



Understanding of The Customers' Perception on Islamic Banking and Financial Services in Malaysia

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ABSTRACT

The main objectives: The main objectives of this study are to delve customers' knowledge and perception of Islamic banking financial products and services. **Background Problem:** The background problem is lack of awareness and understanding of the Islamic finance industry is a major challenge for clients, investors, and other stakeholders. Islamic Banking and Finance (IBF) is a booming sector in the financial industry. However, it is still at a developing stage in the economy. Clients awareness is a crucial step to attain its business and social-welfare objectives by abiding by Islamic commercial law. **Research Methodology:** The research methodology implemented was empirical/inductive. A survey via questionnaire was conducted on 135 banking clients via questionnaires; a comparison between Bank Islam Malaysia Berhad (BIMB) and non-BIMB clients was exemplified using mean and T-test statistics, on their level of knowledge and understanding of the different principles, products, and services of IBF. **Results and Findings:** Results and findings have inferred that there is not much significant difference in their level of knowledge and understanding. Then it was examined whether there was a significant relationship between the knowledge of the clients and their preference for IBF services. **Research Contribution:** The contribution of this study can help the Islamic banking industry gain insight into the current level of understanding of IBF products and services among the clients. **Conclusion:** The conclusion of the study indicates that there must be more attempts to educate clients and other stakeholders of the Islamic banking industry. Finally, it was also concluded that the clients have a better perception of the prospect of the IBF industry in Malaysia, despite it being at a developing stage.

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INTRODUCTION

The foundation of Islamic Banking and Finance (IBF) operation is directed by the principles of *Shari'ah*, aiming to enhance societal welfare. Islamic Banks must design products and services which are compliant with the rules of *Shari'ah*. Over the last few decades, Islamic Banks have been flourishing so much so it has proven itself as a stable component within the worldwide financial landscape (Hesse, Jobst, & Sole, 2008).

Many Muslim consumers are willing to invest in Islamic Banks to endorse their religious faith to deal with financial transactions that are Islamically lawful. Lack of knowledge and awareness of the system among clients of Islamic Banking does affect preference and perception to a significant level. For any service or product to be successful in the market, it is essential that the clients have a significant understanding of the nature of the product or service they are willing to patronize. However, many clients endorse Islamic banks without a full understanding of the Islamic banking system, merely by the assumption that they are compliant with Islamic principles religiously.

This study conducts an empirical investigation and a comparison between Bank Islam Malaysia Berhad (BIMB) and non-BIMB clients and attempts to examine their level of knowledge and understanding of IBF products and services. And discover the connection between clients' knowledge and clients' preference for IBF products and services. And finally, to investigate the clients' perception of the upcoming prospect of Islamic Banking service in Malaysia. Since BIMB is the first full-fledged Islamic bank in Malaysia, hence it is used as a case study. It is important to know more about its clients' knowledge and awareness of its products and services. Awareness exposes a specific population to try a new notion or product, according to the Diffusion of Innovation Theory proposed by Roger (1962).

The objective of this study is to try to answer the following questions:

1. What is the current level of clients' knowledge and awareness of Islamic Banking products and services?
2. How much do knowledge and awareness affect clients' preferences?
3. Does the Islamic Banking industry have high potential in Malaysia?

These are highly intriguing questions for many Islamic Banking industry stakeholders to expand their business activities and growth. There are several pieces of literature on other aspects of the Islamic Banking industry but there is a lacking study on any specific Islamic Bank clients. Hence this research is conducted on 135 banking clients using questionnaires, which includes both Bank Islam Malaysia Berhad (BIMB) and non-BIMB clients. Respondents' responses shall be examined about their knowledge and awareness of IBF products and services, investigating the correlation between knowledge and preference, and finally clients' perceptions on the upcoming prospect of Islamic Banking services in Malaysia. This study will help the Islamic financial industry to gain an insight into the clients' understanding and perceptions of Islamic banks and understand what the area of improvements are when it comes to creating clients who loyal and educated about the IBF industry.

LITERATURE REVIEW AND HYPOTHESIS

Development of Islamic Banking and Finance Industry in Malaysia

The developments of Islamic Banking in Malaysia have undergone various phases, but four of those phases were the important cornerstone for IBF industry. The most initial phase was 1983, the founding of the very foremost full-scale Islamic bank, Bank Islam Malaysia Berhad (BIMB), which was governed by the Islamic Bank Act 1983. It enabled Muslims and non-Muslims to have an alternative banking system following *Shari'ah* principles. Subsequently, the Government Investment Act was constituted to permit for government investment certificates to be allotted enabling the Bank's liquidity management (Aziz, 2005). In a span of a year of its launching, Islamic Insurance known as Takaful



was established. These milestones enabled Malaysia to have a holistic Islamic financial system which made it an international hub of Islamic finance.

