LINGUISTICA ANTVERPIENSIA, 2021 Issue-2
www.hivt.be
ISSN: 0304-2294

The Impact of Different Level of Education Towards Acceptance of Islamic House Financing

Noriza Abd Aziz[1], Azizi Abu Bakar[2], Ibrahim Abdul Aziz[3], Noraini Yusuff[4], Siti Hajar Salwa Ahmad Musadik[5]
(Affiliation): [1,2,3,4]College of Business Universiti Utara Malaysia
Email:norizaaziz@uum.edu.my

Issue Details
Issue Title: Issue 2
Received: 25 March, 2021
Accepted: 27 April, 2021
Published: 15 May, 2021
Pages: 3692 – 3699

Abstract

Home ownerships are a necessity to all Malaysians. A natural sequence in life, after completing their studies and getting their 'dream jobs'. Often times, following their nuptials, so that they could focus on raising a family in a proper environment, in their own homes. There are many housing developers offering various types of residential properties to cater to the demands from consumers with diverse economic backgrounds. In order to finance their purchases, these consumers would turn to the banks to choose the suitable house financing products. Competitions among financial institutions seeking to win 'good' customers provide an opportunity for the consumers to survey for the best deals in house financing. These competitions pose a challenge to the banks to maintain their profit levels. The introduction of Shariah-compliant Islamic house financing products and services is embraced by many Muslim customers as obligatory and as a duty. Now, many Muslim and non-Muslim consumers are beginning to understand and trust Islamic banks and Islamic house financing products and services. Islamic banks perform the same essential functions as the conventional banks, except that Islamic banks are being guided by Shariah principles in their activities as well as products and services. Past studies found that the reasons for selecting Islamic house financing products from Islamic banks are not solely based on religion, but a combination of religious, demographic, age, gender, attitudes, perception, awareness, understanding and other factors such as promotion and service. This paper had focused on the customers' level of education, and the extent of the impact their education have on their acceptance of Islamic house financing. The finding shall enable banks to better understand and recognize this one aspect of the criteria in choosing Islamic house financing, and how these categories of customers should be pursued. This study revealed that the level of education of the customers was a significant factor influencing their decisions to select Islamic banking products and services. Consumers with high level of education tend to have greater knowledge of Islamic banking and the mechanism of Islamic banking products. At the same time, they also tend to be technologically adept and information savvy, and have the competency to grasp the working mechanism of Islamic house financing, and also have the level of knowledge, understanding and awareness to differentiate between Islamic banking products and conventional banking products.

Keywords

Islamic house financing, Islamic banks, Education, Selection criteria

1. Introduction

House financing is one of the products offered by both Islamic and conventional banks in

Malaysia. With more and more young Malaysians venturing into the employment market, the numbers of the population in this segment seeking to acquire their 'dream homes' are on the increase. Housing developers are only too happy to build and sell, or sell and build, both landed and strata residential properties, to cater to the growing demands from consumers with diverse economic backgrounds. Most purchasers would require housing loans to fund their acquisitions.

The high demands for house financing augur well for the financial institutions. Consumers have a wide selection of housing loans ranging from conventional loans to Islamic financing products. They only need to select the suitable house financing products with the right banks. House financing is a long-term commitment, ranging anywhere from 5 years to 30 years. The amount of financing is depending on the price of the property; the amount applied for, and the credit standing of the customer. It is normal to find a major portion of a family's disposable income goes towards the payment of house financing instalments. However, before the consumers submit to long-term loans commitments, they need to ascertain their disposable incomes and scrutinise their expenses, to ensure their capacities to service the monthly repayments. But, this ever growing pool of consumers hungry for house financing products are not equal. These consumers range from low wage to high income earners; from little or no education to highly educated individuals. As such, financial institutions would need to be judicious and perceptive in competing for the 'cream' in this pool of consumers, to ensure that they are not saddled with problematic loans and non-performing loans portfolios, which would absolutely affect their profitability.

Competitions among financial institutions present a big challenge to the profitability of retail banking institutions of all sizes (Mokhlis et al., 2009). The introduction of Shariah-compliant Islamic house financing products by financial institutions in Malaysia is a welcoming step and much-awaited by consumers, especially in the Muslim communities. For Muslims, choosing Shariah-compliant house financing products are obligatory; whereas for non-Muslims, Islamic house financing products give them additional options to compare and to consider the suitable financing products that fit into their financial requirements, capacities and expectations.

