

FACTOR DETERMINANT OF CUSTOMER TRUST ON ISLAMIC CAR LOAN BY MODERATING EFFECT OF SHARI'AH COMPLIANCE

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Abstract. Over a few decades, the existence of strong Islamic movement has created a new interest in Islamic economics. Gradually, interest-free banking by Islamic banks started to fame and the system has gained global recognition. Many bank offer similar products and services. Therefore, competition between of Islamic and conventional banks intensifies, thus, the perception of the customer will determine the level of the competitiveness and success of the banks. In Malaysia, *Al-Ijarah Thumma Al-Bay* (AITAB) is one of the latest innovative products of Islamic hire-purchase facility in Islamic banks in Malaysia today, which is designed to meet the hire-purchased concept on current demand of customers that focusing in motor vehicles. Therefore, this research will conducted to study and identify how customers create their trust in using the products, services of Islamic bank. Based on the existing gaps, the researcher proposes a dependent variable (i.e. Customer Trust), independent variables (i.e. Image and reputation, Customer knowledge, Marketing), and moderator (i.e. Shari'ah compliance). In this study, seven hypotheses are developed to identify the relationship between customer trust and the determinant factors. The expected result of all the factors independent variables is significant relationship on customer trust. The study will adopt convenience sampling and will apply quantitative method by distributing survey questionnaire to the customers in conventional bank. The Statistical Package for Social Scientist (SPSS) is used to analysis the data. In this study, the study is expected to develop a new framework.

Introduction

This paper introduces the background of the study concerning the factors determinants of customer trust on Islamic car loan and moderating effect on Shari'ah compliance. A few of decades, Islamic finance in Malaysia operated and continue growing quickly supported by conducive environment, comprehensive financial structure and adopted global regulatory and legal best practices. Today, competing with the conventional financing bring Islamic finance industry as a dynamic industry (Ibrahim & Kamarudin, 2014). One of type Islamic finance which is Islamic banking. After 30 years, Islamic banking is one of the most successful growing in banking industries. Islamic banking also can be define as a banking system that based on the principles of Islamic (Sharia) law and known as Islamic banking system. (Muhammad, Wan Shukran, Abdul Rehman, & Sarifuddin, 2015).

Islamic banks and conventional banks performs the same services and products except the transaction based on the Shari'ah principle (Ahmed, Islam, & Mohiuddin, 2017). Specifically, banking activity has long been recognized as a major driving force for economic development and a few would contest that the customers has a close business relationship with their banks. (A.F.Ferreira, S.Jalali, Kavaliauskeiene, & A.C.P.Viana, 2015). Nowadays, quality of bank has become important for many banking (Droubi & Raissi, 2016). Therefore, banks need to meet a requirement of customers and enhancing services quality such understand and since the service quality is now considered the most important step in gaining a competitiveness in the market (Ahmad et al., 2017).

Furthermore, the problem statement was issue on banking industry. According to Yusof (2017), Islamic banking industry in Malaysia is expected the growth to sustain the 2015 growth of 11% 2016-2017 and Bank Negara Malaysia target for the industry is 40% of all banking assets to be booked under Islamic banking by 2020. Therefore, the global profit of Islamic banks set to triple line to reach USD\$ 1.6 trillion in assets by 2020. Islamic assets in 6 core markets (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Turkey) set to show double digit growth in 2016. As stated by Ernst and Young (2016), the share of participating banking assets in Islamic banking is still low compared to conventional banking industry where in Islamic banking there has a stake of 21.3% refer to total of banking assets.

Research Questions

From the discussion, this study is going to answer the following questions :

RQ1: Does the factors of (image and reputation, customer knowledge, and marketing) have make the customer trust on

Islamic car loan?

RQ2: How does the factors of (image and reputation, customer knowledge, and marketing) have make the customer trust on Islamic car loan?

RQ3: Does the Shari'ah compliance moderate toward factors of trust?

RQ4: How to enhance a framework to represent the factors that contribute the customer trust on Islamic car loan?

Research Objectives

RO1: To examine the relationship between the factors (image and reputation, customer knowledge, and marketing) have make the customer trust on Islamic car loan

RO2: To examine the factors of (image and reputation, customer knowledge, and marketing) have make the customer trust on Islamic car loan

RO3: To examine whether Shari'ah compliance moderate towards factors of trust on Islamic car loan

RO4: To develop a framework to represent the factors that contribute the customer trust on Islamic car loan