The next phase of Islamic Banking Industry (IBI) happened in 1990, whereby central bank permitted conventional banking systems to provide Islamic banking products and services, on condition that there are substantial barriers to the distinction between conventional system and Islamic banking operations. The structure was considered as free from interest-based transactions, later it was known as Islamic Banking Scheme (IBSc). The aim of it was to promote Islamic Banking Industry growth and draw global interests for prevalence and acceptability (Bank Negara Malaysia, 1993; Nor, 2002). Authorized financial institutes were permitted to provide IBF products and services if they have fulfilled the conditions fulfilled by Bank Negara Malaysia (BNM) on 5th July 1993.

Islamic capital market was promoted in 1994. It happened because of BIMB launching its security and Islamic Interbank Money Market (IIMM). Moreover, in 1997, BNM also established National *Shari'ah* Advisory Council (NSAC), which has the highest authority to resolve *Shari'ah* related issues and to correspond with differences of opinions. In April 1999 KLSE *Shari'ah* Index was also launched, its role was to facilitate public investment in the instruments which are parallel to *Shari'ah* principles. Then in October 1999, Bank Mu'amalah Malaysia Berhad (BMMB) the second full fledged Islamic Bank was launched (Bank Negara Malaysia, 1999).

The year 2000 marked the third phase of IBF progress; persistent endeavour was engaged for the growth of IBI. BNM framed and inaugurated the Financial Sector and Master Plan (FSMP); it integrated a decade long blueprint for Islamic Banking and Takaful. FSMP designed to uphold Malaysia to a regional centre for Islamic financial service. While accomplishing its objective, the FSMP shaped competent, advanced and a broad Islamic financial system and providing a way for the industry to develop a competing, vibrant and

robust financial system which endures the hurdles created about by globalization and liberalization of the financial markets (Bank Negara Malaysia, 2000).

The fourth phase of progress of IBF industry was liberalization and globalized integration. BNM permitted the issuing of brand-new Islamic Banking license under the IBA 1983; in accordance to the Financial Sector Master Plan 2004 to three prominent Islamic Banking institutes from the Middle-East, i.e. the Kuwait Finance House, Al-Rajhi Banking & Investment Corporation and association of Islamic finance institutes embodied by the Qatar Islamic Bank, the RUSD Investment Bank Inc. and the Global Investment House. The liberalization intended to stimulate a viable atmosphere that can safeguard economical pricing policies to assist Malaysian patrons and companies and reinforce commerce and venture links with the other part of the globe (Bank Negara Malaysia, 2006). Liberalization of overseas proprietorship in Islamic finance has generated encouraging outcome, as showed in the betterment overseas awareness and venture in both Islamic banking and takaful during the equivalent time. It also stimulated worldwide assimilation among the Islamic banks and lead to intensified rivalry.

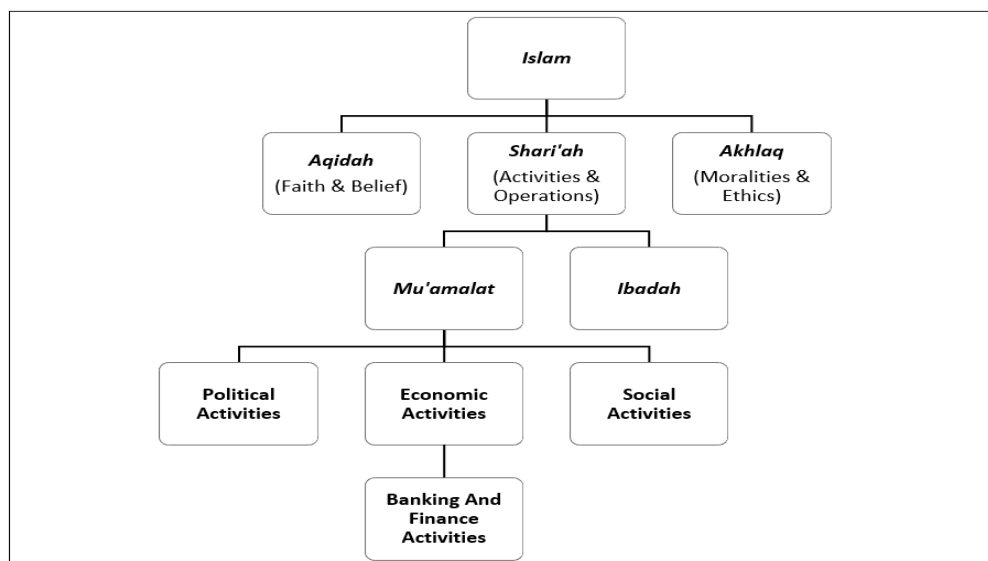
Islam and Islamic Banking and Finance (IBF)

The association between Islam and Islamic Banking and Finance is illustrated in Figure 1. Islam is surrender and peace, encompasses three pivotal aspects: *Aqeedah*, *Shari'ah* and *Akhlaq*. *Aqeedah* edifies the concepts of faith and belief, followers of Islamic faith understand *Aqeedah* by understanding the Quran, *Sunnah*, *Ijma* and *Qiyas* (Zaid, 1995). *Ijma* is the agreement of the Muslim Community on several matters (Zaid, 1995). *Qiyas* entail of the analogical inferences from the Qur'an, *Sunnah* and *Ijma* for subjects which are not unambiguously stated in the Qur'an and *Sunnah* (Zaid, 1995). *Akhlaq* entails morality or ethical code. Role of *Akhlaq* is to guide moral conduct of the Muslims and to distinguish between right and wrong.



