

## Islamic Banking Product Acceptance among Students and Working Employees in Malaysia

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**Abstract:** Islamic banking is the fast growing industry serve financing products vis-a-vis conventional banking to the customers. Customer is an important agent in a product sale. They determine the product acceptance in a market. University students and working employee who are also act as customers need Islamic banking products in their daily life. Customers having insufficient product knowledge, religious practice and lower perception on competitive pricing of certain Islamic banking products lead to poor Islamic banking product acceptance. The objectives of this study were assessing the Islamic banking product knowledge, religious practice and perception on competitive pricing among students and working employees who lived in Klang valley. The 300 respondents (144 males and 156 females) were participated in this study. The instrument used was a four-section questionnaire from previous studies and some were modified to suit the need of the study. The questionnaire consist twenty five questions overall and every section consists one factor to determine the product acceptance. SPSS Version 20.0 is adopted to measure the findings of the study. The results of this study confirmed that customer's product knowledge and religious practice are high thus resulted to Islamic banking product acceptance. On the other hand, customers have lower perception on competitive pricing rejects the product acceptance. The researchers recommend on strengthening the knowledge, religiosity and competitive pricing through Islamic banks as a medium.

**Key words:** Islamic banking, customers product acceptance, university students, malaysia, religiosity

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### INTRODUCTION

Malaysia is playing a significant role in the development of Islamic banking as pioneer and frontrunner in the global Islamic banking industry. There are currently five fully-fledged local and foreign Islamic banks in Malaysia and eleven Islamic subsidiary banks owned also by both local and foreign conventional banks. Islamic banking operations are based according to the Shariah. Islam prohibits a number of things in banking in order to be Shariah compliant, some of which are the practice of interest (riba), uncertainty (gharar), gambling (maisir) and bribery. This is agreed by Khairi and Abdullah whom stated that the main feature of Islamic banking system is based on prohibition of either accepting or paying of interest (riba) where also stated in Quran (Al Baqara Verse No. 275) . Despite riba, Trade (tjara) however is very much permitted in Islam. Accordingly, profits in Islamic banking operations are derived from the contract of trade (al-bai'). The al-bai' principle is manifested by an exchange of money with an underlying asset. Legitimizing profit in Islam is done

through risk taking (ghorm), effort (kasb) and responsibility (daman). The objectives of Shariah (maqasid al-shariah) play a critical role in determining the legality of Islamic transactions, as all transactions must have positive impacts on the general welfare of the individual as well as the society as a whole. Instead of that, one of the Islamic banking feature is emphasized on Islamic financial way of doing banking operation (Ahmad and Rahim, 2015).

Islamic banking products differ in terms of their theory and practice. In the first stage of product development, Islamic banks offer "differentiated" products by simply adopting conventional risk and return profile but subject to some Shariah constraints. For example while the deposit product of savings accounts in conventional banks are based on interest, Islamic banks will have the same product named as savings account-i (i denotes Islamic in Malaysia's case) under the contract of either wadiah (safe keeping) or mudharabah (profit sharing). This is said to satisfy the Shariah and at the same time the customers' needs. Thus, in the first stage of the Islamic banking evolution, the products offered by

Table 1: Current Islamic banking products

Consumer segment	Product name	Contract used	
Deposit	Current account	Wadiah (safe keeping)	
	Saving account	Mudharabah (profit sharing)	
Credit	Staff deposit account	Qard Hassan (benevolent)	
	Credit card	Tawarruq (cost plus sale)	
	House financing		Bai Bithaman Ajil-BBA (deferred payment sale)
			Musharakah Mutanaqisah (diminidhing partnership)
	Personal financing		Murabahah (cost plus)
			BBA (deferred payment sale)
			Bai Inah (immediate cash)
Corporate segment	Vehicle financing	BBA (deferred payment sale)	
	Staff financing	Qaed Hassan (benevolent)	
	Trade financing		Wakalah (agency)
			Mudharabah (profit sharing)
	Asset based financing		Murabahah (cost plus)
			Ijarah (leasing)
	Corporate investment		Istisna (purchase order)
			BBA (deferred payment)
		Ijarah (leasing)	
		Istisna (purchase order)	
		Murabahah (cost plus)	
	Mudharabah (profit sharing)		
	Musharakah (profit and loss sharing)		

Islamic banks are very similar but not identical to conventional banks. In the second stage, Islamic banking products would move away from “differentiated” (Shariah-compliant) to distinctively “different” or “dissimilar” (Shariah-based) products that will not mimic conventional products. While in the third stage, “home grown” products will be produced based on research and development (R&D) efforts. To be at this mature stage, Islamic banks will have to leap into a new developmental path, with risk and reward sharing modes of finance to be in sync with Islamic ideals. The current Islamic banking products can be categorized as shown in Table 1.

