



CONSUMER PREFERENCE AND BEHAVIOUR OF
ISLAMIC HOME FINANCING: A STUDY OF
POTENTIAL HOME BUYERS IN MALAYSIA

BY

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ABSTRACT

Consumer preference has been a missing component in the development of Islamic home financing products. The views of consumers on the existing and new Islamic home financing products are generally overlooked by Islamic banks, although they are one of the most important stakeholders of Islamic banks. This issue has been evidently observed when Islamic home financing products are often criticized by the customers. Exploring factors which can improve consumer preference will offer a new understanding on customers' preference for Islamic home financing. Drawing upon the theory of planned behaviour (TPB), the innovation diffusion theory (IDT) and the theory of interpersonal behaviour (TIB), this study proposes a model to examine consumer preference for Islamic home financing as opposed to other types of financing. The role of attitude and religious satisfaction as a mediator and a moderator, respectively are also examined. The model is tested using survey data from 760 respondents who are the employees of public universities in Malaysia. Universities are selected because they have a good mix of respondents both covering professional and non-professional groups, reflecting the actual mix of bank customers of Islamic banks. The data are later analyzed using Partial Least Squares (PLS) since this method is appropriate when the model developed is complex and it is also used for the purpose of theory development. This study finds that product range, financial benefit, service quality, Islamic bankers' knowledge and the perceived risk of Islamic home financing are instrumental in determining consumer preference of Islamic home financing. Moreover, *maqasid* consumer index is a powerful predictor of consumer preference of Islamic home financing. It is also reported that Islamic bankers' knowledge, perceived risk of Islamic home financing and Islamicity of debt policy are instrumental in determining consumers' attitude. On the same note, consumer religiosity is found to be a key predictor of attitude. Attitude and religious satisfaction are evidently proven as significant mediator and moderator, respectively. In addition, information search is instrumental in influencing the consumer affective factor towards the Islamic home financing preference. The current study findings offer valuable insights for managers of Islamic banks to plan Islamic home financing offerings effectively. Findings of this study offer guidelines and benchmark which can help bank managers to formulate new approaches to further improve consumer preference of Islamic home financing products. The model of the current study addresses the interrelationship between the variables, thereby providing a better understanding of consumer preference. It provides fresh perspectives on the effects of critical success factors and consumer factors on consumer preference. Similarly, new perspectives are also found as these factors are also the determinants of consumers' attitude, and thus add to the negligible literature on how different factors influence consumers' attitude. It also offers new perspectives on the role of religious satisfaction as a moderator and the role of attitude as a mediator, often neglected in prior Islamic home financing literature.

