



Determinants of Islamic Home Financing Product Selection among Lower Income Group in Kuala Lumpur, Malaysia

Selamah Maamor^{1*}, Nurul Labanihuda Abdull Rahman², Abu Bakar Hamed³

¹Islamic Business School, Level 1, Economics Building, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, ²Islamic Business School, Level 1, Economics Building, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, ³Islamic Business School, Level 1, Economics Building, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia. *Email: selamahm@uum.edu.my

ABSTRACT

Recently, affordability of housing in Malaysia has becoming crucial issue especially in big cities due to economic growth and high living cost. Hence, these studies aim to investigate the factors that influence customer in Kuala Lumpur in selecting Islamic home financing product. In this study, we assume the factors that will influence customer selection for Islamic home financing are attitude, subjective norms, pricing, religious obligation, government intervention and service provision. This study used samples of 150 respondents who had an experiences purchasing house in Kuala Lumpur. This study employed Pearson correlation and multiple regression method to achieve the objective. Finding shows that there is a significant relationship between attitude, religious obligation, and service provision towards Islamic homes financing selection. Therefore, it is recommend that the Islamic financial provider to improve several factors is including but not limited to marketing, operation and customer service in order to attract customers to purchase Islamic home financing product. Most importantly, all the products offered must in line with *Shariah* in terms of the content of the product, the contract and also the way it is delivered to the customer.

Keywords: Islamic Home Financing, Attitude, Subjective Norm, Pricing, Religious Obligation, Government Intervention, Service Provision
JEL Classifications: R31, G21, E210

1. INTRODUCTION

Recently, affordability of housing in Malaysia has becoming crucial issue especially in big cities due to economic growth and high living cost. In Malaysia, people tend to migrate and work in Kuala Lumpur since it is a capital city of Malaysia. This migration leads to the development of the city and the growth of economic standard. However, higher economics growth leads to higher living cost. The issue arises addressing the increase cost of housing properties in urban cities including Kuala Lumpur.

By definition, affordable housing means housing affordable for a household on typical household income. However, this is not the case in Kuala Lumpur since the properties price is way above financial capability of typical household income and buyers have to undergo thorough procedures just to prove their affordability to buy a house.

Currently, housing price in Kuala Lumpur is the most expensive compared to other places in Malaysia. According to the Valuation and Property Services Department (Jabatan Penilaian dan Perkhidmatan Harta, 2013), average house price is RM620758 in Kuala Lumpur, followed by Sabah and Selangor, with average price of RM413187. The house is pricey because of the type of house, location and local markets in Kuala Lumpur. Besides that, National Housing Department (2012) also stated that majority of company's developers seeks to build high-cost houses than low cost houses. The main reason of housing problems issues in Kuala Lumpur because of the urbanization and industrialization process. Employees from the rural areas are transferred to the urban cities such as Kuala Lumpur and this makes an increasing amount of population in that area which lead to an increasing of housing demand.

Apart from that, government intervention is also important in order to solve the housing issues through the policies and development

strategies in short or long term period. For example, in Malaysian Budget 2011, the government started to make strategies to fulfil household needs to own their own house. Malaysian Prime Minister Dato' Seri Najib Tun Abdul Razak announced the allocation of RM500 million for provision affordable houses by the Housing Facilitation Fund in Homebuyer Assistance Program PRIMA and to private developers. Apart from that, Prime Minister also announced a project called "My First Home Scheme" which focuses on lower and middle-income group.

In Malaysia, Islamic banking and finance was started since 1983. During this stage, Bank Islam Malaysia Berhad introduces several products that are *Shariah* compliance such as *Murabahah*, *Ijarah*, *Bai Bithaman Ajil (BBA)* and others. Currently Islamic mortgages or Islamic home financing are divided into two categories which are BBA and *Musharakah Mutanaqisah* or diminishing partnership (DP).

