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Profit-Sharing Deposit Accounts in Islamic Banking: Analysing the Perceptions and Attitudes of the Malaysian Depositors

by

Muhammad Syahmi Mohd Karim

A Doctoral Thesis

Submitted in partial fulfilment of the requirements for the award of

The Degree of Doctor of Philosophy at the School of Government and

International Affairs

Durham University

2010

Dedication

To my dearest parents:

Late Mohd Karim Mohd Shariff

&

Pon Haji Othman

For giving all the love, support and encouragement throughout the duration of my studies

My beloved wife:

Shukriah Mohd Sheriff

For your sacrifices, supports and tolerances given whilst you were also struggling with your Ph.D

My dearest two daughters:

Hanan Afiqah Muhammad Syahmi

Hanan Insyirah Muhammad Syahmi

For enduring and sharing all the sweet, pain and bitter experience throughout the period of my studies

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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institutions of learning

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ABSTRACT

Profit-Sharing Deposit Accounts in Islamic Banking: Analysing the Perceptions and Attitudes of the Malaysian Depositors
Muhammad Syahmi Mohd Karim

Islamic banking deposits are fundamentally structured in a different way than the conventional banking deposits. Each type of Islamic banking deposits, such as savings, demand, and timed deposits, is devised using the approved *Shari'ah* contracts such as *qard*, *wadiah*, *murabahah*, and *mudarabah*. These contracts are opposed to the conventional concepts, as they are based on the concept of a 'lender-borrower' relationship. In addition, the *Shari'ah*-approved contracts are unique as they feature a different nature of risk and return. This is especially the case for *mudarabah* contracts (henceforth referred to as profit-sharing contracts). The uniqueness of profit-sharing contracts in deposit products has been given due recognition in theory and also in practice, as most of the Islamic banks in Malaysia offered this product. In addition, the unique features and characteristics of profit-sharing based deposit accounts are also highlighted in the prudential standards issued by prominent regulatory bodies such as AAOIFI and IFSB which, have been adopted by the Bank Negara Malaysia (Central Bank of Malaysia).

Nevertheless, it is argued by many Islamic banks practitioners, especially in Malaysia, that the concept of profit-sharing in deposits products is not practical in reality, because the depositors do not behave according to, nor accept the principles that have been laid down in the *Shari'ah*. Thus it is argued that both the depositors and the Islamic bankers have treated the product similar to any other conventional banking deposits products.

The main aim of this study, hence, is to explore and examine the level of awareness, knowledge, perceptions, and attitude of the Islamic banking depositors in Malaysia towards characteristics of profit-sharing deposits accounts in accordance with the fundamental *Shari'ah* principles but also the regulations prevailing. In addition, this research also attempts to explore the significant determinant factors that encourage the depositors to engage with Islamic banking deposits accounts in general and profit-sharing deposits accounts in particular.

In fulfilling the aim of the study, primary data collection research was adopted through a survey questionnaire technique. The questionnaires were distributed to eight Islamic banks representing various types of Islamic banks in Kuala Lumpur and Selangor. The questionnaire asked various pertinent questions, which intended to elicit the depositors' opinions, perceptions, and attitudes towards the unique characteristics of profit-sharing contract as specified in *Shari'ah muamalah* principles. The characteristics among others are: (i) concept of uncertain deposits returns; (ii) concept of non-guarantee for the deposits; (iii) concept of profit equalization reserve. A total 649 of the returned questionnaires were complete and fit for analysis purpose. The data were analysed using various statistical analysis techniques ranging from simple frequency distribution analysis to the more advanced analyses such as non-parametric statistical analysis, factor analysis, and logistic regression.

In general, the results of the study show that the level of awareness of the need to have Islamic banking deposits accounts because of religious reasons is considered as high among the Malaysian depositors. Nevertheless, the results also indicate that a high level of awareness is not being translated into a high level of understanding concerning the objectives of the products which are structured in accordance to the *Shari'ah*-compliant contracts. This can be seen in the major findings of this study: the characteristics of profit-sharing contracts, which arguably are the most desirable *Shari'ah*-compliant contracts, are not acceptable to the depositors. This indirectly implies that they are still strongly influenced by the nature of conventional banking products. In addition, the logistics regression results further proved that related factors ('financial services' and 'income') emerged as the main determinants in creating demand for profit-sharing deposits accounts.

The results of the research should draw the attention of the Islamic bankers and also the regulators to finding ways for improving the level of understanding among the depositors. However, the critical successful factor in educating the depositors is highly dependent on the level of knowledge exhibited by the Islamic bankers themselves, which can be a real concern as highlighted by the findings of this study.

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GLOSSARY

(The Glossary for terminology used in this thesis is taken from the Encyclopedia of Islamic Finance authored by Shanmugam, Alam and Zahari (2008) and Dusuki (2005))

Transliteration		Translation
Al-Quran	:	The Holy Book of the Muslims consisting of the revelations made by Allah to the Prophet Muhammad (PBUH). The Quran lays down the fundamentals of the Islamic faith including beliefs and all aspects of the Muslim way of life.
Al-Hadith	:	The tradition or collection of traditions attributed to the Prophet Muhammad (PBUH) that includes his saying, acts, and approval or disapproval of things. Hadith is valued by Muslims as a major source of religious law and moral guidance.
Bai' al- istisna'	:	A contract of sale in which a supplier of the goods or services is asked to supply goods of definite specifications at agreed rates, place and time of delivery. The price of the goods is paid in advance, but the goods are manufactured and delivered at a later date.
Bai'al-inah (inah)	:	A sale with immediate repurchase. Literally, it means a contract which involves the sale and buys back transaction of an asset by a seller. The seller will immediately buy back the same asset on a deferred payment basis at a price that is higher than the cash price.
Bai' al-salam	:	A contract in which advance payment is made for goods to be delivered later. The seller undertakes to supply specific goods to the buyer at a future at a future date in exchange for an advance price fully paid at the time of contract.
Bai' bithaman 'ajil	:	This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the clients are bought by the bank which subsequently sells the goods to the client at an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle the payment by instalments within a pre-agreed period, or in a lump sum. Similar to a murābahah contract, but with payment on a deferred basis.
Fiqh / usul al-fiqh	:	Islamic Jurispudence / The Principles of Islamic Jurispudence. It covers all aspects of life – religious, political, social or economics etc.
Gharar	:	Literally it means uncertainty, hazard, chance or risk. *Gharar* is a sophisticated concept that covers certain types of *'haram'* uncertainty in a contract. It is an exchange in which one or more parties stand to be deceived through ignorance of an essential element of the exchange.

Halal	:	Permissible according to *Sharī'ah*
Haram	:	Prohibitions according to *Sharī'ah*
Ijarah	:	A lease agreement whereby a bank or financier buys an item (like a building, equipements etc) for a customer and then leases it to person over a specific period, thus earning profits for the owner of the asset by earning rental income.
Iwad	:	Counter-value
Kafalah	:	A contract of guarantee, security or collateral. It is also defined as the responsibility of the entrepreneur or manager of a business, that is, one of two basic relationships towards property, which entails bearing the risk of its loss.
Muamalah	:	It is an Arabic term means business or commerce.
Mudārabah	:	An agreement made between two parties: one which provides 100 percent of the capital for the project and another party known as a *mudarrib,* who manages the project using his entrepreneurial skills. Profits are distributed according to a predetermined ratio. Any losses accruing are borne by the provider of capital. The provider of capital has no control over the management of the project.
Mudarib	:	Refers to the partner who provides entrepreneurship and management in a *mudarabah* agreement.
Murābahah	:	A contract sale between the bank and its client for the sale of goods at a price which includes a profit margin agree by both parties. As a financing technique, it involves the purchase of goods by the bank as requested by the client. The goods are sold to the client with a mark-up. Repayment, usually in instalments is specified in the contract.
Mushārakah	:	A partnership contract between two parties who both contribute capital towards the financing of a project. Both parties share profits on a pre-agreed ratio, but losses are shared on the basis of equity participation. Either parties or just one of them may carry out management of the project. This is a very flexible partnership arrangement where the sharing of the profits and management can be negotiated and pre-agreed by all parties.
Qard-al Hasan	:	An interest-free loan given mainly for welfare purposes. The borrower is only requires to pay back the amount borrowed. In some cases, a minimum administrative fee may also be charged to the borrower.

