ISLAMIC BANKING: A STUDY IN MALAYSIA

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Abstract- Islamic banking industry is growing very rapidly by offering high quality schemes where free of interest and better customer services provided. Strong Islamic banking movements is forcing the industry to come up with new strategy to compete the market. The purpose of this study is to determine and identify the factors that influence the consumers to choose Islamic bank products or services. Data is collected using non probability simple random sampling around Selangor area. The analysis shows that bank reputation, religious and cost benefit factors are significant which influence customers' selection on Islamic banking. Bank reputation and cost benefit has positive relationship on choosing Islamic banking. Convenient is not significant factor of influence customers' selection on choosing Islamic banking. As a conclusion, the study prove that religion shows negative relationship on choosing Islamic banking. This shows that religion is not the main factor but the risk of selecting a bank is important.

Keywords- Bank Reputation, Convenient, Religious Value, Cost & Benefit

I. INTRODUCTION

In general, there are various contributing factors that can influence one's decision to choose between conventional or Islamic banks. The factors can be categorized into individual factors, social, cultural and religious factors (Asdullah and Yazdifar, 2016) as well as institutional factors such as facilities (Amin, 2013), processes and ambiance. Though one can argue that there may be little observable differences between the facilities and services between conventional and Islamic banks, Islamic banks differ substantially in their basic principles and procedures which are heavily based on the teachings of Islam (Wan Ibrahim & Ismail, 2013).

Year	2009 (RM' Million)	2010 (RM' Million)	2011 (RM' Million)	2012 (RM' Million)	2013 (RM' Million)
Customers Savings Deposit	199,162.5	225,505.9	262,360.7	304,704.1	343,801.8

Sources: Bank Negara Malaysia, 2014

Table 1: Data of Customers' Savings Deposit in Islamic Banks

Table 1 shows the amount of customers' savings deposit in all Islamic banks available in Malaysia as outlined by the central bank of Malaysia. These data are based on customers' savings deposited in Ringgit Malaysia (RM), excluding the amount of Islamic banking scheme. The statistics reflect the banking trend from 2009 to 2013.

Data from Table 1 also reveals that customers' saving deposit in Islamic banks are growing every year. It further suggests an increasing demand for Islamic banks in Malaysia. The amount of savings deposited in Islamic banks have increased drastically from RM 199,162.5 million to RM 343,801.8 million since year 2009. The difference of RM 144,639.3 million shows a good growth prospect of the Islamic bank industry in Malaysia as the amount would further enhance the bank's performance.

With the evidence of growing savings deposit amount in Islamic banks, it is apparent that people are aware of the existence of Islamic banks in Malaysia. Similarly, the available media news and articles also reported a growth in Islamic banks' performance (Akbar, 2015). In addition, Mair and Khan (2015) also reported that London is targeting to be the world center for the Islamic finance industry. This further supports Reuters (2014) which demonstrated a significant increase in the demand of non-Muslim customers for Islamic banks facilities and services. The popularity of Islamic banks, among both Muslims and non-Muslims, may be due to the perception that investment in Islamic products tends to yield consistent and/or better returns (Hannah, 2015).

Looking at the increasing awareness in and demand for Islamic banking in Malaysia and London, it would be interesting to know the reasons behind this. Thus, this study is conducted to analyze the factors that contribute towards the customers' selection on Islamic banking.

II. LITERATURE REVIEW

Bank Selection Criteria

According to Md. Saleh, Mohamad Rosman, and Nani (2013), there are a total of 23 conventional banks and 17 Islamic banks in Malaysia. This further

shows the great competitiveness between banks. Therefore, in order to be a successful bank, as Selamat and Kadir (2012) reported, the banks need to have the capability to understand and satisfy customers' needs, especially in this new era of globalization. Selamat and Kadir (2012) reported that a number of research has showed significant differences on customers' bank selection criteria. The common factors that have been studied in the past research are bank's reputation, convenience, staff quality, availability of ATM, service quality and speed, fees, family and friends influence, service variety, and so on (Almoossawi, 2016; Echchabi & Olaniyi, 2012; Md. Saleh et al., 2013; Nkamnebe, Ukenna, Anionwu, & Chibuike, 2014; Siddique, 2012; Yavas, Babakus, & Ashill, 2006).

