

AWARENESS AND UNDERSTANDING AS STRATEGIC FACTORS TO ATTRACT CUSTOMERS' SELECTIONS OF ISLAMIC HOUSE FINANCING

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Abstract: *This paper is focused on awareness and understanding as strategic factors to attract customers' selections of Islamic house financing. The findings revealed that the level of awareness and understanding among customers of Islamic banks had influenced and guided them toward Islamic banking and financing products, including Islamic house financing. The findings from the study provide important contributions in enhancing understanding that banks need to sustain performance. Banking industry should put more emphasis on making available sufficient information and knowledge on Islamic banking and financing instruments to ensure wider awareness and deeper understanding, which consequently, would encourage more consumers to embrace Islamic banking and financing products. Awareness, knowledge and understanding were drivers behind the successful acceptance of Islamic banks and Islamic financing products.*

Keywords: *Islamic House Financing, Awareness, Understanding, Strategic Factors*

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1. Introduction

Financial system in Malaysia had experienced a big transformation with the introduction of Islamic banking, which generated new innovation, dimension, ideas and experience, extraordinary and phenomenal in banking sector. These variations in the banking landscape led to changes and adaptations in customers' awareness, understanding and the sense of taste, and demand for better and higher quality banking services (Aziz, N., 2016).

The ability of Islamic banking to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, depended on strategic positioning of Islamic banks in maintaining competitive edge by offering services and products that satisfy the needs and wants of the customers.

2. Literature Review

In a study in Hong Kong, aimed at understanding customers' behaviour on split banking (where facilities are not tied up with just one bank), switching factors, attribution to patronage, level of awareness and the usage of banking products and services, Chan & Ma (1990) found that customers preferred to use big and reputable banks. Customers would only switch their banks

if the new banks were able to show that the qualities of the products and services were superior to the other banks.

Omer (1992) surveyed 300 Muslims in the United Kingdom on their patronage factors and awareness of Islamic financing methods. At the time, *Shariah*-compliant products and services were primarily available through Islamic finance ‘windows’ at conventional banks. The main finding from this study was that a high level of ignorance prevailed among Muslims in the United Kingdom concerning Islamic finance principles.

Mettawa & Almosawi (1998) established that the longer the period of dealing with Islamic banking, the higher the level of awareness of Islamic banking products. Khan *et al.* (2008) concurred in their findings that the levels of awareness about Islamic banking products were based on years of dealing with the banks. Customers knew Islamic banking products when they needed them. Also, Mettawa & Almosawi (1998) found that Islamic banking was popular among the highly educated. The findings were supported by the findings by Khan *et al.* (2008) and Hassan & Kayed (2010).

Mohamad Naim *et al.* (2006) studied the relationship between the level of understanding, faith and values over the use of Islamic banking products among Muslim communities in ten districts in Kedah (Malaysia). The results showed that respondents who subscribed to Islamic banking had better understanding of Islamic banking products, than those who did not subscribe to Islamic banking.

In a study of respondents in Labuan and Kota Kinabalu (Malaysia), Amin (2007) found that age, awareness and usage were not statistically significant. In a study conducted in Pakistan, Khattak & Rehman (2010) discovered that awareness of Islamic banking products varied among different age groups and types of products such as current account system and letter of credit. Majority of customers who were aware of Islamic banking were those between the ages of 21 to 40 years.

The study by Hamid *et al.* (2011) found that 75% of non-Muslim customers were aware of the existence of Islamic banks and would like to utilize the facilities if they have complete understanding of the system. Findings by Thambiah *et al.* (2011) indicated that, in general, consumers’ awareness and knowledge on Islamic banking were still low. But, in a comparison of users based on geographical location, they found that respondents in urban settings have better level of awareness compared to respondents in rural areas.

Abdullah *et al.* (2012) found that among the non-Muslims, those aged 19-35 years old and with high level of education have wider exposure to news and information on Islamic banking services and products from various sources, and have better knowledge and understanding of Islamic banking services and products.

In a study by Aziz, N. (2016), 44.4% of customers revealed that awareness led them to select Islamic house financing. The mean level of awareness of non-Muslims (3.70%) in adopting Islamic house financing was higher than those of Muslims (3.55%). From their analysis, they found that the race of the respondents was not a factor that determined their preferences for Islamic house financing.

Also, Aziz, N. (2016) noticed over 55% of respondents believed there is high potential of Islamic banking products in Malaysia. Overall, respondents, ranging from 57.46% to 78.85%, indicated various levels of knowledge and awareness as well as understanding of Islamic banking products, including Islamic house financing products. Over 70% of Muslim respondents were aware and understood that the *Shariah* principles are the guiding principles behind the establishment of Islamic banking; whereas less than 50% of non-Muslims revealed knowledge and awareness. Over 67% Muslims, but less than 44% non-Muslims, indicated knowledge of Islamic house financing products such as *Bai Bithaman Ajil* and *Musyarakah Mutanaqisah*. Researchers observed that the reputation of the bank was a factor used to measure the bank's selection among the majority of respondents (78.61%). This was similar to the findings by Chan & Ma (1990). Most of the respondents also felt that their awareness and knowledge of Islamic house financing products influenced them to choose these products.