Rab-al-Mal	:	The owner of capital in a *mudarabah* contract. The owner agrees with the working party to give him an amount of money to be invested such that the profit is distributed among them with known predetermined percentages that are not based on the capital but on the amount of the realized profit itself. As for the loss (if any), is to be borne by the owner of capital alone and the working party suffers the loss of his effort and his time without any compensation.
Riba'	:	Literally means an increase or addition. Technically it denotes any increase or advantage obtained and accrued by the lender in a loan transaction without giving an equivalent counter-value or recompense in return to the borrower. In a commodity exchange it denotes any disparity in the quantity or time of delivery.
Sharī'ah	:	In legal terminology, *Shari'ah* means the law as extracted by the *Mujtahids* from the sources of law. The term *Shari'ah* can also mean divine guidance as given by the Quran and the *Sunnah* of the Prophet Muhammad (PBUH) and embodies all aspects of the Islamic faith, including beliefs and practice.
Sukuk	:	An Islamic bond. It is defined as an asset-backed certificate which is structured in accordance with the *Shari'ah* and may be traded in the market. A *sukuk* represents the proportionate beneficial ownership in the underlying asset, which can be leased to a client to yield the return on the *sukuk.*
Sunnah	:	It refers essentially to the Prophet's examples as indicated by his practice of the faith. Literally means custom; the habits and religious practices of the Prophet Muhammad, which were recorded for posterity by his companions and family and are regarded as the ideal Islamic norm.
Tabarru'	:	A *takaful* donation or a contract where a participant agrees to donate a pre-determined percentage of his contribution (to a *takaful* fund) to provide assistance to fellow participants.
Takaful	:	Literally it means guaranteeing each other. It is a system of Islamic insurance based on the principle of *tawun* (mutual assistance) and *tabbaru* (voluntarily) where risk is shared collectively by the group voluntarily.
Tawarurruq	:	It is the method of how an Islamic bank is facilitating the demand/supply of cash from/to its customers. The bank's customers (*mutawarriq*) will buy a commodity on deferred payment basis from the bank and sells the commodity for a cash amount less than the deferred price to a third party (authorised commodity trader). The *tawarruq* contract also being use in a deposits product where the bank guarantee a predetermined percentage rate of return to its term-depositor.

Wakala	:	Delegation of a duty to another party or agency for specific purposes and under specific conditions. Under this concept, the bank acts as the customers' agent in completing a particular financial transaction. As an agent, the bank will be paid a certain amount of fee for the services it provides.

ABBREVIATIONS

Abbreviations	Meaning
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ALM	Assets and Liabilities Management
ATM	Automatic Teller Machine
BAFIA	Banking and Financial Institutions Act
BASEL	Basel Committee on Banking Supervision
BCA	Basic Current Account
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
BSA	Basic Saving Account
CDM	Cash Deposit Machine
GDP	Gross Domestic Product
IAH	Investment Account Holders
IADI	International Association of Deposit Insurers
IBB	Islamic Bank of Britain
IBS	Islamic Banking Scheme
IFI	Islamic Financial Institutions
IIFM	International Islamic Financial Market
IFSB	Islamic Financial Services Board
INCEIF	The International Centre for Education in Islamic Finance
INID	Islamic Negotiable Instruments of Deposits
IRI	The Azhar Islamic Research Institute
IRR	Investment Risk Reserve
KFHK	Kuwait Finance House in Kuwait
KLIBOR	Kuala Lumpur Interbank Offered Rate
LIBOR	London Interbank Offered Rate
LMC	Liquidity Management Centre
MDIC	Malaysia Deposit Insurance Corporation
MIBB	Maybank Islamic Bank Berhad
NID	Negotiable Instruments of Deposits
NIDC	Negotiable Islamic Debt Certificates
NOW	Negotiated Order of Withdrawal
PER	Profit Equalization Reserve
PIBB	Public Islamic Bank Berhad
RWCR	Risk Weighted Capital Ratio
ROR	Rates of Return
PSIA	Profit Sharing Investment Account
PSR	Profit Sharing Ratio
SAMA	Saudi Arabia Monetary Agency
SCM	Securities Commission Malaysia
S & P's	Standard and Poor's Rating Agency

Chapter 1

Introduction

1.1 RESEARCH BACKGROUND AND MOTIVATION

> Malaysia has developed the comparative advantage in the area of Islamic finance. The comprehensiveness of the Islamic financial system in Malaysia has been mutually reinforcing with the key components of the financial system comprising the Islamic banking, *takaful*, Islamic money and capital markets now being at an advanced stage of development. In addition, the established legal, regulatory and *Shari'ah* frameworks in the Islamic financial infrastructure is also a key competitive advantage for Malaysia, placing it ahead of other financial centres offering Islamic financial services. (Aziz, 2006)

> … a prudential regulation should not override the importance of addressing the specificities of Islamic finance where necessary. Such a prudential regulatory design that takes into account the unique mix of risks associated with *Shari'ah*-compliant instruments would enhance the effectiveness of the regulatory outcomes intended for Islamic finance. Although there is already a broad international consensus on the prudential areas that need to be enhanced, different regulatory parameters may be necessary to address the specific risks and unique characteristics of Islamic finance. The Islamic financial community thus needs to effectively respond to this, by strengthening their internal capability to make sound assessments on the need for making similar regulatory reforms that are specifically attuned for Islamic finance to achieve the common objective of financial stability. (Aziz, 2010)

The above quotations, taken from speeches by Dr. Zeti Akhtar Aziz, the Governor of the Central Bank of Malaysia (Bank Negara Malaysia), on two different occasions, show that the Malaysian government is serious not only about promoting Islamic finance business growth, but at the same time conscious that this growth must be supported with prudential regulations which address the unique features, characteristics, and risks as specified in the *Shari'ah* ruling. In this regard, Malaysia is seen as the leading country in promoting the Islamic finance industry. The Islamic banking business growth is evident from the latest Financial Stability and Payment System Report of 2009, issued by Bank Negara Malaysia (2010): this document shows that by December 2009, Islamic banking total assets had increased to RM303.3 billion, which was 19.6% of the total assets in Malaysian banking system, and that total Islamic banking deposits stood at RM188.8 billion, which constitutes 19.3% of the total deposits.

In terms of Islamic banking and finance prudential regulations aspects, many new policies and guidelines were initiated and enforced in the recent years. These include, for example, the *Shari'ah* contract parameters which give the banking industry standardised guidance on treating the *Shari'ah* ruling for each of the *Shari'ah* approved contract. As of 2010, *Shari'ah* parameters on the *murabahah* contract have been issued and *Shari'ah* parameters on *ijarah*, *mudarabah* and *musharakah* are at the consultative papers stage. In addition, the bank has also issued various prudential standards and guidelines which have been adapted from the international Islamic finance standard setting bodies, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), which also address the unique features of *Shari'ah* ruling.

Although many of the standards, guidelines and policies have been introduced, it is argued that most of the standards and guidelines are not fully enforceable due to various practical reasons. One example is that the customers' perceptions of and behaviour towards the unique features of Islamic banking contracts is still lacking. In fact, most of the Islamic banks' practitioners have argued that the behaviour of Islamic banking customers is not much different from that of the customers of conventional banks when it comes to demand for any of the financial products.

This research, thus, studies the problem by looking at one of the deposits products which warrant different regulations in light of the *Shari'ah* ruling. The product is profit-sharing base deposits accounts, also known as profit-sharing investment deposits or *mudarabah* investment deposits in some of the literature.

The concept of *mudarabah* (profit-sharing), as defined unanimously by the *Shari'ah* scholars, is an agreement made between a capital provider and another party (entrepreneur), to enable the entrepreneur to carry out business projects based on a profit-sharing basis, of a pre-agreed ratio. In any event of losses incurred, the losses are to be borne by the provider of the funds. In the profit-sharing base deposits context, the concept of profit-sharing can be applied in which the depositors are the capital provider to the bank and the bank will act as entrepreneur by investing the funds to *Shari'ah* compliance projects. The profit earned from the investment will be shared by both parties according to a pre-agreed ratio. In fact, the unique characteristics of the profit-sharing aspect in the deposits accounts make the product

akin to shareholders, with the exception that the profit-sharing base depositors do not have any voting rights. In Malaysia, the concept of profit-sharing contracts is applied to all types of retail banking deposits, *i.e.* transactional deposits or demand deposits, saving deposits, and time deposits.

Due to the unique nature of the profit-sharing characteristics that are embedded in the deposits product as compared to the normal conventional deposits, AAOIFI and IFSB issued regulatory standards in December 2005 on capital adequacy, which was also adopted by Bank Negara Malaysia to be implemented in the Malaysian Islamic banking industry. In this context, profit-sharing base deposits accounts are given special recognition and treatment in which the standard highlights that the Islamic banks are allowed to transfer any losses arising from the credit and market risks to the profit-sharing base deposits account holders; thus the Islamic banks are qualified for lower capital allocations. In other words, the unique treatment of profit-sharing contracts will give incentives to the Islamic financial institution to allocate lower capital for which such treatment is not available in a conventional banking environment which is governed by BASEL capital accord. Nevertheless, the treatment of profit-sharing base deposits accounts, as provided in the standard and guidelines, is yet to be fully practiced, which means that the Islamic banking industry still uses the same capital adequacy formula in calculating how much capital the Islamic banks need to allocate. In other word, by taking away the special treatment of profit-sharing base deposits accounts from the Islamic banking capital adequacy formula, the formula used in calculating the amount of capital allocated is similar to the BASEL capital adequacy standard. The main reason the standard IFSB formula is not being used is based on the argument that the depositors holding profit-sharing base deposits account are not willing to absorb any losses and even worse that they are expecting a stable rate of market comparable returns (Archer and Abdel Karim, 2007). This argument is also supported by some of the empirical research carried out by, for example, Haron (2000), Haron and Azmi (2005), and Bacha (2004), which argues that the depositors of Islamic banks positively reacted to higher rates of returns. In other word, it can be concluded that a fundamental aspect of Islamic banking deposits accounts is yet to be operationalized. This means that the current treatment by the user and supplier of the product is similar to the products that are offered by conventional banks, although arguably it is fundamentally different.