**Problem statement:** At present, there exists many Islamic banks offering the same Islamic banking products in Malaysia. However, a few problems arise especially in product knowledge and also understanding of the terms and product features offered by Islamic banks as Islamic banking is still new and quite complex. Many customers seem also to be unfamiliar with the principles such as Mudharabah, Bai Muajjal, Rahn, Musharakah, al Ijarah, al Istisna and others. Thus, the researcher is of the opinion that the higher the product knowledge, the higher the customer acceptance. As far as religion is concerned, according to Ab. Mansoor and Ishaq (2008), Islam is a religion that provides guidance for the welfare of all human life in this world and the hereafter. Islam is not only confined to performing religious rituals as most perceive but stresses on all aspects of life; Islam is the way of life Ad-Din (Alam and Riaz, 2012). This means that Islam concerns all parts of human life from the spiritual to the social, political and economic matters of one’s life. Thus, for example, engaging in haram (forbidden activities) in banking matters is totally prohibited as

mentioned in numerous places in the Holy Quran. According to Abdul and Rahim (2012), the duty to comply with religious obligations in Islam is expected to have a significant effect on the intention to use Islamic banking products. This is supported by Conroy and Emerson (2004) where they defined religiosity as something which is signified that can influence people’s ethical beliefs and can reflect human daily conduct and commitment. Interestingly, Haron *et al.* (1994) claimed that religion was not the main factor in attracting customers, therefore Islamic banks need to recognise that customers may view them just like any other commercial banks. Due to the mixed findings on the religious factor, this gives motivation for the researcher to study these aspects further. Competitive pricing is another factor which differentiates Islamic banking with its counterpart, conventional banking. Lower pricings will most likely result to more customer acceptance and vice versa. As an instance, Khazeh and Decker (1992) identified interest rates as one of the top five determining factors that influenced the choice of banking among 1198 business school alumni of Salisbury state university in Maryland. All in all, this research studies the level of customers’ acceptance towards the Islamic banking products among students and working employees and their relationship with three factors which are: product knowledge, religious practice and competitive pricing. This study hopes to assist the growth of comprehensive Islamic banking in the future by providing a basis of customers’ needs and wants.

**Research objectives:**

- RO1: to examine the level of customer knowledge, religion and competitive pricing on Islamic banking products

- RO2: to analyse factors of customer acceptance of Islamic banking products
- RO3: to recommend measures to enhance customer knowledge, religion and competitive pricing on Islamic banking products

**Research questions:**

- RQ1: What is the level of customer knowledge, religious practices and competitive pricing on Islamic banking products?
- RQ2: What are the contributing factors for customer acceptance of Islamic banking products?
- RQ3. What are some of the measures that need to be taken to enhance customer knowledge on Islamic banking products?

**Significance of the study:** The Islamic banking industry has been selected for this study as it shows a tremendous significant growth in the global financial market. Furthermore, despite a lot of past research covering this issue, there is still room for improvement regarding the time movement and method used. In addition, the researcher is trying to compare the views of both students and working employees in this study. Knowledge, religious practices and competitive pricing are at its best when to measure with students and working employees because they are at the level of seeking the truth and active subscriber of Islamic banking products. Most of them also have the knowledge, religiosity and willingness to compare Islamic banking products price with conventionals which make the study even more significance. Moreover, with the exception of a few studies that used Muslims and non-Muslims, different ethnic groups as well as a urbans and rurals as samples, no attempt has been made in mainstream publication in the area of Islamic banking product acceptance among working employees and students.

**Literature review:** Usually, the selection criteria of Islamic banking products can come from several factors such as convenience, influence of friends and relatives, mass media advertising, size of the bank and reputation and others. This study offers a descriptive discussion of the acceptance of Islamic banking products but a special focus is on the three factors that determine acceptance of Islamic banking products which are product knowledge, religiosity and competitive pricing.

**Product knowledge:** Knowledge is the acquaintance of facts, truth or principles derived from study or investigation. Knowledge is defined as an organized combination of ideas, rules and procedures (Bhatt, 2000). In the context of knowledge on Islamic banking products,

it refers to the ideas, rules, procedures, information (Bhatt, 2000), experience, context and interpretation of Islamic banking products.