According to Professor Jonathan A. C Brown, *Shari'ah*, in general, is the notion of God's law. The *Shari'ah* is a unified whole that comprises within its tremendous variety. The *Shari'ah* is derived from four bases. The first two are believed by Muslims to be sent by God either by direct or indirect means: 1) the sending down of the *Quran* and 2) the commanding guide of the Prophet Muhammad, identified as his *Sunnah* (regularly imparted in reports about the Prophet's speech and actions, called Hadith).

These two sources work in tandem. The *Sunnah* is the spectacles via which the *Quran* is understood, expounded, and supplementing to it. The following two sources are the result of mankind's attempt to comprehend and navigate the revelation of God through the Prophet: 3) the traditions that the early Muslim generation practised the *Quran* and the *Sunnah*, and 4) the additional broadening of this institution of legal deduction by Muslim intellectuals in the time since (Brown, 2017).



(Source: Haron, Islamic banking: Rules & regulations, 1997)

Figure 1: The relationship between Islam and Banking Activities

Shari'ah guides all activities and operations, it comprises of *Mu'amalat* (i.e. commercial trades, matrimony, and criminal procedure) and *Ibadah* (i.e. ritualistic acts or worship of God). *Shari'ah* is the concept of God's law which rules the affairs of Muslim's life. It directs all relationships between a believer and God, other fellow human beings, and the whole environment. *Mu'amalat* is practised in social activities, businesses or economic activities and political affairs. The launching or banking and financial institutions have enabled the Muslims to involve in *Shari'ah*-compliant business transactions.

Hence, it is concluded that Islamic faith does not believe in split-up between spiritual and contemporary affairs; bearing in mind commerce

requires moral guidelines and subjects to the principles of *Shari'ah* (Karim & A, 2001). These principles are deduced from the *Quran* and *Sunnah* to guide all transactions and business activities hence all Islamic banks and any other Islamic business activities should strictly be *Shari'ah* compliant (Karim & A, 2001).

Objective of *Shari'ah*

The objective of *Shari'ah*, as commonly known as *Maqasid al-Shari'ah*, aims to attain complete welfare (*Maslahah*) for the Muslim community. Welfare according to Oxford Advanced Learner's Dictionary is (2001; p. 1355) defined as: "the general health, happiness and safety of a person". Meanwhile, the operation of Islamic Banking and Finance ought to be within the



boundaries of *Shari'ah* hence it should aim its best to provide welfare for the community. In addition to that welfare in Islamic perspective includes wellbeing and happiness in this worldly life and the hereafter which is known as *al-falah*, the eventual success. Its ultimate well-being and happiness in both lives is the aim of *Shari'ah* to promote a healthy society (Nyazee, 2000). According to Kamali there are three areas which set up objectives of *Shari'ah*, specifically; educate the people, to ensure fairness and to provide welfare for the community (Abdul-Rahman, 2003).

In order to ensure that the concern of the Muslim community is protected, Shatibi categorized the protection of interest into three correlated types, to be precise, the essentials (i.e. *daruriyat*), the complements (i.e. *hajiyyat*) and the so-called embellishments (i.e. *tahsiniyat*) (Abdul-Rahman, 2003). Essentials are the necessities which one needs to survive. Imam Al-Ghazzali classified them into five components. They include safeguard of faith (*din*), the safeguard of posterity, safeguard of intellect, protection of life and protection of affluence (Abozaid & Dusuki, 2007). Protection of these essentials will enable the wellbeing in this world and the hereafter (Kamali, 2003).

Philosophy of Islamic Banking and Finance

This section aims to elaborate on the philosophy of Islamic Banking by delving into the principles of the Islamic banking system. Its essential concern is to comprehend the philosophy of IB, as that been directly applied in every operation of the banking system. The philosophy is used as a criterion in ensuring that IB is being compliant with the true Islamic principles in all their activities (Haron, 1997, 2000). The subsequent sections are aimed to discuss the philosophy of Islamic banking to further detail. An explanation on the forbiddance of *riba'*, trade-based business affairs, mutual distribution of profit and loss in the operation of Islamic banking, the prohibition of *gharar* and imbursement of *zakah* is discussed in the upcoming five sections.

Prohibition of Interest (*Riba*)

Islamic banking is a developing concept which was launched to satiate the demand for the devout Muslims who is willing to abide by the prohibition of interest-based dealings (El-Gamal, 1997). The Fundamental distinction between conventional and Islamic banking system is the prohibition of interest-based transactions (Al-Saud, 2000). The notion of *riba* is derived from the meaning of *zada* or *ziyadah*, it is to multiply or increase (Nawawi, 1999; Muslehuddin, 1974). *Riba'* can be categorized into two kinds, to be precise *Riba' al-Nasi'ah* and *Riba' al-Fadl*. Muslim legal experts explain *Riba' al-Nasi'ah* as denoting to a credit-earning to the lender a set growth after a period of time, or a postponement of time over a set period and rise of credit above the principal. In contrast, *Riba' al-Fadl* is defined as *riba'* by means of surplus upon and beyond the size of the goods set forwarded by the creditor to the debtor (Nawawi, 1999; Rosly, 2005).