1.2 RESEARCH HYPOTHESES, AIM AND OBJECTIVES

Based on the predicament that exists between the theory and practice in recognizing the special treatment of profit-sharing base deposit accounts as specified in the standard, this research aims to explore and study the attitudes, behaviours, opinions and perceptions of the depositors towards the profit-sharing base deposits accounts with the aim of answering the following issues of three broad research areas:

(i) Whether the depositors are able to accept the concept of profit-sharing in deposits accounts;

(ii) Why the depositors are currently not accepting the concept, and finally;

(iii) How to encourage the depositors to accept the concept.

The answers to these three issues will provide some recommendations for how to improve the operational aspects of the product and services in line with the *Shari'ah* ruling, so that the Islamic banking industry would not continually be criticised for simply mimicking the conventional banking products and services. Furthermore, the following two broad research hypotheses were formulated:

(i) The majority of Malaysian depositors do patronage Islamic banking deposits accounts for religious reasons; thus, they have a fair level of awareness and knowledge of the basic principles underlying Islamic banking deposits accounts;

(ii) The majority of Malaysian depositors do not have a fair level of awareness and knowledge of the profit-sharing base deposits accounts, which reflects the negative attitudes that are contradictory to the fundamental aspect of profit-sharing contracts as specified in the *Shari'ah muamalah* principles.

The above hypotheses are further broken down into more refined hypotheses for testing purposes later in this thesis. These detailed versions of the hypotheses are presented in the research framework and methodology chapter (Chapter 5).

The hypotheses above motivated and guided the researcher to conduct this particular study with the main aim of exploring and examining the level of awareness,

knowledge, perceptions and attitudes of the Islamic banking depositors in Malaysia towards characteristics of profit-sharing base deposits accounts in accordance with the fundamental principles laid down in *Shari'ah*.

It should be noted that this research also analyses the significant determinant factors that encourage depositors to choose Islamic banking deposits accounts in general and profit-sharing base deposit account in particular. In addition, this study also considers the possible factors that may hinder the understanding and awareness among depositors of the fundamental meaning of the *Shari'ah* contract governing their deposits account.

In order to fulfil these aims, the following research objectives were formulated:

(i) to gauge the level of awareness and knowledge of Malaysian depositors concerning basic *Shari'ah* principles which underlie Islamic banking deposits accounts;

(ii) to assess the level of understanding among Malaysian depositors concerning the existing underlying contract grounding their deposits accounts;

(iii) to locate the factors that influence the depositors to open Islamic banking deposits accounts;

(iv) to gauge the level of awareness of Malaysian depositors concerning profit-sharing base deposit accounts and what factors may influence them to choose such accounts;

(v) to assess the perceptions and attitudes of Malaysian depositors towards the specific, unique characteristics of profit-sharing contracts in the deposits accounts, *i.e.* rate of returns, profit equalization reserves, deposits protections and financial disclosure;

(vi) to identify the main reasons that contribute to the knowledge gap concerning the characteristics of deposits account that exist among the depositors; and

(vii) ultimately to determine whether the Malaysian depositors accept the fundamental spirit of profit-sharing contracts in formulating the deposits accounts, as expressed through their perception analysis.

1.3 RESEARCH QUESTIONS

In order for the researcher to achieve the identified research aims and objectives, the following research questions were formulated with the purpose of guidance on the overall running of the research, especially for the data collection, analysis, and interpretations process. The research questions are as follows:

(i) How do Islamic banking deposits accounts differ from conventional banking deposits accounts and how are these differences treated?

(ii) Are the Malaysian depositors fully aware of and understand the *riba'* prohibition concepts that are the main reason for the ban of conventional banking deposits?

(iii) Do the Malaysian depositors know and understand the concept and nature of *Shari'ah* contracts underlying their existing deposits accounts?

(iv) What are the factors that attract the Malaysian depositors to bank with Islamic banks?

(v) Are the Malaysian depositors familiar with profit-sharing base deposits accounts?

(vi) What are the factors that attract the depositors to select profit-sharing base deposits accounts as deposit product choice?

(vii) How do the Malaysian depositors perceive and react towards certain unique *Shari'ah* contract characteristics of profit-sharing base deposits accounts (uncertain rate of return, no deposits protections, and financial disclosure)?

(viii) How do the Malaysian depositors perceive the level of customer service of the Islamic banks in terms of explaining the underlying principles (risk and reward) of the deposit contract?

(ix) Are there any differences in terms of the level of understanding and knowledge concerning the characteristics of profit-sharing base deposits accounts among various categories of depositors in the study?

1.4 RESEARCH METHODOLOGY

In responding to the outlined research questions, this research undertakes a combination of two research methods: firstly, a comprehensive review of the existing literature and theory of conventional and Islamic banking deposits, and secondly an

empirical study to elicit the depositors' opinions, perceptions and attitudes in responding to the theory which has been discussed in the literature.

In the first part of the thesis, the researcher undertakes to review the existing theories and studies that are related to banking deposits. The researcher also carries out a comparative study of the differences between conventional banking deposits and Islamic banking deposits, including the definitions, characteristics, and purpose of the deposits, and also the risks associated with managing the banking deposits.

The second part of the thesis is concerned with an empirical study which investigates the respondents' attitudes, behaviours, perceptions and opinions towards the identified variables which are pertinent to area of study, *i.e.* profit-sharing base deposits accounts. A survey technique using questionnaires is used in this context to obtain responses from the target audience. The target audience consists of samples from the wider base of Islamic banks category in Malaysia, *i.e.* customers of stand-alone full-fledged Islamic banks and of full-fledged Islamic banking subsidiaries. The survey exercise managed to collect 649 completed and usable questionnaires. The data was analysed using SPSS statistical software.

1.5 SIGNIFICANCE OF THE STUDY

The existing body of knowledge demonstrate that research on Islamic banking deposits is still scarce. During a review of the existing literature concerning Islamic banking operations it was found that only a handful of sources discuss the real issues related to Islamic banking deposits and suggests practical mechanisms to overcome the problems. However, most of the academic writing in this area only describes and narrates the theoretical aspects of the banking deposits, such as the products available in the market and how these products work from a theoretical point of view. In addition, research that relates directly to profit-sharing base deposits accounts is deemed very scarce if not non-existent. The available studies only discuss the behavioural aspects of the depositors in general terms; many of these studies conclude that the Islamic banking depositors are attracted to the financial aspect, which is similar to the behaviour of conventional banking depositors.

Moreover, the Islamic bankers also support the argument that the behaviour of Islamic banking depositors is similar that of conventional banking depositors, as can be seen in their presentations at some of the professional seminars and conferences organised by the industry-related institutions. They argue that the depositors of Islamic banks are still looking at the rate of return and at deposits protections, regardless of the deposits product that they have. Hence, the depositors of Islamic banks should be treated equally to the nature of their conventional counterparts.

Based on the trend of the existing literature, this research concludes that the area of deposits in Islamic banking is considered as a settled issue by the Islamic bankers, and also by most researchers who have an interest in the Islamic banking industry, as the Islamic banks continue carry on their normal business without any attempt to solve the real problem embedded within it. In addition, the previous studies on depositors' behaviour only highlight the issues without offering any feasible solutions. Therefore this study is considered as distinct and departs from previous studies with the objective of filling the gaps in the existing body of knowledge. Firstly, since juristically almost all of the literature on Islamic banking argues that a profit-sharing contract is regarded as the most desirable financial instrument that would succeed in promoting stability and justice, the study will contribute to the knowledge on whether, why, and how the profit-sharing contract can be implemented correctly in practice according to the principles of *Shari'ah*. Secondly, this study provides a larger sample size within the wider populations within the Islamic banking industry, and includes several full-fledged Islamic banking subsidiaries as part of the sample. The analysis of the larger sample size and populations is perhaps the first of its kind in any empirical study conducted in the Malaysian context that investigates depositors' perceptions, opinions and attitudes concerning specific products offered in Malaysia.

