Islamic Retail Banking Adoption: A Conceptual Framework

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Abstract: The emergence of Islamic financial system has created a new dimension to the current economic models and financial developments. However, a feature of the banking industry across the globe today is that it is increasingly becoming turbulent and competitive. Indications are that as competition intensifies religious factor alone will not be able to substantiate the growth of Islamic retail banking. Specifically in Malaysia where Islamic banking has to compete with the dominant and long established conventional-banking system and the international players. Moreover, the market share of Islamic deposits and financing schemes still remains low despite being in operation for twenty-eight years now, in comparison to the conventional deposits and financing. This paper therefore proposes a conceptual design to examine factors affecting the adoption of Islamic retail banking services in Malaysia. Rogers’ innovation diffusion theory (2003), underpins the theoretical framework of this study. The findings of this study would provide compelling insights about Islamic retail banking usage in Malaysia, which will be useful to the financial institutions and policy makers to device appropriate marketing strategies.

Key words: Islamic retail banking, Adoption, Conceptual Framework, Malaysia.

INTRODUCTION

The emergence of Islamic financial system has created a new dimension to economic models and particularly to Islamic banking, having captured significant share in the global financial market (Fazlan et al., 2007; Hassan, 2007). Widely known as Islamic banks, these interest-free institutions are organized financial intermediaries, which operate in accordance with Islamic law (Shariah Law) (Iqbal et al., 2007; Hassan and Lewis, 2007). The term “Islamic Banking” is defined as the conduct of banking operations in consonance with Islamic teachings (Mirakhor, 2000; Haque et al., 2007). The main principles of Islamic banking activities comprise of prohibition of interest or usury (riba) in all forms of transaction, undertaking business and trade activities on the basis of fair and legitimate profit, giving zakat (alm tax), prohibition of monopoly, and cooperation for the benefit of society and development of all halal aspects of business that are not prohibited by Islam (Haron, 1997; Mirakhor, 2000). Unlike conventional banking system, the Islamic banking system prohibits usury (riba), the collection and payment of interest. Instead, it promotes profit sharing in all conduct of banking businesses (BNM, 2007).

Over the past four decades, Islamic banking has emerged as one of the fastest growing industry, at an estimated growth rate of 15-20 percent per annum (Haque et al., 2007). It has spread to all corners of globe and received wide acceptance by both Muslims and non-Muslims (Aziz ZA, 2006). The Malaysian government has given great emphasis to develop a well functioning and efficient Islamic banking system with the vision of building Malaysia into the regional Islamic banking hub (Aziz, 2007). It is the Malaysian government’s aspiration to develop a progressive and robust Islamic banking industry, rooted in the Islamic core values and principles that best serve the needs of the nation’s economy (Aziz, 2009).

While the opportunities for Islamic banking will continue to grow, there is a need to develop products and services that are in line with the changing needs and demands of customers to remain competitive in the business. Generally, fiercer level of competition in the banking sector has intensified over the past few years not only in Malaysia but globally. The process of globalization and liberalization together with digitalization has fueled the intensity of business competition today. Islamic banks in Malaysia as key players in the service industry are faced with stiff competition, not only with the long established conventional banking system and the international players but also within themselves. As competition intensifies in the service industry, Islamic banking is no longer regarded as a business entity striving to fulfill only the religious obligations of the Muslim community, but more significantly as a business, that ought to be as competitive as conventional banking. This necessitates clear understanding of the needs and preference of their customers on Islamic banking products and services. In the context of Malaysia, customers’ positive perception towards Islamic banking is far more crucial mainly because of its population, which is made up of nearly 60 percent Muslims and 40 percent non-Muslims. Secondly, because Islamic banks have to compete with the long established and well accepted conventional banks that have been operating for centuries (Asyraf, 2007).
In the context of Malaysia, it has been nearly three decades now, since Islamic banking was launched in Malaysia, back in 1983, when Bank Islam Malaysia Berhad (BIMB) first commenced its operations (BNM, 2005). Moreover, it is the aspiration of the Malaysian government to have a strong Islamic banking industry capturing 20 percent of market share of financing and deposits in the Malaysian financial industry by 2010 (Financial Sector Master Plan, 2001). Even though the 20 percent of the market share more or less has been achieved, it is still insignificant in comparison to conventional banking (BNM, 2010). In fact, a larger market share should have been achieved by now. In fact, countries like Bahrain and Bangladesh, which also practices a dual banking system have far exceeded 20 percent of market share, even five years ago (Bank Negara Malaysia, 2010; Bahrain Monetary Agency, 2010; Central Bank of Bangladesh, 2010). Therefore, it is evident in Malaysia there has been a slow acceptance of Islamic retail banking products and services despite the great efforts of the authorities such as Bank Negara Malaysia, the Malaysian government and the financial institutions. Hence, this study aims to understand the nature of consumer adoption of Islamic retail banking, in Malaysia. Given that, the present study will explore the factors that may affect the adoption of Islamic retail banking products and services in Malaysia.

