

## **CONTRIBUTING FACTORS TOWARDS THE ACCEPTANCE ON ISLAMIC BANKING IN MALAYSIA**

**NURAU LIANI JAMLUS RAFDI**

Kolej Universiti Islam Antarabangsa Selangor (KUIS)  
email [nurauliani@kuis.edu.my](mailto:nurauliani@kuis.edu.my)

**SAFURA AHMAD SABRI**

Kolej Universiti Islam Antarabangsa Selangor (KUIS)  
email [safura@kuis.edu.my](mailto:safura@kuis.edu.my)

### ***ABSTRACT***

Islamic banking and finance are evolving to play a vibrant role in the world with the speedy evolvement of the global economy along with the growing economy of the Islamic countries. In Malaysia, Islamic Banking has started their banking operation on July 1983 where Bank Islam Malaysia Berhad (BIMB) was formed as the first Islamic bank in the country. As for now there are eleven local Islamic bank and five foreign Islamic banks in Malaysia. With the tremendous accomplishment by Islamic banking in Malaysia it is believed that the understanding of Islamic banking and services among societies are increase as well. However, the misperception between Islamic banking and conventional banking amongst societies are still preserve even though Islamic finance industry recorded a dynamic 10.3% growth in 2017. Therefore, this research aims to examine the societies' acceptance towards Islamic banking. Qualitative method is employed in this study and founded upon the findings of previous studies. The findings are expected to add on the existing literature towards the acceptance in Islamic banking.

**Keywords:** *Acceptance, Islamic banking*

### **1.0 Introduction**

Islamic banking system can be defined as financial institutions, products and services designed to comply with Shariah law. It also can be suggested as a banking system that grounded on Shariah law, which are the rules and practices based on Quranic teachings and prescriptive practices of Prophet Muhammad (SAW). Gait and Worthington (2008) stated that Islamic banking is one of the most speedily growing segments of the global finance industry. Iqbal and Mirakhor (2007) mooted those Islamic banks are known as an interest-free institutions and organized financial intermediaries, which operate in accordance with Shariah law transactions rules and principles to carry out the business operation (Henry & Wilson, 2004; Iqbal & Mirakhor, 2007; Dusuki & Abdullah, 2007).

Islamic finance industry recorded a dynamic 10.3% growth in 2017 and this prove a virtuous accomplishment by this industry. By means of the incredible achievement, it is supposed that the understanding of Islamic banking and services among societies are increase too. However, the misunderstanding between Islamic banking and conventional banking amongst societies are still preserve.

Research conducted by Abdul Hamid and Mohd Nordin (2001) indicated that 96.7% of respondents are aware of the Islamic banking in Malaysia however acquire a low percentage in the knowledge of Islamic banking products. Their findings clarify those customers have high awareness, but they still lack of knowledge in Islamic banking products. They also found that respondents are lack of understanding the differences between conventional and Islamic banks. There are numerous reasons behind the low of demand for Islamic home financing products as compared to conventional such as lack of customer's awareness towards Islamic banking, lack of competitiveness of Islamic financing products and lack of specialized officer at the branch level to educate the customer to understand more about the Islamic financing products. (Abdul Hamid et al., 2011). On top of that, issues of the harmonization have not yet been resolved also contribute to low demand of Islamic banking among societies. The differences while interpret Islamic banking system have perceived conflict in the terminology from one area to another, with certain products considered permissible (*halal*) by some scholars and declared not permissible (*haram*) by others.

Because of the low demand of Islamic banking products and the misconception between Islamic banking and conventional banking among societies, thus the research objectives of this study are to present and discuss the societies' acceptance towards Islamic banking in Malaysia. Qualitative method and document analysis are used in this study besides founded upon the findings of previous studies. The discoveries are predictable to enhance on the current literature towards the acceptance in Islamic banking. Literally this paper is a conceptual paper. This research will analyze the factors of acceptance towards Islamic banking by categorized an existing journal according their method as well as focus of study and findings.