Understanding customers' bank selection criteria will be helpful to banks in identifying the appropriate marketing strategies needed to attract new customers and to retain existing ones (Kaynak *et al.*, 1991). Lin & Zhen (2005) asserted that product knowledge depended on consumers' awareness or understanding about the products, as well as their confidence and satisfaction of the products.

In their studies conducted in Pakistan on the use of Islamic banking products, in terms of the services used, Hassan & Kayed (2010) found that Islamic bank customers used more products for the purposes of investment and financing. However, he emphasized the need to implement awareness programmes on Islamic banking in Pakistan because many customers still did not have complete information about Islamic banking.

Rammal, H.G. & R. Zurbruegg (2007) revealed that it was important for financial institutions to understand the dynamics of customer segmentation, build customer relationships and address requirements and preferences of specific market segments.

Achieving customer satisfaction can be viewed as one of any organization's performance target (Ali *et al.*, 2013). Islamic banks must undertake the initial steps to help the consumers to better understand Islamic financing products if they desire the public to accept Islamic financing products. They must educate the customers on the application of *Shariah* principles in Islamic banking and financing products, and on the workings of Islamic financing products; as well as on the benefits and advantages of dealing with Islamic financing (Aziz, N., 2016).

3. Conceptual Framework

The proposed conceptual framework was adapted from the Theory of Planned Behaviour by Ajzen (1991). This model explained that the adoption of the customers' intention in Islamic house financing was a result of awareness and understanding to select Islamic house financing. Based on the literature review, an integrated framework was developed as presented in Figure 1.

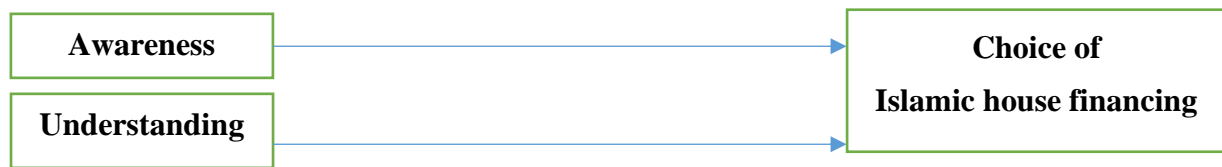


Figure 1

4. Methodology

This study was conducted with the involvement of 402 respondents, who were customers of Islamic house financing facilities in the northern states of Penang, Kedah and Perlis (Malaysia). For quantitative data analysis, the data was analysed using statistical tools of Statistical Package for the Social Sciences (SPSS) version 20.0.

5. Findings

In this study, the survey of 402 respondents revealed over 74% of these respondents believed that awareness of Islamic banking and house financing products had influenced them to select Islamic house financing. Their selections were influenced by their awareness and knowledge of the financing products. These consumers were becoming more aware of and knowledgeable on Islamic financing instruments. The finding was in line with the finding by Lin & Zhen (2005), as highlighted by Aziz, N. (2016), that product knowledge depended on consumers' awareness or understanding about the products, as well as their confidence and satisfaction of the products.

About 58% of respondents were aware that *Bai Bithaman Ajil* and *Musyarakah Mutanaqisah* methods were the most common Islamic house financing contracts in Malaysia. Their product awareness and knowledge had influenced their selections of Islamic house financing, a *Shariah*-compliant product. This finding was in contrast with the findings by Thambiah *et al.* (2011), who found that Islamic banking terms such as *Mudharabah*, *Bai Bithaman Ajil* and *Bai Inah* might be less popular as these Islamic banking products are in Arabic terms.

Respondents' awareness of Islamic financing instruments had guided 55% of respondents to believe that Islamic house financing products are designed in accordance with their preferences and needs. Aziz, N. (2016) revealed that the finding differed with Tahir (2003), whose findings discovered that the consumers were not really familiar with the various modes of Islamic financing products, and some did not really understand the principles adopted by Islamic banks. Only 59% of respondents were aware that Islamic house financing is transparent in comparison with the conventional housing loans. Their selections of Islamic banks and Islamic house financing products were steered by their awareness. However, almost an equal numbers were still not familiar with this transparent concept of Islamic banking and financing products (Aziz, N., 2016).