This research sheds some light on the benefits of enforcing profit-sharing base deposits accounts, and will suggest possible immediate and long-term measures that can be taken to correct the existing practice. The outcomes therefore provide recommendations to the parties directly involved in the process, *i.e.* the depositors, the Islamic bankers, and the policy makers (regulators and government), for implementing these changes.

1.6 STRUCTURE OF RESEARCH

Following this brief introduction, the thesis continues with the remaining nine chapters, which are closely interrelated. There will unavoidably be some overlapping of discussion and cross-referencing. The overview of chapter 2 to chapter 10 is as follows:

Chapter 2 – 'Retail Banking Deposits: A Survey' is the first chapter that reviews the existing literature, text and other relevant reference materials that discuss the definitions of banking deposits from the perspective of conventional banking. It also discusses what the pertinent characteristics and nature of the banking deposits. In addition, the chapter also briefly presents an overview of types of common retail banking deposits instruments as a refresher. Lastly, in the final section, this chapter also discusses the common factors that may attract the depositors to any particular conventional banks.

Chapter 3 – 'Retail Banking Deposits in Islamic Banking: A Survey of Concepts, Characteristics and Operational Features' discusses the Islamic perspective on banking deposits. The chapter provides an overview of Islamic banking deposits, including the definitions and distinct features of Islamic banking deposits as compared to the conventional banking deposits instruments. In addition, this chapter also briefly discusses the issue of prohibition of *riba'* from the Islamic banking deposits perspective, and reviews alternative justifications for allowing the depositors to gain a return from the standpoint of the Islamic theory of profit. Furthermore, this chapter discusses in detail the theoretical background, including issues related to each of the deposits instruments such as transactional deposits, saving deposits, and investment deposits offered by Malaysian Islamic banks, in which all of the types of deposits also provide the profit-sharing contract as a basis for formulating the deposits product. The chapter then elaborates on the core aspect of this thesis, which is the characteristics of profit-sharing base deposits accounts (rate of returns and deposits protections). These are also referred to as *Mudarabah* Investment Deposits or Profit-sharing Investment Deposits by some of the authors. Lastly, the risks associated with the Islamic banking deposits are discussed, as well as relevant risk management techniques.

Chapter 4 – 'A Survey on the Characteristics of Islamic Bank Customers: Awareness and Behavioural Issues' presents and discusses the available academic literature on Islamic banking concerning the level of awareness, knowledge, perceptions, and attitudes of the customers or the public at large towards Islamic banks and Islamic banking products. This chapter covers a wide range of issues from the general awareness on Islamic banking principles to the customers' services aspects. The chapter also reviews the research techniques that were used previously by other researchers; these range from empirical studies using primary survey tools to the analysis of secondary data. The outcomes of this review are threefold: firstly, it offers an indication to the researcher concerning gaps in the relevant area of study; secondly, the researcher was able to determine what the most appropriate research method are that should be used in the current study, and, finally, the researcher was able to leverage on the important and significant variables that must be included in the present study.

Chapter 5 – 'Research Framework and Methodology' discusses the research strategy and methodology adopted for the data collection process. This chapter presents in great detail the recommended research procedures by making reference to the various research methodology textbooks on the appropriate research process and technique to be used. The researcher also presents the rationale and justifications for each of the tools and techniques used throughout this study. In addition, the chapter also presents the more closely refined research hypothesis which is to be tested in the analysis chapter.

Chapter 6 – 'Searching for the Nature and Characteristics of Islamic Deposit Accounts and Depositors: Perception Analysis of the Account Holders' provides a descriptive analysis of the survey outcomes for each of the items contained in the survey questionnaires. It includes a demographic profile analysis and also the core variables for the research. The purpose of this chapter is to give an overview analysis of the findings from the survey. The descriptive analysis benefited from a frequency analysis which also includes the frequency percentage, mean, and standard deviations value for each of the variables; this provides the readers with the grounding knowledge of the overall results.

Chapter 7 – 'Exploring the Awareness and Knowledge of Deposits Account Holders on the Fundamental Aspects of Islamic Deposit Accounts: Inferential Statistical Analysis' presents further analysis of the awareness and knowledge of depositors concerning general aspects of Islamic banking deposits accounts using inferential statistical tools. In this chapter, the depositors' awareness and understanding of the concept of *riba'* and the underlying principles that formulate their deposits accounts were further analysed using statistical tools such as Mann-Whitney U-test, Kruskal-Wallis test, factor analysis, and logistics regressions. The results of the analysis are discussed, interpreted and justified in great details in order to respond to research questions 2, 3, and 4.

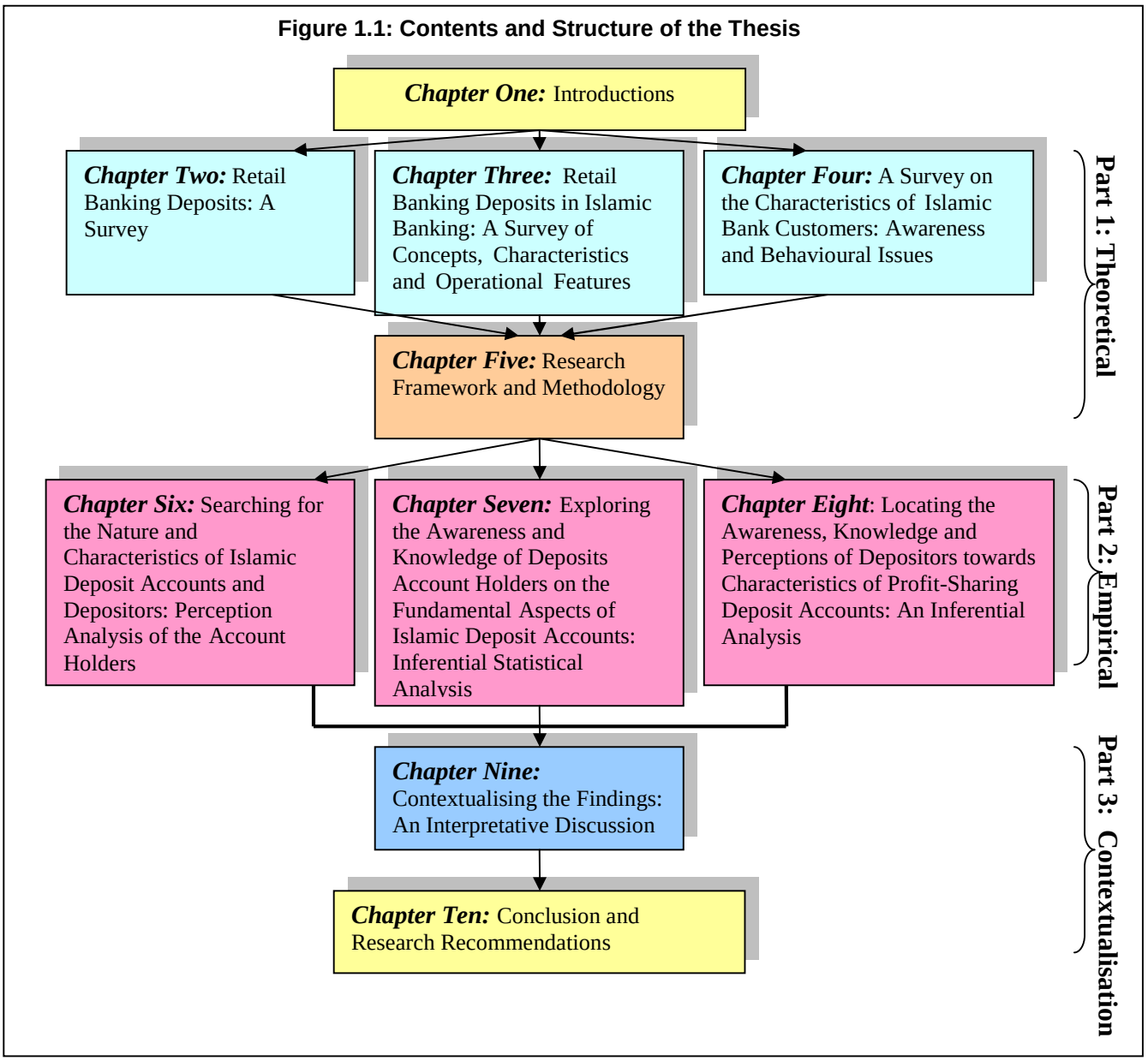
Chapter 8 – 'Locating the Awareness, Knowledge and Perceptions of Depositors towards Characteristics of Profit-Sharing Deposit Accounts: An Inferential Analysis' presents the results of analyses concerning the awareness, opinions, perceptions and attitudes of the depositors towards characteristics of profit-sharing base deposits accounts. This chapter forms the core of the present study. Again, in this chapter, the researcher used similar inferential statistical tools as in chapter 7 to analyse, describe, and rationalise the possible justifications for each of the analysis' outcomes. The results in this chapter respond to research questions 5 to 9.

