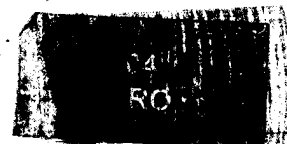





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## PROJECT PAPER PROPOSAL FORM

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Program/Batch : BM229-BBA (Hons) Islamic Banking, Part 6	
Project Title : The Factors that Influence Customer Intention to Choose Islamic Home Financing Product	
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## **INTRODUCTION AND BACKGROUND OF STUDY**

Over the past years, Muslims only know and use conventional products including in banking and finance sectors. Islamic banking in Malaysia had been started from the establishment of Pilgrims' Management Board or also known as Lembaga Urusan Tabung Haji (LUTH) in 1963. LUTH is the first Islamic savings institution in Malaysia. LUTH special purpose is for performing hajj. Nowadays, depositor who reaches RM 1800 in the amount of deposit can be register for performing hajj. LUTH also provides customer to make an investment in long term tenure.

From National Steering Committee (NSC) meeting in 1981, they study on various proposals for establishment of Islamic Bank. From this, Bank Islam Malaysia Berhad (BIMB) had established on 1983. It registers under Companies Act 1965 as limited company and at early of establishment, other Islamic bank cannot be established because they have to see first the performance of the pioneer Islamic bank that is BIMB. Other bank cannot offer an Islamic products and services due to two main reasons. First, government give BIMB a lead period of 10 years before allowing another Islamic bank to establish. This enabled bank to fully focus in their operation. Second, it allows BIMB to create and make as many products as possible to fully shariah-compliant.

With the first establishment, Islamic bank has expanding. More Islamic bank had established that are Bank Muamalat Malaysia Berhad that is the second Islamic bank, Bank Kerjasama Rakyat and etc. This shows good feedback from public and it make Islamic bank growing. Islamic bank offer products and services that fulfil with shariah requirement and needs for Muslims. Shariah complaint means it free from the element riba (interest), gharar (uncertainty) and maisir (gambling).

Islamic banks work parallel with conventional bank. Products that offer by both are same but Islamic bank's products comply with shariah. Conventional banks had established earlier before Islamic banks so Islamic banks adopt the products from there. Nowadays, banks at Malaysia had make Islamic window to make more easier for customer to use and choose conventional or Islamic product.

Banks at Malaysia is operates under Bank Negara Malaysia (BNM), Central Bank of Malaysia. BNM will control and supervise all the banks and financial institutions in Malaysia. BNM had make Shariah Advisory Council (SAC) that responsible to supervise all the Islamic products and services must comply with shariah. They consist of members that expert in Islamic Jurisprudence and Fiqh Muamalat. Every bank also has Shariah Advisory Board (SAB) that will review their products and services.

### **Overview on Islamic Banking**

Definition banking business had stated in Banking and Financial Institution Act (BAFIA) in Section 2 (1) stated banking business means

(a) the business of—

(i) receiving deposits on current account, deposit account, savings account or other similar account;

(ii) paying or collecting cheques drawn by or paid in by customers; and

(iii) provision of finance; or

(b) such other business as the Bank, with the approval of the Minister, may prescribe;

In Section 2 of Islamic Banking Act (IBA) 1983 defines 'Islamic Bank' as any company which carries on Islamic banking business and holds a valid license; and all the offices and branches in Malaysia of such a bank shall be deemed to be one bank. All Islamic banks must

## **PROBLEM STATEMENT**

Islamic home financing gives opportunity for customer to choose its product. This research is conduct by several problems that need to be identifying.

- 1) Islamic bank had introduced new home financing product. Customer can choose which products for their financing. With the new implementation of Musharakah Mutanaqisah (MM) or Diminishing Partnership (DP), it gives a new impact in their home financing and largely property financing. MM provides modus operandi that different from Bai-Bithaman Ajil (BBA). MM is largely accepted by international scholars while BBA only in Southeast Asian. Is there problem using BBA home financing?
- 2) MM become expanding nowadays. There are four banks implemented MM. Maybank Islamic, RHB Islamic Bank, Citibank Malaysia Islamic Banking and Kuwait Finance House. The list of bank will be increased because there are several other banks that are moving towards MM. Al-Rajhi is in process to implement MM. Bank Kerjasama Rakyat Berhad is one of example that do research on the implementation of MM and now they are still using BBA as mode of home financing. The planning is still in progress. With the moving from BBA to MM, there must be reasons for why it happens. What are the reasons for changing from BBA to MM?
- 3) Customer that using Islamic banking are gradually increase. Public are more attracted to use their products and services. In Islamic home financing, instead of BBA, customer can also choose to use MM principles. What could be the benefit for customer to choose this home financing product?

## **LITERATURE REVIEW**

Islamic home financing had been established at early of establishment of Bank Islam Malaysia Berhad (BIMB) in 1983. Islamic home financing provide home financing that compliant with shariah. It is free from any prohibited elements. It is different from conventional loan. According to Abdul Aris, Othman, Mohd Azli, Arshad, Sahri and Yaakub (2011), in conventional system, housing loan is simply giving a loan to the customer. The product is interest driven, with the interest charged to the customer over the period of payment.

BBA had been implemented at early of establishment of BIMB while MM is still new in Malaysia. BBA is the most popular Islamic home financing concept that used the concept of deferred payment. BBA is a deferred instalment sale whereby bank capitalizes its profit up front in the sale of property to the customer who in turn is required to pay a fixed sum until the tenure ends (Abdul Razak, Mohammed and Md. Taib, 2008). It shows how it is related to debt financing. According to Rosly (2005), the difference between debt financing in Islam and conventional loan is that there is a real purchase of asset otherwise it means that the bank is using money as the commodity in buying and selling transaction which is tantamount to riba.

MM had practiced outside Malaysia for long. Pakistan Islamic Bank used MM as their mode of financing. The term diminishing “mutanaqisah” refers to reducing or digressive in a capital joint-venture profit sharing contract that ultimately culminates in the ownership of asset or project by entrepreneur (Mohd Yatim, 2009). It shows MM consists of elements partnership to finance the property. Rosly (2005) in his study had stated that MM concept complies with shariah as the bank shares profit and risks with customer. Parties in the contract must have to study and know about the contract to prevent any misunderstanding.