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THE ACCEPTANCE OF ISLAMIC DEPOSIT PRODUCTS AMONG NON-MUSLIM BANK CUSTOMERS IN MALAYSIA

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ABSTRACT

Undeniably, public awareness has increased since the first establishment of Islamic banking in Malaysia in 1983, but the acceptance of Islamic banking products has yet to be at par with its conventional counterpart. The statistics indicate that despite a steady growth in the Islamic banking market share over the years, there is a large gap between the conventional and Islamic banking system. Although the existence of Islamic banking grounded in the demand and need of Muslims to live according to their faith, it has also witnessed a significant by-choice subscription of Islamic banking by non-Muslims. In a multiracial country like Malaysia with an approximate of 40% non-Muslim population, it is especially important to attract the non-Muslim population in order for the Islamic banking to further penetrate the market. Therefore, the objective of this paper is to examine the factors influencing the acceptance of Islamic deposit products among non-Muslim bank customers in Malaysia. A total sample of 303 respondents were surveyed by using online questionnaire, and further analysed by using multiple linear regression. The results indicate that a favourable bank reputation, higher awareness, and higher income level would positively influence the non-Muslim bank customers to subscribe to the Islamic deposit products.

1. Introduction

Over the years, Islamic finance has become an increasingly substantial segment within the global financial market. In 1963, the Malaysian government instituted Lembaga Tabung Haji, i.e. the premiere Islamic financial and hajj institution in Malaysia to facilitate the Muslim community's savings for the pilgrimage purpose. Meanwhile, Malaysia's Islamic banking industry was first established over 30 years ago with the institution of the first Islamic bank in Malaysia in 1983, i.e. Bank Islam Malaysia Berhad. Later in 1993, the government allowed the existing commercial banks, merchant banks and finance companies to introduce Islamic banking products and services to their customers alongside with their conventional banking facilities under the Islamic Banking Scheme (IBS). During this period, Shariah compliant products and services were provided by conventional banks using Islamic window (Iqbal & Mirakhor, 2007).

Pursuant to the Islamic Banking Scheme (IBS), the domestic banking groups and foreign IBS banks were encouraged to set up Islamic subsidiaries (IS), which will be licensed as Islamic banks under the Islamic Banking Act 1983 (IBA 1983). This step was taken to improve the IBS operations which had previously raised some concerns regarding the possibility of funds comingling between the conventional and Islamic banks. Simultaneous with the continuous liberalisation of the Islamic banking industry and the suggestions made under the Financial Sector Master Plan (FSMP) to strengthen the institutional structure of the banking institutions, Bank Negara Malaysia (BNM) had agreed for the Islamic subsidiary structure to take the place. As a result, a group of banking institutions such as Hong Leong, RHB, CIMB-Tijari, Ambank, EON Bank, Public Bank, and Affin Bank group were authorised to change their present Islamic window into Islamic subsidiary. However, the change was not made obligatory (Haron & Azmi, 2009). The Islamic Banking Act 1983 (IBA) which was established on 7 April 1983, has now been replaced by the Islamic Financial Services Act 2013 (IFSA) effective June 2013. IFSA provides the overall regulation and supervision of Islamic financial institutions in promoting financial stability and Shariah compliance (Bank Negara Malaysia, 2013).

According to Malisah et al. (2017), the pricing and services offered by Islamic banking in the early years were not competitive with the mature products and services offered by conventional banking in Malaysia. It is mainly because at the beginning stage, Islamic banking was still small in terms of the asset size and customer base compared to conventional counterpart (Lo & Leow, 2014). Undeniably, public's knowledge has risen since the first establishment of Islamic banking in 1983, but the acceptance of Islamic banking products has yet to be at par with its conventional counterpart (Doraisamy et al., 2011; Thambiah et al., 2011).

