The Consumer Acceptance on Islamic Banking In Malaysia

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Abstract: Banking play important role in world economic. Malaysia banking product and services grow tremendous for the past few years. There is many product and services type offered by bank. Beside conventional banking, Islamic banking offered an alternative way to customers. According to Department of Statistic Malaysia, Muslim percentage in Malaysia were about 60.4% from 29.8 million populations in Malaysia. However, the demand on Islamic banking product and services is still far behind the conventional banking. This study will investigate the acceptance toward Islamic banking product and services in Malaysia. The research methodology will be based on secondary data from previous research and new data will be collected based on quantitative study. In the conclusions, This paper will give some recommendations on how to improved acceptance toward Islamic Banking in Malaysia.

Key words: Islamic Banking • Consumer Awareness • Customer Perceptions

INTRODUCTION

Evolution and development of Islamic banking in Malaysia is growing tremendously. The progressive growth of Islamic banking has helped Malaysia diversify its economy towards supporting sustainable economic growth and performance. Islamic banking is refers to the business activities, transactions or systems of the financial institutions which aligned with the principles in accordance with Islamic Shariah law and practical application through the development of Islamic economics. Shariah law emphasizes the principle that includes moral values and ethics that extends in all affairs. Shariah law prohibited the acceptance and payments of interest (riba), gambling (maisir) and speculative trading (gharar) involving in human daily activities such as making loans, accepting money, conducting commercial activities and activities involving goods and services that contrary to its principles.

Malaysia history of Islamic banking started on 1970's when representatives from Egypt and Pakistan in the meeting between foreign ministers of Islamic countries in 1971. In the meeting of finance ministers of Islamic countries on 1974, Secretary-General of Islamic countries at that time, Yang Teramat Mulia (YTM) Tunku Abdul Rahman Putra Al-Haj presented the first official document about Muslim's opinion about Islamic banking. In early 1990s, government allowed the existing conventional banks to offer Islamic banking products and services to all of the customers in the Dual banking System. The growth of Islamic banking is a dynamic between financial institutions at the international level and has outpaced of conventional banking and has seen as the good potential of economic growth in Islam.

According to Bank Negara Malaysia (BNM) record, there is 16 Islamic Bank in Malaysia which 10 is local bank and 6 is foreign bank. The list is as follows:

Table 1: Licensed Islamic Banking Institutions in Malaysia

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aflin Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>2</td>
<td>Alliance Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>3</td>
<td>Ambank Islamic Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>4</td>
<td>Bank Islam Malaysia Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>5</td>
<td>Bank Muamalat Malaysia Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>6</td>
<td>CIMB Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>7</td>
<td>Hong Leong Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>8</td>
<td>Maybank Islamic Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>9</td>
<td>Public Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>10</td>
<td>RHB Islamic Bank Berhad</td>
<td>Local</td>
</tr>
<tr>
<td>11</td>
<td>Al Fajji Banking &amp; Investment Corporation (Malaysia) Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>12</td>
<td>Asian Finance Bank Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>13</td>
<td>HSBC Amaranah Malaysia Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>14</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>15</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>Foreign</td>
</tr>
<tr>
<td>16</td>
<td>Standard Chartered Sathiq Berhad</td>
<td>Foreign</td>
</tr>
</tbody>
</table>

Source: Central Bank of Malaysia dated 07th October 2015

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There is various Islamic finance concepts such as ijarah (leasing), mudharabah (profit sharing), musyarakah (partnership), financial institutions have a great deal of flexibility, creativity and choice in the creation of Islamic finance products. Islamic banking also have a higher standard for investments and promotes greater accountability and risk mitigation. Now days, Malaysia's Islamic banking continually grow and with the government support in promoting Islamic banking the environment become conductive and lead to continuous product innovation, a diversity of financial institutions, multiple range of innovative Islamic investment instruments and adopting global regulatory and legal best practices. Malaysia has also taking care of human capital development to ensure the availability of Islamic finance experts. There is no doubt that one day Malaysia will be the most developed Islamic banking institution in global.

Islamic Banking Features: The element of interest are the most important thing in Islamic banking according [1]. Riba is a concept in Islamic banking that refers as a charged of interest. It is forbidden under Sharia, Islamic religious law, because it is mention cleary in Holy Quran. [2]. Ribba is from an Arabic word means to increase, to grow and to exceed or any situation that show more value from the actual value. For example is a bank loan, which required the borrower to pay more then the actual quantity they borrowed [3].

Beside Riba, Maisir also another prohibited element in Islamic banking. According to [4], there are many definitions of Gharar. Some jurist "things not known whether available or not" or "doubtful things between safe or destroyed" or "matter of doubt (doubt) whether one can be obtained from the exchange of goods" or "unknown whether perfect or not" or "any discrepancies between the two intangible things one of them". Gharar are prohibited in Islam because of the uncertainty can cause danger to someone. For Example selling and purchasing stock or investment.