Trade-Based Activities

Trade-based activities are an important cornerstone for Islamic Banking (IB); it is not only about avoidance of interest-based transactions but also deals with activities based on trade. Due to lack of awareness of consumers about trade-based activities, they generally perceive Islamic Banking as an interest-free financial system (Rosly, 2005a). Trade in IB is not restricted to business affairs, it also includes barter or exchange. Trade is the medium of doing businesses transaction to avoid *riba*. Trade-based transactions are made permissible in the Quran in the following verse:

"Those who take ribā (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: 'Sale is but like ribā.', while Allah has permitted sale, and prohibited ribā. So, whoever receives an advice from his Lord and desists (from indulging in ribā), then what has passed is allowed for him, and his matter is up to Allah. As for the ones who revert, those are the



people of Fire. There they will remain forever.” (Surah Al-Baqarah, 2:275).

The trade and commercial activities provided by Islamic Banking systems are of two types, namely: agreement of exchange and agreement of profit-sharing. Islamic banks use these contracts for the usage of funds. Contracts of exchange included exchanges of goods and services on the return of money.

Exchange of Goods Contracts

Bay' al-musawaammah or Spot Sales, it is a regular sale where the parties negotiate on pricing, a sale is performed and commodities are provided while payment is postponed (Ayub, 2007).

Al-murabahah or Differed Sales means cost-plus-profit agreement (i.e. mark-up pricing). Islamic banks practice the *murabahah*, agreement for purchases of commodities or resources (Nawawi, 1999). The banks will here purchase the commodities or resources and trade it to the purchaser at cost-plus profit. In this agreement, parties negotiate on the amount of profit over the known cost-price (Ayub, 2007). The trader must disclose the cost of production for acquirement of the commodities and disclose all information regarding cost to the purchaser (Ayub, 2007). The buyer must be made aware of his cost of buying and the revenue earned. There are dual categories of *murabaha*. The primary category is *murabaha*, which comprises of two parties that are trader and purchaser. Below this agreement, the trade of commodities is at cost plus mark-up. The second type is *murabaha* to the purchase 'orderer' (MPO). MPO involves three parties, namely, the purchase 'orderer', the 'buyer' and the 'merchant'.

Al-bai'-bithamin ajil means postponed payment. It can also be labelled as *murabahah* to purchase orderer (MPO) along with obligation to buy. It is a terminology used in Islamic banks in Malaysia (Nawawi, 1999). It is when the Islamic banks purchase commodity or resources and trade it to the purchaser at a mark-up value and it turns out payable soon after on the termination of the

deferred payment conditions (Nawawi, 1999). *Bai' Muajjal*, also called *bai' bithamin ajil*, is trade against delayed payment. The selling price classically surpasses the spot value of the commodity by certain fixed mark-up which is bargained before to the trade (El-Gamal, 1997).

Istisna'a is a transaction where a certain good is sold before it emerges into presence. In this kind of transaction, the pricing is set with the permission of the purchaser and merchant and the essential requirement of the good projected to be manufactured is completely established. Below this agreement, the buyer orders from a producer to build a specific good for the buyer, by means of resources from the producer. The period of delivery is not certainly set (Usmani T. , 2006).

Sukuk are new expansion on Islamic financial instrument in the financial industry, they are asset-based securities traded grounded on *Shari'ah* guidelines. Bonds are issued to raise fund in *Sukuk*, then the fund is used to invest in projects. Afterwards, revenue from the venture is disseminated to the owner of the bond (Navana, 2007).

Salam is an agreement amid two parties where the supplier agrees to deliver commodities to the purchaser at a forthcoming period in an exchange of an advanced full payment at the spot. The price is money, but the delivery of the item bought is postponed (Usmani T. , 2006) (Siddiqi, 1986).

Exchange of Services Agreement for Cash: *Ijarah* and *Al-Ijarah Wa-Iqtina, Kafalah* and *Wakalah*

Ijarah is a lease contract where the bank or financier purchases an asset for the clients then lease it to him for a span of time, consequently generating revenue by charging fee. The time span of the lease and payment are fixed early. Throughout the phase of *Ijarah* the ownership of the property belongs to the lessor i.e. bank, but the lessee has the authority to utilise the property. However, after fulfilment of the



duration the right is taken back to the lessor (Islamic Finance News, n.d.).

Al-ijarah wa-iqtina or Lease-and-purchase transaction; a financial tool utilised by specialists of modern Islamic finance in which a investor buys long-term usable goods (e.g. aircraft, buildings, vehicles) and then leases them to patrons expecting a yield for a contracted rent payment (to be remunerated for the span of the lease phase) and a contract that the clients will purchase the commodities at the end of the lease period (Islamic Markets, n.d.).