خلاصة البحث

لقد ظل تفضيل المستهلك عنصرا مفقودا في تطوير منتجات التمويل العقاري الإسلامي. بحيث يتم التغاضي عن آراء المستهلكين في منتجات التمويل العقاري الإسلامي الموجودة والجديدة بشكل عام من قبل البنوك الإسلامية على الرغم من أنهم أحد أهم أصحاب المصلحة بالنسبة للبنوك الإسلامية. ويتم ملاحظة هذه المسألة بوضوح غالبا عندما تنتقد منتجات التمويل العقاري الإسلامي من قبل العملاء. سيتمكن استكشاف العوامل التي يمكن أن تحسن من تفضيل العملاء تقديم فهم جديد عن تفضيل العملاء للتمويل العقاري الإسلامي. تقترح هذه الدراسة نموذجا لدراسة تفضيل المستهلك للتمويل العقاري الإسلامي على عكس أنواع أخرى من التمويل بالاعتماد على نظرية السلوك المخطط، ونظرية انتشار الابتكارات ونظرية السلوك بين الأشخاص. كما تم اختبار دور الرضى الديني والسلوكي على التوالي كوسيط ومشرف. لاختبار النموذج تم استخدام 760 استبيان تم توزيعه على العاملين في الجامعات الحكومية في ماليزيا. وقد تم اختيار الجامعات لأنها تتوفر على مزيج جيد من المستجوبين يغطي الفئات المهنية وغير المهنية، مما يعكس المزيج الفعلي لعملاء البنوك الإسلامية. تم تحليل البيانات في وقت لاحق باستخدام المربعات الصغرى الجزئية لأن هذا الأسلوب هو المناسب بما أن النموذج المطور معقد، ويستخدم أيضا لأغراض تطوير النظرية. توصلت الدراسة إلى أن أنواع المنتجات، والفائدة المالية، وجودة الخدمة، ومعرفة المصرفيين العاملين بالمالية الإسلامية والمخاطر المتوقعة للتمويل العقاري الإسلامي لها أثرها الفعال في تحديد تفضيل المستهلك للتمويل العقاري الإسلامي. وعلاوة على ذلك، فإن مؤشر مقاصد المستهلك يعتبر مؤشرا قويا لتفضيل المستهلك للتمويل العقاري الإسلامي. كما تقرر أيضا أن معرفة موظفي البنوك الإسلامية، والمخاطر المحسوسة للتمويل العقاري الإسلامي، وإسلامية سياسة الديون تلعب دورا أساسيا في تحديد موقف المستهلكين. كما لوحظ أيضا أن تدين المستهلك يمثل مؤشرا رئيسيا لتحديد موقفه. كما ثبت أن الرضى الديني والسلوكي وسيطان مهمان على التوالي. بالإضافة إلى ذلك يعتبر البحث عن المعلومات عاملا أساسيا في التأثير العاطفي على المستهلكين لتفضيل التمويل العقاري الإسلامي. تقدم نتائج الدراسة الحالية معلومات قيمة لمديري البنوك الإسلامية للتخطيط لعروض التمويل العقاري الإسلامي على نحو فعال. نتائج هذه الدراسة تقترح إرشادات ومعايير يمكن أن يساعد مدراء البنوك لصياغة طرق جديدة لمزيد من تحسين اختيارات المستهلكين لمنتجات التمويل العقاري الإسلامي. يتناول نموذج هذه الدراسة العلاقة بين المتغيرات وبالتالي توفير فهم أفضل عن اختيارات المستهلك. كما يوفر وجهات نظر جديدة حول آثار عوامل النجاح الحاسمة والعوامل المتعلقة بالمستهلك والتي تؤثر على اختياراته. وبالمثل فقد تم التوصل إلى آفاق جديدة أيضا حيث أن هذه العوامل هي أيضا محددات لسلوك المستهلكين وبالتالي فهي تعتبر إضافة إلى الدراسات السابقة التي أهملت مدى تأثير العوامل المختلفة على سلوك المستهلكين. كما تقدم رؤى جديدة بشأن دور الارتياح الديني والسلوك كوسطاء والذين غالبا ما أهملتهما الدراسات السابقة عن التمويل العقاري الإسلامي.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Hanudin Amin

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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LIST OF ABBREVIATIONS

AT	Attitude/Attitude towards the Islamic Home Financing Preference
AVE	Average Variance Extracted
B	Islamic Bankers' Knowledge
BBA	<i>Bay Bithaman Ajil</i>
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
COM	Compatibility
CPX	Complexity
CR	Consumer Religiosity, Composite Reliability
FB	Financial Benefit
IDP	Islamicity of Debt Policy
IDT	Innovation Diffusion Theory
IHF	The Islamic Home Financing Preference
IS	Information Search
K	Consumer Affective Factor
KFH	Kuwait Finance House
MCI	<i>Maqasid</i> Consumer Index
MM	<i>Musharakah Mutanaqisah</i>
PBA	Perceived Bank Attributes
PBC	Perceived Behavioural Control
PLS	Partial Least Squares
PR	Product Range
PSCA	Perceived <i>Shariah</i> Compliant Attributes
RE	Relative Advantage
RK	Perceived Risk of Islamic Home Financing
RS	Religious Satisfaction/Religious Satisfaction Index
SEM	Structural Equation Modelling
SN	Subjective Norm
SQ	Service Quality
TIB	Theory of Interpersonal Behaviour
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action

