

## Customer Awareness and Current Usage of Islamic Retail Banking Products and Services in Malaysia

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**Abstract:** This study aims to examine the customer awareness and the usage of Islamic retail banking products and services among the urban and rural banking customers of Malaysia. The market share of Islamic retail banking remains low despite being in operation for the fast 28 years. Therefore, a comparative analysis on consumer awareness and the current usage of Islamic retail banking between urban and rural banking customers was conducted to gain more compelling insight about Malaysian banking customers' awareness on Islamic retail banking products and services. Results revealed that there is a significant difference between the urban and rural customers in terms of awareness and usage of Islamic retail banking. Thus, the findings of this study would be a valuable guideline to the banking sector to devise appropriate promotional strategies to popularize Islamic retail banking products and services among the banking customers of Malaysia.

**Key words:** Awareness, Usage, Islamic Retail Banking, Malaysia.

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### INTRODUCTION

The emergence of Islamic financial system has created a new dimension to the current economic models (Aziz, 2005; Fazlan and Mohammad, 2007). Widely known as Islamic banks, these interest-free institutions are organized financial intermediaries, which operate in accordance with Islamic law (*Shari'ah Law*) (Iqbal and Mirakhor, 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 (*riba*) in all forms of transactions undertaking business and trade activities, based on, fair and legitimate profit (Mirakhor, 2000; Haque, *et al.*, 2007). Unlike conventional banking system, the Islamic banking system prohibits usury (*riba*), the collection and payment of interest; instead, it promotes profit and loss sharing in all conduct of banking businesses. Besides that it also promotes giving *zakat* (alms 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).

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; Aziz, 2010). It has spread to all corners of globe and received wide acceptance by both Muslims and non-Muslims (Aziz, 2006). Great emphasis is given by the Malaysian government to develop a well functioning and efficient Islamic banking system. It is the Malaysian government's vision 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. The Islamic banking system in Malaysia has evolved as a competitive component of the overall financial system, complementing the conventional financial system as a driver of economic growth and development. 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 in parallel, with the conventional banking system. The Malaysian Islamic banking system today comprises of eleven (11) local Islamic banks and six (6) foreign Islamic banks all together (Bank Negara Malaysia, 2010).

Besides, it is the aspiration of the Malaysian government to have a strong Islamic banking industry capturing 20 percent of the market share of Islamic assets, financing and deposits by 2010 (Aziz, 2007). Although the 20% of market share has been achieved more or less, the growth seemed to be slow and insignificant in comparison to conventional assets, financing and deposits, which are relatively very much higher. 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. A feature of the banking industry across the globe has been that it is increasingly becoming turbulent and competitive (Sadiq and Shanmugham, 2003). The process of globalization and liberalization together with digitalization has fueled the intensity of business competition today. Islamic banking in Malaysia, as one of the most important components in the service industry is 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 banking industry today, Islamic banking is no longer regarded as a banking service striving to fulfill only the religious obligations of the Muslim community, but more significantly as an innovation in the banking industry, that ought to be, as competitive as conventional banking. This necessitates Islamic financial institutions to understand the real needs of their customers towards Islamic banking services. In Malaysia, customers' positive perception towards Islamic banking is far more crucial mainly because Islamic banks have to compete with the dominant and long established conventional banks in a dual-banking system (Aziz, 2006; Asyraf, 2007).

#### **Research Objectives:**

Therefore, the main aim of the study is to understand *the nature of consumer awareness and usage of Islamic banking, in particular retail banking, in the urban and rural regions of Malaysia*. The specific objectives are as follows:

- To analyze the awareness on Islamic retail banking between urban and rural banking customers.
- To analyze the usage of Islamic retail banking among the rural and urban banking customers.
- To examine the factors which determine the usage of Islamic retail banking in Malaysia.