## **2. Literature Review**

Mirakhor (2000) reveal that the main principles of Islamic banks activities comprise of prohibition of interest (*riba*) in all forms of transaction undertaking business and trade activities, based on fair and legitimate profit. According to Bassir N.F et al., (2014) clarify that the operations of Islamic banking are based on the concept of mutual risk and profit sharing between parties, with assurance of fairness for all and transactions that are based on an underlying business activities or assets. Their research also suggested that Islamic banking transactions are govern by the foundation of Shariah law for instance the prohibition of *riba* (usury/interest), *maisir* (gambling/ betting) and *gharar* (speculative trading/dubious ambiguity) concepts, thus contribute the uniqueness of Islamic banking system as compared to conventional banking.

In Malaysia, Islamic banking was started in 1983 where Bank Islam Malaysia Berhad as the first Islamic bank has launched and licensed besides regulated by Bank Negara Malaysia (BNM) under the Islamic Banking Act with a noble cause to assist the Muslims as a better banking system compared to the then Tabung Haji (the Pilgrims Management and Fund Board) saving scheme established in 1963. (Ching & Chee, 2014). Later in 1993, the Malaysia government had liberalized the banking industry further by allowing the conventional banks to offer Islamic banking products through an "Islamic window" to boost the dual banking system to be more effective in promoting Islamic banking as a whole (BNM, 1999). The decision has compelled the entire banking industry in Malaysia becoming more competitive as a way to improve and increase the productivity of banking operations (A. S. Alias et al., 1993; A. Kaleem, 2000).

Shariah Advisory Council of BNM (SAC-BNM) was established in 1997 in order to achieve uniformity of Shariah decisions and to advise BNM of any Shariah issues relating to Islamic financial business (Muhammad & Ahmed, 2016). In 2003, the role of the SAC-BNM

was enhanced when it was accorded to the sole authoritative body on Shariah matters pertaining to Islamic banking, takaful and finance in Malaysia (Muhammad & Ahmed, 2016). Later, Islamic Financial Services Act (IFSA) 2013 has been in effect since 30 June 2013 and demonstrate the further development in the regulatory frameworks for the Islamic financial institutions in Malaysia. The Act provides a legal foundation for the Islamic banking system to shift towards a regulatory framework that reflects the specificities of the several types of Shariah compliant contracts. Nowadays, Islamic banking is complementing with the conventional banking in the economy successfully and Malaysia once again proves to the world that executing dual-system is attainable (Seethalechumy et al., 2011).

### **3. Research methodology**

To complete this study, the researchers are used qualitative and secondary data by way of the methodology. With this method, data collected and documented by the previous researchers are used by the recent researchers then subsequently analyze the discoveries according to a nominated theme. There are ten (10) studies collected by the researchers regarding the acceptance of Islamic banking for this study. The data gathered from previous study, did not require access to the respondents or subjects because it is regularly an historical data which already remain assembly by the previous researchers. Data gathering to complete this conceptual paper is grounded on the earlier review research towards the acceptance besides intention of societies towards Islamic banking products and system.

### **4. Discussion**

Below is the discussion of the previous studies that has been highlighted by the researchers in this study. The details as per in Table 1.

Table 1: Discussion from the previous studies.

Authors	Method	Respondent	Study focuses and discoveries
Juwairiah Mohamad & Muhammad Fakhirin Che Majid. (2016).	Questionnaire survey	140 non-Muslim customers at financial institution in Changlun, Jitra and Alor Setar, Kedah	Examine the relationship between four determinants namely customer's knowledge, understanding, perception and awareness among non-Muslim customers concerning their acceptance on Islamic banking products in the dual banking financial institution. Findings reveal all four determinants have significance relationships and found as the factors that influence non-Muslims in choosing Islamic banking products. The study also found that perception is the most significant determinants that drives non-Muslim customer's acceptance of Islamic banking products.
Mohd Azizi Ibrahim et al. (2017).	Questionnaire survey	389 customers of Islamic banks in Alor Setar, Kedah	Investigate the relationship between attitude, subjective norm, perceived behavioral control, level of knowledge or awareness and religiosity with customer's intention in choosing Islamic home financing products. The findings disclose that all factors are having