There must be consideration of justice in banking institution so that all the transaction involved will not be miss lead such as an exploitation of the transaction to any party. According to [5], they assert the higher level age customers will consume and engage in Islamic products and services that accordance to the Syariah law. This results in line with studies carried out by Metawa and Almosawi where they argue that the demographic factor such as age and level of education is an important criterion of banking system selection by the customer.

In a study done by [6], shows the level of education has a relationship with the awareness of different products and services in the Islamic banking system. Their study also found that most of the respondents, which is the users of the banking system have a high level of education.

Islamic Banking Product: All the countries are using the same principles in Islamic banking. Islamic contract will be used in any product of Islamic Banking. There is few types of Islamic product as studied by [7]. The types of contract as follows:

Al-Wadiah Yad Dhamanah: Is referring to deposits that cover with guarantee. For an example is savings and current account. The bank will guarantee that all the money the depositors saved in the bank will be return and there will be no profit from that saving.
Mudarabah refer to an equity-based contract. There is two type of Mudarabah. First is Al Mudarabah al Muqayyadah (Restricted Mudarabah) and second is Al Mudarabah al Mutlaqah (Unrestricted Mudarabah).

Murabahah is a sale of goods at a price which includes a profit margin, for example is cost plus. Contract in Murabahah can be financing in short, medium or in long term depending on the agreement between the parties. In Murabahah contract, an Islamic banks will used a combination of Bay’ al Muajjal and Bay’ al Murabahah.
Sukuk is Islamic bond that free of interest. Sukuk can either take the form of Murabahah, Musharakah, Ijarah (Asset), Istithna (Project) or Istithmar (Investment).

Ijarah Thumma Bai’ (Hire purchase) - financing sources of consumer on purchase of assets such as vehicles.

Flow Chart 6: Structure of Ijarah Thumma Bai’

Source: Islamic Bankers, Resource Centre.

Bai’ Bithaman Ajil (Deferred payment) - the agreement between the seller and buyer based on the deferred payment at an agreed price that already includes the profit margin.

Wakalah (Agency) - the contract between the principal and the agents who are responsible for carrying out specific tasks on behalf of the principal and have been paid for the services rendered to the principal.

Flow Chart 7: Structure of Wakalah

Source: Islamic Bankers, Resource Centre.

Qard (Interest free-loan) - loans given to borrowers on a goodwill basis and repayment made by the borrower without interest charged.

Hibah (Gift) - an individual’s willingness to giving the wealth without expecting the returns.

Islamic Credit Card: Sample of Islamic banking product

Information of Islamic Banking: Study had showed that the non-Muslims respondents only consider using the Islamic banking system if they have sufficient information regarding the daily operations and the products offers by the bank [8]. Lack of information about Islamic banking services and products offer is one of the reasons why consumers do not use Islamic banking as their financial assistance. In fact, the lack of information on the daily operation and the potential for Islamic banking products in the market to the consumer may give misconceptions to people towards Islamic banking advantages compared to conventional banking.

Moreover, the study also shows that the respondents between age 19-35 years who have higher education possessed the knowledge and understanding on Islamic banking products and services because they are educated and are exposed to the latest news and information regarding the banking system from a variety of sources. But as today there is no promotions regarding Islamic banking product among youngster specially graduates.

Perception of Islamic Banking: The study on perceptions of Muslims and non-Muslims towards Islamic Banking in Malaysia shows that there is a significance difference between Muslims and non-Muslims perception of Islamic banking [9]. The non-Muslims respondents conclude that Islamic Banking does not give any advantage to them. On the other hand, the Muslims respondents agreed that Islamic banking is an advantage to the user because they are operating in accordance with sharia law and benefit both Muslims and non-Muslims users.
According to [7] from the study of Indonesia, the facilities provided by the Islamic bank are limited compared to the facilities provided by the conventional banks. This makes most of the customers prefer to use conventional banking as their financial.

DISCUSSION

The main reason of lack of acceptance among Malaysian towards Islamic banking is due to misconception and misunderstanding about the Islamic banking among users. The lack of knowledge among consumers about the Islamic banking systems and products offered is one of the challenges to implement the Islamic banking system and to be adapted by the consumers. Most of the consumers think that Islamic banking system can be used for Muslims only. Besides that, the consumers think that Islamic banking not getting any profit because of there is no interest charged by the bank to the users. Thus, to implement the Islamic banking system in Malaysia, the public must be disclosed about the benefits of Islamic banking system not only as the best financial alternative approach in some aspects, but also provide better value to Muslims and non-Muslims consumers.

The growth of Islamic banking and finance nowadays faced a challenge of the lack numbers of shariah experts and scholars by the banks who practice the Islamic banking and finance. In Malaysia most of conventional banks such as CIMB bank, Maybank and Affin Bank have introduced and implement the Islamic banking to their consumers. The experts and scholars in the Islamic banking system is important to address the challenges, especially for newly entranced of practicing Islamic banking and finance for conventional bankers to make their consumers understand and distinguish the products offered by the bank are free from elements of riba, gharar and gambling as well as clean and comply with shariah requirement. Therefore, it is important for the bankers to ensure the expert in the shariah field before implementing Islamic banking and finance.