#### **Research method:**

To determine the Malaysian banking customers' awareness and usage of Islamic retail banking schemes, a survey was conducted among the banking customers, in the urban and rural regions of Malaysia, during October to December 2010. A survey instrument was designed to collect data. The instrument itself was a questionnaire designed previously (Yusof, 1999), consisting a list of 32-questions that measures six key constructs of the study. Respondents were asked to indicate their awareness and their current usage for each of the question with regard to Islamic retail banking. Responses to the survey question on the variables were 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 were also requested to identify whether they were users or non-users of Islamic retail banking schemes. In addition, the survey questionnaire also includes data on participant's demographic profile including gender, age, ethnicity, and religion, level of education, monthly income, and occupation.

Individual customers of banking sector from the urban and rural region of Malaysia participated in the study. 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. Therefore, the urban and rural locations of the study overall cover the northern, central, southern and eastern regions of Malaysia. The respondents are comprised of both Muslim and non-Muslims. The responses from urban region consist of respondents, who possess better education level, income level, and profession compared to the responses from rural region. The sample for urban regions was 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. Hardcopies of questionnaires were distributed using convenient sampling while online questionnaires were sent out randomly to friends and colleagues in the mailing list. A total of 281 useable responses from the urban region and 256 from the rural region were obtained respectively.

#### **Analysis And Discussion:**

To investigate the awareness on IRB between the urban and rural banking customers, a comparison of awareness on the existence and terms of Islamic retail banking was conducted between the urban and rural region. The underlying reason for such an analysis was, to examine whether regional barriers affect the adoption of Islamic retail banking in Malaysia.

#### **Awareness on IRB Existence between Urban and Rural Regions:**

The cross-tabulation Table 1 below (see Appendix I) illustrates that urban customers seemed to be more aware of the existence of IRB compared to the rural customers. The urban banking customers who were aware of Islamic banking represented nearly 45.8% and those from rural regions accounted for 38.0% and both regions collectively made-up to 83.8%. However, the difference in the percentage is not too large. In contrast, the percentage of respondents who are not aware of IRB is higher in the rural region (9.7%) in comparison to urban region (6.5%). Nevertheless, the findings indicate that majority of the banking customers from both the regions are seem to be aware of the existence of Islamic banking and that there is a growing awareness among the rural customers.

At the same time the Chi-Square, statistics for the above test denoted, a Pearson  $\chi^2$  value of (1, 537) = 6.091 =  $p=0.014$  ( $<0.05$ ). This was further confirmed by the symmetric measure of Cramer's V, with value 0.107 ( $p=0.014$ ). Therefore, there is a statistical difference between the urban and rural regions on awareness of

IRB existence. Thus, it implies that there seems to be a significant association between region and awareness of Islamic retail banking.

#### ***Awareness on IRB Terms between Urban and Rural Regions:***

A Multiple dichotomy analysis was performed in order to identify the frequency of respondents who are aware of some fundamental terms used in Islamic retail banking (IRB) (Al-Harran, 1995; Gerrard, 1997). The result from the analysis indicates that about 80.3% (431) out of the total 537 respondents were aware of IRB terms. Apparently, 19.7% (106) were not aware of any Islamic banking terms.

Based on the findings shown in Table 2 (see Appendix I), it is also interesting to note that the awareness on IRB terms seem to be higher among the urban customers in comparison to the rural customers. The percentage score for all the terms in fact seemed to be relatively high for the urban region compared to the rural region. This is due to the reason, that part of the rural respondents of this study was non-Muslims and possibly, they may not have the awareness on all the Islamic banking terms and concepts. In addition, generally the rural customers compared with urban customers may not be affluent with banking terms and concepts because of their low literacy level. Besides that, it is obvious the term *Riba* seems to be the most popular in IRB, compared with any other terms. Almost 66.6% or 287 respondents out of total 431 respondents were aware of the term *Riba*. This is followed by, the term *Al-Wadiah*, nearly 64.7%, and the term *Shariah*. Almost 58.5% of the total respondents are aware of the term *Shariah*.