BBA is the first Islamic home financing products that has been implemented by financial institutions in Malaysia. Generally, BBA concept can be defined as bank purchasing the profit margin house and resell to customer at agreed price. Then, customer pays the agreed amount to the bank until the end of financing period. According to Rosly (2005), BBA concept is not acceptable by some international Islamic scholars because it is not compliant with *Shariah* principle. Moreover, benchmark for BBA is based on market interest rate. Due to this problem, it will give effects to both customer and Islamic Bank. Customer will take an action by withdrawal their money from Islamic bank and transfer to the conventional bank. Meanwhile, Islamic Bank will suffer the loss because profit rate in BBA stayed the same. Hence, to solve the criticism of BBA, the *Musyarakah Mutanaqisah* or DP concept was introduced. The concept is applied when the customers and banks joint the purchase of the property. Thus, *Musyarakah Mutanaqisah* is suitable for the Islamic home financing because it is based on profit and loss sharing. This statement is supported by Dalfiza et al. (2014) which shows that there is a positive relationship between the acceptances of *Musyarakah Mutanaqisah* financing and the bank choice determinants.

There are several empirical studies in the area of Islamic home financing selection. To the researcher's knowledge, there are several studies outside and inside Malaysia such as Haron et al. (1994), Dusuki and Abdullah (2007), Levesque and McDougall (1996) and Arora et al. (1985). Generally, in West Malaysia, Haron et al. (1994) found Muslim and Non-Muslim indicates same selection such as speed of transactions, service provision, confidentiality bank and efficient services. Study done by Dusuki and Abdullah (2007) stated that customer selection towards Islamic home financing is based on social responsibility practices, convenience and products price. Meanwhile, both research by Levesque and McDougall (1996) and Arora et al. (1985) considered bank selection decision is an important factor that may affect customer satisfaction towards the selection Islamic products offered in their banking services.

Based on previous study, customer's selection towards product can be influenced by demographic factors, attitude, subjective

norm, pricing, religious obligation, government intervention and service provision. Based on Ali et al. (2015), religious obligation and Islamic personal financing price have negative and significant impact on customer's selection of the financial products. However, there is study found different finding on the effect of background towards customer selection. As according to Naser et al. (1999) examine a nationality difference which shows there is no significant difference between Jordan nationality and foreigners on customer satisfaction.

The other determinant is attitude. The attitude variable is establishing relationship between belief and behavior (Taib et al., 2008). Based on the previous study, Fishbein and Ajzen (1975) defined attitude as the individual's behavior towards bad or good actions and they implement theory reasoned action in their research. Moreover, study done by Sulaiman (2003) found attitude have significant effect towards selection of Islamic banking products in the market.

There are study that found social influence as a subjective norm which affect customer selection. Subjective norm is individual action based on the suggestion by their close friends and later it will affect their particular behavior as well as their decision to select (Fishbein and Ajzen, 1975). The finding is consistent with study by Taib et al. (2008) which also found that subjective norm as important factor that influence individual intention and consumer acceptance towards purchasing Islamic banking product.

Another important variable which influence customer in selecting Islamic financial product is price of the product. In Malaysia, Islamic Banking Act 1983 which enforced by Bank Negara Malaysia is use as guideline by Islamic bank and International Islamic in setting their own regulation, licensing and supervision. Thus, Islamic bank have authority to set affordable price of Islamic products for their customers. It is supported by Dusuki and Abdullah (2007) found that product's price is important factors in explaining why customers choose the banking company.

Most studies conducted in Malaysia with regards to Islamic banking dominantly have focused on choice criteria and patronage factors. A research by Amin (2012) focused directly on examining the relationship of *Shariah* compliance (religious obligation) with behavioral intention. Recently, a survey conducted by Yusoff et al. (2013) examined the determinants that influence consumers in choosing Islamic hire-purchase facility (Al-Ijarah Thumma Al-Bay [AITAB]) and the finding shows that there are significant relationships between acceptances of AITAB among consumers with the religious obligation. According to Olson and Zoubi (2008), they examine the *Musyarakah Mutanaqisah* and found this product allowed to practice in Islamic banks because of profit and loss sharing concept. Therefore, religious obligation is one of the important factors in determining customer's selection.

In addition, government support also will influence the individual behavior of households and companies in making their decisions. For example, Amin et al. (2006) found that government should support growth and development of Islamic bank in order to fulfil the Muslim's needs. Finally, service provision is service given by

the reliable person such as bank officers to deal with customers with respect to Islamic home financing (Amin, 2008). The study done by Karjaluo (2002) found that service provision especially by the service officers plays major roles to convince customer to select Islamic financial product including Islamic home financing.