Generally, an Islamic bank offers three broad types of products i.e., deposits, financing, and investment. While the differences and advantages of Islamic financing and investment against its conventional counterpart seem to be more apparent, that is not really the case with Islamic deposits. Although the final impact of the cash flows could effectively be the same, but the underlying structures are different between the Islamic and conventional deposit products. Deposit products are considered as the main source of funds for Islamic banks (Moursi El-Seoudi et al., 2012).

Table 1 presents the total deposits and repurchase agreements between the conventional and Islamic banking system. The statistics indicate that despite a steady growth in the Islamic banking market share over the years, there is a large gap between the two banking systems. As of December 2018, the market share for Islamic banking was only 22.06%, while the conventional banking made up more than triple from its counterpart, with a large portion of 77.94%.

In view of the above discussion, there is a clear potential for Islamic banking to further grow and expand its market share by tapping into the market for non-Muslims. Therefore, the objective of this paper is to examine the factors influencing the acceptance of Islamic deposit products among non-Muslim bank customers in Malaysia.

*Table 1:
Total deposit and repurchase agreements of Conventional & Islamic banking*

Total Deposits & Repurchase Agreements	Conventional Banking		Islamic Banking	
	RM million	Market share %	RM million	Market share %
December 2014	1,645,907.3	80.35%	402,407.1	19.65%
December 2015	1,682,534.1	80.65%	403,730.4	19.35%
December 2016	1,711,095.8	80.34%	418,711.2	19.66%
December 2017	1,781,699.9	78.83%	478,542.7	21.17%
December 2018	1,916,033.2	77.94%	542,341.8	22.06%

2. Literature Review

Although the existence of Islamic banking grounded in the demand and need of Muslims to live according to their faith, it has also witnessed a significant by-choice subscription of Islamic banking by non-Muslims (Ali, 2011). In a multiracial country like Malaysia with an approximate of 40% non-Muslim population, it is especially important to attract the non-Muslim population in order for the Islamic banking products to penetrate a higher market share. However, there are several concerns pertaining the perception of non-Muslims towards Islamic banking, which revolves around the issues of uncertainty, risk, confusion, and lack of awareness.

Non-Muslims often view Islamic banking as having a higher uncertainty due to the dividend that is distributed based on profitability, unlike the fixed interest rate of conventional banks (Mark, 2010). This uncertainty is viewed as risk, and as suggested by the prospect theory, it is people's instinct to avoid risk when they think there is a better option (Tversky & Kahneman, 1981). In support of this notion, Md Nawy, Yazid, and Mohammed (2013) finds that customers have the perception that Islamic banking products will only provide them with low profit.

The similarity between the Islamic and conventional banking products, coupled with the overload of unclear information often cause confusion and consequently influence consumers' decision negatively (Alarabi & Grönblad, 2012). According to MIFC (2015), the refusal of non-

Muslims towards subscription of Islamic products and services is due to confusion. With the lack of standardization and harmonization in the law governing the products across geographical jurisdiction, customers tend to have different interpretations about the practices and the use of concept, legal uncertainty and Shariah non-compliance risk.

In view of the uncertainty, risk, and confusion matters as discussed above, bank reputation is deemed important in resolving the concern. Reputation is defined as the opinion that people in general have about something based on what has happened in the past. Bank reputation is based on the customers' sense of trust (Casalo et al., 2007) that is usually associated with the quality of bank service to its customers. According to Radiah et al. (2014), bank size is often used as a benchmark to determine the reputation. In other words, the larger the bank, the better the reputation. For instance, the safety and trustworthiness is stronger in a large bank due to its effort to achieve better performance. Bank reputation, which is associated with higher profitability and sustainability, is a significant key to influence the bank selection by the customers (Bushman & Wittenberg-Moerman, (2012). Individuals and enterprises often look for reliable banks to deposit their money and thus the bank reputation is vital to attract their deposits in the market (Almeijesh & Rajha, 2014). In addition, Haque et al. (2009) proved that the reputation and the bank's name have strong effect on customers' choice of where they would deposit their savings in Malaysia. According to Hareem and Nadia (2012), due to high optimistic perception towards Islamic banking in Pakistan, more people are shifting from conventional to Islamic financial institutions.