Previous studies have found that more than half of the respondents (45%) said that they had limited knowledge of the Islamic banking system. A study by Ahmad and Haron (2011) on perceptions of Malaysian corporate customers of Islamic banking products and services indicated that Islamic banks were not their primary choice because of the lack of knowledge they had in regards to Islamic banking. This shows that Islamic banks have not conducted enough programs to educate people or promote their products to the public effectively. In another study, it was found that Muslim students are interested and knowledgeable in Islamic finance in comparison to non-Muslim students (Bley and Kuehn, 2004). It has also been reported that the knowledge of Islamic banking among non-Muslim corporate customers in Malaysia was limited (Ahmad and Haron, 2002). However, Osman and Ali have indicated that knowledge towards Islamic financing is considerably adequate among Muslim entrepreneurs. They are able to understand the importance of practicing and applying Islamic financing in their businesses. Conversely, Haron and Ahmad (2000) conducted a study on bank patronage factors of Muslim and non-Muslim customers. They showed that 45% of Muslim respondents possessed limited knowledge of Islamic banking and finance. They do not fully understand the operation of Islamic banking and finance even though Islamic banking has been established in Malaysia for more than twenty years. This factor has led to a low usage of Islamic banking facilities among the Muslim respondents.

Knowledge is important in Islamic banking to affirm validity of products. When any issues arise on validity on some products in Islamic banking, one who is knowledgeable in regards to the matter can share his or her opinion on the matter. This is why the existence of a Shariah advisor or a Shariah committee who are placed in certain Islamic banks is very much needed to devote their knowledge and opinion on Islamic banking matters. Knowledge is also needed to be sensitive to potential problems that may arise. When one has enough knowledge in Islamic banking, he or she can solve any problems pertaining to Islamic banking. According to Harun *et al.* (2015), a customer with good product knowledge will be advantageous to the Islamic banking system in competing with conventional banking system in terms of products acceptance.

Based on the researcher's observation, the study on customer product acceptance is mushrooming. However, there are common findings in regards to the topic. The

product knowledge still seems to be an issue that needs to be addressed in most of the papers. This creates an initiative to further study the issue in this study in two-folds which is the general knowledge of customers regarding Islamic banking and also customer's product knowledge.

**Religious factor:** Religion is a cause, principle or a system of beliefs, practices and faith. Kirkpatrick (2005) defines religion as a psychological connection, which has a dominant emotional relationship to things. While religious obligation is defined as the religious affiliation of a person which gives effects to his or her choice and activities.

Quranic verses from Surah Ali Imran (3:19-21) mention that the only religion approved by God is Islam. These Quranic verses confirm the truth that as far as God is concerned there has always been one religion. Thus, practicing Muslims who adhere to these verses would naturally choose an Islamic option if given one.

Metawa and Almosawi (1998) found that religion is the ruling factor that influenced customer perception in the selection of Islamic banking system. In addition to that, he found that religiosity is ranked as the highest factor affecting selection criteria followed by profitability. In United Kingdom, the volume of deposits of Muslims in Islamic financial institutions is primarily influenced by religious reasons (Omer, 1992). The same finding is supported by Othman and Owen (2001) and Walkhid and Afrita (2007) where religion is a major influential factor of Islamic banking adoption. This is also proven through study in Libya by Khairi and Abdullah in 2016. The Libyan Muslim society agreed their beliefs and Islamic obligation drive them to accept Islamic banking. They are in opinion that they will be protected from committing sin such as riba. On top of that, religiosity brings the greatest factor for Libyan customers to choose Islamic banks. Whereby in contrast, Erol and Bdour (1989) found that religion did not play a significant role in choosing an Islamic bank but profit driven criteria was an important factor in the choice of banking. They stated that Khattak and Rehman (2010) state that most customers who opted for Islamic banking were due to some other factors such as bank efficiency in their transactions, their confidentiality to its customers, its working hours, etc. and not only due religious reasons. Studies by Hegazy (1995) on Egypt, Naser *et al.* (1999) on Jordan, Kareem and Afiff and Rohmah (2006) on Indonesia and Dusuki and Abdullah (2007) on Malaysia agree with the findings that religiosity is not the main reason for people to support Islamic banks. Haron *et al.* (1994) argued that only 38.7% of the respondents indicated that religion was

a prime reason for using Islamic banking services. Gerrard and Cunningham (1997) found no difference between Muslims and non-Muslims on bank selection criteria. Unlike, Othman and Owen (2001) who concluded that cultural and religious factors were identified as the most influential factors that affect Islamic banking adoption in Kuwait. Affirming the studies above, Known (2007) stated that religious factor was the key factor which influences Islamic banking adoption. Previous empirical studies also found a positive influence of religiosity on banking selection criteria (TengkuWasimah Raja Harun *et al.*, 2015). Thus, based on the researcher's observation, the religious factor plays somewhat of a dominant role in determining customers' acceptance towards Islamic banking.