Almost all of the banks who implement the Islamic banking system have their own Shariah boards and Shariah advisers. To ensure the actual practice complies with the requirement of shariah, the management should consider appointing the local as well as foreign Shariah experts and scholars as their independent directors on the boards of Islamic financial institutions. The experts and scholars in Shariah law is needed not only for religious but to ensure the business operation is clear from the unnecessary activities as well as meet the shariah law requirement and also for gaining the consumers’ confidence to use their service provided.

Other challenges need to be faced by the bankers is there is no standard of legal and documentation applied in Islamic banking and finance in Malaysia. Thus, it will incur a high level of expenses to issue each new legal and documentations. The need of systematic and clear documentation is to avoid staffs and consumers confuse about the Shariah compliance requirements. In most countries, the Islamic banking was placed under regulation and supervision of the same central bank in the country and are given a same treatment as conventional banking such as central banks subjects Islamic banks to the same controls, condition, regulations and supervision that they apply to the interest based banks.

However, the Islamic banks should be treated differently from conventional banks because they have different rules and regulations. For instance, in terms of transparency the Islamic banks must disclose to their consumers the method has been used to calculate and how the profit is determined and distributed to each type of depositor which is not made public. Thus, it is important to Islamic banking been supervised by shariah supervision about their daily activities and operations carried out by the banks.

The rules and regulation in Islamic banking and finance should regulated through the establishment and disclosure of material information to their investor as a guidelines in the financial institutions in order to improve the efficiency of the financial market as well as to protect consumers and the economy from the financial crisis.

Age is another demographic factors have been focused on the research of consumer awareness towards Islamic Banking systems. The awareness of the customers regarding the products and services provided by the Islamic Banking is varied among the age group of 21 to 40 years old [6]. In addition, research done among the Malaysian customers by [4], 95% of respondents of different ages showed that age does not affect consumers’ awareness and perception of Islamic banking.

Research Methodology: For future research, data will be collected based on quantitative study. A total set of 500 questionnaires will be distributed to selected students in
Universiti Utara Malaysia includes the Muslims and non-Muslims respondents which is the customers for both conventional and Islamic banking services provided in Malaysia.

The secondary data is used as a method to complete this study. Secondary data is referring to the data gathered and recorded by the previous researchers to be used by the current researcher to analyze the findings according to a selected topic. It is usually an historical data which already be assembly and did not require access to the respondents or subjects.

Data collection to complete this conceptual paper is based on the past review on the research of the awareness of consumers towards Islamic banking systems in the journals to related articles and sources from the Internet.

CONCLUSION AND RECOMMENDATIONS

One of the ways to overcome these challenges to increase an acceptance towards Islamic banking in Malaysia is by doing research on the market demand of Islamic banking system throughout the country and investigate the behavior of consumer of financing services provided by the bankers by focusing especially on the population, segment, geographical area and demographics. Besides doing the research on the market demand, the Islamic banks also need to plan for an effective market strategy about the exact nature and composition of the demand for the retail of Islamic banking services provide in Malaysia. After the Islamic banking capture the market demand through their market strategy, they have to work hard to achieve the target share of total assets set by the central banks or government.

If we look into the factors of awareness of products and services offered by the Islamic banks, most of the consumers are know about the products, but they have difficulties and are not familiar with the terms used for each of the products. On the other hand, perception among the consumers towards Islamic banks, especially non-Muslims consumers, they did not know how the Islamic banks is operated and how it’s generated profits since it is prohibited from riba, maisir and gharar.

This study is based on analysis of data information obtained from previous studies. There are several factors that affect the level of consumer awareness towards Islamic Banking in Malaysia. The analysis data from the previous research showed that Muslim and non-Muslim consumers are aware of the existence of Islamic financial banking in Malaysia. According to factors of awareness of products and services offered by the Islamic banks, most of the consumers are aware about the products, but they have difficulties and are not familiar with the terms used for each of the products such as mudarabah, ijarah, murabahah and musyarakah.

Besides that, the perception among the consumers towards Islamic banks, especially non-Muslims consumers, they did not know how the Islamic banks is operated and how it’s generated profits since it is prohibited from riba, maisir and gharar. All this will lead to reluctant of customers to use Islamic banking. But for the Muslims, they perceived that the Islamic banking institution will provide the advantages for the users either the Muslims user nor the non-Muslims users.

As per recommendations below action can be taken in order to increase the acceptance towards Islamic banking product among the muslim and non-muslim in Malaysia.

**Improve Advertisement:** Promoting Islamic Banking will bring huge impact to Islamic banking.

**Increase the Expert Persons:** Expert person will gain customers confident to engage with Islamic banking product and services.

**Develop Knowledge in Higher Education:** All the graduates are potential existing and future customers for Islamic banking. In the future all this young generations will have more engagement to banking product for example housing loan and Insurance. If young generation have better knowledge about Islamic product and services definitely they will choose Islamic banking.

REFERENCES