Unfortunately, Islamic banking is still often being misconstrued as only applicable and open to Muslims (Mahdzan, Zainudin, & Sook, 2017). This is supported by a survey by MIFC (2015) which finds that 64% of non-Muslim respondents have low awareness on Islamic banking products and services. As suggested by Abd Majid et al. (2016), the low penetration rate of Islamic banking products and services among Malaysians is due to the lack of awareness. On the bright side, Haron, Ahmad, and Planisek (1994) suggested that with sufficient knowledge regarding Islamic financial system, the non-Muslim respondents would be more likely to consider establishing a connection with Islamic banks. The lack of understanding of Islamic banking products is the result of poor awareness, which subsequently creates an impact on customers' perception. Therefore, more prevalent programmes are necessary in order to educate and increase the awareness of public on Islamic banking products (Doraisamy, Shanmugam, & Raman, 2011) because awareness could lead to higher acceptance of Islamic banking products and services.

Some studies found that demographic profile like age and education level has an impact on the acceptance of Islamic banking products. Due to different age, customers may have different opinions about Islamic banking products. For instance, Loo (2010) found that the non-Muslim generation-X has a more favourable perception towards Islamic banking compared to the baby boomers. In addition, Haque, Osman, and Ismail (2009) suggested negative association between age and perception towards Islamic banks in Malaysia. Furthermore, Khattack and Rehman (2010) found that the age of customers from 21 and 40 years had greater awareness towards Islamic banking than those other age groups. Besides, Metawa and Almossawi (1998) also highlighted that the maintenance and the assessment of updated data like age and education will determine the success of the advertising of Islamic banks (Jamshidi, Hussin, & Hooi, 2013).

3. Research Framework

Theory of reasoned action (TRA) is a theory introduced by Fishbein and Ajzen (1975) to link the relationship between beliefs, attitudes, intentions, and behaviour. The cause of one's

behaviour depends on the behavioural intention which can also be defined as the probability of one's participation in a behaviour. On the other hand, attitude and subjective norm will determine one's behavioural intention (Trafimow, 2009). In other words, TRA will make predictions about why one individual behaves in a certain way in accordance to his or her attitude and the influential people that can affect the decision making such as family and friends (Southey, 2011). The diagram of TRA's theoretical framework is shown below in Figure 1.

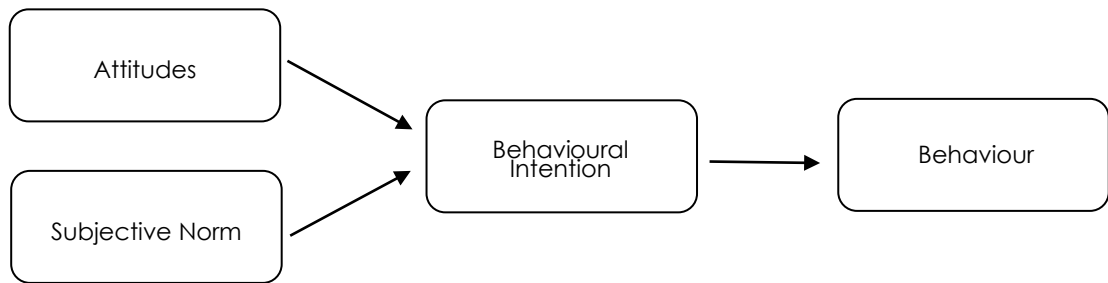


Figure 1: TRA's Theoretical Framework (Source: Fishbein and Ajzen, 1975)

Attitude refers to the extent to which a person assesses a certain behaviour, which could be either favourable or unfavourable. It is therefore an important factor that could influence a person's intention regarding a particular behaviour. It suggests that positive attitude towards a behaviour will lead to higher intention to perform the behaviour, vice versa (Ajzen, 1991; Kang and Hustvedt, 2014). On the other hand, subjective norm refers to the social factors that might have an influence on whether a person perform or not perform a certain behaviour (Ajzen, 2011). Previous studies have suggested that subjective norm is significant in affecting the choice of Islamic banking products among bank customers (Echchabi & Aziz, 2012; Taib et al., 2008). The application of research variables into the TRA framework is presented in Table 2.

