

Halal Finance Service: Bankers' Perspectives

Zaimy Johana Johan^{1*}, Mohd Zainee Hussain², Norizzati Mazlan³

¹Faculty of Economics and Muamalat
Universiti Sains Islam Malaysia,
Bandar Baru Nilai, 71800 Nilai,
Negeri Sembilan, MALAYSIA
Email: jmyjohan@usim.edu.my

²Islamic Financial Planner Certificant
40150 Shah Alam, Selangor

³UiTM Alumni
UiTM Puncak Alam,
42300 Bandar Puncak Alam, Selangor

*Corresponding Author

Abstract

Over the past three decades, Malaysian *halal* finance service has become one of the fastest growing industries, with a range of financial products and services accepted by both Muslims and non-Muslims. Comprising almost 40% of Malaysian population, the non-Muslims are an important market segment for the growth and development of Islamic finance service in the country. Being relatively new in the market, while complementing the conventional banking and financial products, the Islamic financial products and services (Islamic financial products) in Malaysia, more often than not, are faced with stiff competition from conventional financial products particularly in terms of marketing coverage, branding, product packaging and other pivotal aspects such product features, benefits and advantages. Despite the belief that Islamic banking institutions in Malaysia are not well equipped in the marketing and promotion of their Islamic financial products both to corporate and retail markets, there is an immense pressure to stay competitive and to achieve the national goal of *shariah*-driven ecosystem and overall development of *halal* industry in Malaysia. Therefore, against the backdrop of the competitive financial industry landscape and development in the country, this paper will examine and delve into the discussion on the crucial attributes of Islamic finance service with focus on knowledge, attitude and level of acceptance of bankers in promoting, marketing and selling Islamic financial products. The bankers' knowledge, attitude and level of acceptance of specific products can induce customer's perception, awareness and acceptance of the product offered. This study is expected to generate favorable findings that will contribute positively to the knowledge advancement and understanding of Islamic finance service, in particular, towards fostering a healthy and complete offering of *shariah* compliant financial solutions which can further expand the asset base and outreach of the Islamic finance industry; and subsequently contribute towards increased customer satisfaction and customer loyalty.

Key words: *Halal finance service, Islamic products and services, knowledge, customer satisfaction, customer loyalty*

Introduction

The principles of Islamic finance are the prohibition of *riba* (usually interpreted as usury or interest) and the removal of debt-based financing, the prohibition of *gharar* or elements of uncertainties, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk taking, the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and pork), an emphasis on risk-sharing, the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and losses, the desirability of materiality, a financial transaction needs to have “material finality”, that is a direct or indirect link to a real economic transaction and consideration of justice, a financial transaction should not lead to the exploitation of any party to the transaction (Gait, A. & Worthington, A., 2008).

Although it seems that there is no religious obligation on the part of non-Muslim to observe the *halal* aspects and *shariah* principles of the Islamic products, it could be argued that by signing the buy and sell agreements of any Islamic financial products, the customers are bound to the terms and conditions of the usage of the particular products (Johan and Putit, 2014). Thus, it appears that there is a legal and moral obligation of *halal* finance service bankers and customers, regardless of faith, to observe the *halal* requirements and *shariah* principles in the Islamic products’ transactions.

It is expected that the findings of this study will add value to and further enhance researchers' knowledge and understanding of the independent variables namely knowledge, attitude and level of acceptance of the bankers so as to enable researchers to formulate recommendations and strategies to expand the customer base of Islamic financial products in the Muslim and non-Muslim market segments as well as to help the sector to serve the customers better.

***Halal* Finance Service**

Over the past three decades, *halal* finance service has emerged as one of the fastest growing industries, which has spread to all corners of the globe and widely accepted by both Muslim and non Muslim (Iqbal and Molyneux, 2005). *Halal* finance service also performs the same essential functions as conventional banking system, except for the need to carry out transactions in accordance to rules and principles of Islam (Henry and Wilson, 2004; Iqbal and Mirakh, 2011). *Halal* finance service today has emerged as an important component of the overall Malaysian financial system, which contributes to the growth and development of the Malaysian economy particularly the Islamic finance industry (Abdullah, 2007).

