

INVESTIGATING THE COMPLIANCE BEHAVIOR OF ISLAMIC BANKING PRODUCTS IN PENANG, MALAYSIA

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Abstract

Islamic financial institutions (IFI) could play a role in supporting households who have been out of jobs by compensating them for lost income as long as such instruments did not significantly reduce their profitability. Also, Islamic financial institutions should consider using paid leave or working from home arrangements instead of retrenchment schemes for their employees. The sustainability of Islamic banks would depend on the patronage compliance of customers towards using Islamic banking products. This study aims to observe the influence of religiosity, knowledge, and service quality on the compliance behavior of Islamic Banking products and services among Islamic Banking customers in Penang. This study adopted quantitative methodology and the research has collected a hundred respondents through questionnaires. The result revealed that religiosity has no significant influence. In contrast, knowledge and service quality significantly influence the compliance behavior of Islamic banking products and services among customers of Islamic Banking in Penang. To increase the compliance of Islamic Banking products, Islamic banks should improve their service quality and a commitment to share knowledge with customers at large.

Keywords: religiosity, knowledge, service quality, compliance behavior

Introduction

Islamic financial institutions could assist countries that face the economic recession due to the COVID-19 pandemic. Since the outbreak of COVID 19 that started in March 2020, the implementation of lockdown to flatten the COVID-19 curve has had caused the slowdown of economic activities and negatively influenced the business and financial positions of core Islamic finance countries. Consequently, unemployment rates are expected to increase, which would cause loss of income for consumers as companies have had to cut down their operations to reduce their costs amid declining revenue. Governments have had to introduce stimulus packages to alleviate those affected by the COVID 19 crisis. There have been studies on the potential use of Islamic Social Finance to assist those affected by the COVID-19 that include corporates and banks through moratorium and subsidized liquidity to assist them in dealing with the loss in revenue and allow them to continue operating amid the crisis.

There have been discussions on the role of Islamic financial institutions (IFI) in supporting households who have been out of jobs by compensating them for lost income as long as such instruments did not significantly reduce their profitability. Islamic financial institutions should consider using a more lenient approach such as paid leave with or without a reduced salary or working from home arrangements.

The sustainability of Islamic banks would depend on the patronage compliance of customers towards using Islamic banking products. Data has shown that by the end of 2000, the total deposit at conventional banks was RM381 billion, representing 92.48%, while the total deposit in Islamic Bank was only RM31 billion represent 7.52%. At the same time, the customers involved with financing from conventional banks were up to RM416 billion and RM21 billion was given by Islamic Banks (Ahmad, N. & Haron, S., 2002). This data indicates that the compliance behavior of using Islamic banking products is still low even though Islamic banking is open to both Muslim and non-Muslim customers.

This study examines the factors that influence compliance behavior towards Islamic Banking products by selecting religiosity, knowledge and service quality as the determinants of compliance behavior towards Islamic Banking products to shed some light on the compliance behavior of adopting Islamic banks among customers in the State of Penang.

Literature Review

This study carries out the literature review based on thematic scheme: relationship between religiosity, knowledge and service quality, and compliance behavior.

Religiosity and Compliance Behavior

Bley and Kuehn (2004) also revealed that religious belief becomes the leading indicator in preference for Islamic banking. Idris et al. (2011) indicated that religion seems to be the most crucial factor influencing customers to patronize Islamic banks. Muslim customers in Singapore chose Islamic banking because of the religiosity factor (Gerrard and Cunningham, 1997).

Knowledge and Compliance Behavior

Saeed Akbar et al. (2012) showed a significant relationship of knowledge of Muslims towards the understanding of Islamic banking concepts such as *riba* (usury). So, the relevance of introducing the products and services IFSA 2013 by which comply with Shari'ah is very useful to all Muslims for the sake of Allah SWT. Financial Services Act 2013 (IFSA 2013), BIMB had introduced various interest-free products such as *Qardhul Hassan*, *Mudharabah*, *Musarakah*, etc. Mohamad, J. and Che Majid, M. F. (2016) revealed that the bank had spiraled its growth, and the business has unfolded through the years. In December 2010, shareholders" of Bank Islam had raised support up to RM 2.5 million along with the initial capital of RM80 million. In light of the Corporate Profile, BIMB consists of 131 offices and more than 1000 self-service terminals nationwide.