Table 2:

Application of research variables into TRA

TRA components	Research variables
Attitude	<ul style="list-style-type: none"> • Bank reputation • Awareness level
Subjective Norm	<ul style="list-style-type: none"> • Demographic factors (age, education, income)
Behavioural Intention	<ul style="list-style-type: none"> • Acceptance of Islamic deposit products by non-Muslim customers

As such, Figure 2 presents the research conceptual framework of this paper. The dependent variable is the acceptance of non-Muslim customers towards Islamic deposit products in Malaysia. Meanwhile, the independent variables are bank reputation, awareness, and demographic profiles (age, education, income).

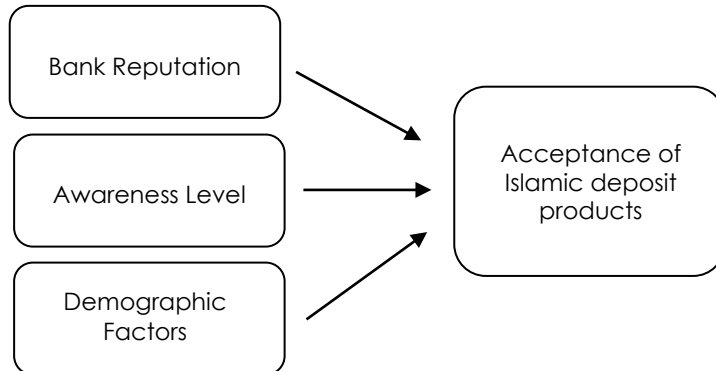


Figure 1: Research Conceptual Framework

In view of the above conceptual framework, the following are the hypotheses for this paper:

H1. Bank reputation influences the acceptance level of Islamic deposit products among non-Muslim bank customers in Malaysia

H2. Awareness on Islamic deposit products influences the acceptance level of the products among non-Muslim bank customers in Malaysia

H3a. Demographic factor (age) influences the acceptance level of Islamic deposit products among non-Muslim bank customers in Malaysia

H3b. Demographic factor (education) influences the acceptance level of Islamic deposit products among non-Muslim bank customers in Malaysia

H3c. Demographic factor (income) influences the acceptance level of Islamic deposit products among non-Muslim bank customers in Malaysia

4. Research Methodology

The target population for this research is non-Muslim bank customers in Malaysia, in line with the research objective that is to examine the factors influencing the acceptance of Islamic deposit products among non-Muslim customers in Malaysia. This research used primary data, with closed-ended questionnaires as the instrument for data collection. For the purpose of this research, a convenience sampling is used in order to get feedback from the respondents. It is chosen because of its easy accessibility to respondents which is not only cost effective, but also enhances the response rate. The online questionnaire was constructed using the "Google Form", and its link was shared with public via social media, and also personally sent to families and friends via e-mail and other messaging applications. A total of 303 completed surveys have been obtained and used for the research analysis.

The questionnaire comprises four sections. Section A covers the demographic profiles, such as gender, ethnicity, age, education, and income. Meanwhile, each of Section B and Section C contains 8 items which are used to measure how bank reputation and awareness, respectively,

may influence the acceptance of the Islamic deposit products among non-Muslim banks customers in Malaysia. Next, Section D consists of 8 items to measure the acceptance of the Islamic deposit products, i.e. the dependent variable in this research. A five-point Likert scale is used to measure items in Section B, C, and D. It ranges from strongly disagree, disagree, neutral, agree, to strongly agree (1 – 5). The questionnaire was adapted from previous literature (Md Nawi et al., 2013; Khattak & Rehman, 2010; Abduh & Omariov, 2013; Malisah et al., 2017) to suit the objective of this research.