LIST OF TERMINOLOGIES

Al-Quran – The Holy Book of Islam
Bay bithaman ajil – Deferred payment
Daruriyyah – Necessity
Falah – Success
Fiqh – Islamic jurisprudence
Gharar – Uncertainty
Hadith – Prophet Muhammad S.A.W ‘s (p.b.u.h) saying, action and tacit approval
Halal – Permissible
Haram – Forbidden
Ijarah – Lease
Ijarah mawsufah fi dhimmah – Forward lease
Ijarah muntahiyah bittamlk – Leasing ending with ownership
Ijarah wa iqtinaa – A lease and purchase transaction
Istisna – A contract to manufacture goods
Jumhur Fuqaha – The majority of Islamic jurists
Maqasid al-Shariah – Objectives of Islamic law
Murabahah – A sale of certain goods with a disclosed cost and mark-up
Musharakah – A contract of profit and loss sharing
Musharakah mutanaqisah – A partnership contract
Muslim – A person who follows the religion of Islam
Mutawarriq – Seeker of cash
Pahala – Rewards from Allah (S.W.T) when a person does good deeds
Qardhul Hassan – Benevolent loan
Riba - Interest
Ribawi –*Riba* items (e.g. currencies)
Sadaqah – Voluntary charity
Shariah – Islamic law
Taqwa – One’s fear to Allah (S.W.T)
Tawarruq – A tripartite sale
Ummah – Community
Wasatiyyah – Moderation
Zakat – Obligatory charity

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Malaysia has dominated the Islamic banking industry in Southeast Asia since 1983. It houses a significant number of full-fledged Islamic banks including several foreign banks, conventional banks, which have established Islamic subsidiaries and also entities that are conducting foreign currency businesses (e.g. Haron & Shanmugam, 2001; Hassan, 2011). This indicates that Islamic banks in Malaysia are established on three types of operations, namely, full-fledged Islamic banks, Islamic banking subsidiaries and Islamic banking windows (e.g. Ahmad-Mokhtar, Abdullah & Alhabshi, 2008).

Many successful Islamic banks in the Southeast Asian region are based in Malaysia. Neighbouring countries like Brunei, Indonesia, Thailand and Philippines are also inclined to tap the opportunities offered by the Islamic banking industry for the benefit of their people (e.g. Amin, Muhammad, Lada, Amran & Abdul-Hamid, 2006). These countries have designed their Islamic banking systems based on the Malaysian Islamic banking system model (e.g. Venardos, 2006; Khan & Bhatti, 2008). The reasons are two-fold. First, the Malaysian model is developed to capture both *muslim* and *non-muslim* customers. In particular, *non-muslims* find Islamic banks secure, religiously based and ethical in generating profits, thus they can benefit from the services provided to them. Second, the Malaysian model has experienced tremendous growth and receptiveness over the years.

Concerning growth, the market share for Islamic banking in Malaysia has increased to 24.4 percent as witnessed at the end of August 2013, indicating an

improved acceptance of Islamic banking and full government support to strengthen the dual banking system whereby Islamic banking is practiced in parallel with its conventional system counterpart (TheStar, 2013). Given the fact of government support, major Malaysian Islamic banks have taken initiatives to consider the Islamic financing industry as a core business segment in that this segment is growing 50 percent faster than the conventional banking segment (e.g. The Borneo Post, 2013). Table 1.1 depicts major Malaysian Islamic banks along with their total assets:

Table 1.1 Top 10 Malaysian Islamic Banks

Rank	Bank Name	Total Assets Million (US\$)	Year
1.	Maybank Islamic Berhad	21,827	06/2011
2.	CIMB Islamic Bank Berhad	11,687	06/2011
3.	Bank Islam Malaysia Berhad	9,843	06/2011
4.	Public Islamic Bank Berhad	7,673	06/2011
5.	AmIslamic Bank Berhad	6,672	03/2011
6.	Bank Muamalat Malaysia Berhad	6,050	03/2011
7.	RHB Islamic Bank Berhad	4,252	06/2011
8.	Hong Leong Islamic Bank Berhad	3,077	06/2011
9.	Affin Islamic Bank Berhad	2,451	06/2011
10.	Alliance Islamic Bank Berhad	2,057	03/2011

Source. Bankscope (2013).