Chapter 9 – 'Contextualising the Findings: An Interpretative Discussion' presents the overall discussion of the findings in chapters 6, 7 and 8 by responding to each of the research hypotheses which have been laid down in chapter 5. This chapter provides an in-depth discussion of each of the hypotheses, and also makes cross-references the theory and findings of previous studies in order to link all the pertinent main findings in this study together. The outcome of this chapter gives some insight in deriving the overall conclusions of the study.

Chapter 10 – Conclusion and Research Recommendation presents a summary of the major findings, recommendations, limitations, and offers suggestions for future research.

To give a visual dimension to the structure of this research, Figure 1.1 provides an overall picture of the structure of the thesis:

Figure 1.1: Contents and Structure of the Thesis



Chapter 2

Retail Banking Deposits: A Survey

2.1 INTRODUCTION

The traditional banking system is considered as one of the growth engines that have contributed significantly to the economic development of any particular country, as "[f]or centuries, the economic functions of financial systems were essentially performed by banks alone" (Gibson, taken from Freixas and Rochet, 1997: 1). This function is fulfilled by banking institutions through mobilizing deposits to be channelled into productive sectors for the purpose of economic growth. Although there are other financial intermediaries, such as mutual funds, or stock broking firms, also involved in the economic growth process, the traditional functions of banks as nuclei of the economic activity cannot be denied.

The concept of a banking system is derived from the process of financial intermediation and is defined as an "act of borrowing by deficit units from financial institutions rather than directly from the surplus units themselves" (Matthews and Thompson, 2005: 33). While there are various definitions of the concept,[1] the theory of financial intermediation (including banking institutions and their unique functions and necessity) has been widely discussed and debated in the academic literature.

According to Benston and Smith (taken from Campbell and Kracaw, 1980: 863; Scholtens and van Wensveen, 2000: 1244), the theory of financial intermediation is well premised on the fact that the market is imperfect. In addition, according to Scholtens and van Wensveen (2000: 1244):

[1] See also (Hogan *et al.*, 2001: 5-6; Hempel *et al.*, 1994: 4-5; Pyle, 1971: 737; Tirole, 1994: 469; Labadie, 1995: 1290).

> Financial intermediaries, according to that theory[2], have a function only because the financial market is not perfect. They exist by the grace of market imperfections. As long as there are market imperfections, there are intermediaries; as soon as markets are perfect, intermediaries are redundant: they lose their function as soon as savers and investors have the perfect information to find each other directly, immediately and without any impediments, so without costs.

It is well acknowledged that the theories of financial intermediation are based on two main traditional premises: 'information asymmetries' and 'transaction costs'. However, there are some contemporary interpretations of financial intermediation theory that are based on current technological development. This means that for a financial institution to exist, the institution must have both the supply of funds from surplus units such as banking deposits, as well as demand for funding from deficit units such as entrepreneurs.

With the new technological and industrial development, new conceptual definitions of financial intermediation have come to the agenda. For instance, Scholtens and van Wesveen (2000) suggest developing a new financial theory beyond the traditional one which must take into consideration the value added services provided by modern financial intermediaries. However, the traditional theoretical views of financial intermediation based on information asymmetries and transactional cost cannot be completely ignored since the main function of the current financial intermediaries is still closely related to the first financial intermediation theory formulated. The new financial intermediation theory should be complementary to the existing traditional theory since the market will never be perfect, despite current developments in the financial market industry coupled with the advancement in information technology.[3]

[2] The word 'theory' in this quote refers to the central point of reference in the theory of financial intermediation which was derived from the paradigm of the perfect market, which was introduced by Marshall and Walras, and formalized in the traditional Arrow-Debreu model of resource allocation (Scholtens and van Wensveen, 2000: 1244).

[3] Although the information technology advancement will increase information transparency and development of new financial products, the majority of the customers, especially in developing countries, still perceive financial intermediaries such as banks as the best channel for keeping their money and receiving a portion of interest, since the amount that they deposited is relatively small if they want to make to any direct investment. In addition, they also still highly regard the bank as the best channel of investment because of the branch network that the bank has, which is familiar and convenient to them.

This chapter discusses the traditional banking system with the focus on the deposits aspect, which is central to the present study. The chapter begins with a brief discussion of the uniqueness of banking institutions, compared with other intermediaries, in terms of the banking institutions' ability to solicit for deposits. Subsequently, the chapter discusses various further issues, such as depositors' behaviour relating to banking deposits. The chapter ends with some measures that have been taken to promote deposits stability in order to fulfil the various objectives of interested parties such as government, regulators, depositors, and the public at large.

2.2 CONCEPTS OF BANKING DEPOSITS

The concept of banking deposits is the only unique function that distinguishes the banking institutions from other types of financial intermediation. For example, many authors have attempted to define and make distinction between banking institutions and other companies, including other non-financial companies, in the literature. Based on the review of the literature, the most popular opinion on the prime distinction between the banks and other financial intermediaries is that the former are involved in accepting deposits and making loans directly to borrowers, and the latter lend money via the purchase of securities (Allen and Santomero, 1997: 1463; Buckle and Thompson, 1998; Bullard and Smith, 2003: 173; Freixas and Rochet, 1997; Labadie, 1995: 1290; Matthews and Thompson, 2005: 34; Miles, 1995: 1366). Heffernan (2005: 1) also defines the meaning of banks and distinguishes it from other financial institutions as follows:

> The provision of deposit and loan products normally distinguishes banks from other types of financial firms. Deposit products pay out money on demand or after some notice. Deposits are liabilities for banks, which must be managed if the bank is to maximize profit. Likewise, they manage the assets created by lending. Thus, the core activity is to act as intermediaries between depositors and borrowers. Other financial institutions, such as stockbrokers, are also intermediaries between buyers and sellers of shares, but it is the taking of deposits and granting of loans that singles out a bank, though many offer other financial services.

Another way to define and describe the uniqueness of banking deposits to banking institutions is through explicit definition of the banking business in the various banking acts issued by respective countries. For example, in Malaysia, section

2(2)(a)(i) of the Banking and Financial Institution Act of 1989 defines 'banking business' as "the business of receiving deposits on current accounts, deposit accounts, savings accounts or other similar accounts". Similarly, section 5(1)(b)(i) of the Australian Banking Act of 1959 also defines banking business as "a business that is carried on by a corporation to which paragraph 51(xx) of the Constitution applies and that consists, to any extent, of both taking money on deposit and making advances of money". In addition, the Indonesian Banking Act, which was revised on 17 February 1992, also defines banks as "institutions (licensed by the Central bank) which collect funds from the public – but this includes only funds in the form of deposits"(McLeod, 1992: 110).

Based on the definitions given by various sources in either academic literature or from a legal point of view, it is clear that one of the main distinctions of banks from other financial institutions is the deposits taking function which is only granted to banks as license under a banking act. Although there are other functions that the banks conduct, including banking services[4] (Bossone, 2001), what makes banks special is the bank's ability of accepting money in the form of unique deposits, and holding fixed value of nontradable financial assets (Corrigan, 1982, 2000).

As an organization which is incorporated on a commercial basis, the services provided by the bank come with a cost, with the ultimate objective to increase shareholder value by making profit. Therefore the services provided by the bank will certainly include elements of covering transactional costs as well as a certain profit margin which is known as 'spread'; the overall charge imposed by a bank on the borrowing customer is known as 'interest'. Portion of the interest charged from the borrower will be transferred to the depositors. The difference between the interest received and the interest expensed is known as 'interest margin' and forms the major portion of banks' income and profit (Heffernan, 2005; Hogan *et al*., 2001; Matthews and Thompson, 2005: 37-40).

[4] Services provided by banking institution including payment agent, advisory services such as arranging and underwriting any issuance of capital market instruments, cross selling other non banking financial instrument such as insurance and unit trust products.

2.2.1 Definition of Banking Deposits

Based on the previous section, it is noted that the uniqueness of a banking institution compared to other financial intermediaries is the ability of banking institution to accept deposits. In addition, deposits are the biggest component in a typical bank's balance sheet (Buckle and Thompson, 1998). According to Gilkeson *et al.* (1999: 103), although there is a significant development in the financial services market which is evident in the dilution of banks' deposits markets to other financial instruments, deposits are still a very important source for banks' funding, since they are the cheapest funding mode. Therefore, in this section, the meaning of deposits in legal and academic contexts will be elaborated; this will be followed by a discussion of the characteristics of banking deposits.

Little academic research has been carried out on the meaning of deposits. It can be construed that the meaning of banking deposits is regarded as a rather established and settled issue. According to Oxford Dictionary, the word deposit is a Latinate term that was first coined in the late 16th century. Deposit in monetary terms is interpreted as firstly "a sum of money that is given as the first part of a larger payment", and secondly as "a sum of money that is paid into a bank account" (Hornby, 2005: 392). The second meaning of the deposit term is more relevant to the present discussion.