Kafalah is basically assurance. It denotes to the assurance delivered by an individual to the possessor of the commodities, who has retained or placed his commodity with a third party; where any successive entitlement by the possessor with respect to his commodity must be settled by the sponsor, and not by the third party (Bank Negara Malaysia, 2017).

Wakalah lexically means to safeguard or relieving on behalf of others. Technically *Wakalah* denotes to an agreement where an individual gives permission to others to do a particular precise legally permissible act on his behalf. It is an agency agreement, which means performing any specific task or delivering any service on behalf of another (Wakalah, n.d.).

Alternatively, contracts of profit-sharing can be divided into *Mudarabah* (i.e. Trustee Partnership) and *Musharakah* (i.e. General Partnership).

Mudarabah is a unique sort of partnership agreement, whereby one partner gives finance to another for capitalizing in business enterprise. The investment is made by the first partner who is referred as "*rabb-ul-maal*"; to the partner who manages the operations and activities of business, where he is known as "*mudarib*" (Usmani M. T., 1998).

Musharakah lexically denotes sharing, whereas in the commercial framework it refers to joint enterprise whereby all partners share revenue and loss mutually of the joint venture. *Musharakah* contracts are of two types:

1. *Shirk-ul-Milk*: It means joint possession of two or more individuals in a specific asset.
2. *Shirk-ul-'aqd*: Its "partnership affected by Mutual contract", to be more precise it can be also be called as "joint commercial enterprise" (Usmani M. T., 1998).

Prohibition of *Gharar*

Gharar means lack of clarity, uncertainty, the vulnerability of risk caused by lack of information or certainty as respect to substance matter or pricing in an agreement or transaction (Ayub, 2007). Mustafa al-Zarqa deduces *gharar* as "sales of probable items whose existence or characteristics are not certain, due to risky nature which makes the trade" (Khir, L, & B, 2008).

From the legal point of view, *gharar* is selling of things which are not in the hand of the sellers, the sales of an item of which consequence is unknown or a sale involving a vulnerability in which one is unclear whether the item will arrive or not, e.g. sales of fish in water, or sales of bird in air etc (Ayub, 2007) (Iqbal & A, 1999). Moreover, an example of *gharar* is when the item involved in the transaction is not in control of either party involved in the transaction, or the payment of the party is not certain. Islamic jurist has concluded any contract or transaction which is considered unacceptable or invalid when *gharar* is evident (Rosly, 2005). Therefore, contracts such as options and futures are also not *Shari'ah* compliant (Khir, L, & B, 2008). Henceforth, any contract which is clear of having *gharar* is an invalid transaction thus does not have any protection from the Islamic financial legal system.

Payment of *Zakah*

Lexical meaning of *zakat* is basically growth, purification, and cleanness in classical Arabic (Ahmed, 2004). Paying *zakat* technically means 'giving a definite fraction on certain assets to selected categories of the deprived member of society' (Khir, L, & B, 2008). Moreover, spending wealth on *zakat* is a means to attain God's pleasure, as stated in the following verse of Quran.



"Whatever Ribā (increased amount) you give, so that it may increase in the wealth of the people, it does not increase with Allah; and whatever Zakāh you give, seeking Allah's pleasure with it, (it is multiplied by Allah, and) it is such people who multiply (their wealth in real terms.)" (Surah Al-Rum, 30: 39).

Islamic banks distribute zakat from behalf of their stockholders (Karim, 1990). Payments of zakat are among those acts which promotes welfare in society (Maali, Casson, & Napier, 2006). The primary drive of Zakat system in Islam is to alleviate poverty and to decrease the disparity of wealth between the rich and the poor, society to reach a balanced income distribution.

H1: There is a significant difference in level of understanding of IBF products and services between BIMB and non BIMB clients.

Consumer Knowledge and Awareness of IBF Principles, Products and Services

It is a moral obligation of Islamic Banking and Finance industry to deliver its knowledge and understanding of its philosophy to the clients and society in general where it operates. Knowledge and awareness do have a significant relationship with preference. Lavidge and Steiner (1961) opined, the Hierarchy of Effect connects awareness to purchase (Run & Yeo, D, n.d.); awareness will cause knowledge then eventually consequent to preference.

Definition of knowledge is widely varied and sometimes not well specified clearly in the research study or operational framework (Gloet & Terziovski, 2004). The term 'knowledge' can be overlapped with the term 'information' which might lead to the untrue hypothesis that knowledge can be handled by similar means as the individual who carries it (Loughridge, 1999). Knowledge can be defined as a combination of information aligned with practice, background, analysis, and contemplation (Davenport, Long, & Beers, 1998) also systematized combination of ideas, rulings, and techniques (Bhatt, 2000).

Roger (1962) proposes Diffusion of Innovation theory which categorizes awareness as a stage where the population is exposed to a new notion or invention; however, deficient of the thorough information regarding it (Run & Yeo, D, n.d.). Henceforth, it can be deduced that the level of preference will likely increase if there is a high level of awareness created in the society of banking and finance. It is believed by many researchers that there is a significant lagging between awareness and Islamic Finance products (Khattak & Rehman, 2010).