Literature Review

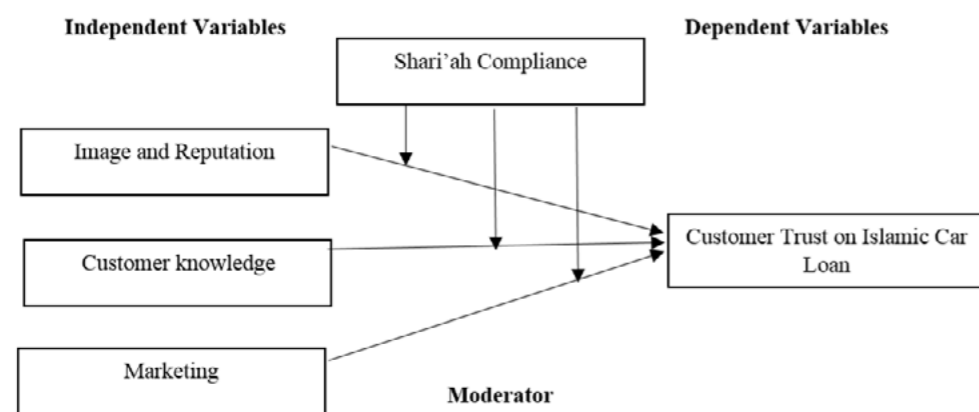
In Malaysia, Al-Ijarah contract is the most popular financing modes and the fact that only few people can afford to buy house, land or vehicle on cash basis. It also can be defined as vehicle leasing or vehicle ijarah contract that represents a transaction in which benefit (usufruct) associated with the vehicle is sold for a payment (Zafar, 2012). Additionally, a recent study of Masood, Sheikh, and Abbasi (2018) revealed some factor of the customer trust on Islamic car loan such reputation, service quality, and pricing. Thus, it is important to consider that whether the customers of Islamic bank believe in the truthfulness of the Islamic car loan or not. However, Beckett and Hower (2000); Ennew, Kharouf, and Sekhon ; (2014); Sekhon, Roy, and Pitchard (2013) also mentioned it is well established that trust is particularly important in the car ijarah contract. Also, as stated by (Fernández-Olmos, 2011); Moro and Fink (2013), trust is a factor which decreases transaction costs in banking relationships which means that trust is one of the most noteworthy elements that regulates the future development of business relationships. Therefore, Dzulkarnain and Hatta (2017) also stated that the consumer is the king of the market, the one that dominates the market and the market trends. The consumer plays a very important role in the demand and supply of economic system for any industry. Md Husin and Ab Rahman (2016) also explained that marketers should identify and understand the potential consumers in using Islamic bank products such a car financing.

Meanwhile, as mentioned by Nguyen and Leclerc (2011) image of banks persuade the customers to range the Islamic products such vehicles financing thus influences the customers in making perception and trust the banks. Almahy (2014) results also indicated a good response of customers regarded by reputation of the banks is such of stability of financial and latest technology. Radiah (2014) also stated reputation as identity and activity of performance of the banks thus positive response to the customers. To strength the result , Ashfaq and Bashir (2014) also revealed that knowledge and understanding of the bank's image, reputation and services is influenced by the awareness and customer trust on Islamic car financing. Thus, awareness also can influence customer to trust, make any option and decision making. Hence, level of awareness also can be improve by referring the analysis and intuition which had experienced in using Al-Ijarah or Islamic car financing. Lamberton and Stephen (2016) also pointed out, marketing strategies tools is very important to the banks relating with the car loan contract because it extremely contribute to the banks in attract a potential customer or existing customers. Thus, it is a good strategies by attracting a new potential customer and retain the existing in using Islamic car financing (Yang, Lu, Chau, & Gupta, 2017). Due to these marketing strategies the Islamic banking products have been well accepted in Malaysia. This can be gaged from the example of BIMB in Malaysia. At the end of the first year of operation, the deposits and loans stood at RM 241 million and RM 162 million, respectively. The corresponding figures for 1994 are RM 2.55 billion and RM 0.98 billion representing a growth of 106% and 60% respectively (Haron& Wan Azmi, 2006). By 2014, the deposits and loans in BIMB stood at RM 36.16 billion and RM 24.96 billion representing a growth of 71% and 128% over 1994 level (Berhad, 2014). The total loans and advances, considering all the Islamic banks and Islamic windows in Malaysia, stood at RM 294.5 billion as on March 31st, 2014 (Malaysia, 2014).

In this study, it is important to note that trust is giving impact to the banks such on Islamic car financing and it is based on customer's demand and expectation (Walsh & Mitchell, 2010). Additionally, demand and expectation of using car financing or ijarah contract is the most important element in making customer's trust and satisfaction toward banks (Hafsa Orhan Åström, 2013). Thus, Aburoub, Hersh, and Aladwan (2011) also mentioned that satisfaction of customers in ijarah contract is important in define a behaviour of customers.

Research Framework

The key research area of this study has been illustrated from the literature review. The relationship between variables have been visualized to present the research framework of this study. In order to test the multiple regression analyses were performed.



Hypothesis developments are as the following:-

Image and reputation on Trust. According to Hoq, Sultana, and Amin (2010) sourcing data from Malaysia showed that customer trust, satisfaction and image were based on performance and image.