4. Results and Discussion

4.1. Descriptive Statistics

There is a total of 303 respondents for this research. The descriptive statistics of the survey respondents are presented according to the selected demographic profile in Table 3.

Table 3:
Descriptive statistics of the respondents' demographic profile

Demographic Profile		Percentage (%)
Gender	Male	51.8
	Female	48.2
Age	Baby Boomers	3.0
	Generation X	8.3
	Generation Y	33.0
	Millenials	55.7
Education	Bachelor degree & below	42.2
	Bachelor degree	50.2
	Master degree & Professional qualification	7
	Ph.D	0.6
Income	Less than RM2,500	47.9
	RM2,501-RM3500	22.1
	RM3,500 – RM4,500	10.9
	More than RM4,500	19.1

The average scores of the construct items are computed below. The questionnaire consists of five-points Likert scale from “Strongly Disagree (SD)”, “Disagree (D)”, “Neutral (N)”, “Agree (A)” to “Strongly Agree (SA)”. Table 4 presents the central tendencies measurement of the construct items.

Table 4:
Central tendencies measurement of the construct items

ACCEPTANCE	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean
AC 1	2.0	20.8	23.8	47.5	5.9	3.3465
AC 2	3.6	21.5	43.6	27.4	4.0	3.0660
AC 3	2.3	36.3	25.7	31.0	4.6	2.9934
AC 4	4.6	26.7	44.9	22.4	1.3	2.8911
AC 5	3.3	30.4	30.7	32.0	3.6	3.0231
AC 6	3.9	36.0	40.6	17.5	2.3	2.7888

AC 7	2.6	22.8	40.3	32.3	2.0	3.0825
AC 8	2.0	19.8	43.2	31.7	3.3	3.1452
BANK REPUTATION	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean
BR 1	2.3	36.3	25.7	31.0	4.6	2.9934
BR 2	4.6	26.7	44.9	22.4	1.3	2.8911
BR 3	3.3	30.4	30.7	32.0	3.6	3.0231
BR 4	3.9	36.0	40.6	17.5	2.3	2.7888
BR 5	2.6	22.8	40.3	32.3	2.0	3.0825
BR 6	2.0	19.8	43.2	31.7	3.3	3.1452
AWARENESS	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean
AW 1	4.6	23.4	30.7	36.3	5.0	3.1353
AW 2	3.6	16.5	43.2	31.0	5.6	3.1848
AW 3	4.0	27.1	35.0	31.7	2.3	3.0132
AW 4	3.6	25.1	38.6	28.7	4.0	3.0429
AW 5	2.6	9.9	38.3	34.3	14.9	3.4884
AW 6	3.0	24.8	41.3	28.7	2.3	3.0264

The mean score for each item is found to be more than 2.5, with majority of them are 3 and above. It indicates a generally positive perception on bank reputation, awareness level, and acceptance level of Islamic deposit products among the respondents of this research.

4.2. Reliability Test

In assessing reliability, the internal consistency of questionnaire items is commonly measured using Cronbach's Alpha. Section B, C, and D that use Likert scale in their construct measurements are tested for reliability. A Cronbach's Alpha that is higher than 0.7 indicates acceptable internal consistence, and hence reliable scale yields. The results indicate that the questionnaire items in this research reliably measure the constructs as presented in Table 6.

