



**A STUDY ON FACTORS THAT INFLUENCE NON-MUSLIM
CUSTOMERS TO PATRONISE PRODUCTS OF ISLAMIC
BANKING IN KOTA KINABALU**

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ABSTRACT

The introduction of Islamic banking system in the last years of twenty century have created a new way of applying banking affairs on the basis of Islamic principles. Scholars believe that the scheme is stable in its nature and would enhance the economic development of countries that applied the system. Due to high competition in banking industry of Malaysia, Islamic banks are competitively innovating new products in order to have higher market share and remain competitive. There are several financial products and services that have been offered by the Islamic Banks. This Islamic products and services need to be marketed to better position Islamic Banks with diversity portfolio of products and services. Therefore, this conceptual paper intends to provide a framework that influence different groups of bank customers in the adoption and usage intention of Islamic Banks' products and services. The findings revealed that Islamic Banks' reputation and status, services and facilities (performance), profitability, Syaria'ah Compliance (religious perspective) and customers' perception (for example trust and attitude) have significant relationship in the area of adoption studies has been justified as major determinants in regards with the adoption of Islamic Banks' products and services in context of Kota Kinabalu, current study extends useful determinants for non-Muslim to adopt the Islamic Banks' products and services in Sabah. The findings of the study would be useful for decision makers in expanding a better future for Islamic banking and financial instruments.

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CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

Being one of the most progressive Muslim countries in the world, Malaysia has been promoting the idea of implementing Islamic Banking System (IBS). In general, Islamic banking, by definition of the International Association of Islamic Banks (IAIB), is a banking system which was established to utilize fund in accordance to Islamic Shariah principles. The purpose of IBS is to expand the ring of unity among the Muslims and to ensure a fair distribution and utilization of fund in compliance with the Islamic principles and teaching (International association of Islamic Banks (IAIB). This means that all the banking operations right from the deposits transactions, financing and products offered by the Islamic banks to its customers should be in compliance with Shariah law. Shariah is the body of Islamic religious law.

Notwithstanding with its name, Islamic banking is fast gaining grounds with non-Muslims worldwide due to its strict lending principals, reflecting industry efforts to transcend religious beliefs to gain greater market share. Since Shari'ah finance is a blend of Islamic economics and modern lending principles, its products can be sold to Muslims and non-Muslims alike. While it was previously a small segmented market catering only to Muslims who wanted to avoid interest-based conventional banking, Islamic finance has been successful in attracting a wider circle of years due to cash-rich Gulf Muslim investors and rising demand for ethical investing (Abdul Aziz Abdullah, RokiahSidek, and Ahmad Azrin Adnan, 2012).

Islamic banking system (IBS) was introduced due to the reason that there was the need of financial institution for Muslim customers who could satisfy their needs and demands. Because the conventional banking industry is entirely based on the interest based system and that is prohibited in the Islamic Shari'ah rules. So Muslims need such institute which provides them the Islamic platform for their financial transactions. The Islamic finance is defined as a financial service or product principally implemented to