



**A STUDY ON THE DETERMINANTS OF SELECTING ISLAMIC BANK IN
KOTA KINABALU, SABAH.**

**BRENDA STIFANI HARRY
2012880698**

**BACHELOR OF BUSINESS ADMINISTRATION WITH
HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
KOTA KINABALU**

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CHAPTER 1

INTRODUCTION

1.0 Overview of Islamic Banking

In contrast to conventional banking, Islamic banking provides various products and services that must be compliance to the Shariah Laws. Every each of the Islamic banking transactions as well as the economic activities must be based on contracts that are stated under the Shariah Law. Shariah is an Islamic word which means the every basis that are used in the Islamic banking transactions and activities must meets the religious requirements that are stated under the law and must be obeyed by all the Muslims.

Islamic banking activities prohibit riba and all the activities that are related to speculating, gambling and everything unethical and illegal in Islam (Amin et al., 2011). Riba or in another word, usury is an Islamic banking concept where it refers to the interest that is charged in any transactions that has been made between two or more parties involved. Under the Shariah laws, it stated that there are many kinds of products that are offered at the Islamic bank such as savings (Al-Wadiah), joint venture (Al-Musyarakah), profit sharing (Al-Mudharabah), deferred payment sale (Al-Bai Bithaman Ajil), cost plus sharing (Murabahah), leasing (Al-Ijarah), guarantee (Al-Kafalah) and Benevolent loan (Qard Hassan) as well as fee (Al-Ujr) (Selamat, 2012).

There are similar values in between of Islamic finance and Halal. Disconnection between these two had been seen in Malaysia as the penetration of Islamic financing among the Halal industries is not high. According to Jaffar (2013), to be a true Halal

1.1 Problem Statement

Islamic banking has become a substantial and fastest growing industry for the last four decades. Islamic banking is a rapid growing industry in the global that introduced an Islamic ethical concept in every activities and transactions that has been made between two or more parties involved. Malaysia is the first one to adopt a dual banking system. A dual banking system consist a full-fledged Islamic system that could operate in one place with the conventional bank within one particular bank.

Islamic banking is not listed in the infancy stage anymore (Amin et al., 2011). In Sabah, it has been noted that there are many different kind of religions living under one state. Previous studies on Islamic banking and finance found that even though it is an Islamic bank, the large number of customers come with not only Muslim customers, but also non-Muslim customers (Abdullah et al., 2012). However not many of the products offered by the Islamic bank are understood and accepted by the customers. This is due to the lack of knowledge about the Islamic banking system among the customers.

The customers' positive perception towards the Islamic banking is very significant because it have a huge competition with the conventional banks that has been established far longer than the Islamic bank in the dual-banking system. Haque et al (2009) studied the factors influencing the Islamic banking selection stated that the most of the respondent of their research were not familiar with the Islamic banking system including their services and products offered. Therefore, this research is done to study whether the social influence, religious obligation and the bank reputation can influence the customers' confidence to use Islamic bank.