

UNIVERSITI TEKNOLOGI MARA

**FACTORS INFLUENCING
CUSTOMERS' PREFERENCES FOR
DEPOSIT PRODUCTS IN ISLAMIC
BANKING**

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ABSTRACT

A nation's financial and banking sectors are major contributors to its economic growth. To ensure this growth is sustainable, both these sectors have a responsibility to ensure an efficient allocation of resources towards a nation's economic development. This allocation may at times be inefficient owing to a scarcity of resources. The banking sector in particular, relies heavily on external sources of funding i.e. customer deposits owing to its lower associated costs. A series of financial scandals and crises, whether nationally or on a global scale has however, called into question the integrity and security of conventional banking systems. With their integrity in question, banks are increasingly succumbing to customer bargaining power who now favour ethical practices besides return maximisation and risk avoidance when making investment decisions. Changing customer perception towards the banking system has opened up myriad opportunities for Islamic banking to flourish. A pertinent question to this observation is, what drives a customer's choice of moving their funds to an Islamic bank? Prior studies in this regard have only explored the customer's choice of bank but not the motivations behind making the move from conventional to Islamic banking. This study thus aims to explore the factors that influence customer preferences to deposit their funds in Islamic banks. Specifically, this study explores the role of religion or religious affiliation in influencing a customer's preference in making this decision. Data was collected via paper and online surveys employing a non-probability convenient sampling technique. Data analysis was conducted through descriptive analysis as well as partial least squares structural equation modeling (PLS-SEM) and covariance-based structural equation modeling (CB-SEM) as part of the exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). The key findings of this study reveal that a major driver of customer's preference in making the switch from conventional to Islamic banking lay in the impact of *Shariah* compliance and the flexibility of withdrawal. The findings also suggest two further components of customer preferences i.e. customer value proposition (CVP) and bank value proposition (BVP). Additionally, the results show that company attributes was a weak predictor of customer preferences. This study adds value to the literature and practice as it provides insightful information on bank customer behaviour – a group that is often neglected in the literature. Specifically, it provides evidence to show that bank customers consider a multitude of intangible factors beyond risk and return when making an investment decision. The results of this study highlights the factors behind customer preferences that warrant significant attention which will prove beneficial to banks in formulating marketing strategies to attract and/or retain customers besides managing cash mobility and allocating resources.

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TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR'S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
LIST OF TABLES	xii
LIST OF FIGURES	xiii
LIST OF EQUATION	xiv
LIST OF SYMBOLS	xv
LIST OF ABBREVIATIONS	xvi
CHAPTER ONE: INTRODUCTION	1
1.1 Research Background	1
1.1.1 Risk and Return	1
1.1.2 The Emergence of Islamic Banking	2
1.1.3 Change in Customers' Behaviour	3
1.1.4 Deposit Products	4
1.1.5 Trend in Islamic Banking Studies	5
1.2 Problem Statement	6
1.2.1 Research Questions	7
1.2.2 Research Objectives	8
1.3 Significance of the Study	8
1.4 Scope of the Study	10
1.5 Limitations	12
1.6 Definitions of Terms	13
1.6.1 Islamic Banking concept	13
1.6.2 Deposit Products	14
1.6.3 Product Attributes	15
1.6.4 Company Attributes	15
1.6.5 Customer Attitude	15

1.6.6	Values	16
1.6.7	Customer Preference	16
1.6.8	Customer Satisfaction	16
1.6.9	Customer Loyalty	17
1.6.10	Religious Affiliation	17
CHAPTER TWO: LITERATURE REVIEW		18
2.1	Introduction	18
2.2	Risk and Uncertainty (Coventional View)	19
2.3	Islamic Perspective of Risk and Uncertainty	19
2.3.1	Islamic Banking Concept	21
2.3.2	Prohibition of <i>Riba</i>	22
2.3.3	Types of Deposit	24
2.3.4	<i>Wadiah</i> Contract	25
2.3.5	<i>Mudarabah</i> Contract	25
2.4	Customers' Preferences	27
2.5	Factors Influencing Customers' Preferences	30
2.5.1	Attribute-based Preference	30
2.5.2	Attitude-based Preference	31
2.5.3	Affective-based Preference	32
2.6	Empirical Evidence	37
2.6.1	<i>Shariah</i> Compliance	37
2.6.2	<i>Riba</i>	39
2.6.3	Risk	40
2.6.4	Safe and Secure Environment	40
2.6.5	Profit or Return	41
2.6.6	Gap in Literature Analysis	42
2.7	Conceptual Framework	44
2.8	Conceptual Framework Formulation	49
2.9	Customers' Satisfaction and Loyalty	51
2.10	Constructs and Indicators	52
2.11	Religion/Religious Affiliation	54
CHAPTER THREE: METHODOLOGY		56
3.1	Introduction	56
3.2	Research Design	56
3.3	Procedure Prior to Analysis	58