- H1: There is a significant effect of image and reputation on trust
 H0: There is no significant effect of image and reputation on trust

Customer knowledge on Trust. Although the description of trust in a business to- business association has been recognized, there looks to be an agreement in understanding trust as honesty, confidence, integrity, and trustworthiness (Iqbal & Mirakhor, 2017).

- H1: There is a significant effect of customer knowledge on trust
 H0: There is no significant effect of customer knowledge on trust

Marketing on Trust. Further, the relationship marketing literature reveals that trust and commitment are two key factors necessary for establishing and maintaining long-term service provider– customer relationships; (Aurier & N'Goala, 2010; Morgan & Hunt, 1994). Given this, Islamic banks have to pay attention and maintain and enhance their customer's commitment and trust, including their individual saving customers. Therefore, trust becomes critical to the service industry and it is considered as a marketing tool for the industry due to the intangibility of services, which is difficult to assess prior to purchasing (Berry, 1995).

- H1: There is a significant effect of marketing on trust
 H0: There is no significant effect of marketing on trust

Image and reputation on Shari'ah compliance. In this regard, a bank's reputation is one of the factors that can significantly influence the overall behavior of customers toward Islamic banks. Furthermore, it has been suggested that marketers from Islamic banks must promote their decent reputations to attract new customers (Radiah, 2014). In addition, (Abduh & Omar, 2012) claimed that religious motive is the most important factor before customers decide to select an Islamic bank.

- H1: There is a significant effect of shari'ah compliance on image and reputation
 H0: There is no significant effect of shari'ah compliance on image and reputation

Customer knowledge on Shari'ah compliance. A study of Shari'ah compliance in Islamic banking revealed poor knowledge of Shari'ah among the Islamic banking officers in Bangladesh (Ullah, 2014). This deficiency is supported by Awan and Shahzad Bukhari (2011), who revealed that bankers' inadequate knowledge in providing and convincing customers on Shari'ah compliant features of Islamic banking. The researchers propose for Islamic banks to hire experienced and professional bankers who can contribute the product knowledge and expertise to the market, of which could be an essential tool in educating the customers on Islamic banking product and services. (Al-Hunnayan & Al-Mutairi, 2016; Ismail et al., 2013; Marimuthu, Jing, Gie, Mun, & Ping, 2010).

- H1: There is a significant effect of shari'ah compliance on customer knowledge
 H0: There is no significant effect of shari'ah compliance on customer knowledge

Marketing on Shari'ah compliance. According to Bin Abdallah and Jamil (2013), some researchers suggested some dimensions regarding the Islamic marketing mix to fulfil the customer's wants and need. The Islamic marketing such

Conformity, Character, Commitment, Conscience, and Customer Centricism is called the 5Cs (Elkrghli & Yahya, 2018).

- H1: There is a significant effect of shari'ah compliance on marketing
 H0: There is no significant effect of shari'ah compliance on marketing

Shariah compliance on Trust. Similarly, ethics and compliance with Islamic principles (Shari'ah) are highly regarded and sustained as pillars in running Islamic banking activities based on trust (R. N. Kayed & Hassan, 2011). However, the issue of trust in Islamic banking are compliant with Shari'ah requirement. Likewise, integrities and agreement with Islamic principles (Sharia) are highly observed and continued as leaders in successively Islamic banking activities founded on trust (R. a. Kayed, 2011).

- H1: There is a significant effect of shari'ah compliance on trust
 H0: There is no significant effect of shari'ah compliance on trust

Methodology

The study adopted is convenience sampling. This method is preferable due to restriction on non-disclosure of customer 's information from Bank an Financial Institution Act (BAFIA) 1989 (Ramayah, Yeap, & Siron, 2003). This study also applied quantitative method by distributing survey questionnaire to randomly chosen the customers in conventional bank. According to (Najid, 2000); Sperling, Gay, and Airasian (2003), guidelines for sample size in factor analysis. The researchers suggest a total for sample is 10 until 20 percents from total population whih is enough for this study as a survey study.

Table 1 showed validity and reliability of the questionnaire in this study. All items were measured by 5-points Likert scale with 5 for strongly satisfied and 1 for strongly dissatisfied for all variables employed in the questionnaire. According to Sekaran and Bougie (2016), Cronbach's Alpha of 0.70 or above is consistent with the suggested minimum values.

Table 1: Validity and Reliability

Construct	No of Items	Cronbach's Alpha	Authors
Trust	5	0.73	(Mosavi & Ghaedi, 2012)
Image and Reputation	5	0.98	(Dimitriadis, Kouremenos, & Kyrezis, 2011)
Customer knowledge	5	0.92	(Gefen, 2010)
Marketing	5	0.83	(K Abdullah & Ahmad, 2010)
Shari'ah compliance	5	0.90	(Bahari, 2014)

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