Religious affiliation is a significant factor in Islamic banking. This is because religion is set as an underlying principle in most of the contracts joined by Islamic banking customers. In the Quran, Allah S.W.T says, "And God has permitted trading and prohibited interest. So, whoever receives an advice from his Lord and stops, he is allowed what has passed and his matter is up to God (to judge). And the ones who revert back, those are the people of Fire. There they remain (forever)." (Al Baqarah: 275). Besides that, as we refer to the rule of Maqasid al-Shariah (Shariah objectives), one has to safeguard their deen (religion) together with intellect, life, progeny and wealth. These five essential values need to be safeguarded in accordance to the level of necessity (daruriyyah). Daruriyyah explains the levels in which one needs to safeguard all these values, or else life would be impossible to be carried out and will lead to chaos.

**Competitive pricing:** Competitive advantage is defined as the function of either providing comparable buyer value more efficiently than the competitors or providing a product or service at low margins or even performing activities at comparable market costs but in unique ways that create more buyer value than competitors and hence, command a premium price resulted to product differentiation. Giving fair pricing is one of the good morales in Islam when conducting business.

A Quranic verse from Surah al-Isra (17:35) mentions moral directives of Islam in conducting business. Moreover, another Quranic verse from Surah al-Taubah (9:34) also refers to moral dealings in business; "They who hoard up gold and silver and spend it not in the way of Allah, unto them give tidings (O Muhammad) of a painful doom."

Khazeh and Decker (1992) identified interest rates as one of the top five determining factors that influenced the choice of banking among 1198 business school alumni of

Salisbury state university in Maryland. Gerrad and Cunningham (1997) also found that profit or interest rate served as one of the main reasons for people maintaining their relationship with Islamic banks. Similarly, Haron and Ahmad (2000) stated that Islamic banks in Sudan never reward their current account holders but a bulk of their funds is supplied through these facilities in light of the Islamic principles.

Therefore, based on the researcher's observation, it is clear that not many studies have been conducted on the pricing factor. Again, the issue of the relevance literature regarding time movement is questioned. Therefore, this study will help to enrich the pricing factor to this date. Price is important in Islamic Finance to determine certainty. Without the mentioning of price upfront in a contract, it is to be said uncertain (gharar).

## **MATERIALS AND METHODS**

**Study design:** A deceptive cross-sectional survey study was designed to identify the Islamic banking product knowledge among student and working employee population.

**Study population:** The study population is referring of all students and working employees who subscribe to Islamic banking products in the Klang valley either male and female in the current year 2016. Using the random sampling technique, students who are studying at university or college in the Klang valley were chosen. Working employees on the other hand is defined as any person who, irrespective of the amount of wages he earns in a month, has entered into a contract of service with an employer. He is either engaged in manual labour employed by one employer, engaged in the operation or maintenance of any mechanically propelled vehicle operated for the transport of passengers or goods, supervises or oversees other employees engaged in manual labour employed by the same employer, engaged in any capacity in any vessel registered in Malaysia or is a domestic servant (Employment Act 1955 by the Ministry of Human Resource Malaysia).

**The instruments:** The questionnaire is divided into five sections (A-E), which consist of 25 questions. The questionnaire were constructed based on the past research that are related with researcher's topic (adopted and modified with the use of own word). The types of question were closed-ended and utilized a Likert Scale. The respondents were asked questions that were in the form of statements ranked from 1-5. The respondents had to rate the degree of which they agree to the statements

given (1 represented "I strongly agree", 2 represented "I agree", 3 represent "I have no opinion (somewhat)", 4 represented "I disagree" followed by 5 which represented "I strongly disagree"). The first section, Section A contained five personal questions describing the demographic factors. Section B contained general knowledge in Islamic Banking Products. Section C measures specific knowledge in Islamic banking products. Section D measured how far religious factors influence respondents to accept Islamic banking products. Section E, was constructed to understand customers' knowledge on competitive pricing or cost-related matters and how it influences their choice in subscribing to Islamic banking products.

**Data collection:** The data collection methods that have been used in this study are by using both primary and secondary data. Primary data is collected or produced by the researcher specifically to address the research problem such as the relationship between product knowledge, religious factor and competitive pricing towards product acceptance. Sources of primary data that has been used is questionnaires. While secondary data is collected through reports prepared by various banks that provide Islamic banking products, newspaper, journal, website, articles from newspapers and reference books.

**Data analyses:** The data were coded, computed and processed using the Statistical Package for Social Science (SPSS) Version 20. SPSS is the most suitable method because it allows many different types of analyses, data transformations and forms of output. It is also famous within both academic and business circles.

## **RESULTS AND DISCUSSION**

**Demographic profile of respondents:** There are 12% more female respondents in this survey than male respondents. The majority of respondents were aged between 25-39 years old which accounted for 53.3%, followed by respondents aged 25 years old and below (28.3%), between 40-55 years old (16.7%) and the last group is 55 years old and above (1.7%). The table also shows 56.3% of respondents were from working employee while 41.3% were students. Referring to the education level of the respondents, respondents who have diplomas and degrees were 51%, followed by masters and PhD 32% and 17% of SPM. From 300 respondents, 92.7% of respondents were Islamic banking product users while the rest (7.3%) were not using Islamic banking products (Table 2).