2. Evolution of Islamic Banking in Malaysia:

In Malaysia, the earliest form of Islamic banking activity traces its root back to September 1963, with the establishment of the Lembaga Tabung Haji (Pilgrims Fund Board). However the first Islamic bank established in the country was, Bank Islam Malaysia Berhad (BIMB) which, commenced operations on July 1, 1983 (Bank Negara Malaysia, 2005). Therefore, the development of Islamic banking in Malaysia transitioned through four distinct phases (Bank Negara Malaysia, 2005). The first phase involved the establishment of Islamic financial Institutions. In the second phase, conventional banks were allowed to offer Islamic financial products and services through Islamic banking windows to achieve greater outreach. Thus in 1993, three conventional banks that is Maybank, Bank Bumiputra Malaysia (the present CIMB) and United Malaysian Banking Corporation were initially allowed to offer Islamic banking products and services.

Having achieved the critical mass in the first two phases, the third phase was to introduce Islamic subsidiaries in 2004. Finally, as capacities were enhanced, the government’s liberalization policy began in 2006, allowed the integration process of Islamic finance with the international financial system (international players), marks the fourth phase of development. Currently there are three international players namely: Kuwait Finance House (Malaysia) Berhad, Al-Rajhi Bank Berhad and Asian Islamic Bank Berhad that are offering Islamic banking services in Malaysia (Bank Negara Malaysia, 2010).

It is obvious Islamic banking in Malaysia thus, has evolved as a competitive component of the overall financial system, complementing the conventional financial system as a driver of economic growth and development. Since year 2000, the growth of Malaysian Islamic Banking sector falls between the range of 15-20 percent per annum (Bank Negara Malaysia, 2010). A new milestone was achieved in August 2006 when the Malaysia International Islamic Financial Centre (MIFC) was launched with the aim of promoting Malaysia as a major hub for international Islamic Finance (BNM, 2011). Today, Malaysia has succeeded in implementing a dual banking system and has emerged as the first nation to have a full-fledged Islamic banking system, operating parallel, with the conventional banking system. Therefore, the Malaysian Islamic banking landscape currently comprises of seventeen (17) Islamic financial institutions, with eleven (11) local full-fledged Islamic banks and six (6) foreign full-fledged Islamic banks (Bank Negara Malaysia, 2011).

3. Theory Building:

While numerous studies have been undertaken to examine issues in the wider context of Islamic banking system, comprehensive and continuous research in the area of marketing particularly, consumer adoption of Islamic retail banking services in the specific context of Malaysia has been rather limited. Therefore, the study aims to address the question about factors affecting Islamic banking adoption both in the urban and rural regions of Malaysia. but most importantly in rural regions of Malaysia as well. It is crucial to gain a thorough understanding of the differentiated needs and preferences of customers between these two regions, so that appropriate marketing strategies can be applied to capture substantial market share (Ahmad et al., 2002; Abbas et al., 2003; Asyraf et al., 2007; Aziz, 2010).