			significant relationship with customer's intention in choosing Islamic home financing products. Amongst that, religiosity was found as the most important factor that affects the customer's intention in choosing Islamic home financing products.
Nurul Shahnaz Mahdzan et al. (2017).	Questionnaire survey	200 MBA students	Examine the factors namely understanding, perceived advantage, complexity, bank personnel's professionalism, general innovativeness and personal innovativeness towards the adoption of Islamic banking products/services in Malaysia. Results disclosed that understanding and perceived advantage significantly influence the adoption of Islamic banking in Malaysia. The other four independent variables (complexity, bank personnel's professionalism, general innovativeness and personal innovativeness) were found insignificant relationships with Islamic banking adoption.
Chung et al. (2013).	Questionnaire survey	409 respondents in Kuala Lumpur & Klang Valley	To investigate the acceptance level and customer preferences towards Islamic banking among individual consumers in Malaysia. The independent variables categorized as are service quality, confidence in bank, social and religious perspective and finally the services availability. This study indicates all four independent variables have significant effect on acceptance level towards Islamic banking. Besides, confidence in Islamic banking was found as the most significant factor on the acceptance level.
Shafinar Ismail et al. (2014).	Questionnaire survey	160 employees in a selected financial institution	Examines the factors (reputation, service quality, religious, media advertisement and social influence) that influence selection of Islamic home financing among working adults in Malaysia. The result indicates that all five factors are influence selection of Islamic home financing. Among that, reputation was found as the most significant factor that influence the selection of Islamic home financing products.
Malisah Latip et al. (2017).	Questionnaire survey	436 respondents in Sarawak, Malaysia	Identify the influential factors that are associated with Islamic banking adoption between the Muslim and non-Muslim populations in Sarawak, Malaysia. There are seven independent variables involved that

			relative advantage, compatibility, observability and complexity, perceived risk, perceived trust and customer innovativeness. The result discovers three factors that are compatibility, relative advantage/observability and complexity are found to have significant relationship with customers' adoption of Islamic banking products and services.
Chui et al. (2017).	Questionnaire survey	400 respondents in Perak, Selangor, Kelantan and Johor	Investigate the relationship between knowledge, awareness, service quality, product quality and bank reputation in Islamic banking towards adoption of Islamic Banks among Malaysian working adults. The outcomes determine that all factors have significant relationship with the acceptance on Islamic banking among Malaysian working adult.
Mohamed et al. (2019)	Questionnaire survey	160 respondents in Selangor	Determine the key drivers that lead to the acceptance of Islamic banking among people. The result discoveries that service quality and religion obligation have a significant effect on the acceptance of Islamic banking among people.
Hafidzah Idris et al. (2014).	Questionnaire survey	284 respondents in one of the companies in Johor Bharu	Investigate the determinants (religious belief, image and reputation, service quality and social influence) of customers' intention to use Islamic banking products among Malay Muslims. The discoveries show that social influence along with image and reputation have significant influence towards intention to use Islamic banking products, whereas religious belief and service quality were found to be insignificant. Nevertheless, the most important determinant among the determinants is social influence was found in this study.
Nelson Lajuni et al. (2017)	Questionnaire survey	131 respondents	Examine the determining factors (attitude, government support, product pricing, religious obligation and social influence) of intention to use Islamic banking products in an emerging market. The findings show that attitude, government support, and social influence were significant factors towards customers' intention to use Islamic banking products. Meanwhile product pricing and religious obligation are found to be insignificant

			relationship with intention to use Islamic banking products.
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## 5. Conclusion

Based on the discoveries, it is found that there are several factors that contribute towards the acceptance of Islamic banking such as customer's knowledge, understanding, perception, service quality, product quality, bank reputation and more. However, this paper is not an empirical paper but then it is a conceptual paper where the data was obtained and analyzed by current researchers from the previous studies. Still, this paper provides a body of knowledge by encircling an existing literature on the acceptance of Islamic banking among societies over the discussion of the previous studies. This paper correspondingly contributes to the expansion on an existing literature review of Islamic banking additionally. The new researchers are recommended to conduct more research on Islamic banking's acceptance to ensure societies awareness and have an inclusive knowledge on Islamic financial system.

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