***Shariah* Compliance**

The Islamic finance has experienced exponential growth and it is regarded as the fastest growing sector in global finance. *Shariah* compliance must be strictly observed and adhered to in Islamic banking. Iqbal and Mirakh (2011) accentuated that Islamic financial systems are based on fairness and justice. While the conventional system focuses on the economic and financial aspects of transactions, the Islamic financial system places importance on religious, social, ethical and moral perspectives to enhance equality and fairness for the benefit of society (Ibrahim F. et al., 2012).

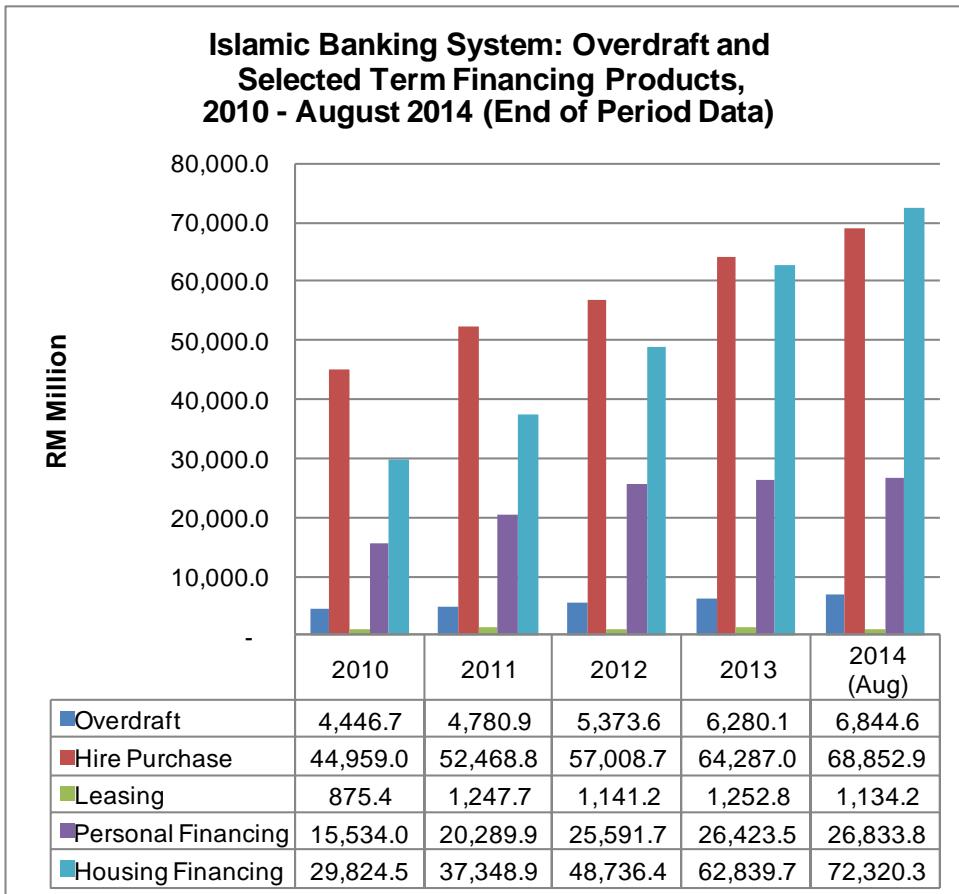
The basic framework of an Islamic financial system prohibits interest in transactions. *Shariah* law prohibits the giving and taking of *riba*. *Riba* means excess or increase, and is interpreted as an unjustifiable increase of capital in loans or sales. A guaranteed and fixed pre-determined rate on the principal loan amount regardless of the performance of the investment is considered as *riba* and is prohibited under Islamic finance (Ibrahim F. et al., 2012).

Risk sharing is encouraged in Islamic financing: - financiers become partners in the ventures hence risks are shared rather than transferred. Money as potential capital is another principle in Islamic finance. According to Obaidullah (2005) when money is utilized, it becomes productive. Next is the prohibition of speculative behavior. Islamic finance discourages risk and uncertainty or *gharar*. Excessive *gharar* (uncertainty and deceit) is forbidden, however some degree of *gharar* uncertainty is allowed in Islamic finance (Ibrahim F. et al., 2012).