Also, BIMB offers approximately 70 innovative Islamic banking products and services throughout its branches. Kamarulzaman and Madun (2013) revealed a case when a customer did not have knowledge for applying home financing and did not understand the Islamic banks' financing products at the end. They bought the product from conventional banks that have more efficient marketing. Baba and Amin (2009) revealed that most offshore bankers were not knowledgeable about Islamic banking where they had confused notions regarding the practices of the Islamic banking system. It indicates that the level of knowledge among the bankers themselves is still limited since they were not knowledgeable about the Islamic banking system. Moreover, Osman and Ali (2008) indicated that knowledge on Islamic financing is considerably well among Muslim entrepreneurs. They can understand the importance of practicing and applying Islamic financing in their business.

Bley and Kuehn (2004) found that Muslim students are more interested and knowledgeable in Islamic finance than non-Muslim students. Similarly, Ahmad and Haron (2002) revealed that the knowledge of Islamic banking among non-Muslim corporate customers in Malaysia was limited.

Service Quality and Compliance Behavior

Hoq & Amin (2010), Kishada & Wahab (2013) and Mohsan et al. (2011) revealed that customer loyalty is obtained through customer satisfaction, service quality, perceived value and trust. Levesque and McDougall (1996) argue that service quality significantly influenced customer satisfaction. Poor service will cause customer dissatisfaction, and they quickly switch to another bank. Furthermore, Hanson (2000) conducted a study in the southwest and found that an organization must develop a strategy that enhances the service quality standard as it enhances the level of services.

Kumajdi Yamirudeng (2013) provided evidence that there is a significant effect of service quality on confidence. Erol & El-Bdour (1989), Erol et al. (1990), Haron et al. (1994), Kader (1993), Kader (1995), Gerrard & Cunningham (1997), Naser et al. (1999), Othman & Owen (2002), Ahmad & Haron (2002), Abbas et al. (2003), Dusuki & Abdullah (2007), Haque et al. (2009), Wan Marhaini et al. (2008), Rashid & Hassan (2009), Gait & Worthington (2008), and Awan & Bukhari (2011) supported this finding when they revealed that there is a positive and significant relationship between service quality and confidence in the context of Islamic banking and services.

Research Design

This study employed two methods of data collection strategy: questionnaire and direct interviews with customers of Islamic banks. The objective of the interview is to ensure questions are fully covered so that we can get opinions from practitioners. This study is a field survey by nature. Data required for this study were hand-delivered to respondents and self-administered questionnaires distributed by the researchers.

Theoretical Framework of the Study

This study examines the influence of religiosity, knowledge, and service quality on the compliance behavior of Islamic banking products and services. Figure 1 shows the theoretical framework of the study.