Moreover, the usual focus of adoption research always has been on new product and technology innovations and very small but growing number of studies has been on adoption of financial services. In recent years, several adoption studies have been conducted in the area of Internet banking adoption, On-line banking adoption, Mobile banking adoption and Self-service technology adoption (Sathyae et al., 1999; Meuter et al., 1999; Black et al., 2001; Gerard, 2003). However, in the area of Islamic banking, only Yusof’s (1999) study has examined the adoption of Islamic banking in Singapore and which has employed the Innovation Diffusion Theory. Moreover, based on the review of literature, it is obvious that the marketing aspect of Islamic banking, though important, received little attention from the scholars particularly after 1999, whereas Islamic banking in Malaysia is still at its developing stage.
In addition the previous studies related to Islamic banking adoption in Malaysia is found to be limited in scope, either due to limited sample size or restrictive in representation (Asyraf et al., 2007). As opined by Asyraf and Nurdianawati (2007), research by Ahmad and Haron (2002), for instance was represented by only 45 respondents. As for Kader (1993, 1995) and Haron et al., 1994), their samples were restrictive in the sense that they were collected from one single location or district. Kader’s study (1993, 1995), the survey was confined to one location, that is, Kuala Lumpur. Similarly, for the studies conducted by Haron et al., (1994), the samples were drawn from three towns namely: Alor Setar, Sungai Petani and Kangar. Whilst, Asyraf and Nurdianawati (2007) in their research have included only the major cities of Malaysia, that is, Kelantan, Penang, Kuala Lumpur and Johore and hardly covered any rural areas of Malaysia. These efforts could be inadequate to represent the overall needs and demand of the banking consumers in Malaysia. Therefore, samples to conduct a comparative analysis for this study will have combination of respondents from both urban and rural regions of Malaysia, in order to achieve wider scope of representation.

4. Conceptual Framework:
Innovation Diffusion Theory (IDT):

The process of diffusion and adoption are two very closely related processes regarding consumers’ acceptance of new products and services (Rogers, 2003; Norazah, 2006). Diffusion is a macro process that is more related with familiarizing and accepting a new product or an idea, which is an innovation. Whereas, adoption is a micro process, that comprises of various stages that a customer goes through prior to accepting or rejecting a product or services. Thus, the key theoretical constructs concerned with adoption and diffusion studies generally focus on user acceptance, behavior prediction, customer’s perception and innovation adoption. Rogers’ (2003), Innovation Diffusion Theory is one of the widely applied models in the area of adoption behavior prediction, in social science. The scholarly work of Roger (1962) has encouraged research studies in the area of diffusion and adoption extensively. Approximately 5,200 diffusion studies had been identified by Rogers (2003) while working on the 5th edition of his text.

The adoption process has been defined as the process through which individual adopters pass from awareness to full acceptance of an innovation (Rogers, 2003). According to Rogers (2003), there are two levels to adoption. Initially, innovation must be purchased, acquired and adopted by individuals or organizations. Subsequently, it must be either accepted or rejected by the ultimate users in the society or community. The relative newness of these innovations and the associated uncertainty is what differentiates innovation adoption decisions from other types of decision-making (Gerard et al., 2003). However getting a new idea adopted, even it has obvious advantages, is difficult. Many innovations require a lengthy period of many years, from the time when they become available, to the time when they are widely adopted. Furthermore, the same innovation may be desirable for one situation but undesirable for another potential adopter, whose situation differs (Erol et al., 1989; Erol et al., 1990; Gerard et al., 2003). Rogers (2003) identified five main characteristics of innovations: Relative advantage, compatibility, complexity, observability and trialability as the most important explanation of the rate of innovation adoption (Yusof, 1999; Sohail et al., 2002; Rogers, 2003). Most of the variance in the rate of adoption of innovations, from 49 to 87 percent is explained by these attributes (Rogers, 2003). Thus, the diffusion literature provides an ideal framework to be applied to the present study that, seeks to extend the research area in a service innovation context, the innovation being Islamic banking. The study would determine which factors according to Rogers’ framework (2003), would fare when applied on a service innovation, more particularly retail banking services that conform to Islamic principles.