Sanctity of contracts is when Islamic finance upholds contracts and information must be disclosed to all parties involved in the transaction. This requirement in Islamic finance reduces asymmetric information and moral hazard in contractual obligations in *shariah* approved activities. In Islamic finance, certain activities are regarded as non-permissible and sinful and investors must not engage in such activities (Ibrahim F. et al., 2012). The activities which are non-permissible include alcohol related products, pork products, gambling, tobacco, arms and munitions; adult entertainment and investors must desist from any business association with these products (Ibrahim F. et al., 2012). *Shariah* principles are the foundation for the practice of Islamic finance through the observance of the belief, conditions and principles espoused by *shariah*. Comprehensive compliance with *shariah* principles would bring confidence of the credibility of Islamic finance operations to the general public and the financial markets.

Bank Negara Malaysia's Islamic Banking System: Statistics on Selected Financing Products, 2010 -August 2014

Based on the Bank Negara Malaysia August 2014's Monthly Statistical Bulletin statistics, while Islamic financial products have gained market acceptance with significant increases in growth over the past five-year period (2010 – August 2014). As of August 2014, the assets of Islamic finance service which comprises Islamic banks and Islamic banking schemes amounted to RM457,361 million, constituting 21.4% of the total assets of RM2,132,645 million in the banking system. This compares with RM262,383 million of Islamic finance service's total assets in end December 2010 which constituted 17.3% of the total assets in the banking system (RM1,513,524 million).



Source: Bank Negara Malaysia Monthly Statistical Bulletin, August 2014

Figure 5.1.3.1

Based on the above data and chart, it is evident that the Islamic finance service has gained market acceptance in the overdraft and four selected term financing products namely Hire Purchase, Leasing, Personal Financing and Housing Financing among the banking community. All the five selected products have registered growth during the period between end 2010 and August 2014. Among the five products, in value terms, Housing Financing had the highest amount of financing with RM72,320 million, followed by Hire Purchase with RM68.853 million. House and car (or vehicles) are two big ticket household necessities.

Although the growth of the products relatively increasing on yearly basis, the increment is slightly volatile in terms of percentage; for House Financing, it climbed by 20.14% in 2011 from 2010, ascended to 23.36%, declined to 22.44% in 2013 and dives to 13.1% for the current year 2014. Likewise, for Hire Purchase, it increased 14.3% in 2011 from 2010, plunged to 7.96% in 2012, pushed up by 11.33% for 2013 and currently at 6.63%.

Attitude towards *Halal* Banking

A bank that declares and promises provision of almost similar products and services offered by conventional banks and at the same time emphasizes on compliance with the *shariah* principles, adds value to the market. Thus, in the eyes of a Muslim consumer, banks which follow *shariah* principles offer *halal* banking products. However, not every Muslim is convinced that Islamic banks truly follow the *shariah* and are basically different in their principles and practices from conventional banks.

Moreover, this point of view is not limited to liberal or conservative segments of Muslim societies, making religion perspective is less important in predicting Muslims consumers' attitude towards Islamic banks. This provides the basic perception for developing measures from Muslims attitude towards Islamic banking (Butt M. and Aftab M., 2013).

Attitude towards *halal* banking is context specific and different from the concept of religiosity even though it is based on a person's religious beliefs. Religiosity measures intrinsic and extrinsic beliefs and attitudes toward religion. Therefore, it is logical to argue that compared to religiosity, attitude towards *halal* banking is more relevant and specific component that could predict the consumer behaviour (Butt M. and Aftab M., 2013). Therefore, a bank's commitment to conform to the *shariah* law is believed to be an element that can influence consumers' attitudes and beliefs in patronizing its services.

Bankers' Knowledge of Islamic Banking

Butt et al., (2011) describe that customers demand personalized services and expect the bank to have full knowledge of banking. Therefore, all financial institutions must have adequate knowledge of products and services offered in order to answer the customer queries effectively. Customer awareness of Islamic banking products and services offered by the banks is also important. This is because customers might have little knowledge about products such as *ijara*, *musharkah*, etc. (Khattak and Rehman, 2010). On the other hand, a study has showed that a significant number of respondents were aware of Islamic financial products and knew about key Islamic banking terms (Naser et al., 1999). Thus the bankers' knowledge of Islamic products and services is substantial in educating the respective and prospective customers, and then growing their understanding and acceptance of *halal* finance service.