Islamic banking is a rapidly growing banking system. The growth of Islamic banking in Malaysia can be attributed to the rise in religious consciousness among the Muslims. Today, Malaysia has become one of the strongest proponents of Islamic banking. With the aim to transform Malaysia into a leading Islamic banking centre (The Star, 2002), Islamic banks have stepped up marketing campaigns to attract non-Muslim market segments.

The Islamic banking and finance of today has emerged as an important component of the overall Malaysian financial system that contributed to the growth and development of the Malaysian economy. It is the aspiration of the Malaysian government to have strong Islamic banking presence. Since 2000, the domestic Islamic banking industry has been growing at an average rate of 18% per annum, in terms of assets (Aziz, 2006). In this regards, the ability of Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, depended on strategic positioning by Islamic banking players to maintain their competitive edge and offer services and products that satisfy the need of

their customers.

Islamic banks perform the same essential functions as banks in the conventional system except the need for them to carry out their transactions in accordance with the rules and principles of Islam (Henry and Wilson, 2004; Iqbal and Mirakhor, 2007).

Owing to the highly competitive environment, Islamic banks need to study customers' perceptions to help them market their products more effectively (Haron, Ahmad and Planisek, 1994; Dusuki and Abdullah, 2007). Understanding customers' banks selection criteria will help banks to identify the appropriate marketing strategies to attract new customers and to retain existing ones (Kaynak, E; Kucukemiroglu, 1991). Growing competitiveness in the banking industry (Grady, B, Spencer, H, 1990) and similarity of services offered by banks (Holstius, K; Kaynak, E, 1995) made it increasingly important that banks identify the factors that determine the basis of the choices made by the consumers.

Despite the fact that Islamic banking concepts had been in practised from the beginning of Islam, the 'modern' Islamic banking system was introduced only towards the end of the twentieth century. The emergence of Islamic banking system in the Muslim world is the most inspirational financial and economic phenomena of this century (Daud et al., 2011). Islamic banks have to continue to be innovative and creative in order to introduce as many instruments and services as possible, to remain competitive as well as profitable in the banking industry.

In Malaysia, customers' positive perception towards Islamic banking is far more crucial mainly due to the fact that Islamic banks have to compete with the long established conventional banks in a dual-banking system. Since 1983, Malaysia operated a dual-banking system, whereby the Islamic banking system operates in parallel with the conventional system. Islamic banking system is currently represented by 43 banking institutions, comprising 16 Islamic banks and 27 conventional banking institutions offering Islamic banking products and services under the Islamic Banking Scheme (IBS), also known as 'Islamic windows' (Bank Negara, 2013).

Following its entry into the established financial and banking sector, Islamic banks are facing stiff competitions from not only other Islamic banks, but also from conventional banks and international banks. Many 'non-Islamic' banks, with conventional loans and financing products, have undertaken steps to modify part of their activities to be in compliance with Islamic Shariah principles by creating 'Islamic windows' within their conventional banking system (Salahuddin Ahmad, 2006). Consequently, Islamic banks will have to be more focused in their products and services to cater to their customers, existing and new ones. An essential component within the list of products and services is Islamic house financing, which plays a very important role to attract and appeal to customers.

Non-Muslims have demonstrated considerable interests in Islamic banking products such as housing loans and insurance (takaful), and now constitute half of the customers of Islamic banks in Malaysia. Globally, Shariah bonds are among the fastest growing Islamic finance instruments, with recent issuers coming from non-traditional Muslim markets such as Japan. There are more than 300 Islamic financial institutions worldwide and this

sector is valued at about USD1 trillion, although it is just a fraction of the total value of the global conventional banking industry (Business Times, 2004).

In recent years, non-Muslims have become major users of Islamic banking products and services in Malaysia, as reported by (Husin, 2008). Hong Leong Islamic Bank Berhad(HLIB), Oversea-Chinese Banking Corporation (OCBC) and Bank Rakyat (a Cooperative Bank) had reported a 70 per cent uptake of Islamic financial products by Chinese customers. This indicated an upsurge in acceptance of Islamic banking among the Chinese community in Malaysia.

Past studies found that majority of Muslim customers subscribed to Islamic banking products as a result of their religious consciousness and awareness, as well as realization on the need to avoid all interest-based banking activities offered by conventional banks. These studies further discovered that non-Muslim customers chose Islamic banking products primarily on the basis of the quality of service and the reputation of these banks. Also, past literatures suggested the reasons for selecting financing products from Islamic banks are not solely based on religion, but a combination of religious, demographic, age, gender, attitudes, perception, awareness, understanding and other factors such as promotion and service.