Generally, the Islamic banks offer a wide range of Islamic home financing products, therefore the banks are sometimes termed Islamic mortgage providers. Further, Islamic home financing products are available to both *muslim* and non-*muslim* clients. One may be surprised to learn that Islamic banks are not only established to cater to the financial needs of *muslims*, but also to cater to the financial needs of non-*muslims*, as an alternative for them. Haron, Ahmad and Planisek (1994) assert that *muslims* and non-*muslims* are customers of Islamic banks. Typically, Islamic banking products target both *muslim* and non-*muslim* customers according to

values and principles of *Shariah* (*Shariah Islamiyyah*). According to Haron and Shanmugam (2001), the central objective of Islamic banks is to provide banking facilities and services in accordance with Islamic principles, rules and practices.

Thus, Islamic banks shall operate based on appropriate objectives to promote fairness in banking transactions between bank and customer (e.g. Dusuki, 2008). Chapra (2000) notes the importance of promoting a balance between individual and social interest which helps in actualizing the *maqasid al-Shariah* or what may be referred to as the vision of Islam, two of the most important constituents of which are socio-economic justice and the well-being of all Allah (S.W.T)'s creatures. Following Chapra (2000), it can be argued that the objectives of Islamic banks should be based on social welfare and commercial objectives in order to actualize the *maqasid al-Shariah* in Islamic banking. Dusuki (2008) asserts that the social welfare objective is viewed as a very significant objective of Islamic banks. This includes the promotion of Islamic values and Islamic social responsibilities toward their staff, clients and the general public, thus generating a positive attitude in these stakeholders towards the operations of Islamic banks.

In the global scenario, the Islamic banking system has received tremendous support from non-*muslim* majority countries like Australia, the United Kingdom, and the United States of America (e.g. Dar, 2002; Chiu, 2005; Khan & Bhatti, 2008). From this point on therefore, although presently small, Islamic banking as a growing industry is expected to grow rapidly in these countries. Concerning the global growth, the Islamic banking sector is estimated to have more than US\$ 250 billion in overall assets, and is expected to grow 8 to 15 percent over the next five years. From small beginnings in the mid-1970s, Islamic banks today offer a wide range of products such as *Shariah*-compliant retail products, insurance, mortgages, investment instruments

and large-scale project financing (Euromoney, 2005). The current statistics indicate that Iran, Saudi Arabia, Kuwait, UAE and Malaysia are leading Islamic banking market share globally (Bankscope, 2013). Table 1.2 shows the ranking of globalized Islamic banks according to their total assets:

Table 1.2 Top 10 World Islamic Banks

Rank	Bank Name	City	Total Assets Million (US\$)	Year
1.	Bank Melli	Tehran	57,003	03/2009
2.	Bank Mellat	Tehran	55,795	03/2010
3.	Al Rajhi Banking & Investment Corporation	Riyadh	49,291	06/2011
4.	Bank Saderat Iran	Tehran	48,101	03/2010
5.	Kuwait Finance House	Safat	44,720	06/2011
6.	Bank Tejarat	Tehran	38,107	03/2010
7.	Parsian Bank	Tehran	25,472	03/2011
8.	Dubai Islamic Bank	Dubai	24,544	12/2010
9.	Bank Sepah	Tehran	22,274	03/2010
10.	Maybank Islamic Berhad	Kuala Lumpur	21,827	06/2011

Source. Bankscope (2013).

The current study considers Islamic home financing as a scope of research. The Islamic home financing facility has been viewed as one of the primary functions of Islamic banks (Haron & Shanmugam, 2001). Given this fact, this study attempts to empirically investigate consumer preference for Islamic home financing in selected states in Malaysia. It has been argued that consumer behaviour is one of the pivotal topics in the context of real estate preference and its financing types. This is particularly supported by Mar-Iman (2006):

Behaviour is a systematic pattern of human actions in response to internal interactions and external influences, particularly those in the surrounding...The study of consumer behaviour in property marketing gets the benefit from two main disciplinary areas of humanity, viz., psychology and sociology, p.135.