to gains recognition as an alternative to the traditional commercial banking. Through this acumen, it makes the Islamic banking to grow fast [2].

The doctrines of Islamic economics emphasizes on moral and ethical values in all transaction and have to – date made a wide universal appeal especially in the banking and financial services. The fundamental principle of Islamic banking is formed on risk sharing which is component of trade rather than risk – transfer which is seen in conventional banking. Islamic banking obliges all financial dealings are to be supported by unpretentious productivity, to serve both Muslim and non – Muslims customers.

Due to the highly competitive environment, Islamic banks need to study about customer perceptions to help them promote their products effectively [3]. In Islamic banking, there are a lot of other governance to be put in place to enrich the confidence and reinforce the risk management through the Shariah governance and framework. Non-Muslims have surmount to half of some of Malaysian Islamic banks' customers. Islamic banking products such as home loans and insurance (takaful) have drawn considerable interest from Malaysia's ethnic Chinese and Indian minorities. Internationally, Shariah bonds are among the fastest growing Islamic finance instruments, with recent issuers coming from non-traditional Muslim markets such as Japan. There are more than 300 Islamic financial organizations globally and the sector is valued at about \$1 trillion, but still is just a fraction of the total value of the conventional global banking industry [4].

This article is divided into five sections. Section two highlights findings of previous research which deal with corpora, section three presents the findings, section four and the concluding remarks and suggestion for future research.

Literature Review: There are few numbers of studies have been carried out on customers' perception towards Islamic banking, in which the work of Erol & El Bdour (1989) id considered as one of the earliest studies. The study found that the delivery of a fast and efficient service, bank's reputation and confidentiality were the most vital bank selection criteria for customer who patronize Islamic banks and their products or services. In their studies, they found that religion play a less important role in customers' decision to transact with the Islamic bank.

Another similar study has been carried out by [3] to define the bank patronage factors among the Muslim and non- Muslim customer of Islamic banking in Malaysia. Findings of the study showed that Muslims prioritize fast and efficient services as the most critical factors for bank selection which it ranks second among the non-Muslims. Non – Muslims consider friendliness of bank personnel as the first factors in bank selection criteria [5]. Other factors that determine bank selection include speed of transaction, confidentiality, knowledge about the business of customer and others [5].

Factors that influences perception of non – Muslims toward Islamic banking is appealing that makes the customer to patronize Islamic banking. Practically, the appealing of banking services and products include staff competency in handling banking matters, bank services reliability, convenience and cost benefits [6, 7] studied about attitudinal differences among Malaysia Islamic banking customers found that the banking system possesses a plea to attract customer by providing an integrated value added services and use of modern banking equipment. Meanwhile, competitive profit rate and quality of services is other attributes in appeal that attract customer for Islamic banking [7].

Acceptance could also be measured by the confidence level of the banking services and products perceived by their customers. Past findings from researchers on Islamic banking have mentioned bank secrecy, friendliness of bank staff, trustworthiness, transaction security and the bank's good image as determinants of confidence [2, 3] have evaluated respondents' confidence level in choosing Islamic banking in terms of bank confidentiality with regards to their customer's account and transaction. Bank confidentiality was one of the most essential factors among Muslim and non- Muslims customer to select Islamic banking [3].

This findings also echoed by [5] in their respective studies among Muslim and non – Muslims customers’ perception in Jordan and Singapore towards Islamic banking system. Other than that, providing exact and timely banking information is also essential among bank customers [7]. No information should be disseminated to third party without customer’s consent; otherwise it is considered a fraud. Furthermore, transparency is another important factor to increase confidence towards Islamic banking which helps to decrease panic level during finance crises as observed by [7] due to the sustainability of Islamic banking.

Moreover, previous research found that most of the Islamic banking customer comprises of younger cohort with higher academic background [6], while age difference is a vital factor in perception towards Islamic banking among non- Muslims in Malaysia especially new age cohort where their view is positive. These statement also supported by another study by [8] who suggested that education background is the potential demographic factor that influenced perception towards Islamic banking. Customer who have higher education able to understand the underpinning concept and Islamic banking’s advantages [8].

In a study that conducted by [9] that examining the perception of the customer towards the objective, characteristic and criteria of selecting Islamic bank, it was revealed that Thai customer perceived that there is no difference between the Islamic bank and the conventional bank product and services, except in the names used to highlight the Islamic banking products. A study in Indonesia has surveyed 1,047 respondents to determine their perception towards the characteristics of the Islamic bank. The findings revealed that a half of the respondents viewed that the main characteristic of the Islamic bank was profit distribution.

Finally, in the case of occupation, past studies indicated that white-collar employees focused on reputation and convenient facilities on banking selection, while the blue-collar group focused on the availability of fundamental banking services. While the literature is still developing, existing literature showed most of the Islamic banking studies in dominantly Muslim countries have concentrated on patronage factors, while studies in countries with a large non-Muslims population, such as Malaysia, well-thought-out the banking needs of non-Muslims, especially when non – Muslim hold the lion’s share of economic prosperity.