The Malaysian Banking and Financial Institutions Act of 1989 (BAFIA 1989) defines deposit as

> a sum of money received or paid on terms-
> *(a)* under which it will be repaid, with or without interest or at a premium or discount; or
> *(b)* under which it is repayable, either wholly or in part, with any consideration in money or money's worth, and such repayment being either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it, regardless whether the transaction is described as a loan, an advance, an investment, a saving, a sale or a sale and repurchase...

In addition, Part IV of the Act clearly outlines clauses that contain restrictions relating to the acceptance and solicitation of, advertisement for, and inducement to make deposits. In other words, the Act prohibits under the law to solicit for deposits as

defined in the Act without the license granted by the Central Bank.[5] This means that the deposits taking function is a special instrument that can only be introduced by banking institutions.

2.2.2 Characteristics of Banking Deposits

Banking deposits is an instrument between depositors and the banks. The underlying contract between the two parties, debtor (bank), and creditor (depositors), includes interest payment. It includes an agreement by the debtor of being able to borrow money from the depositors now, in exchange for a promise of money in the future (Kohn, 2001). Based on the underlying principle, the banks are obliged to repay the principal amount together with interest. In explaining this, Freixas and Rochet (1997) emphasise two reasons why banking institutions are still relevant: the protection of depositors' funds, and the safety and efficiency of the payment system. However, based on this principle, should bank deposits be considered as safe and guaranteed investment? Kohn (2001: 32) asks: "How about the savings account? Is that at least safe? In the past, it was not: you could have lost your money if the bank failed. Today, however, virtually all deposits are insured by the federal government".

It is clear from this statement that, fundamentally, bank deposits are not a guaranteed financial instrument. The statement can be further strengthened by some evidence of past incidences. For example, Grada and White (2003: 218) relate back to the history of the banking panic that occurred in 1854. One of the savings banks by the name of 'Knickerbocker Savings Bank' was wound up as a result of a bank run. Upon liquidation, the bank only paid its depositors 86.5 cents on the dollar. This shows that from a fundamental point of view, and as evidenced by historical reports, bank deposits are not a guaranteed instrument.

Another quite recent example offered by Kohn (2001: 4) is the Heritage Loan and Investment Co., which was a small Rhode Island bank. In November 1990, the depositors rushed to the bank to withdraw their money after they noticed the mysterious disappearance of the bank's president. The panic caused the small private insurance funds to get wiped out and, as a result, the governor of Rhode Island

[5] The Central Bank has the power to prosecute any party that construe as taking deposits from public without license from the central bank.

ordered to close another 45 small banks and credit unions that relied on the funds to avoid a similar event happening again. This incidence caused other problems to the depositors who could not get their deposited money back. The argument that bank deposits are not a guaranteed investment is also supported by vast literature on deposit insurance, which indirectly can be interpreted as showing that banks' deposits are not guaranteed unless they are insured.[6]

There is, however, a tendency that a few governments explicitly or implicitly indicated that the bank deposits are a guaranteed instrument as suggested by Kohn (2001). The government either explicitly incorporate government-backed deposit insurance agencies such as in US, Canada and Malaysia[7], or implicitly indicate it through a Lender of Last Resort facility offered by the central bank to the banking institutions (Cordella and Yeyati, 2002: 472). In addition, one of the objectives of the BASEL Committee Guidelines on Capital Adequacy, which requires banking institutions to have a minimum capital ratio of eight percent of risk weighted assets, is to protect the depositors' interest from any losses.

There are few costs and advantages of having banks' deposits as guaranteed deposits. The most important reason underpinning the act of guaranteeing banks' deposits is to ensure the financial stability of the country. The message of guaranteeing the deposits, communicated to the public, will increase depositors' confidence in the banking institutions and indirectly motivate people to increase their savings in banking institutions. In fact, historical evidence shows that the depositors saved their money in the banks for protection and for future consumption. Alter *et al*. (1994) studied the behaviour of ordinary Americans' motives for putting savings in The Philadelphia Saving Fund Society in the mid-nineteenth century. They found out that the depositors primarily saved for life-cycle reasons and future purchase of assets.

The argument for the proponents of government guaranteeing banks' deposits is that if the depositors do not receive such assurance from the government, the depositors

[6] For discussion on deposits insurance, refer to Peria and Schmukler, 2001, among others.
[7] In the bank run case experienced MBf Finance Berhad in September 1997 and Sime Bank Berhad in March 1998, the Central Bank of Malaysia explicitly stated that all the deposits in the banks are guaranteed by the Government of Malaysia in order to curb bank run ("Mas Press Statement on Sime Bank Berhad," 1998).

might not have high confidence in the banking system; this could lead to banking failure. Most countries, and in particular developing countries, rely on financial sectors – and mainly banking sectors – to drive the growth of the economy. Normally banking sector growth in these countries contributes 40 to 50 percent of the Gross Domestic Product (GDP) growth via granting loans to the growth sector[8]. "Aggregate savings are key to the process of economic growth because they are the basis of capital formation" (Alter et al., 1994: 736). Any failure of a single bank will cause systemic risk to other banks to fail as well, and in the end the whole financial industry may collapse. For example, the Southeast Asian Financial Crisis in the year 1997 and the recent global financial crisis which notably affect the UK and US, evidenced that many banks suffered significantly high levels of non performing loans which threatened the banks' solvency. The effect of financial crises resulted in the banks being unable to extend new loans due to a credit and liquidity crunch which in turn affected the GDP growth.

Although the act of guaranteeing deposits is highly desirable by certain governments, there is a cost to it. The government has to fulfill the obligation if any of the banks fail, although the banks pay a premium to the insurance agency. However, past studies show that the insurance premium was insufficient to cover the total deposit amount of any particular bank (Kohn, 2001). The cost could be higher if a few banks collapse at the same time due to weak risk management systems and other external factors. As a result, the government has to step in to save the banks by using tax payer money in order to curb the financial crisis for example in the UK, the government has spent about GBP850 billion of taxpayers money to bailout the ailing banks[9].

In addition, there are others who take an oppositional position against guaranteeing the deposits. There are several reasons for this, but, according to the majority of the opponents, the main reason is moral hazard issues. Karels and McClatchey (1999: 106) stated that:

[8] "Growth of the U.S. economy in the nineteenth century was stimulated by a substantial increase in the aggregate saving rate" (Alter *et al.*, 1994: 736).
[9] See 'The Independent' UK at http://www.independent.co.uk/news/uk/politics/163850bn-official-cost-of-the-bank-bailout-1833830.html. Assessed date: 4 December 2009.

> Many financial economists have argued that the crisis in the thrift industry in the 1980's was the result of inattention to the moral hazard problem by regulators. Studies by Kane (1989), McKenzie *et al.*(1992) and Cole(1993) suggest that moral hazard behaviour was responsible for a significant portion of S&L losses.

Such statements clearly indicate that a moral hazard problem was one of the risks that could lead to banking a crisis. In fact, in the recent global financial crisis, the main problem that caused the bank failure in the US was the excessive risk taking activities by the financial institutions such as unnecessary extension of housing loan to sub-prime borrowers. In the deposits insurance scenario, the insured banks will have the tendency of high leverage on the insurance by taking excessive risks on the portfolio and shift the failure risk to the deposits insurance agency or the government. Many empirical studies in the past showed that the incorporation of the deposits insurance scheme has increased the number of bank failures (Wheelock and Kumbhakar, 1994: 358). Some other studies also showed that, although the bank does not fall under the solvency issue, there is high indication that the insured banks were taking excessive risks at the expense of the deposits insurance agency or the depositors if the agency was unable to cope with the demand. In addition, according to Karels and McClatchey, the moral hazards problems will worsen as a firm's capital declines (1999: 106).[10]

Another reason articulated in the literature against the idea of deposits protection is the negative effect of depositors' behaviour in monitoring bank risk taking activities. The depositors will have the tendency of feeling complacent and secure with the guarantee given. Studies suggest that the depositors should play an active role in monitoring bank risk taking activities. The depositors would be able to limit the excessive risk taking behaviour by either withdrawing their deposits as a signal to the high risk bank or demanding higher interest rate which is commensurate with the risk taken (Beston *et al*. (1986), taken from Karels and McClatchey, 1999: 106; Peria and Schmukler, 2001). However, the role of active monitoring of bank risk taking

[10]Empirical evidence from various literatures, including "Benston and Koehn (1989) reported that an increased emphasis on riskier, nontraditional activities resulted in a greater stock return volatility for poorly capitalized S&L's, but lower stock return volatility for healthier institutions. Brewer (1995) found that shifts in asset composition toward nontraditional activities resulted in increases in the return on equity for distressed institutions but had no effect on healthy institutions."(taken from Karels and McClatchey, 1999: 106)

activities can only be achieved via transparency of banks' information (Cordella and Yeyati, 2002: 472). Thus, improvement in banks' information disclosure is highly desirable to promote market discipline.