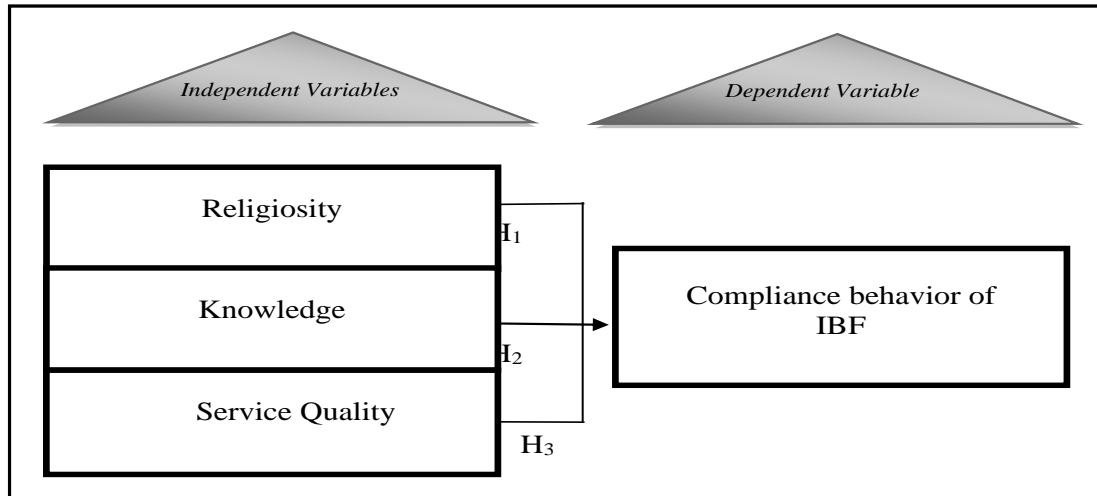


Figure 1: Theoretical Framework of the Study

Findings of the Study

This study analyzed the data using multiple regression analysis to examine the significant influence of religiosity, knowledge and service quality on using Islamic banking products. The finding of the study is shown in Table 1.

Table 1: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.406	.523		4.600	.000
	TIR	.154	.206	.084	.744	.458
	TKNOWLEDGE	.252	.125	.230	2.013	.047
	TSQ	.174	.081	.217	2.139	.035

a. Dependent Variable: TCB

1) Adjusted R square: 0.423

2) ANOVA: 6.778

Table 1 indicates that religiosity has a positive relationship with the compliance behavior of Islamic banking products and services but doesn't have a significant influence. The result shows ($\beta=.084$, $p>0.05$) to be insignificant since the significant value is above 0.05. This finding indicates that religiosity does not significantly influence the respondents' selection of Islamic banks. Religiosity

is not the sole determinant to select an Islamic bank (Haron et al. 1994). Additionally, this study provides evidence supporting Al-Ajmi et al. (2009), who confirms that religiosity is not a significant factor when it comes to Islamic banking selection.

The findings of the study view that there is a positive and significant relationship between knowledge and compliance behavior of adopting Islamic banking products ($\beta=.230$, $p>0.05$). The result of this study is similar to Ahmed and Haron (2002) that provide evidence on the positive relationship between knowledge and selection criteria of Islamic banking. Moreover, the current study results indicate that knowledge provides positive and significant effects towards compliance behavior of Islamic banking products and services. This evidence reveals that the increase of knowledge will increase the compliance behavior of Islamic banking products and services.

The study's findings indicate a positive and significant relationship between service quality and compliance behavior of Islamic banking products and services ($\beta=.217$, $p<0.05$). This is the second-highest value of beta in the model, which expresses that the variable has the most substantial influence on the compliance behavior of Islamic banking products and services. Furthermore, this study has supported Awan and Bukhari et al. (2011) and Abbas et al. (2003). Their findings show that service quality is a significant factor in determining customers' compliance behavior by choosing products and services in Islamic Banks.

The knowledge about Islamic banks and the customers' perception of service quality are significant motivations for customers to continue patronizing the Islamic banks. Customers' patronage and compliance behavior are essential to ensure the survival of Islamic banks, especially during this COVID 19 pandemic crisis. Customer support and intervention by the government could help Islamic banks cope with the negative economic impact of the crisis. It would enable the bank to help retain the workers and keep the unemployment rate at a low level because unemployment would negatively impact economic activities.

Conclusion

Islamic financial institutions could assist countries facing the economic recession as a consequence of the COVID-19 pandemic by retaining employees during this difficult time. To ensure the profitability and survival of Islamic banks, the government could intervene by giving out specific incentives. The customers need to continue patronizing and supporting Islamic banks. This study attempts to examine the motivations of customers in using Islamic Banking products. This study reveals that knowledge and service quality significantly influence the compliance behavior of using Islamic banking products.

On the other hand, this study finds that religiosity does not have a significant influence on the compliance behavior of using Islamic Banking products. The findings of this study have important implications for theory as well as policy. It is hoped that this study would be beneficial to all relevant parties, including the Islamic banking industry participants and academic research.

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