**Descriptive analysis**

**Level of customer’s knowledge:** Table 3 shows that customer’s general knowledge is at a high level (M = 4.48; SD = 4.180) while customer’s product knowledge at an intermediate high level with a value of mean (M = 4.05; SD = 4.724). Overall, Customer’s Knowledge is at a high level with the mean value (M = 4.27; SD = 8.230).

Referring to Table 3, all items of customer’s general knowledge are at high level between the mean value (M = 3.5; SD = 0.929) to (M = 4.58; SD = 0.955) while for the customer’s product knowledge, all items are in intermediate high level (M = 4.02; SD = 1.057) to (M = 4.10; SD = 1.045).

**Level of customer’s religious:** Table 4 shows that all items of Customer’s Religious are at high level with the mean value (M = 4.29; SD = 1.050) to (M = 4.58; SD = 1.037) and overall, Customer’s Religious also are at high level (M = 4.45; SD = 444).

**Level of competitive pricing:** Next, Table 5 shows that customer’s perception towards competitive pricing is at a

low level with a mean value (M = 2.79; SD = 4.33). One of the items shows the perception of customers is a low level which is item E4 (M = 2.51; SD = 1.261), three items at a moderate level which are E2 (M = 2.64; SD = 1.383), followed by E3 (M = 2.67; SD = 1.382) and E5 (M = 2.66; SD = 1.325) while E1 is at an intermediate high level with a mean (M = 3.47; SD = 1.451). Thus, the result of descriptive analysis answered the first research question that customer’s knowledge and customer’s religious are at a high level while customer’s perception on competitive pricing is at intermediate high level.

**Is customer’s knowledge contribute on customers’ acceptance:** Referring to Table 6, it shows that majority respondents who were Islamic banking product users stated “strongly agree” in displaying their general knowledge about Islamic banking. These results are consistent with the findings showed the mean value of customers’ general knowledge at a high level (M = 4.48; SD = 4.180) as the majority of respondents were the Islamic banking users. So, general knowledge has been a factor of Islamic banking product acceptance.

Table 7 shows the majority of respondents who were Islamic banking product users expressed “strongly agree” to display their knowledge on Islamic banking Product. This is in line with the findings indicated before which the mean value of customer’s knowledge about Islamic banking products are at a high level (M = 4.05; SD = 4.724) as the majority of respondents are the Islamic banking users. So directly, product knowledge also becomes a factor contributing to Islamic banking product acceptance.

**Is customers religion contribute on customers’ acceptance:** Table 8 shows the majority of respondents who were Islamic banking product users stated “strongly agree” in displaying their religious practice through five items that were studied. This is consistent with the findings mean value customer’s religious practice (M =

Table 2: Demographic of respondents

Variables	Frequency	%	Valid (%)	Cumulative (%)
Male	144	48.0	48.0	48.0
Female	156	52.0	52.0	100.0
Total	300	100.0	100.0	
Below 25 years old	85	28.3	28.3	28.3
25-39 years old	160	53.3	53.3	81.7
40-55 years old	50	16.7	16.7	98.3
Over 55 years old	5	1.7	1.7	100.0
Total	300	100.0	100.0	
Student	124	41.3	41.3	41.3
working employee	169	56.3	56.3	97.7
other	7	2.3	2.3	100.0
Total	300	100.0	100.0	
Master or PhD	96	32.0	32.0	32.0
Diploma or degree	153	51.0	51.0	83.0
SPM	51	17.0	17.0	100.0
Total	300	100.0	100.0	
Yes	278	92.7	92.7	92.7
No	22	7.3	7.3	100.0
Total	300	100.0	100.0	

Table 3: Level of customer’s knowledge

	M	SD
<b>General knowledge</b>		
B1. I understand the differences between Islamic and conventional banking products	4.35	0.929
B2. Riba or interest is prohibited in Islamic banking products	4.56	0.942
B3. Islamic banking products are offered to both Muslim and Non-Muslim	4.53	0.933
B4. Islamic banking must be based on Shariah contracts and principles	4.58	0.955
B5. Islamic banks promote Islamic values such as transparency, trust and ethical among staffs, clients and the general public	4.40	1.007
<b>General knowledge</b>	4.48	4.180
C1. Islamic bank has right to utilize customer’s deposit in WadiahYad Dhamanah savings and current account	4.03	1.105
C2. In Islamic fixed deposit account based on Tawarruq, the customer buys a specified Shariah compliant commodity through bank	4.02	1.057
C3. Profit in Mudharabah (profit sharing) investment account cannot be guaranteed by the bank	4.06	1.084
C4. The home financing contract using MusharakahMutanaqisah (Diminishing Partnership) combines partnership, leasing and sale contracts	4.10	1.045
C5. For Islamic Credit Card based on Ujrah (Service fee), bank charges the service fee to the customer.	4.04	1.098
<b>Product knowledge</b>	4.05	4.724

General knowledge: M = 4.48, SD = 4.180; Product knowledge: M = 4.05, SD = 4.724; Customer’s knowledge: M = 4.27, SD = 8.230; Valid N (listwise)

4.45; SD = 4.644). Because of that, customers' religious practice is also becomes a contributing factor to the Islamic banking product acceptance.