Table 5:
Reliability test for Bank Reputation, Awareness, and Acceptance

Variable	Cronbach's Alpha	No. of Items
Section B (Bank Reputation)	0.877	6
Section C (Awareness)	0.782	6
Section D (Acceptance)	0.885	8

4.3. Multiple Regression Analysis

Table 6 presents the results from the multiple regression analysis, which examines the factors influencing the acceptance of Islamic deposit products among non-Muslim bank customers in Malaysia. The Adjusted R² figure indicates that 95.9% of the variance in the acceptance level can be explained by the independent variables in this model, i.e. bank reputation, awareness, and demographic profiles. Meanwhile, its corresponding p-value is 0.00, suggesting the significance of the regression model. Based on the results, the regression model can be stated as:

$$\text{Acceptance} = 0.155 + 0.917(\text{Bank reputation}) + 0.029(\text{Awareness}) + 0.08(\text{Age}) + 0.015(\text{Income})$$

Table 6:
Multiple Regression Analysis Results

Variables	Coefficients	t-statistics
Constant	0.155	2.514
Bank Reputation	0.917***	71.419
Awareness	0.029**	2.103
Age	0.008	0.676
Income	0.015**	1.992
N	303	
Adj R-Sq.	0.959***	
F-Stats	1755.167	

*** significant at 1% level

** significant at 5% level

The results indicate that bank reputation, awareness, and income are statistically significant at 95% level. With positive coefficients, it suggests that a favourable bank reputation, higher awareness on Islamic banking products, as well as higher income level would influence the non-Muslim bank customers to subscribe the Islamic deposit products.

As suggested by Vesna et al. (2011), corporate reputation is linked to stakeholders' attitude towards a company. A closer look into the results highlighted that bank reputation has the highest effect on the acceptance level of Islamic deposits among non-Muslim bank customers compared to the other variables. Awareness – another antecedent to attitude, also has a significant and positive effect on the acceptance level. It is postulated that awareness is important in order to allow the non-Muslims to understand the virtues of Islamic banking and hence having the right attitudes towards it. Principally, these results contradict the findings in Saiti et al. (2019) which suggested that attitudes is less relevant in non-Muslims' decision in Nigeria. On the other hand, it lends further support to Amin et al. (2011) which also found attitude as the most significant determinant.

Consumers with similar demographic characteristics such as educational, income, and age level are considered to be in the same social class. To a certain extent, social class could be a significant factor influencing consumer behaviour because they have the tendency to exhibit matching behaviour (Niosi, n.d.). As indicated by this study, income level has a significant positive effect on the adoption of Islamic deposit products. It suggests that non-Muslim bank consumers in the higher income bracket are more likely and open to accept Islamic deposit product as their choice. Given the fact that Islamic banks are comparatively more resilient with lower risk level than its conventional counterpart with regards to the mobilisation of deposits (Haq, 2016), that could be a plausible reason for Islamic deposit products to be preferred by the higher income groups. This is however not in line with the findings in Mbawuni (2019) which indicates that lower income group has higher intention to adopt Islamic banking products in Ghana because it is

believed that Islamic banking promotes financial inclusion and social welfare which ultimately benefits the socio-economic development of the country.

5. Conclusion

In the quest to increase the market share of Islamic banking, it is crucial to understand the customer demand. The marketing and promotion of Islamic banking products nowadays should not be targeted on Muslims customers only, but it should go beyond the customer religion. Over-emphasizing of religion in order to lure customers is no longer the best approach. Therefore, understanding the factors that influence the acceptance of Islamic deposit products among non-Muslim bank customers in Malaysia could help the industry to formulate the right preliminary strategies and policies in order to enhance growth at both the national and regional level. The findings of this study suggest that it is important for the Islamic banks to have favourable reputation in order to attract the interests of non-Muslim bank customers to subscribe to the Islamic deposit products. It is also important for the industry to put in more effort in educating the public regarding Islamic banking products because it shows that higher awareness would also increase the acceptance level. On another note, while more aggressive marketing could be targeted to the higher income customers due to its positive inclination to subscribe to the Islamic deposit products it would also be a good strategy to provide higher awareness to the lower income segment in order for them to better understand the Islamic banking products and be more willing to accept and subscribe to them.

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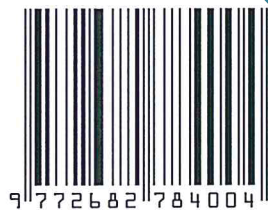
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