RESULTS AND DISCUSSIONS

For this article review, we thoroughly reviewed 5 journals that closely related to the above topics which could provide us insights of Islamic banking reception among non – Muslims. Among 5 journals that been reviewed, 2 journals provides clear and precise information on our topic. *First article: Perception of Non – Muslim towards Islamic banking.* In this journal, the authors come out with theoretical model that explains impression of non-Muslims customer towards Islamic banking which lead them to choose Islamic banking products and services.

The theoretical framework that constructed through above study shows connection between dependent variables, perceived acceptance of Islamic banking among non – Muslims and independent variables on the appeal in Islamic banking products and services, bank selection benchmarks and confidence in Islamic banking. The operative definition of each variables in the model include; (1) Acceptance is the response to patronizing Islamic banking resulting from direct impact of the bank’s appeal, selection criteria and confidence, or through mediating effect of perception. (2) Perception is a latent variable to demonstrate appealing, bank selection criteria and confidence, which is linked to the level of acceptance;(3) Appeal is the dimensions of attractiveness in products and services; (4) Bank selection criteria is the standard used by the respondents to select Islamic banking; and (5) Confidence is the level of assurance towards Islamic banking.

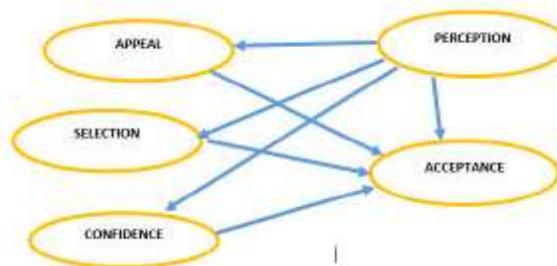


Fig. 1: Theoretical model

They found that perception as indicated by bank selection criteria and confidence has significant means large enough to have an effect on the acceptance of Islamic banking among non- Muslims in Malaysia. In addition, three major measurement includes transparency in bank account and operation, image and reputation and trust contributed the most which influenced confidence

level. Actually there is a significant positive impact of appeal to acceptance of Islamic banking among non-Muslims in Malaysia.

The significant observed variables for appeal are the trust that the banks staff provide comfortable and effective services and friendliness of the staff as well. Furthermore, speed of the effective services, bank image and confidentiality were the major indicators for Islamic bank [2], while, [3] added staff friendliness, fast services and knowledgeable staff as additional major measurement for bank selection criteria. The significant examined items for confidence are the trust that the bank provides accurate information to their customers, customers' confidence with the banking security system to protect customer's privacy.

The result from this study provides insight for banking marketer to allure the non-Muslims customers to patronize Islamic banking services in selecting the right approaches for bank selection. Embracing the right strategy and approach will invite more customer from the non-Muslims group to Islamic banking. [9] found his article that the outcomes of study about perception on Islamic banking products and services gained positive reception among non-Muslim and more efforts need to be taken to enhance the level of understanding for non-Muslim customer on the Islamic banking concepts. Introduction of Islamic banking has generated new dimension and phenomenal in banking sector which led to customer have enormous choices to choose better and high quality banking services. With stiff competition between conventional banking and Islamic banking, Islamic banking need to consider several criteria such as bank's reputation and performance, speed of transaction, channel of delivery system, banking convenience and product diversity to attract Muslim and non-Muslims customers to continuously do banking business with them.

Based on the findings, it could summarize that Islamic services and products are well-accepted by non-Muslims population. The result of the study indicated that the respondents were uncertain about the customer's viewpoint and the would-be of Islamic banking products in the future. This may be due lack of information provided by the banking fraternity to the public. The study also revealed that non-Muslims who aged from 19-35 years old possessed better knowledge and understanding on Islamic banking products and services due to their higher education background.

This survey result is consistent with [5] study which revealed that non-Muslim respondents will consider founding a banking relationship with any Islamic bank if they have sufficient information on banking operations. In addition, the study demonstrates a positive relationship between religion and education with perception towards Islamic banking do exist. This is because non-Muslim who possesses a higher education level firmly believe that Islamic banking would dominate conventional banking in Malaysia in future due to easy access to information on the Islamic banking's products and services.

CONCLUSION

Overall, the result of this study indicated customer perception can be mediated the effects of bank service quality on performance. Customer perception and satisfaction can be consider as the key gap to bank for overall performance. In view of this article findings, the delivery of high standard of service quality may manage to increase customer satisfaction which it related to perception of non-Muslims towards Islamic banking products and services.

Moreover, availability of service and social, as well as religious perspective at higher level could make Islamic Banking convenient and comfortable. On the other hand, negative values of confidence in Bank indicated relatively less impact on customer perception for selecting bank products. In a nutshell, the Islamic banks themselves, which has been in presence for more than 20 years in Malaysia, should take a more proactive and aggressive effort such as frequent product campaign and collaboration with schools to promote their banking products and services to non-Muslims. With Malaysia's growing population, targeting non-Muslims at an early age would promises well with the objective to promote Islamic banking and could result in a positive long term outcome on the benefit as well as avoid any negative perception on Islamic banking.

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