Clients' knowledge can be categorized into many four different classifications, precisely objective, subjective, specific, and general. Objective Knowledge is the degree of accurate knowledge a client has regarding an item, their attributes, and linkages between different product attributes and their relationship to performance. Subjective Knowledge is clients' perceptions about how much they assume they know regarding an item. Specific Knowledge includes an in-depth type of knowledge than basic knowledge. General Knowledge is general (basic) level knowledge comprises knowledge about the shared characteristics of a type of item, together with information about the product group, and the possible advantages/hazards of the products belonging to it (Sääksjärvi, M, & Tanskanen, 2009).

There was various research conducted worldwide in the past on level of awareness and knowledge on Islamic Banking and Finance among its Muslim and Non-Muslim clients. Research conducted in Malaysia has proven that generally, clients in Malaysia have a low level of knowledge of Islamic banking and finance models (Gait & Worthington, 2008). On the other hand, Osman & Ali (2008) have concluded Muslim entrepreneurs have matured level of understanding on Islamic banking and financial products and services and acknowledge its importance on business activities.

Previous research conducted in Singapore concluded that both Muslims and non-Muslims have limited understanding on the culture of



Islamic Banking and Finance (Gerrard & Cunningham, 1997). Similar research was conducted in Thailand to examine the perception of the clients towards the objectives, characteristics, and criteria to choose Islamic Banking. It was concluded that most Thai knew the basic philosophy of Islamic Banking and Finance, which is its lending money without any interest payments. However, they have very limited understanding of the details of Islamic banking and financial products and services (Lateh, Ismail, & Ariffin, 2009). In Pakistan and Turkey, the level of awareness among the clients is matured for the certain general product such as current account and saving account. However, for Islamic Banking products like *Mudarabah* and *Ijarah*, most people are lacking awareness in them (Khattak & Rehman, 2010) (Okumus, 2005). Another study found that Islamic Banking products such as *Bai' Baithman Ajil* and *Ba Inah* are apparently less known among banking clients (Thambiah S., Eze, Santhapparaj, & Arumugam, 2011). A possible reason for lacking awareness is the usage of Arabic terminology which becomes like jargon terms for many clients.

A study conducted in the UAE proved that Muslim students were more knowledgeable and fascinated about Islamic Banking than non-Muslim students (Bley & Kuehn, 2004). This result was supported by a similar study in Malaysia, which has found out that Islamic banks have not made enough efforts to educate its clients; more than 65% of the respondents had an inadequate understanding on Islamic Banking system (Ahmad & Haron, 2002). According to Loo (2010), non-Muslims are still not able to understand the concepts of Islamic Banking despite having many marketing campaigns aimed towards them whereas all the Muslim respondents claim to have knowledge about them. Similarly, a study conducted on 150 respondents in Malaysia by Saiti, (2015) have concluded the following, "[I]t is found that the Muslims are more aware toward the culture of Islamic banking, and as a consequence, be more aware of the meaning of fundamental terms used in Islamic banking and finance. In the case of the attitudes towards

Islamic banks, there were many differences in attitudes between Muslims and non-Muslims in the country with the majority of Muslims..." A study conducted by Ling, Ling, Pey, & Hui (2012) upon 280 non-Muslim respondents found out that awareness among non-Muslims on IBF products and services can be considered high however understanding is still at a moderate level.

H2: Clients awareness and knowledge does influences consumer preference when it comes to IBF products and services.

Consumer perception of Islamic Banking and Finance products and services

There have been many studies done in the past examining the perceptions among the consumers on the Islamic banking industry in a different part of the world. In Thailand, there was a study conducted examining the perception of consumers towards aims, features and benchmarks for preferring Islamic banks. It was found that clients do not perceive any difference between Islamic banking and conventional banking systems except the different Islamic terminologies used to make it look different (Lateh, Ismail, & Ariffin, 2009). Another study conducted in Indonesia which has surveyed 1047 respondents to examine the perception on Islamic banking found that half of the respondents have revealed that the foundation of Islamic banking is profit sharing and many others believed that Islamic banking is based on Islamic principles (Bank Indonesia, 2004). Another study has concluded that Islamic banking is only meant for clients who identify themselves with Islamic faith and due to lacking many facilities compared to conventional banks it lacks popularity among overall clients (Karim & Affif, 2005).

The study conducted in Malaysia by Loo (2010) has made a comparative analysis between Muslims and non-Muslims towards their perceptions on Islamic banking. It concluded that there is a significant difference in perception between X-Gen and Baby-Boomer; in summary non-Muslim clients perceive Islamic banking with



more drawbacks than Muslim clients. Likewise, a study conducted by (LING, LING, PEY, & HUI, 2012) upon 280 non-Muslim respondents have concluded that perception among the clients varies significantly upon the different demographic group; however, the level of education has the most significant relationship with all the variables namely awareness, understanding and perceptions.