This paper shall discuss the impact of different level of education towards acceptance of Islamic house financing. This study focuses on the customers' level of education, and the extent of the impact their education have on their acceptance of Islamic house financing. This study attempts to ascertain how customers from different educational background regard Islamic house financing, and the impact of their acceptance of Islamic house financing.

The finding from this study shall enable banks to better understand and recognize the factors of the salient criteria, especially their educational background, which were used by customers in choosing Islamic house financing. Furthermore, the findings could indicate how these categories of customers should be targeted and pursued. Banks will be able to capitalize on the information to develop the necessary human capital with appropriate and sufficient knowledge and skills, and to distinguish themselves with engineered market segmentations and targeted marketing strategies

2. Methodology

This study had focused on bank selection criteria among customers of Hong Leong Bank Berhad (HLBB) and Hong Leong Islamic Bank Berhad (HLIB). Both banks were selected because they are owned and managed by non-Muslims, and they are part of Hong Leong Financial Group Berhad (HLFG), the second largest Chinese-owned banking group and the fourth largest banking group in Malaysia (www.hongleong.com.my/www.hlib.com.my).

HLBB was one of the first commercial banks to offer Islamic banking products and services under 'Islamic windows' within its conventional banking operations. The bank recorded RM96.8 million in net profits for the financial year ending, June 30, 2003. Islamic banking loans accounted for 13% of the bank's total loans portfolio, the highest ratio among the seven conventional banks which offered Islamic banking services. The bank's

Islamic banking total assets amounted to RM3.36 billion, comprising 8% of the bank's total assets (Salahuddin Ahmed, 2006).

A total of 500 questionnaires were distributed at HLBB and HLIB branches in Perlis (Kangar), Kedah (Alor Star, Jitra and Kulim), Penang (Seberang Jaya and George Town-Light Street) and Kuala Lumpur (Bangsar). However, only 402 questionnaires were completed and returned. The respondents (Muslims: 249 nos.; non-Muslims: 153 nos.) were selected at random among customers who are maintaining Islamic house financing accounts with HLBB and HLIB.

The objective of this study was to discuss on the perspectives of the respondents towards Islamic house financing. The survey forms with a total of 43 items have been collected and analysed. There were grouped in five independent variables such as perception, awareness, understanding, promotion and service towards Islamic house financing products. The purpose is to examine the respondents' attitudes factors (perception, awareness and understanding) and other factors such as promotions and services towards Islamic house financing. From the finding, we should be able to determine if the customers' level of education could impact on their acceptance of Islamic house financing.

3. Finding and Discussion

i. In term of academic qualification, the finding learned that most of the respondents had obtained tertiary education. Bachelor's degree has the highest frequency with 207 (51.5%) respondents, followed by diploma with 103 (25.6%) respondents, master's degree with 16 (4.0%) respondents, and PhD with 1 (0.2%) respondent. The remaining 75 (18.7%) respondents acquired education at SPM level or lower. About three quarter of the respondents surveyed were with tertiary qualification, which indicated that customers of Islamic banks and Islamic house financing products have a high level of formal education. This finding was in agreement with the finding by Khan et al. (2008) which mentioned that their respondents have been found to possess a high level of education (29% having a bachelor's degree and 44% with either a master's degree or a PhD). Only a small fraction of respondents have education at or below high school level.

ii. This study found that qualification of respondents were an important factor to impact and influence respondents in their acceptance of Islamic house financing. Majority of respondents (81%) in this study had attained the tertiary level. This study concurred with Dar and Presley (1999) which concluded that the level of education was a significant factor affecting the demand for Islamic financial services.

iii. Based on the finding, it is discovered that respondents with tertiary qualification had demonstrated a high degree of products knowledge. They comprised in excess of 80% of respondents with products knowledge. Incidentally, they were also with the necessary information to guide them in their decision and acceptance of Islamic house financing products. These past studies concurred. Understandably, those with high education tend to have greater knowledge of Islamic banking (Mettawa and Almossawi, 1998; Abdul Aziz et al., 2012). Customers were more likely to choose Islamic banking because they have enough information about Islamic products (Sudin et al., 1994).