On the other hand, other Islamic banking terms such as “*Mudarabah*”, “*Musyarakah*”, “*Bai’ Bithman Ajil*”, “*Murabahah*” and “*Ba Inah*” are appeared to be less popular among the banking customers. Therefore the finding indicates, in average almost half (50%) of the total respondents of this study are seem to be aware of the fundamental terms *riba*, *Al-wadiah* and *shariah*. This is mainly because almost 56.4% of the total respondents of this study were Muslims and as such, they may have the exposure to these terms.

#### ***Awareness on IRB Attributes between Urban and Rural Regions:***

Subsequently further analysis was undertaken, to examine the urban and rural customers’ awareness on IRB attributes. An independent group *t*-test was conducted to study the variances between these two groups. The Table 3 below (see Appendix I), provides the results of the analyses. Based on the results, with,  $t(528) = 2.722$ ,  $p = 0.007$  ( $p < 0.05$  significant level), there is a significant difference between the urban and rural respondents on their awareness on the attributes of Islamic retail banking. There seemed to be better awareness among the urban customers ( $M = 18.913$ ) compared to the rural ( $M = 17.867$ ) ones. However, there is only a small difference between the mean, indicating that there is a growing awareness among rural customers.

Based on the foregoing analysis, it is interesting to note that there are significant differences between the urban and rural banking customers, in terms of their awareness on existence of IRB, awareness on banking terms and concepts as well as the awareness on IRB attributes. Overall, the urban customers appear to have better awareness on IRB compared to the rural customers. Although, the margin of difference seemed to be relatively small, it is vital to promote IRB to the rural regions of Malaysia.

#### ***Usage of IRB between Urban and Rural Regions:***

The cross-tabulation analysis conducted shows that there is a higher percentage of respondents from urban regions operate Islamic retail banking compared to respondents from rural regions as depicted in Table 4. The urban banking customers who operate Islamic retail banking schemes represented nearly 25.0% whereas the rural banking customers constitute only 15.8%, in total representing 40.8%. The percentage of those customers who are not using any IRB products and services makes up 59.2% in total. In that, 27.4% are urbanites and the remaining 31.8% are rural customers. It is surprising to note that the percentage of non-users still appeared to be higher than users even after Islamic banking has been operating nearly three decades now in Malaysia.

Furthermore, the Chi-square statistics of Pearson  $\chi^2$  value of  $(1, 537) = 11.636$ ;  $p = 0.001$  ( $< 0.05$  significance level) confirmed that there is a statistical difference between the urban and rural regions in terms of usage of IRB. Subsequent findings from the symmetric measure of Cramer’s *V*, 0.147 ( $p = 0.001$ ) further emphasized that there is a significant association between region and usage of Islamic retail banking schemes.

#### ***Association between Customer Awareness and Usage of Islamic Retail Banking:***

Subsequently a cross-tabulation analysis was undertaken to evident if customer awareness is associated with the usage of Islamic retail banking products and services. The Table 5, in Appendix I depicts the findings of the analysis, which shows that out of 450 respondents who are aware of Islamic banking, almost 40.8% operate Islamic retail banking schemes and about 43% do not operate any schemes.

The statistics further reveals that those banking customers, who are not aware correspondingly, do not operate any Islamic retail banking schemes, which constitutes of 16.2%.

Moreover the Pearson Chi-Square between the awareness and usage of Islamic retail banking revealed Pearson  $\chi^2$  value of  $(1, 537) = 71.499$ ;  $p = 0.000$  ( $< 0.05$  significance level), which indicates that there is

significant association between awareness and the usage of Islamic retail banking. In addition, the findings from the symmetric measure of Cramer's V, 0.365 ( $p=0.000$ ), confirms that the association between awareness and usage of Islamic retail banking as statistically significant. Therefore, it is obvious that consumer awareness on IRB products and services actually influences its usage.