Moreover, a study carried out by Ahmad & Haron (2002) upon 45 corporate clients have concluded that Islamic banking products are not very popular among them also most of the corporate clients opined that Islamic banking products and services are similar to those in the conventional system except that Islamic banking system uses different names for those products. Also, Thambiah S., Eze, Santhapparaj , & Arumugam (2011) found out that perception of Islamic retail banking is different between urban and rural clients. Also, a study conducted on 155 banking clients on Brunei by Ali (2018) has concluded that Islamic banks in Brunei have a high likelihood of progress as the state has steady economy and consumers have high purchasing power. Since customers have high purchasing power therefore technology savvy products and services are well-accepted amongst Brunei bank patrons. On the other hand, research conducted on Oman by Belwal (2019) on 60 banking clients has stated that the idea of Islamic Banking is not yet vibrant to most of the public in Oman. The Public has not shown much attention in this notion. Majority of the clients have patronized to Islamic Banks for credits, and other financial products have not yet made any access to their attention.

H3: Respondents perceives that there is a high prospect of Islamic Banking products and services.

METHOD AND DATA ANALYSIS

The researcher of this empirical study was conducted by a quantitative method. There was a survey of 135 respondents conducted of banking clients. The questionnaires were distributed randomly among the banking clients in Klang Valley, Kuala Lumpur, Malaysia.

The Questionnaires in the first section A included the demographic details of the clients, next section B is about whether they have an account in BIMB or other banks in Malaysia. Then in section C, the respondents were questioned about their general knowledge of Islamic Banking principles and then details of their understanding of each Islamic banking products and services, namely: Bai' Al-Murabaha (BM) and Bithaman Ajil (BBA), Al-Musharakah and Mudharabah, Al-Ijarah, and Al-Qard Hasan. It was also inquired about the relationship between the client's awareness and client's preference when it comes to patronizing Islamic banking services. Section D was focusing on the clients' perception on the prospect of the Islamic banking system in Malaysia. The results of the survey were then analysed and examined using Microsoft Excel and Statistical Package for Social Science (SPSS). The frequency and mean of all the result were calculated for all the outcome. Then the Independent Sample Test and T-Test was conducted to test the three hypotheses of the study.

RESULT AND DISCUSSION

The aim of this research, as mentioned in the objective of this study, are (i) to examine the level of knowledge and awareness of IBF products and services among the banking clients; and, make the comparison between BIMB and non-BIMB clients (ii) to find out the relationship between Clients knowledge and preference, and (iii) and to investigate the perceptions of the clients towards the future prospect of Islamic banking service. Therefore, questionnaires were designed to capture these objectives to examine the level of understanding of Islamic Banking products and services among banking clients. Furthermore, the contrast was made between BIMB and non BIMB clients to examine the difference in the level of understanding. Out of 135 respondents who are all banking clients, 54 (40%) of them were BIMB clients, and 81 (60%) of them were non-BIMB clients.



Table 1: Knowledge of General Principles of Islamic Banking (IB)

	Overall Knowledge of all Clients	BIMB clients' Correctness (n=54) Mean %	non BIMB Clients' Correctness (n=81) Mean %	Total correctness (n=135) Mean %
1	Fundamental principles of Islamic Banking (IB)	65	62	63
2	Bai' Al-Murabaha (BM) and Bithaman Ajil (BBA)	57	61	60
3	Al-Musharakah and Al-Mudharabah	53	5	53
4	Al-Ijarah	56	59	58
5	Al-Qard Hasan	69	66	68
	Total Average	60	60	60

As the results have shown the mean score of overall knowledge of Islamic banking finance principles, products and services are all having an equal mean score of 60%.

Table 2 a: Independent Sample Test

Group Statistics					
		N	Mean	Std. Deviation	Std. Error Mean
Percentage of Correct answer by BIMB and Non-BIMB	BIMB	5	60.00	6.708	3.000
	non-BIMB	5	60.20	4.764	2.131

Table 2 b Independent Sample Test

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Percentage of Correct answer by BIMB and Non-BIMB	Equal variances assumed	1.744	0.223	-0.054	8	0.958	-0.200	3.680	-8.685	8.285
	Equal variances not assumed			-0.054	7.217	0.958	-0.200	3.680	-8.848	8.448



Table 2a and 2b illustrate the Independent Sample Test to compare the overall mean of correct answers among the BIMB and non-BIMB client. It was conducted to examine the following hypothesis:

H1: There is a significant difference in the level of understanding of IBF products and services between BIMB and non-BIMB clients.

The mean score for BIMB clients is 60 % and for non-BIMB are 60.20 %. The sig. value is 0.223 which is much higher than 0.05; it means there is no significant difference in the variance between the two groups, BIMB and non-BIMB clients. The sig. (2-tailed) in 0.958 which is also much higher than .05 which concludes there is no statistically significant difference in the mean score of

knowledge between BIMB and non-BIMB clients. Henceforth, the null hypothesis cannot be rejected that there is no significant difference in the level of understanding between BIMB and non-BIMB clients. Hypothesis 1 cannot be accepted by the test conducted.