**Is customers perception towards competitive pricing contribute on customers' acceptance:** Table 9 shows that

Table 4: Level of customer's religious

Religious	M	SD
D1. I offer prayer five times a day	4.56	1.032
D2. I fast regularly during Ramadan	4.58	1.037
D3. I pay zakat every year if I meet the prescribed criteria.	4.50	1.050
D4. I regularly recite the Holy Quran	4.29	1.050
D5. I follow the Islamic conjunctions in all matters of my life	4.32	0.989
Religious	4.45	4.644

the majority of respondents who were users of Islamic banking have expressed "strongly agree" on item E1 (Islamic banking products and services are expensive compared to conventional banks) with an overall mean value is at an intermediate high level (M = 3.47; SD = 1.451). For item E2, E3 and E4, majority Islamic banking product users have stated their perception as "strongly disagree" that makes Competitive Pricing is at a low level (M = 2.79; SD = 4,933), however, they were Islamic banking product users. So directly, competitive pricing is not becomes a contributing factor to Islamic banking product acceptance.

To strengthen that customer's knowledge and customer's religious factors that contribute to Islamic

Table 5: Level of competitive pricing

Competitive pricing	M	SD
E1. Islamic banking products and services are expensive compared to conventional banks	3.47	1.451
E2. Islamic banks offer lower service charges compared to conventional banks	2.64	1.383
E3. Islamic banks give better profit rate for financing compared to conventional banks	2.67	1.382
E4. Islamic banks paid higher returns on savings compared to conventional banks	2.51	1.261
E5. Islamic banks provide better returns on Islamic fixed deposit accounts compared to conventional banks	2.66	1.325
Competitive pricing	2.79	4.933

Table 6: Customers general knowledge towards customer acceptance

General knowledge	Product users?		M	SD
	Yes	No		
<b>B1. I understand the differences between Islamic and conventional banking products</b>				
Strongly agree	161	9	4.35	0.929
Agree	82	7		
Somewhat	19	5		
Disagree	9	1		
Strongly disagree	7	0		
Total	278	22		
<b>B2. Riba or interest is prohibited in Islamic banking products</b>				
Strongly agree	206	17	4.56	0.942
Agree	48	3		
Somewhat	8	2		
Disagree	3	0		
Strongly disagree	13	0		
Total	278	22		
<b>B3. Islamic banking products are offered to both Muslim and Non-Muslim</b>				
Strongly agree	200	13	4.53	0.933
Agree	58	6		
Somewhat	6	2		
Disagree	1	1		
Strongly disagree	13	0		
Total	278	22		
<b>B4. Islamic banking must be based on Shariah contracts and principles</b>				
Strongly agree	213	17	4.58	0.955
Agree	43	4		
Somewhat	5	1		
Disagree	3	0		
Strongly disagree	14	0		
Total	278	22		
<b>B5. Islamic banks promote Islamic values such as transparency, trust and ethical among staffs, clients and the general public</b>				
Strongly agree	185	11	4.40	1.007
Agree	55	7		
Somewhat	18	3		
Disagree	9	1		
Strongly disagree	11	0		
Total	278	22		
General knowledge			4.48	4.180