More than 76% of respondents thought many Islamic banks customers were not aware of the basic rules and principles of Islamic house financing. Nonetheless, many Islamic banks customers were comfortable in their dealings with Islamic-based financing instruments, despite not fully understand the mechanics of Islamic banking products (Aziz, N., 2016). Close to 68% of respondents revealed awareness that Islamic house financing is based on the *Shariah* principles. Their dealings with Islamic banks were influenced by their awareness of *Shariah*-compliant products. Awareness influenced customers' selections of Islamic banking products,

and that the level of knowledge of Islamic banking products was still low among banks customers, consistent with earlier findings (Abdul Hamid & Mohd Nordin, 2001; Haron & Ahmad, 2002; Aziz, N., 2016).

Almost 76% of respondents were aware that Al-Qur'an prohibits the element of interests in trade and financing, with over 70% made the selection for Islamic house financing because of the interest-free nature of this financing product. Islam prohibits the taking and giving of interests (*riba* or usury). Islamic banking and financing derived its specific rationale that there is no room for interest. However, only 60% of respondents understood that Islamic house financing is free from uncertainty. These findings also highlighted the need for adequate information and knowledge on Islamic banking and financing instruments to be made available, which were consistent with earlier findings (Chapra, 1982; Haron *et al.*, 1994; Okumus, 2005; Khan *et al.*, 2008; Lateh *et al.*, 2009; Khattak & Rehman, 2010; Aziz, N., 2016). For the majority of Muslim customers, religion and their religious consciousness were the main motivators to guide them towards *Shariah*-compliant Islamic banking and financing instruments.

Over 59% of respondents understood that Islamic house financing is based on profit and loss sharing principles, and that customers were drawn to use Islamic banking products because of this same profit and loss sharing principles. Close to 66% understood that Islamic house financing is based on selling and buying principles. Although products awareness and understanding had guided and influenced the majority of respondents in their selections of Islamic house financing, alas, the percentage of respondents was still far from desired. These findings also highlighted the need for sufficient information and knowledge on Islamic banking and financing instruments would ensure wider awareness and deeper understanding, and consequently, would encourage more consumers to embrace Islamic banking and financing products (Rammal, H.G. & R. Zurbruegg, 2007; Gait & Worthington, 2009; Aziz, N., 2016). The findings differed from the study by Haron (2004) in that half of respondents considered the main feature of Islamic banks is profit distribution.

Approximately 79% of respondents believed the lack of understanding about Islamic banking system is the main factor that hinders the development of Islamic banking and is discouraging customers from taking Islamic house financing. Sufficient information about Islamic banking system would provide wider awareness and deeper understanding, which would encourage more consumers to embrace Islamic banking products. With all the efforts made to attract customers, only 52% thought Islamic house financing products are easy to obtain.

Respondents were customers of Islamic banks, with banking and financing facilities, including Islamic house financing. In this study, researcher found that, overall, respondents' levels of awareness and understanding toward Islamic banking products, especially Islamic house financing, were good; which echoed the findings by Khan *et al.* (2008) and Khattak & Rehman (2010) in their studies in Bangladesh and Pakistan, respectively. Also, researcher noticed that the levels of awareness and understanding among Muslim customers were reasonably high with between 65% and 90% of respondents confirming awareness and understanding of the statements presented to them in the questionnaire. At the same time, the levels of awareness and understanding among non-Muslim customers were lower between 35% and 57%. The findings concurred with Gait & Worthington (2009) in that most respondents, especially Muslim

customers, have good knowledge of some aspects of Islamic banking products, even though they may lack the knowledge of other Islamic banking products.

6. Conclusion

Customers' awareness of Islamic banking and house financing products had influenced them to select Islamic house financing. Their selections were influenced by their awareness and knowledge of the financing products. Product knowledge is depended on customers' awareness or understanding about the products, as well as the customers' confidence and satisfaction of the products.

Many customers were comfortable in their dealings with Islamic-based financing instruments, despite not fully understand the mechanics of Islamic banking products. Their dealings with Islamic banks were influenced by awareness of *Shariah*-compliant products, and that Islamic house financing is based on the *Shariah* principles. For the majority of Muslim customers, religion and their religious consciousness were the main motivators to guide them towards *Shariah*-compliant Islamic banking and financing instruments.

Awareness and understanding that Al-Qur'an prohibits the element of interests in trade and financing, contributed to the selection of Islamic house financing because of the interest-free nature of Islamic financing products. Islam prohibits the taking and giving of interests (*riba* or usury). Islamic banking and financing derived the specific rationale that there is no room for interests and is free from uncertainty.

These findings also highlighted the need for sufficient information and knowledge on Islamic banking and financing instruments would ensure wider awareness and deeper understanding, and consequently, would encourage more consumers to embrace Islamic banking and financing products. The lack of understanding about Islamic banking system is the main factor that hinders the development of Islamic banking and is discouraging customers from taking Islamic house financing.

This study had determined that awareness and understanding as strategic factors that attracted interests and attentions and influenced the decisions of customers in their selections of Islamic house financing, and the larger selections of Islamic banking and financing products.

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