Relationship Between Clients' Knowledge and Preference

The following test was conducted to examine the relationship between clients' knowledge and clients' preference. The respondents were asked in section C of the questionnaire about whether their preference for Islamic banking and financial is because of their understanding of knowledge and understanding. The respondents have rated their feedback from 1 to 5, while 5 being the most significant.

One-Sample Test					
Test Value = 3					
T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
-3.339	134	0.001	-0.53333	-0.8493	-0.2174

Table 3 a: T-Test Analysis for Knowledge and Preference

Table 3 b: T-Test Analysis for Knowledge and Preference

One-Sample Statistics			
N	Mean	Std. Deviation	Std. Error Mean
135	2.466666667	1.856010808	0.159739977

In Table 3a and 3b, the highest sample mean of 2.47 (SD=1.856) was significantly different from 3, $t(134) = -3.339$, $p = 0.00$. The 95% confidence for mean ranged from 2.15 to 2.7826. Therefore, the null hypothesis is not rejected at 0.05 alpha levels and result accepts the null hypothesis. The result supports the conclusion that there is no significant relationship between clients' knowledge and preference when it comes to choosing Islamic Banking services. Hypothesis 2 cannot be accepted based on this empirical study.

Perception of Islamic Banking in Malaysia among Banking Clients

The third assumption of this study was to investigate whether Islamic banking industry has a high potential in Malaysia. The respondents have responded by rating their feedback from 1 to 5.



Table 4 a: T-Test analysis to determine Clients Perception

One-Sample Statistics			
N	Mean	Std. Deviation	Std. Error Mean
135	3.6074	1.344	0.116

Table 4 b: T-Test analysis to determine Clients Perception.

One-Sample Test					
Test Value = 3					
t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
5.250	134	0.000	0.60741	0.3786	0.8363

In Table 4 a and 4 b, the highest sample mean of 3.607 or 3.61 (SD=1.34) was slightly different from 3 which is the Test Value, $t(134) = 5.250$, $p = 0.00$. The 95% confidence level for question D1 mean ranged from 3.3786 to 3.8363. Therefore, the null hypothesis is rejected at 0.05 alpha level and the alternate hypothesis by default accepted.

H3: Respondents perceives that there is a high prospect of Islamic Banking products and services.

CONCLUSION AND RECOMMENDATION

The results of the study have shown that out of 135 clients who have been surveyed, all of them are banking clients, among them, 54 of them patronize with Bank Islam Malaysia Berhad (BIMB) and 81 of them are non-BIMB clients. However, the random sampling used cannot be a very reliable method to generalize any result to the mass population of those clients who are patronizing Islamic Banking services. It is merely an inductive approach done with limited measures; the result might be different when a study conducted based on different sampling techniques.

There seem to be only 60% correctness in answers obtained. As illustrated in Table 1 the overall mean score by BIMB, non-BIMB and total

combined, they have all scored 60% on average. The questions were related to fundamental principles of Islamic banking, Bai' al-Murabaha (BM), bai' Bithiman Ajil (BBA), Al-Musharakah, Al-Mudharabah, Al-Ijarah and Al-Qard Hasan, the respondents have given their response by answering either 'True' or 'False' to determine their level of understanding. The BIMB clients have only scored higher than non-BIMB clients in the fundamental principles of Islamic finance and Qard al-Hasan concepts, however, in the rest of the sections the non-BIMB clients have scored slightly higher than BIMB clients even though they had all equal mean score. Despite the fact that the respondents have not scored very high, the average mean score were all above 50%, which can help conclude that the clients do have some understanding about the Islamic banking products and services; they are not completely unaware about its existence and notions. However, the response in the questionnaires cannot be a definitive approach to find the level of awareness by the clients, rather it can be a probable approach. To determine the level of understanding and knowledge there need to be more accurate measures to examine the knowledge of the clients.

The result of this study harmonize with the previous research conducted in Malaysia and



elsewhere as mentioned in the literature review; the clients have limited understanding of Islamic banking except the prohibition of interests, and they lack comprehensive understanding on the details of each product and services. The clients might be aware of the names of products and services but do not have a complete understanding of the nature of the products and services. Moreover, this study has found that there is not much significant relationship between client's knowledge and preference when they patronize Islamic Banks. It can be said that there are other factors which play a role when it comes to factors which lead to preference of Islamic Banks. However, the finding of the response of the clients using T-Test cannot be a definitive way to determine the level of knowledge and preference. There needs to be a further study done to find the relationship between the two variables. The last section of the research seeks to find out the perception of the clients related to the prospect of Islamic banking in Malaysia, the result of statistical analysis have shown that the clients do believe that there is a high prospect of Islamic Banking in the future. However, the sample population was very limited, and they do not represent entire banking clients.

Islamic banks should take more actions to develop understanding and awareness of its products and services, make it understandable for all Muslims and non-Muslim clients, also should minimize using jargons which makes it difficult for many clients to understand simply. Increasing knowledge and awareness is a way to fulfil its moral obligation to its clients, being able to market its products and services, and expand its scope globally.

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