It is also important to consider that apart from bankers' knowledge; the attitudes, perceptions and knowledge of market participants are essential given the market acceptance of the Islamic products. For individual consumers and business firms, these factors determine the extent to which they choose to support these alternative products and services. As a result, direct and indirect knowledge transfer from the bankers to market players whether through verbal, printed documents and word of mouth may contribute extensively to the development of *halal* finance service. Ismail, S. et al., (2013) recommended that Islamic banks should hire experienced and professional bankers who can contribute the product knowledge and expertise to enhance the product features as well as the services offered in order to remain competitive and increase the market share. The researchers further reiterated that product quality will definitely increase and therefore meet the customer's satisfaction (Ismail, S et al., 2013).

Bankers' Level of Acceptance of Islamic Banking

Islamic banks and finance and credit institutions are to obtain the positive result associated with having a satisfied customer base if they have an understanding of those factors that contribute to their customers' satisfaction. The reason is that, meeting customers' expectations for key service quality attributes should lead to satisfied customers who in future, will remain loyal to the service and recommend it to other potential customers. Customers' opinions and feedback are useful in measuring customer satisfaction towards Islamic products and services. (Estiri et al., 2011). In order to compliment the customers' belief, the bankers' should portray the right level of acceptance themselves in promoting and selling Islamic banking products and services. The level of acceptance is correlated to the knowledge of each product by able to differentiate the features between Islamic and conventional. Another important element is the bankers' experience gained through having and utilizing the Islamic products themselves or product training that they have attended.

A satisfied customer will repeat the purchase of the product and may convey to others the advantages and benefits of a particular service (Estiri et al., 2011). Satisfaction is therefore considered an important factor for future intentions. Consequently, bankers' positive acceptance of Islamic banking is vital in fulfilling customers' needs and measuring customer satisfaction, which could provide bankers with reliable indicators of future customer support for their services (Naser et al., 2002). According to Dusuki and Abdullah (2007),

customers' perception towards Islamic banking is far more critical due to the fact that Islamic banks have to compete with the long established conventional banks in some of dual-banking system. Therefore, it is important for the bankers to build their acceptance level of Islamic products and services not just to convenience but also crystallize the insights of customers in accepting *halal* finance service.

Customer Satisfaction

According to Jovan et al., (2008), customer satisfaction has been a critical research area for more than forty years. Customer satisfaction refers to feelings or judgements of the customer towards products or services after they have been used (Jamal and Naser, 2003). Rust and Oliver (1994) defined satisfaction as customers' response that reflects an evaluation and emotion-based response towards a service. In essence, it reflects customers' belief that service will lead to a positive feeling. Dubrovski (2001) on the other hand, defined customer satisfaction as consumers' response towards evaluating perceived discrepancy between expectations and perceived performance of the product or service. Hellier (2002) further defined customer satisfaction as the customers' feelings towards overall pleasure or contentment resulting from the ability of a service to fulfill the customer's desires, expectations and needs.

According to Oliver (1980), customer satisfaction has traditionally been regarded as a fundamental determinant of long-term consumer behaviour. Customer satisfaction measures the extent to which how well a customer's expectations are met. Kotler and Keller (2006) stated that if the performance does not meet expectations, customers are considered dissatisfied vis-à-vis. Furthermore, Kondo (2001) suggested that customer satisfaction is aimed to reduce customer complaints associated with dissatisfaction. However, customers will be only satisfied if the perceived expectations of performance are being met, particularly with regards to the perceived quality services provided.

In this study context, Malaysian consumers are gradually receptive towards *Halal* finance service. The significant change in intention to use Islamic products among the Muslims is a result of religious obligation and government support (Amin, et al., 2011). This is consistent with findings of Gait and Worthington (2008) which amongst others reaffirm the role of religious conviction as a logical key determinant of the use of Islamic financial services while at the same time acknowledges consumers' perception of the reputation,

service quality, pricing of financial services providers, as being of relevance in determining their patronage of a particular bank and its financial products.