Therefore, the dependent and independent variable of primary interest to this research is derived from the theory of Diffusion of Innovation (Rogers, 2003). The dependent variable of this study is adoption of Islamic retail banking (IRB). Given that, the adoption of IRB is measured within the dimension of Usage of Islamic Retail Banking. Whereas, the independent variables are Awareness on IRB Attributes, Relative Advantage, Compatibility, Complexity, Observability, Uncertainty, Promotional Efforts and Perceived Information Quality. The Figure 1 above shows the proposed framework of this study. The framework provides the conceptual foundation of the research to be conducted.

Awareness on Islamic Retail Banking (IRB) Attributes:

A new idea does not go beyond the knowledge function, if sufficient knowledge is not obtained to become adequately informed so that, persuasion can take place (Kotler and Amstrong, 2001; Rogers, 2003). According to Rogers (2003), consumers go through a process of knowledge, persuasion, decision and confirmation before they are ready to adopt a product or service. Knowledge occurs when an individual or other decision-making unit is exposed to an innovation’s existence and gains an understanding of how it functions (Rogers, 2003). He quoted this stage as a “Pre-contemplation” stage. Consumer awareness have been tested as one of the key
variable in numerous studies specifically in the area of on-line banking, internet-banking and self- services technology adoption (Sathye, 1999; Suganthi et al., 1999; Yusof, 1999; Gerard et al., 2003). However, limited studies have investigated on consumer awareness in the area of Islamic banking adoption. Rosly (2007), in his studies stated that about 100 percent of the Muslim population and 60 percent of non-Muslims are aware of the existence of Islamic banking services in Malaysia and out of this only 63 percent understood the difference between Islamic banks and conventional banks. Whereas, some studies reported, Muslim respondents, though aware of fundamental terms in Islam, were almost exclusively unaware of the meaning of specific Islamic financial terms like Mudaraba, Musharaka and Ijara.

Adoption is the acceptance and continued use of a product, service or idea. Therefore, in this study the intention is not only to know to what extent customers are aware of IRB products and services but also to predict whether consumer awareness on IRB attributes affects the adoption of IRB. Given that, the following hypothesis will be tested:

**H1:** There is a positive relationship between awareness on IRB attributes and the usage of IRB.

**Perceived Relative Advantage:**

Relative advantage is defined as the degree to which an innovation is perceived as being better than the ‘idea’ it supersedes (Rogers, 2003). Potential adopters want to know, if the new idea is better than an existing one. Besides, several scholars have found relative advantage to be one of the best predictors of an innovation’s rate of adoption (Tonartzky and Klein, 1982; Yusof, 1999; Gerrard, 2003; Syed, 2004). Roger (2003) argued that adopters invariably perceived relative advantage in terms of the economic benefits and the costs resulting from the adoption of an innovation and improvements that are afforded to their social status. In addition to these, economic profitability, low initial cost, a decrease in discomfort, social prestige, savings in time and effort and the immediacy of the reward, have been described as the sub-dimensions of relative advantage (Gerard, 2003). The present study therefore intend to examine relative advantage within the dimension of economic benefits (profits earnings, reduce the burden of interest, reduce risk, profit and loss sharing benefits) and fairness (in the conduct of profit sharing, ethical banking system, equal distribution of wealth). Thus, the following hypothesis is developed:

**H2:** There is a positive relationship between relative advantage and the usage of IRB.

**Perceived Compatibility:**

Compatibility is defined as the degree to which an innovation is perceived as being consistent with existing values, past experiences and the needs of potential adopters (Rogers, 2003). Thus, compatibility is a measure of the values or beliefs of consumers, the ideas they have adopted in the past, and the ability of an innovation to meet their needs (Gerard, 2003). In addition, previous researchers too found compatibility in terms of previous experience and value, as a pertinent factor that influences the adoption of an innovation (Tonartzky and Klein (1983); Yusof (1999); Gerard (2003); Syed (2004); Norazah, 2006; Tan, 2011). As such, in regards to banking experiences and practices, the Malaysian banking consumers have already possess banking habits from the long operating conventional banks and Islamic banking functions and operations are not new to them. Therefore, this
study seeks to examine compatibility concerning IRB in the context of consumers’ felt need for banking based on their religious and ethical values. Based on the above discussion the following hypothesis is developed:

**H3:** There is a positive relationship between compatibility and the usage of IRB.

**Complexity:**

Complexity is the degree to which an innovation is perceived as difficult to understand and use (Rogers, 2003). As opined by Yusof (1999) any idea could be classified on the complexity-simplicity continuum. Some innovations are clearly understood by potential adopters whereas others are not. Therefore, complexity has been measured in relation to perceptions about the purpose of the respective innovation, its intended use and the ease with which it can be used (Gerard, 2003). It is believed that there is a negative relationship between complexity and adoption rate (Yusof, 1999; Gerard, 2003; Syed, 2004). The more complex a product is to the consumers, the lower the rate of adoption.

However, Polatoglu and Ekin (2001) opined that, literacy level play a very important role in determining the degree of complexity among the banking consumers. Thus, literate people who are familiar with the existing conventional banking system should not find IRB complex. Moreover, Islamic banking is a form of financial innovation in terms of its banking principles. Thus, it does not require major adjustment in the usage of banking services. In this regard, the consumers should perceive it as simple and easy to use. As such, it is imperative to test the perceived complexity of Islamic banking services.

**H4:** There is a negative relationship between complexity and the usage of IRB.

**Observability:**

Observability is described as the degree to which the results of an innovation are visible to others (Roger, 2003). Some ideas are easily observed and communicated to other people, whereas other innovations are difficult to observe or describe to others. According to Yusof (1999) and Gerard (2003), this is especially true for a service where the characteristic of intangibility will hinder its visibility. Using this argument in the context of Internet banking Gerard (2003), highlighted that observability does not appear to be a contributor to the adoption of Internet banking since it is most unlikely that Internet banking uses are prepared to show the results of their financial dealings to third parties. However Yusof (1999) in his studies, opined that in the case of Islamic banking adoption, it is possible that Muslim consumers would find it easy to explain and provide evaluative feedback to others regarding the benefits of using Islamic banking services, which would further enhance adoption. In this study, observability is examined in the context of noticing the result of using Islamic deposits and financing schemes, considering the opinion of family, friends and peers concerning IRB and willingness to share the experience of using IRB products and services. Thus, the following hypothesis will be tested:

**H5:** There is a positive relationship between observability and the usage of IRB.

**Uncertainty:**

Uncertainty is the degree to which a number of alternatives are perceived with respect to the occurrence of an event and the relative probabilities of these alternatives (Rogers, 2003). Uncertainty motivates individuals to seek information, as it is an “uncomfortable state of mind”. According to Roger (2003), a kind of uncertainty is generated by an innovation that is perceived as new by an individual or another unit of adoption. The perceived newness of an innovation, and the uncertainty associated with the newness, is a distinctive aspect of innovation decision making process, that is, either to adopt or reject an innovation. Trialable innovations tend to create less uncertainty to the individual who is considering it for adoption, as it is possible to learn by experimenting (Kotler and Armstrong, 2001; Rogers, 2003). For the fact that, the IRB products and services are not allowed to try prior to usage, may create more uncertainty in the mind of banking consumers. Furthermore, due to its fundamental nature, adoption of Islamic retail banking products and services is perceived to be even riskier because the result of using it is not visible to the banking consumers in the short-term. Therefore, in this context, it is vital to examine the consumers’ confidence level in using it.