Table 7: Customers product knowledge towards customer acceptance

Product knowledge	Are you Islamic banking product users?				
	Yes	No	Total	M	SD
<b>C1. Islamic bank has right to utilize customer's deposit in Wadiah YadDhamanah savings and current account</b>					
Strongly agree	130	3	133	4.03	1.105
Agree	74	7	81		
Somewhat	55	6	61		
Disagree	8	2	10		
Strongly disagree	11	4	15		
Total	278	22	300		
<b>C2. In Islamic fixed deposit account based on Tawarruq, the customer buys a specified Shariah compliant commodity through bank</b>					
Strongly agree	121	5	126	4.02	1.057
Agree	81	7	88		
Somewhat	57	7	64		
Disagree	8	2	10		
Strongly disagree	11	1	12		
Total	278	22	300		
<b>C3. Profit in Mudharabah (profit sharing) investment account cannot be guaranteed by the bank</b>					
Strongly agree	130	8	138	4.06	1.084
Agree	70	6	76		
Somewhat	56	6	62		
Disagree	11	1	12		
Strongly disagree	11	1	12		
Total	278	22	300		
<b>C4. The home financing contract using MusharakahMutanaqisah (Diminishing Partnership) combines partnership, leasing and sale contracts</b>					
Strongly agree	134	10	144	4.10	1.045
Agree	63	4	67		
Somewhat	65	6	71		
Disagree	7	2	9		
Strongly disagree	9	0	9		
Total	278	22	300		
<b>C5. For Islamic Credit Card based on Ujrah (Service fee), bank charges the service fee to the customer</b>					
Strongly agree	125	9	134	4.04	1.098
Agree	74	8	82		
Somewhat	54	3	57		
Disagree	13	1	14		
Strongly disagree	12	1	13		
Total	278	22	300		
Product knowledge				4.05	4.724

Table 8: Customers' religious practice towards customer acceptance

Religious	Are you Islamic banking product users?				
	Yes	No	Total	M	SD
<b>D1. I offer prayer five times a day</b>					
Strongly agree	221	15	236	4.56	1.032
Agree	32	4	36		
Somewhat	6	1	7		
Disagree	2	1	3		
Strongly disagree	17	1	18		
Total	278	22	300		
<b>D2. I fast regularly during Ramadan</b>					
Strongly agree	222	17	239	4.58	1.037
Agree	35	2	37		
Somewhat	3	0	3		
Disagree	1	0	1		
Strongly disagree	17	3	20		
Total	278	22	300		
<b>D3. I pay zakat every year if I meet the prescribed criteria</b>					
Strongly agree	212	14	226	4.50	1.050
Agree	32	3	35		
Somewhat	14	4	18		
Disagree	5	0	5		
Strongly disagree	15	1	16		
Total	278	22	300		
<b>D4. I regularly recite the holy Quran</b>					
Strongly agree	176	6	182	4.29	1.050



Table 8: Continue

Religious	Are you Islamic banking product users?				
	Yes	No	Total	M	SD
Agree	44	6	50		
Somewhat	44	5	49		
Disagree	7	2	9		
Strongly disagree	7	3	10		
Total	278	22	300		
<b>D5. I follow the Islamic conjunctions in all matters of my life</b>					
Strongly agree	168	6	174	4.32	.989
Agree	65	10	75		
Somewhat	30	4	34		
Disagree	6	1	7		
Strongly disagree	9	1	10		
Total	278	22	300	4.45	4.644

Table 9: Customers' perception towards competitive pricing contribute on Islamic banking product

Competitive pricing	Are you Islamic banking product users?				
	Yes	No	Total	M	SD
<b>E1. Islamic banking products and services are expensive compared to conventional banks</b>					
Strongly agree	101	3	104	3.47	1.451
Agree	58	6	64		
Somewhat	39	10	49		
Disagree	37	2	39		
Strongly disagree	43	1	44		
Total	278	22	300		
<b>E2. Islamic banks offer lower service charges compared to conventional banks</b>					
Strongly agree	34	1	2.64	2.64	1.383
Agree	44	9	2.67		
Somewhat	67	8	2.51		
Disagree	41	3	2.66		
Strongly disagree	92	1	2.79		
Total	278	22	300		
<b>E3. Islamic banks give better profit rate for financing compared to conventional banks</b>					
Strongly agree	34	1	35	2.67	1.382
Agree	50	7	57		
Somewhat	65	8	73		
Disagree	40	5	45		
Strongly disagree	89	1	90		
Total	278	22	300		
<b>E4. Islamic banks paid higher returns on savings compared to conventional banks</b>					
Strongly agree	21	1	22	2.51	1.261
Agree	39	4	43		
Somewhat	80	12	92		
Disagree	49	4	53		
Strongly disagree	89	1	90		
Total	278	22	300		
<b>E5. Islamic banks provide better returns on Islamic fixed deposit accounts compared to conventional banks</b>					
Strongly agree	26	2	28	2.66	1.325
Agree	50	6	56		
Somewhat	82	9	91		
Disagree	32	5	37		
Strongly disagree	88	0	88		
Total	278	22	300		
Competitive pricing				2.79	4.933

Banking product acceptance, inference conducted to identify it differences based on demographic factors. This analysis will help to understand in detail the level of differences on customer's knowledge and customer's religious.

**Inference analysis:** In order to answer the second research question, namely, what contributing to consumer

acceptance of Islamic banking, the researcher include inferential analysis which describes the different levels of customer acceptance based on the demographics of respondents.