A study by Dusuki (2008) found that Islamic banks are also expected to fulfill social welfare objectives i.e. contributing to the social welfare fund of the community, promoting sustainable development projects and alleviating poverty. Nevertheless, since the consumers include both Muslims and non-Muslims, the in-depth knowledge of Islamic product structures, principles and usage may be limited. These consumers, particularly, the non-Muslims, apply and utilize Islamic banking facilities for convenience and economic benefits without clear understanding and knowledge of the *halal* and *shariah* principles. It has therefore given rise to the need to educate the consumers, particularly the non-Muslims.

Customer Loyalty

Customer loyalty has been recognized as the dominant factor in a business organization's success. In the study by Lam and Burton (2006), they found that loyal customers are more likely to be involved in repeat purchases from a supplier or increase their "share" of purchases from a particular supplier. They may also provide a recommendation or engage in word of mouth promotion. Customer loyalty can lower costs and increase profitability, as the cost of recruiting a new customer is said to be five times more than the cost of retaining an existing customer, and it is also claimed that the costs of customer retention are substantially less than the relative costs of customer acquisition, and loyal customers, if served correctly, are said to generate increasingly more profits each year when they stay with a company (Reichheld and Sasser, 1990 and Lam and Burton, 2006).

Studies had shown that customer satisfaction is correlated with loyalty, and satisfaction has been claimed to be a leading factor in determining loyalty (Ehigie, 2006). When customers are not satisfied with the product/services, they, there are less likely to purchase additional services and then this will lead to switch to other providers besides leading to negative word-of-mouth (Bendall-Lyon and Powers, 2003).

In this context, loyalty with regard to acceptance of *Shariah* compliant Islamic products will only be considered by consumers if they are highly satisfied with such services, and that the *Halal* attributes have been identified and implemented effectively by relevant financial institutions prior to the marketing of such products/services accordingly. Today, Islamic finance is no longer considered as a business entity established only to satisfy the

religious obligation of the Muslim community but as business that is essential pursuing customer value and satisfying their financial security needs (Henry and Wilson, 2004).

Conclusion

The greater understanding of *halal* concept and Islamic principles, breadth and depth amongst Islamic finance service providers namely the bankers leads to potential impact on consumers' perception and attitudes, satisfaction and subsequently acceptance of Islamic financial products. The bankers' knowledge, attitude and level of acceptance of specific products can encourage customer's perception, awareness and acceptance of the product offered. Customer loyalty can only be generated through continued level of satisfaction that will ensure retention of such behavior, which in this case, include continued usage of Islamic finance service. Further research is needed to fully understand influencing determinants of the Islamic finance service providers' knowledge, attitudes and level of acceptance of Islamic financial products in promoting, marketing and selling the products.

References

- Abdullah, F., T. Hassan., & S. Mohamad. (2007). Investigation of performance of malaysian islamic unit trust funds: Comparison with conventional unit trust funds. *Managerial Finance*, 33, 142-153.
- Amin, H., Abdul Rahman A.R., Sondoh Jr, L.S., Ang, C.H. (2011) Determinants of customers' intention to use Islamic personal financing: The case of Malaysian Islamic banks, *Journal of Islamic Accounting and Business Research*, 2(1), 22 – 42.
- Bank Negara Malaysia Monthly Statistical Bulletin, August 2014. Retrieved from http://www.bnm.gov.my/index.php?ch=en_publication_catalogue&pg=en_publication_msb&mth=9&yr=2014&lang=en
- Bendall-Lyon, D. and Powers, T. L. (2003). The influence of mass communication and time on satisfaction and loyalty, *Journal of Services marketing*, 17(6), 589-608.
- Butt, M. & Aftab, M. (2013). Incorporating attitude towards Halal banking in an integrated service quality, satisfaction, trust, and loyalty model in online Islamic banking context. *International Journal of Bank Marketing*, 31(1), 6-9.
- Butt, I., Saleem, N., Ahmed, H, Altaf, M., Jaffer, K., Mahmood, J. (2011). Barriers to adoption of Islamic banking in Pakistan. *Journal of Islamic Marketing*, 2(3), 259-273.
- Dubroski, D. (2001). The role of customer satisfaction in achieving business excellence. *Total Quality Management*, 12(7), 920-925.
- Dusuki, A. & Abdullah, N. (2007). Why do Malaysian customers patronize Islamic banks? *International Journal of Bank Marketing*, 25(3),142-160.
- Dusuki, A. W. (2008). Banking for the poor: the role of Islamic banking in microfinance initiatives, *Humanomics*, 24 (1), 49 – 66.
- Ehigie, B. O. (2006). Correlates of customer loyalty to their bank: a case study in Nigeria. *International Journal of Bank Marketing*, 24(7), 494-508.
- Estiri, M., Hosseini, F., Yazdani, H. & Nejad, H. (2011). Determinants of customer satisfaction in Islamic banking: evidence from Iran. *International journal of Islamic and Middle Eastern Finance and Management*, 4(4), 295-307.
- Gait, A. & Worthington, A. (2008). An empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic methods of finance. *International Journal of Social Economics*, 35(11), 783-808.
- Hellier, P.K., Geursen, G.M.,Carr, R. A., & Rickard, J.A. (2003), Customer Repurchase Intention A General StructuralEquation Model, *European Journal of Marketing*, 37(11/12)
- Henry, C.M., & Wilson, R. (2004), *The Politics of Islamic Finance*. Edinburgh, Scotland: Edinburgh University Press.
- Ibrahim, M. F., Seow, E.O., & Akinsomi, K. (2012). Sharia compliant real estate development financing and investment in the Gulf Cooperation Council. *Journal of Property Investment & Finance*, 30(2), 175-197.