It is believed that there is a negative relationship between uncertainty and adoption rate (Yusof, 1999; Gerard, 2003). The more consumers feel uncertain about an innovation; the lower would be the rate of adoption (Rogers, 2003). Ostlund (1974), in a non-banking context, appears to have been the first to identify perceived risk as one of the characteristics that influences the rate of adoption. In regard to self-service technologies in banking, risk has been identified as relevant characteristic by Lockett and Litter (1997). In the context of Internet banking, Black et al., (2001) suggest that data accuracy and reliability of the system as a measure of uncertainty. Suganthi et al., (2001) view uncertainty in the context of security and trust over the bank. Whereas, Yusof (1999) in his study about Islamic banking adoption in Singapore highlighted that the reliability of Islamic banking services, as whether it is truly Shari’ah compliant, as a form of uncertainty. Therefore, this study seeks to examine uncertainty within the dimension of confusion, fear, risk, trust and doubtfulness. Given that, the following hypotheses are developed:
H6: There is a negative relationship between uncertainty and the usage of IRB.

Promotional Efforts:
The most profound new developments in marketing involve the ways in which today’s companies are connecting with their customers (Kotler and Armstrong, 2001). According to Rogers (2003), promotions carried out by change agents provide a communication link between a resource system with some kind of expertise and a client system. Change agents could be government agencies, consultants, marketing executives, public health workers who play the role of intermediaries to facilitate the flow of innovations to audience of clients. Despite, creating the need among their clients by pointing out the existence of desirable ideas the change agents also develop and spread persuasive communications about an offer (Kotler, 2001). Thus, knowledge of the existence of an innovation can create a motivation to learn more about it and ultimately to use it.

In the context of Islamic banking adoption in Malaysia, the main change agents that promote Islamic banking are the financial institutions and the government. However, this study will only examine the extent of financial institutions’ effort in promoting Islamic retail banking. Thus, the promotional efforts conducted by the financial institutions in Malaysia plays a very crucial role in promoting Islamic banking services. Promotional efforts can be a mix of promotions such as advertisements, personal selling, sales campaigns, public relations, and direct marketing. Therefore, the key factor in change agent’s success is the amount of effort spent in promoting the product and services to the customer, so that the product reaches the customer eventually. In the area of financial services marketing, numerous studies have emphasized the importance of promotional efforts to increase the adoption rate (Jermun et al., 1998; Nancy and Andy, 2002, George & Paulina, 2006). According to Jermun and Eugence (1998), greater response occurs when opinion leaders are adopting an innovation. Whilst, George and Paulina (2006), opined that extensive promotional efforts are crucial in the initial stage of adoption to increase the product awareness among the customers. However, limited studies have examined the influence of promotional efforts in the area of Islamic banking adoption and most of these studies are confined to only mass-media advertisements (Erol et al., 1990; Kader, 1993; Sudin Haron, 1994; Kader, 1995; Gerrard and Cunningham, 1997; Othman and Oven, 2002).

Thus, this study intends to investigate the extent of influence by mass media advertisements, personal selling, telemarketing, bank pamphlets or brochures and recommendations by Family/ Friends/Peers towards Islamic retail banking adoption in the urban and rural regions of Malaysia. Based on the above findings the following hypotheses are developed:

H7: There is a positive relationship between promotional efforts and the usage of IRB.

Perceived Information Quality:
Information quality is described as the standard or value of the information provided by Ahn et al., 2004 and Rogers (2003) moreover, has emphasized information as a means of reducing uncertainty. A technological innovation according to Rogers (2003) embodies information and thus reduces uncertainty about cause-effect relationships in problem solving. Thus, perceived information quality in the context of this study is concerning the value of information provided in the process of publicizing IRB products and services to the banking customers of Malaysia.