Another unique characteristic of banking deposits compared to other investment instrument is 'liquidity' (Heffernan, 2005), as banking deposits are the most liquid instrument in financial market. Each person has a different objective for saving toward future consumption. "Perhaps more important, the liquidity preference may change over time because of unexpected events" (Heffernan, 2005: 3). Through banking deposits, every depositor in the bank will receive their deposited money instantly at any time, including the contractual types of deposits (such as fixed deposits), although they have to pay a penalty for breaching the contract. The liquidity characteristics in banking deposits are further improved in modern banking via electronic infrastructure, such as Automatic Teller Machine (ATM), internet banking, and cash back facilities at certain authorized Cash Back Points.

In short, deposits are a unique instrument that can only be solicited or offered by banking institutions and which is licensed by the government via a central bank or monetary agency. Maintaining the stability of the deposits instrument is very crucial in promoting sound financial systems. As can be seen from fundamental contracts and past incidences that occurred to some banks, deposits are not a guaranteed instrument. However, the objectives of preserving financial and economic stability, as desired by certain governments, have lead to the deposits being either explicitly or inexplicitly guaranteed by the government. The notion of deposits protection is widely discussed in the literature, which either supports it or argues against it due to several positive and negative implications that might rise in the future. Furthermore, deposits are a very liquid financial instrument; the ability to liquidate assets on demand is also a unique characteristic of deposits.

2.3 THE SUPPLY SIDE OF RETAIL BANKING DEPOSITS

2.3.1 Types of Banking Deposits

There are several generic types of deposits that are solicited by banking institutions. Each type has different characteristics which technically differ in terms of risk and

return. Return to the depositors is expressed in interest rate form. The main explicit difference between each type of deposit is interest rate. Appendix 2.1 illustrates a comparative interest offered for each deposits product from the leading bank in Malaysia, namely Maybank Berhad. The following are brief definitions, features and characteristics of common types of banking deposits accounts.

2.3.1.1 Current Deposits/ Demand Deposits

The main purpose of the introduction of the deposit type 'current account', also referred to as 'demand deposit', is to facilitate payment. As the terminology of demand deposits suggest, the holders of this type of account have the flexibility to withdraw their deposits on demand. Current account depositors receive a cheque book in order to facilitate the payment services ('Banking Info'; Hogan *et al.*, 2001). Current account facilities are unique products that are offered by commercial banks only due to restrictions imposed on other financial institutions by the regulators to offer similar products (Kohn, 2001). The account holders need to issue the cheque to the intended beneficiary to signify that the account holder has withdrawn their money from the bank. The beneficiary will then present the cheque to the bank to claim the money. It is the most liquid deposits account ever introduced.

As the nature of the accounts is to facilitate payment, the bank has to incur costs in maintaining the accounts, such as the administrative cost of processing a cheque via a clearing house. In addition, banks are unable to benefit in any significant way from utilizing the funds to grant loans due to high variability of the deposits. Due to high transaction cost coupled with minimum benefit derived from utilizing the funds, banks previously did not pay any interest to the current account depositors. Although the accounts do not pay any return, they still receive very great demand due to being the only payment method that was offered especially to the entrepreneur in the past. For banks, the demand deposit is highly desirable because it is the lowest cost of funds. The bank which has a huge volume of current deposits would be able to maximize the bank's return from utilizing the deposits. The variability nature of the deposits will be minimized from the set off between deposits and withdrawal.

However due to the introduction of various innovative financial products such as commercial papers, money markets, and other various electronic payment

technologies which not only provide equivalent service of payment facilities, but also give returns to the customer, banks have started to introduce interest bearing current accounts in order to able to retain the existing customers beside attracting new ones (Hogan *et al*., 2001: 147; Kohn, 2001). For example, "in July 1970, Consumer Savings Banks of Worcester, Massachusetts offered 'negotiated order of withdrawal (NOW)' savings accounts" (Gibson, taken from Kohn, 2001: 241)[11]. The product was getting more popular and at the end the regulators allowed other banks to introduce similar products as well. Therefore in order to make sure that the current account facility is still relevant and in demand, banks that offer the product are being forced by the market demand to pay interest to the depositors.

Although most of the current accounts are presently paying interest on deposits, the level of the interest rate is still considered as the lowest among other types of deposits. The reason for paying the lowest interest rate goes back to the nature of the demand deposits, *i.e*. high administrative cost as well as high variability. Therefore the bank should be able to attract more demand deposits in order to enjoy the benefits of being able to lower the administrative costs and enjoying a structure of lowest cost of funding.

2.3.1.2 Savings deposits

A savings deposits account is the basic type of deposits account offered by retail banks. As the name suggest, the purpose of savings account deposits is an avenue to depositors, in particular retail, or individual depositors to save their money as a means of security and contingency for future consumption. In comparison to a current account, it pays a relatively higher interest to the depositor ("Money Made Clear"). From the banks' point of view, a savings account is another source of funds for running their lending activities. Savings accounts are deemed as one of the stable funding sources for the banks, as it is expected that the savings deposits are less volatile or fluctuate less than those of current accounts (INCEIF, 2006: 70). In addition, savings account depositors normally will not switch to other banks, even if

[11] A NOW account is a "savings account which allowed the transfer of funds to a third party through the use of a negotiated order of withdrawal" (Kohn, 2001: 241). Since it was a savings account product, the bank did pay interest to the account holder. Initially The Bank Commissioner of Massachusetts did not approve the product but the Supreme Judicial Court of Massachusetts overturned the commissioner's decision stating that the bank has the right to introduce transfer to third party facilities on savings accounts.

the other banks offer attractive interest rates, since the related cost of switching banks[12] make such a change unattractive to the customer. In addition, many customers find it convenient that they already have a relationship with their existing bank's staff.

Although savings account deposits pay an interest rate which is higher than that of current accounts, they are still considered as one of the deposits products which have the lowest cost of funding,[13] and they form the most stable funding structure in running the banks' operation. Therefore, the behaviours of this type of depositor are assumed by most bankers as stable due to the purpose of the saving. In addition, savings account deposits are formed by a large pool of individuals with small sums of deposits. The risk of liquidity shock of sudden withdrawal is, therefore, diversified since few customer withdrawals will not significantly affect the deposit structure of the bank (Grada and White, 2003: 236).

2.3.1.3 Fixed Deposits

Fixed deposit is a product where the depositors will place their money in a bank with predetermined fixed maturity and fixed interest rate return. It is a contractual account in which the depositors are willing to place their money for a specified time period, during which the account holder is theoretically unable to withdraw funds until they become mature. However, practically the depositors are given the option to make early withdrawal, subject to penalty charges equal to a percentage of face value; this is usually stated in form of the number of months of interest (Gilkeson *et al.*, 1999: 104). Typical normal duration of the deposits ranges from one month up to 60 months[14].

The pricing determination of fixed deposits is highly related to the term structure of the deposits (INCEIF, 2006: 71). This means that the longer the tenure of the placement, the higher the interest rate that the depositors will expect to receive, which translates into the risk and return concept in finance. The term deposits interest rate is

[12] Example of switching costs such as transactional costs in relation to the closing of existing account and opening of another account with other banks.
[13] 'Cost of fund' refers to the interest rate payable to the depositors. Another term that is synonymous to cost of fund and interest payable is 'interest expense'.
[14] Maybank Berhad, which is the largest banking group in Malaysia, offered fixed deposit placement up to 60 months. For the rates details please refer to the Maybank webpage at http://www.maybank2u.com.my/.

usually higher than that of other deposits products, which translates into higher interest expense or cost of funds. Therefore, if a bank highly relies on term deposits, it will be able to fully maximize the investment return by giving out profitable loans via higher loan margin. Although the cost of funds of term deposits is costly, the products are still desirable by the bank in order to manage the balance sheet, especially banks which have high long-term assets such as mortgages.

2.3.1.4 Notice Deposits

Notice deposits or call deposits are a type of deposits product where the account holder needs to give notice of the intention to withdraw funds to the bank before a withdrawal can be made. The normal typical notice periods are thirty days, sixty days, three month and six months ("A Guide to Cash Deposits," 2006). However, some banks offer other duration notice periods such as thirty two days or less than thirty days.

Since the account holder needs to give notice, it means that the customer is at a disadvantage in terms of liquidity needs; however, as, compared to savings accounts and current accounts, the notice deposits account holder will be receiving a higher interest rate. However, the interest rate is less favourable when compared to fixed deposits accounts (‘A Guide to Cash Deposits’, 2006).

Although the customers usually need to give a predetermined notice period in order to gain access to their cash, they are able to access the cash instantly, but with the penalty normally equal to interest earned during the notice period. For example, if the customer needs to give 30 days’ notice in order to cash out, the customer who requires the cash immediately will lose the thirty days’ interest as penalty charge.