iv. The finding of this study revealed that there were differences in terms of education

factor towards Islamic house financing. This study discovered that the different level of education had impacted on the customers attitudes, resulting with their acceptance of Islamic house financing. Khan et al. (2008) found that income and level of education played an important role in influencing the use of Islamic banking products. Also, they found that most of Islamic banks' customers were executives and professionals both in the private and public sector.

v. Notwithstanding that respondent in the study were satisfied with Islamic banks and Islamic house financing products, they were also clear that public opinion on Islamic house financing product is still minimal (low). Islamic banks need to intensify their efforts to promote and market their products more widely to the population as a whole. Only through these educational efforts that Islamic banks will be able to educate and convince more consumers to utilize Islamic financing products. Khan et al. (2008) studied the banking behaviour of customers who patronized Islamic banking services in Bangladesh. They discovered that customers were generally young (25-35 years old) and highly educated. Even though the key criteria for selections were religious beliefs and willingness to adhere to Shariah banking principles, the study found that income and education play a significant role in customers' utilization of various Islamic bank products. The study found that while customers were aware of Islamic deposit mobilization instruments, their knowledges and understanding of individual financing facilities in Islamic banking were limited.

vi. The qualification background of the respondents was analysed to examine the level of ability in their perception, awareness and understanding towards Islamic banking products, especially Islamic house financing. Study on qualification was also to identify the group respondents with the highest level of knowledge, perception and awareness towards Islamic house financing. The finding revealed their consumption patterns of Islamic banking products, especially Islamic house financing. The finding indicated that majority of the respondents have the competency to grasp the working mechanism of Islamic house financing, and also have the level of knowledge, understanding and awareness to differentiate between Islamic banking products and conventional banking products. Al-Ajmi et al. (2009) found that users of Islamic banking in Bahrain who had knowledge of Syariah-based products preferred to use Islamic banking. They had good education and high income and had switched from conventional bank to Islamic banking.

vii. This finding was also supported by the finding by Hassan (2010) which revealed that studies on Islamic banking products were being conducted in Pakistan. The finding supported the earlier findings by Khan et al. (2008) and Mettawa and Almossawi (1998) who found that Islamic banking was popular among the highly educated.

4. Conclusion

i. The finding revealed that the level of education of the customers was a significant factor that influenced their decisions to select Islamic banking products and services.

ii. Consumers with high level of education tended to have greater knowledge of Islamic banking and the mechanism of Islamic banking products. At the same time, they also tended to be technologically adept and information savvy.

iii. Decisions to choose Islamic banks and Islamic house financing were guided by prod-

ucts knowledge. This, in turn, was supported by the availability of sufficient information about Islamic banking and Islamic banking products.

iv. The finding discovered that majority of respondents had the competency to grasp the working mechanism of Islamic house financing, and also had the level of knowledge, understanding and awareness to differentiate between Islamic banking products and conventional banking products.

v. The study revealed that education was one of the main dynamics and considerations that influenced consumers towards their acceptance of Islamic house financing. As a result, these consumers were able to make educated decisions, and would be the driving force leading to better acceptance of Islamic banking and Islamic house financing.

vi. Education should not be limited to classroom training processes, but rather on aspects and elements that could impact on effective imparting of information and knowledge, which consequently, would raise interests in Islamic banking products, especially Islamic house financing, among consumers.

vii. Apart from that, efforts are required to continuously educate the public on Shariah principles, in respect of Islamic banks as well as Islamic banking products and services. Sufficient information and knowledge would be able to debug the perception that Islamic house financings are similar to conventional housing loans. Consequently, education and knowledge should be able to change public perception on Islamic house financing in more positive manner.

References

[1] Abdul Aziz Abdullah, RokiahSidek and Ahmad Azrin. (2012). Perception of non-Muslim customers towards Islamic banking in Malaysia. International Journal of Business Management, 3(11), 151-164.

[2] Al-Ajmi, J., Hussain, H.A., and Al-Saleh, N. (2009). Clients of conventional and Islamic banks in Bahrain: How they choose which bank to patronize. International Journal of Social Economics, 36 (11), 1086-1112.

[3] Aziz, Z. A. (2006). Islamic Banking and Finance Progress and Prospects: Collected Speeches 2000-2006. Bank Negara Malaysia, Kuala Lumpur.

[4] Aziz, Noriza Abd., Bakar, Azizi Abu., Mohamad Yazid Isa, Ibrahim Abdul Aziz (2019), Promotion and Service as Strategic Marketing Tools towards Islamic House Financing. Jour of Adv Research in Dynamical & Control Systems, Vol. 11, Special Issue-08, 2019.