Bank Reputation

The importance of bank's reputation in the market, which is associated with higher profitability and sustainability of the bank, have been found to play a role in influencing people's decision when choosing for their banks (Bushman & Wittenberg-Moerman, 2012, Dinç, 2000). The reputation however may be rather subjective as it heavily depend on customers' view and impressions of the bank (Abdul Hamid, 2000 as cited in Almejyesh & Rajha, 2014). Echchabi and Olaniyi (2012) found that Islamic reputation of the bank turned out to be the most important criterion in choosing Islamic bank, while financial reputation and image were also found to be the customers' preference but to a lesser degree. Though bank reputation has been repeatedly found to influence the reason of bank preference among customers, the findings are by no means conclusive (Sayani & Miniaoui, 2013).

Convenience

Convenience appeared to be the most important decision-making criterion in bank selection, followed by low service fees, and friendly personal service (Lee and Marlowe, 2003). Convenience as one of the important bank selection criteria, which generally include convenient branch locations, access to branch locations, and availability of ATM services (e.g., Haron, Ahmad, & Planisek, 1994; Khaitbaeva, Al-Subaiey, & Enyinda, 2014; Md. Saleh et al., 2013; Rehman & Ahmed, 2008). In addition, Kaura (2013) also revealed that decision conveniences, access convenience, transaction convenience, benefit convenience, and post benefit convenience significantly improve customers' satisfaction on urban retail banking in India. In Malaysia, similar trend was also found by Echchabi and Olaniyi (2012) in which convenience factor does play a significant role in customer's decision making process while choosing Islamic bank.

Religious Value

Religion can be expressed as a psychological associations and emotional relationship of a person to things (Kirkpatrick, 2005). And religion tends to influence and individual as it may be the foundation of one's reasoning, principles, belief systems, and manners that one holds with devotion and faith (Tara, Irshad, Khan, Yamin, and Rizwan, 2014), Numerous research have been conducted in different countries, such as Malaysia, Egypt, Tunisian, United Arab Emirates, Jordan, to see the relationship and impact of Islam on people's choice of banking (e.g. Abou-Youssef, Kortam, Abou-Aish, & El-Bassiouny, 2015; Amin et al., 2011; Bley & Kuehn, 2004; Erol & El-Bdour, 1989; Haron, Ahmad, & Planisek, 1994; Souiden & Rani, 2015).

Cost and Benefit

Cost and benefit can be defined as "lower service charge and average decent return" (Rashid and Hassan, 2009). Echchabi and Olaniyi (2012) researched cost and benefit based on the product prices, transaction fees, credit availability, and the profits of deposits. Numerous past researchers have found the relationship between cost and benefit and their intention to use Islamic products/services throughout the world (e.g., Doraisamy, Shanmugam, & Raman, 2011; Dusuki & Abdullah, 2007; Echchabi & Olaniyi, 2012; Marimuthu, Thambiah, Ismail, Ahmed, & Khin, 2013). For instance, In Jordan and Pakistan, people tend to choose Islamic bank as they were motivated by the profit given by the bank (Erol & El-Bdour, 1989; Rustam, Bibi, Zaman, Rustam, & Zahid-ul-Haq, 2011).

III. ANALYSIS AND RESULTS

In order to analyze the hypothesis, multiple regression analysis is conducted to test all the variables. The result of multiple regression analysis result is showed in Table 3. Significant value indicates if each variable contributes to the hypothesis. Moreover, if the value is significantly less than .05, meaning that the hypothesis is being accepted. Table 3 shows the hypothesis result of this study.

	B	Sig.	R^2
Bank Reputation	.318	.007	.295
Convenience	.169	.101	
Religious Value	.316	.000	
Cost-Benefit	-.421	.000	

Table 3: Multiple Regression Analysis for Islamic Banking

CONCLUSION

This study suggested the importance for bank providers to understand customers' preference and view from the customers' perspective, in order to attract more customers (including Muslims and non-Muslims) to adopt Islamic banking product or services. This study has further proved that religion is not the only influential factors in selecting bank but there are more factors, such as bank reputation and cost-benefit that would influence one's decision on bank selection. Bank providers can further use this results to think of ways/methods to target the right population and to stay competitive with conventional banks. With this, bank managers can come out with the right approaches to attract more customers to adopt Islamic bank.

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