**Table 1:** Cross Tabulation between Region and Customer Awareness of Retail Islamic Banking.

Region	Customer Aware of Islamic Banking	
	Yes (%)	No (%)
Urban	45.8	6.5
Rural	38.0	9.7
Chi-Square Test	Value	Asymp. Sig
Phi	0.107	0.014
Cramer's V	0.107	0.014
Pearson $\chi^2$	6.091	0.014

**Table 2:** Awareness on IRB Terms between the Urban and Rural Regions

Islamic Banking Terms	Frequency/ Percentage	Region		Total
		Rural	Urban	
Aware of Term_Riba	Frequency	134	153	287
	Percentage	31.1	35.5	66.6
Aware of Term Shariah	Frequency	118	134	252
	Percentage	27.4	31.1	58.5
Aware of Term_AlWadiah	Frequency	136	143	279
	Percentage	31.6	33.2	64.7
Aware of Term_Musyarakah	Frequency	48	58	106
	Percentage	11.1	13.5	24.6
Aware of Term_Mudarabah	Frequency	74	83	157
	Percentage	17.2	19.3	36.4
Aware of Term_Bai'Bithman Ajil	Frequency	47	61	108
	Percentage	10.9	14.2	25.1
Aware of Term_Murabahah	Frequency	42	54	96
	Percentage	9.7	12.5	22.3
Aware of Term_Ba_Inah	Frequency	12	21	33
	Percentage	2.8	4.9	7.7

**Table 3:** Awareness on IRB Attributes between the Urban and Rural Regions.

Variables	Region	N	Mean	SD	t-value	Sig
Awareness on IRB Attributes	Urban	281	18.9134	4.77839	2.722	.007
	Rural	256	17.8656	4.00468		

**Table 4:** Cross Tabulation between Region and Usage of Islamic Retail Banking Schemes.

Region	Usage of Islamic Retail Banking	
	Yes (%)	No (%)
Urban	25.0	27.4
Rural	15.8	31.8
Total	40.8	59.2
Chi-Square Test	Value	Asymp. Sig
Phi	0.147	0.001
Cramer's V	0.147	0.001
Pearson $\chi^2$	11.636	0.001

**Table 5:** Cross Tabulation between Awareness and Usage of Islamic Retail Banking Schemes

Aware of Islamic Banking	Usage of Islamic Retail Banking	
	Yes	No
Yes	40.8	43.0
No	0.0	16.2
Chi-Square Test	Value	Asymp. Sig
Phi	0.365	0.000
Cramer's V	0.365	0.000
Pearson $\chi^2$	71.499	0.000

### Conclusion:

The findings of this study revealed generally, there is lack of awareness on IRB products and services between the urban and rural banking customers and it appears to be more obvious among the rural customers in comparison to the urban customers. In addition, the results also show that, there is a significant association between awareness and usage of IRB, which means that lack of awareness actually affects the usage of IRB products and services. In order to address lack of awareness among the banking customers, particularly in the rural region, more aggressive and informative promotions should be conducted by the financial institutions.

Customers of banking sector should be more exposed to the range of Islamic banking deposit and financing schemes and at the same time, educated on the benefits of having IRB products and services.

As for the financial institutions, it is of paramount important to enhance the current standard promotional strategy to differentiated promotional strategy. The current promotional efforts rely mainly on mass media advertisements via radio, television and newspapers that are more general in nature and less informative. These channels are more appropriate for creating initial awareness on the existence of a new product. Thus, advertisements through mass media and internet would be more effective to reach the urban customers. Personal selling or telemarketing by bank's sales force would be more appropriate and effective to reach out to the rural customers who possess low literacy level and limited banking exposure. Because what is required is an interactive session, where exchange of information takes place, where potential customers have to be briefed on the existence of IRB schemes, and its benefits. The same approach is applicable to educate and convince the non-Muslim customers.

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