**Customer knowledge differences:** Demographic factors Referring to Table 10, it shows that there is no significant difference in customer's knowledge based

Table 10: Customer knowledge differences

Knowledge	M	SD	F-values	Sig.
<b>Gender</b>				
Male	41.95	9.02	3.935	0.156
Female	43.33	7.61		
<b>Age</b>				
Below 25 years old	43.41	7.22	4.279	0.006
25-39 years old	41.26	9.27		
40-55 years old	45.38	5.99		
Over 55 years old	47.80	4.38		
Total	42.67	8.33		
<b>Occupation</b>				
Student	43.50	8.03	1.176	0.310
working employee	42.02	8.61		
Other	43.57	5.88		
Total	42.67	8.33		
<b>Education</b>				
Master or PhD	42.18	10.40	0.540	0.583
Diploma or Degree	43.16	7.39		
SPM	42.12	6.50		
Total	42.67	8.33		
<b>Product users</b>				
Yes	42.81	8.47	1.072	0.280
No	40.82	6.10		

Table 11: Customer religious differences

Customer's religious	M	SD	F-values	Sig.
<b>Gender</b>				
Male	21.96	5.15	5.246	0.309
Female	22.51	4.17		
<b>Age</b>				
Below 25 years old	23.02	3.54	1.513	0.211
25-39 years old	21.74	5.13		
40-55 years old	22.58	4.43		
Over 55 years old	21.80	7.16		
Total	22.25	4.67		
<b>Occupation</b>				
Student	22.50	4.24	0.620	0.539
working employee	22.01	5.04		
other	23.43	1.27		
Total	22.25	4.67		
<b>Education</b>				
Master or PhD	21.54	6.02	1.927	0.147
Diploma or Degree	22.43	4.17		
SPM	23.02	2.63		
Total	22.25	4.67		
<b>Product users</b>				
Yes	22.39	4.63	0.069	0.054
No	20.41	4.89		

on demographic factor of gender ( $F = 3,935$ ;  $p > 0.05$ ), occupation ( $F = 1.176$ ;  $p > 0.05$ ), education ( $F = 0.540$ ;  $p > 0.05$ ) and product users ( $F = 1.072$ ;  $p > 0.05$ ). However, there is a significant difference based on respondent's age factor of ( $F = 4,279$ ;  $p < 0.05$ ) which should be considered in determining customer's acceptance of Islamic banking.

**Customer religious differences (demographic factors):**

Referring to the Table 11, it shows that there are no significant differences in customer's religious practice based on demographic factors of gender ( $F = 5.249$ ;  $p > 0.05$ ), age ( $F = 1.513$ ;  $p > 0.05$ ), occupation ( $F = 0.620$ ;  $p > 0.05$ ) and education ( $F = 1.927$ ;  $p > 0.05$ ). However there is

a significant difference based on product users factor ( $F = 0.069$ ;  $p < 0.05$ ) which should be considered in determining the customers' acceptance of Islamic banking.

**Summary:** Quantitative data analysis was conducted based on statistical analysis of descriptive and inferential statistics. Based on the findings, the following table represents summary of the findings from this study.

**CONCLUSION**

In conclusion, the study concludes that customers have a high level of knowledge and high perception of religious practice towards Islamic banking products. However, customers have an unfavourable perception on competitive pricing towards Islamic banking products. In addition, customer's knowledge and customer's religious practice proved to be the contributing factors towards Islamic banking product acceptance. On the other hand, it seems that customer's perception on competitive pricing is not considered as the contributing factor towards Islamic banking product acceptance.

**RECOMMENDATIONS**

In response to these results, the researchers recommend a few steps such as, simplifying the transaction procedures to enhance Islamic banking product price. To improve the customer's acceptance of Islamic banking products is by simplifying the transaction procedures in order to lower prices. A study by Sudin on Malaysian customers revealed that the main factors in which customers consider very important while selecting a suitable financial institution was the provision of fast and efficient services and the speed of the transaction. Some of the Islamic banking services not only have so many procedures to complete but they also provide different prices charged for different documents. This situation might be one of the factors people switch to conventional banking. Therefore, to overcome this situation, a speedy yet concise manual of transaction procedures should be enhanced by a regulator and distributed to every Islamic bank. This effort will help improve complicated transactions, the expensive prices claimed by customers as well as the waiting period. Recruiting new thinkers to enhance Islamic banking product price. To improve the customer's acceptance of Islamic banks is by recruiting new thinkers. A study by Mirza brought up some issues relating to Islamic banking and finance. One of the issues was the shortage of experts and scholars knowledgeable in the Shariah. The

growth of Islamic banking and finance has led many Shariah experts to become actively involved in the system. There is a high demand for them because those who are trained in conventional economics, banking and finance rarely have the necessary knowledge in Shariah. This opportunity should be grabbed by those Shariah experts as a way of innovating the existing system without changing the originality of the concept of the products' principles.

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