[5] Bank Negara Malaysia. (2013). Portal Rasmi Bank Negara Malaysia. Kuala Lumpur: Bank Negara Malaysia.

[6] Bank Negara Malaysia. (2013). Islamic Financial Services Act 2013. Kuala Lumpur: Bank Negara Malaysia

[7] Business Times (Malaysia), March 2, 2004.

[8] Bakar, Azizi Abu., ReyadhNofan Said Aladwan and Hafizah Zainal (2019), Ethics of Islamic Financial Transactions. International Journal of Psychosocial Rehabilitation, Vol. 23, Issue 02,2019.

[9] Dar, H. A., and Presley, J.R. (1999). Islamic finance: A western perspectives. International Journal of Islamic Financial Services, 1(1), 1-9

[10] Daud, M., Yussof, I. M. and Abideen, A. (2011). The establishment and operation of Islamic Banks in Nigeria: Perception study on the role of the Central Bank of Nigeria. Australian Journal of Business and Management Research Vol, 1.

[11] Dusuki, A. W., and Abdullah, N. I. (2007). Why Do Malaysian Customers Patronize Islamic Banks? International Journal of Bank Marketing, 25(3), 142–160

[12] Grady, B. and Spencer, H. (1990). Managing Commercial Banks, Prentice-Hall, Englewood Cliff, NJ.

[13] Haron, S., Ahmad, N., and Planisek, S. (1994). Bank patronage factors of Muslim and non-Muslim customers. International Journal of Bank Marketing, 12(1), 32-40.

[14] Hassan, Mehboob UI. (2010). Searching for Customers' perception and behaviours towards

Islamic and conventional banking in Pakistan. Review of Islamic Economics, 14(1), 77-102.
[15] Henry, C. M. and Wilson, R. (2004). The Politics of Islamic Finance, Edinburgh University Press. Edinburgh.
[16] Holstius, K. and Kaynak, E. (1995). Retail banking in Nordic countries: The case of Finland. International Journal of Bank Marketing, 13 (8), 10-20.
[17] Husin, A. S. (2008). Crossing over: Islamic Banking Needs To Reach Out to New Customers. Retrieved January 15, 2012 from http://www.gtnews.com
[18] Iqbal, Z., and Mirakhor, A. (2007). An Introduction to Islamic Finance: Theory and Practice, Singapore: John Willey and Sons.
[19] Kaynak, E., Kucukemiroglu, O., Odabasi, Y. (1991), Commercial bank selection in Turkey, International Journal of Bank Marketing, 9(4), 30-45.
[20] Khan, M.S.N., Hassan, M. K. and Shahid, A. I., (2008), "Banking behaviour of Islamic Bank Customers in Bangladesh," Journal of Islamic Economics, Banking and Finance, 3(2), 159-195.
[21] Mettawa, S. A., and Almossawi, M. (1998). Banking behaviour of Islamic bank customers: perspectives and implications. International Journal of Bank Marketing, 16, (6/7), 299-313.
[22] Mokhlis, S., Nik Mat, N. H., and Salleh, H. S. (2009). Commercial Bank Selection: The Case of Undergraduate Students in Malaysia. International Review of Business Research Papers, 4(5), 258-270.
[23] Noriza Abdul Aziz (2016). The Perspective of Muslims and Non-Muslims towards Islamic Housing Financing. A Case Study of Hong Leong Bank and Hong Leong Islamic Bank Customers. USM. PhD Dissertation
[24] Salahuddin Ahmad. (2006). Islamic Banking Finance and Insurance: A Global Overview, (p. 205)
[25] Saba HikmatAbboodAlnajjar, Amani Ali Elmetwally, Bakar, Azizi Abu., MohdSyukri Yeoh Abdullah, Zahrom Bin Ridzwan, Syed Zulkarnain Bin Syed Idrus (2020), Exploring the Resisting Factor of ICT In Education Among Teachers: A Case Study In UAE. International Journal of Advanced Science and Technology Vol. 29, No. 6s, (2020), pp. 2043-2051.
[26] Sudin, H., Norafifah, A., and Planisek, L. (1994). Bank patronage factors of Muslim and non-Muslim customers. International Journal of Bank Marketing, 12(1), 32.
[27] The Star, "Malaysia to host Islamic Banking committee", Friday May 03, 2002, Malaysia.
[28] www.hongleong.com.my
[29] www.hlib.com.my