Iqbal, M. and Molyneux, P. (2005), Thirty Years of Islamic Banking: History, Performance and Prospect. London, United Kingdom: Palgrave Macmillan.

Iqbal, Z., & Mirakhor, A, (2011). *An introduction to Islamic finance: Theory and practice*. Solaris South Tower, Singapore: John Willey and Sons.

Ismail, S., Md Sahiq., A.N., Idris, N., Singh, S., Thurasamy, R., Mustaffa, N.H., Md Elias, N.L., & E., Yusoff, N.D. (2013). Selection of Islamic Credit Cards: An Empirical Investigation, 2013 IEEE Symposium on Business, Engineering and Industrial Applications. September 22-25, 2013, Kuching, Malaysia

Jamal, A., & Naser, K. (2003). Factors influencing customer satisfaction in the retail banking sector in Pakistan, International Journal of Commerce & Management, 13(2), 29-53.

Johan, Z.J., Putit, L., & Syed Alwi, S.F (2014). Impact of Knowledge and Religiosity on 'Halal' Product Compliance: A Financial Service Perspective. International Journal of Business and Management Studies, 3(1), 453-461.

Jovan, C.J., & Hsu, C.M. (2008). The relationships between service quality and customer satisfaction in a leading chinese web 2.0 company, The Business Review, Cambridge, Kun Shan University, Tainan, Taiwan, (December), 11(1).

Khattak, N. A., & Rehman, K. U. (2010). Customer satisfaction and awareness of Islamic banking system in Pakistan. African Journal of Business Management 4(5), 662-671.

Kondo, Y. (2001). Customer satisfaction: how can I measure it? Total Quality Management, 12(7/8), 867-872.

Kotler, P., & Keller, K.L. (2006) *Marketing Management* (12th ed.), New York, USA: Pearson Publishing.

Lam, R. & Burton, S. (2006). SME banking loyalty: A qualitative study in Hong Kong. International Journal of Bank Marketing, 24(1), 37-52.

Naser, K., Ahmad, J., & Al-Khatib, K. (1999). Islamic Banking: a Study of Customer Satisfaction and Preferences in Jordan. International Journal of Bank Marketing, 17(3), 135-147.

Naser, K., Al-Khatib, K., & Karbhari, Y. (2002). Empirical evidence on the depth of corporate information disclosure in developing countries: the case of Jordan. International Journal of Commerce and Management, 12(3), 122-155.

Obaidullah, M. (2005), Islamic Financial Services. Islamic Economic and Research Center, King Abdulaziz University, Jeddah, Saudi Arabia.

Oliver, R. L. (1980), A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions, Journal of Marketing Research, (17), 460-469.

Reichheld, F.F., & Sasser, W.E. (1990), Zero Defections: Quality Comes to Services, Harvard Business Review, September-October, 105-111.