Based on the previous study, we found several variables such as attitude, subjective norms, pricing, religious obligation, government intervention and service provision influence customer in selecting Islamic financial product. Therefore, those variables will be analyzed in order to determine those variables in selecting Islamic home financing.

Generally, this article attempt to study the factors that influence customer is selecting Islamic home financing through case study in Kuala Lumpur. The remaining of this paper will be conducted in four sections. The following section will be the details on methodology used for this research and followed by the discussion on findings of this study.

2. RESEARCH METHODOLOGY

The data for this study obtained through questionnaires distributed to all respondents who have an experience in using Islamic home financing. A total of 150 questionnaires were distributed to selected households in Kuala Lumpur. The questionnaires were divided into three parts which are Section A, Section B and Section C. The questionnaire consists of 39 questions. In section A the questionnaires is about the respondent's background, Sections B is about information on home financing selected by customer and Section C is consists of the perception towards Islamic home financing.

In this study, the questionnaire measures six variables that are attitude, subjective norm, religious obligation, pricing, service provision and government intervention. The respondents were required to select each of the statement in Likert-Scale format that ranging from 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree and 5 = Strongly Agree.

Sample size of this study chosen according to the total property sale in Kuala Lumpur which total property sale in year 2012 is 24,010 units in this state. Thus, according to this sample size for this research, it shows minimum sample size is 100 based on the population given as referred to sampling method suggested by Yamane (1967).

In this study, Cronbach's alpha used to test reliability of the research instruments. Furthermore, we also used factor analysis to confirm the construct validity of the scales through the principal component analysis. The results shows that Cronbach's alpha coefficient for all variables are between 0.80 and 0.90 which considered "very good" and the instrument used is consistent and stable. Besides that, based on factor analysis its shows that Bartlett's test is significant and the Kaiser-Meyer-Olkin measure of sampling adequacy is far <0.60 which is 0.896. These results confirm that the instruments used in this study are valid and reliable.

To achieve the objective of this study, Pearson correlations analysis was employed to test the relationships between the variables. More importantly, multiple regression analysis also was used to determine those variables in selecting Islamic Home Financing. The detail result will be discussed in the next section.

3. FINDINGS

This section will be divided into 3 main sub-sections which are descriptive analysis of respondents' profile, Pearson correlation result and multiple regression result. Table 1 presents the information regarding the demographic of the respondent based descriptive analysis.

Based on the Table 1, profile of respondent is consisting of eight categories. With respect to gender, the highest respondents are males 51.3% and females 48.7%. Meanwhile, for the race most of the respondent is Malay which is 86.7% and others is 13.3%. Most of respondent is between 20 and 30 years old which is 57.3% and respondent who age 41 years old and above is only 11.3%. Moreover, there are 55.3% respondents are married and single is 43.3%. Besides that, most of the respondents in this study have bachelor degree which is 48.0% for their level of education and the lowest education (below SRP/PMR) is 3.3%.

In addition, for the working sector, private sector shows the highest which is 71.3%, as compared to the public sector which is only 23.3%. In terms of personal income per month, most of respondent's received income <RM3000 per month (66%). Last but not least, for household expenses per month in this study, most of them spend RM1001-RM3000 per month (57.3%) and there are respondents which spend >RM3001 per month (5.3%).

Table 1: Descriptive statistic of respondents' demographic

Items	Category	Frequency (%)
Gender	Male	77 (51.3)
	Female	73 (48.7)
Race	Malay	130 (86.7)
	Others	20 (13.3)
Age (years)	20-30	86 (57.3)
	31-40	47 (31.3)
	41 and above	17 (11.3)
Marital status	Single	65 (43.3)
	Widow/widower	2 (1.3)
	Married	83 (55.3)
Level education	Bachelor	72 (48.0)
	Diploma	32 (21.3)
	SPM	41 (27.3)
	SRP/PMR	5 (3.3)
Working sector	Public	35 (23.3)
	Private	107 (71.3)
	Self Employed	8 (5.3)
Personal income per month	<RM3000	99 (66.0)
	RM3001-RM5000	39 (26.0)
	>RM5001	12 (8.0)
Household expenses per month	<RM1000	56 (37.3)
	RM1001-RM3000	86 (57.3)
	>RM3001	8 (5.3)

This part will be discussed on the Person correlation result which to identify the correlation between six variables including attitude, subjective norm, pricing, religious obligation, government intervention and service provision.