Besides Bellman et al., (1999), in his on-line buying behavior studies stressed that seeking product information on the Internet as one of the most important factor which determines adoption. Other scholars such as Ranganathan and Ganapathy (2002) and Shih (2004) also found product information to be positively associated with consumers’ online shopping intention. In addition, Rajjas (2002) study too evident that information quality to be positively related to E-store adoption and conversely if little product information or there is not any information provided, consumers are less likely to purchase it. Whereas, Norazah (2006), in her on-line shopping study elaborated accuracy of information provided facilitates consumers in making their purchase decisions. In the context of Islamic retail banking, the quality of information publicized by the financial institutions via promotions plays a crucial role in influencing the adoption rate. However, thus so far no scholars have examined perceived information quality in the context of Islamic banking. Perceived information quality in this study is examined within the framework of essential, accurate, clear, availability and timely information disseminated about IRB products and services via the promotions conducted by the financial institutions. Therefore, based on the above discussion the following hypothesis is developed:

H8: There is a positive relationship between perceived information quality and the usage of IRB.

5. Research Methodology:
This research is a quantitative study that will utilize survey questionnaire to obtain the research data. The questionnaire will be designed based on the research conceptual model (see Figure 1). The items will be adapted from prior works on innovation deployment and adoption studies, related to the concepts this paper advances as discussed in the earlier sections. Responses to the survey question on the variables will be entered on a five-point Likert-type scale as follows: 1 = Strongly Disagree, 2 = Disagree, 3 = Neither Agree or Disagree, 4 =
Agree and 5 = Strongly Agree. Respondents are also required to answer whether they are users or non-users of Islamic deposits and financing schemes. In addition, data on participant’s demographic profile including gender, age, ethnicity, religion, education level, monthly income, occupation and the location they reside also included.

Sample of 400 current users from the urban and rural regions will be selected for the purpose of this study using convenience sampling method because this study focuses on consumers’ perspective and there is no population frame to enable random sampling process. The target population will be individual customers of banking sector from the urban and rural region of Malaysia. The urban regions are represented by the main cities in Malaysia comprising: Kuala Lumpur, Seremban, Johore Bahru, Kuantan, Ipoh, GeorgeTown, Kota Bahru and Kuala Terengganu. Correspondingly the rural regions are represented by, Sekinchan, Bahau, Labis, Chaah, Raub, Sungkai, Pasir Mas and Kuala Berang. Thus, generally the northern, central, southern and eastern regions of Malaysia are represented. The respondents are comprised of both Muslim and non-Muslims. The sample for urban regions will be drawn from bank customers at three leading banks of Malaysia and, as for the rural regions; it was drawn from the mosques and households. The survey instrument was personally administered, and administered through the medium of Internet.

6. Data Analysis Techniques:
Multiple research techniques will be used in this study including descriptive analysis, t-test, analysis of variance, factor analysis, and multiple linear regression. SPSS (ver 17.0) will be used. Descriptive analysis is the initial analysis that will be conducted to gauge the respondent’s feedback using frequency, mean and standard deviation. Factor analysis will be used as to measure the constructs’ reliability and validity. Following the aforementioned analysis, multiple linear regression will then be used to examine the relationship between independent and dependent variables. Thus, predict the factors that affect the adoption of Islamic retail banking products and services.

7. Conclusion:
This concept paper provides a theoretical discussion on Islamic banking development in the past and the present. Based on the extensive literature review in the areas of Banking and Islamic Banking, together with the evaluation of the suitability of applying the Innovation Diffusion Theory (IDT), this study proposes a conceptual framework, for the study of adoption of Islamic Retail Banking services by Malaysian consumers.

This paper highlights the importance of consumer awareness and perception towards adoption of Islamic retail banking products and services. In addition, the importance of promotional efforts by financial institutions and consumers’ perception on the quality of information received through the promotions were emphasized. The findings of this research study would provide compelling insights about factors affecting adoption of Islamic retail banking in Malaysia, which would be very useful to the financial institutions and policy makers to formulate appropriate marketing strategies.

REFERENCES