Based on the result shown in Table 2, those variables excluding pricing are significant and positively correlated with the Islamic home financing selection at 1% level. All variables are positive correlated towards Islamic home financing selection. As an example, if attitude increase therefore the Islamic home financing selection also will be increased. The next section will elaborate on result from multiple regressions and the detail result shown in Table 3.

As portrayed on Table 3, the adjusted R² is 0.66 and this indicates that 66% of the variance of Islamic home financing selection can be explained by the all independent variables. Furthermore, F statistic produced 45.53 it found to be significant at 1% level, thus it indicates that this model considered as good.

The interesting and more important in this multiple regression result is to determine which variables that significantly influence Islamic home financing selection. Based on the finding shows in Table 3, attitude, religious obligation and service provision have positive effect and significant at 1% level towards Islamic home financing selection.

As for attitude, the coefficient is 0.403 which indicates that when attitude increase at 1 unit, therefore the Islamic home financing selection will increase at 0.403 unit. These results are consistent with the previous studies by Alam et al. (2012) and Taib et al., (2008).

In addition, in term of religious obligation, the results indicate that Muslim customer is concern on Islamic banking products that compliance with *Shariah* principle which is no interest charged to the customers. This study also proved that religious obligation has

an important role towards Islamic home financing selection. This result is consistent with previous studies that reported a significant relationship between religious obligation and Islamic banking product selection (Yusoff et al., 2013; Amin, 2012).

Last but not least, service provision is also having positive and significant at 1% level related to the Islamic home financing selection. It is consistent with research conducted by Karjaluoto (2002) which found that service provision especially by the service officers play major roles to convince customer to select Islamic home financing. As in this study, as increased in service provision at 1 unit, the selection towards Islamic home financing will increase at 0.211 units.

4. CONCLUSION

In conclusion, the research was conducted to identify the factors that influence the customer selection towards Islamic home financing. The result shows that attitude, religious obligation, and service provision are important variables to predict Islamic home financing selection among customers. Therefore, based on these findings, the policy implication is outlined as below.

Managers of Islamic banks are encouraged to give greater emphasis on creating awareness amongst customers about Islamic personal financing products and make sure the officers give best service to their customers. Religious obligation is one of the important factor in selecting Islamic home financing, and it interpret that most of the customer especially Muslim are looking for the Islamic product in terms of goods as well as services. Thus, this is a challenge for Islamic bankers in making sure that the Islamic banking product especially Islamic home financing are well-known and also favor to Muslim customer. The promotion or marketing strategies should be friendly to Muslim customer and they should have full of information and understand clearly on the Islamic home financing product to ensure that they can make use of it during selection of financing.

There are two limitations in this research which provide support for future studies. Firstly, the study only confined to specific user group in particular locations which are in Kuala Lumpur. The findings of the current study could not be generalized to other user groups in other geographical locations. Secondly, future studies should study other determinants of the selection to choose Islamic home financing such as Islamic bank performance, risk of financing between Islamic and non-Islamic financial products and others. Moreover, these determinants will provide better explanatory for Islamic home financing.

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Table 2: Pearson correlations towards Islamic home financing selection

Variables	Pearson correlation
Attitude	0.688**
Subjective norm	0.597**
Pricing	-0.088
Religious obligation	0.641**
Government intervention	0.541**
Service provision	0.580**

**Significant at the 1% level

Table 3: Determinants of Islamic home financing selection

Variable	β	t value
(Constant)	-0.074	-0.255
Attitude	0.403**	6.420
Subjective norm	0.116	1.605
Pricing	-0.070	-1.508
Religious obligation	0.207**	3.074
Government intervention	0.112	1.514
Service provision	0.211**	2.982

R²=0.66, F value=45.53**. **Significant at 1% level

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