For banks, a notice deposits product is good for managing their balance sheet, since the account holder needs to give sufficient notice prior to the withdrawal. The longer the notice period that needs to be given, the more advantage to the bank in managing the liquidity. However, due to intense competition, some of the banks need to shorten the notice period in order to attract more depositors. A shorter notice period means giving more flexibility to the depositors.

In sum, the stability of deposits funding is an important element in operating a banking business. The introduction of various generic products caters for and attracts depositors with different types of specific purposes and objectives. At the same time, the bank should also meet the maximizing shareholders values objective by increasing profit and minimizing costs. Some of the funding sources, such as current accounts, are relatively cheap as compared to certain other types of funding means, and each type of the funding is associated with different levels of risk (Hogan *et al*., 2001: 151).

2.4 ALTERNATIVE MECHANISM FOR DEPOSITS PROTECTION

Banking crises are the most costly in any of country's economy. Protection of banking institutions, including deposits taking institution, is essential in order to avoid any particular economic crisis such as that experienced by countries in the South East Asia crisis in 1997 and the recent global financial crisis in year 2008/2009. Therefore, the intention of protecting the depositors' funds for banking and economic stability is undeniably important. However, the act of giving explicit guarantees via full coverage by deposits insurance and implicit government guarantees without supplementing them with other measures is deemed insufficient to achieve the intended objectives of avoiding banking crises and ensuring banking stability. The impact of economic and banking crises due to external factors will become worse in the case of governments' explicit and implicit deposits guarantees. This is due to the fact that governments will have to bear additional costs, which are not part of the government fiscal budget of deposits reimbursement, or inject additional capital to safe the ill institution. The problems due to moral hazards within the banking institution should be avoided if several additional measures have been taken. This subsection will briefly discuss various possible measures that could be taken as alternative ways to direct explicit and implicit deposits guarantees, which are also able to achieve the governments' objectives of stability and of offering the best possible protection for depositors' interest.

The measure of ensuring deposits protection requires a holistic process and commitment between the stakeholders, namely the Deposits Insurance Agency, regulators and customers or depositors. Little research has been carried out into the

interactive process between the stakeholders in achieving financial stability and deposits protection; most of the existing studies discuss the role of each entity in isolation, without stressing the importance of mutual interactive cooperation between them. Although each of the stakeholders has different desired goals for deposits protection, they should discharge their roles through effective approaches which could lead to the stability of the financial institution and indirectly protect the depositors' interest. Figure 2.1 depicts the interactive process between all the stakeholders in achieving the deposit protection goals.

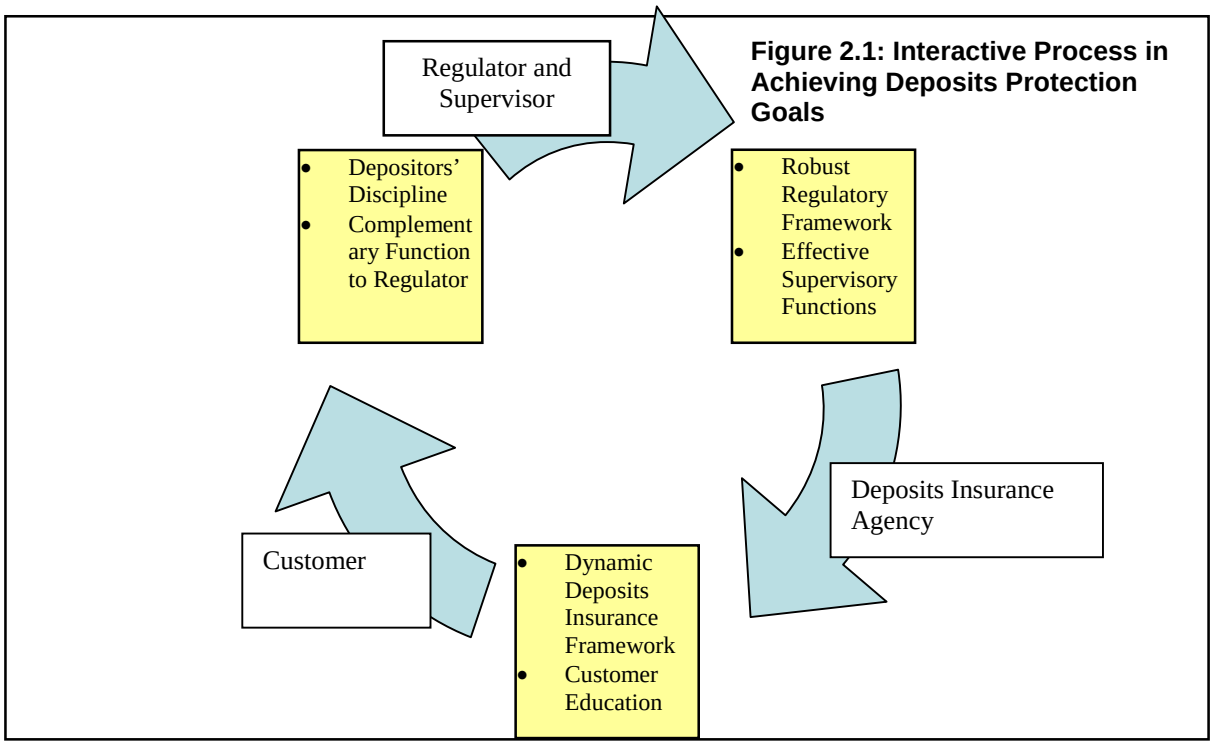


Figure 2.1: Interactive Process in Achieving Deposits Protection Goals

The holistic interactive process includes the supportive regulatory and supervisory functions which include a very robust regulatory framework and effective supervisory function to monitor the general health of the financial systems and the soundness of the individual financial institutions that make up the system. In addition, the regulators could be the leading figures in supporting the incorporation of a Deposits Insurance Agency.

The incorporated Deposits Insurance Agency acts as additional supervisory layer to the participatory financial institutions in drafting an effective dynamic deposits insurance scheme which indirectly turned out to be an effective tool in monitoring the

financial institution risk taking activities. In addition, the Deposits Insurance Agency should take the role of educating customers or depositors regarding their rights and roles in shaping the banks' market discipline.

2.4.1 Dynamic Deposits Insurance Scheme

A Deposit insurance scheme introduced by the government has the intention of instilling a level of confidence in the banking institution in existing depositors and the general public. The concept of deposits guarantee has been introduced in the 1930s in the United States; under this scheme, all the participating banks' deposits were guaranteed without any limit and with a low fixed premium paid. However, the scheme was not sustainable due to insufficient funds to pay out to the depositors during the bank panic crisis. The failure of the deposit insurance scheme has led to considerable research being carried out into the causes of the system's failure, and into the best possible solutions for the problems.

Some of the contributors concluded that the deposit insurance scheme was a failure because it was caused by the banks' moral hazard issue, which took advantage of venturing to very high risk business due to lack of market discipline and ignorance from the side of the depositors. The failure of the banks resulted in a huge amount of taxpayer money used to bailout the bank. Therefore, some suggest that a deposit insurance scheme is unnecessary to protect the depositors and recommend that depositors should play their role in monitoring and limiting the banks' risk taking activities in order to protect their deposits.

However, there is substantial literature stressing the importance of deposits insurance schemes but with some modifications made to the failure structure. Two approaches are proposed: the first suggests limiting the amount of the deposits guaranteed to one ceiling limit, and the second proposes that the insurance premium charge must be based on the risk profile of the participating bank.

The first approach means that, if any bank failure occurs, the deposit insurance scheme will only pay out to the depositors up to the ceiling amount. This approach will indirectly motivate the depositor who has uninsured deposits to play a greater

role in monitoring and limiting the banks' risk taking activities by demanding a higher interest rate or by withdrawing their deposits as a signal to the bank.

The second approach is that the deposits insurance institution or corporation design a differential premium structure in contrast to the flat-rate deposit insurance system suggested by Kareken and Wallace (1978), Merton (1977, 1978), and Keeton (1984) (taken from Karels and McClatchey, 1999), (Suphap, 2004). This means that the premium that the participating bank will be charged is based on the risk profile of the individual bank. The deposits insurance institution will have few criteria, parameters, and indicators for assessing the bank's risk profile such as the assets' quality, liquidity position, and earning performance, coupled with an assessment of the banks' risk management system. The bank that falls under the high risk category based on the deposit insurance institution criteria will be charged with higher insurance premiums; similarly, banks that fall under the low risk category will pay a lower insurance premium. The approach will act as a tool to incentivise the banks to keep the risk profile low and improve the risk management system.

According to certain regulating agencies, both approaches seems very effective in order to have sound and sustainable deposits insurance schemes, which is why many of them adopted both approaches in the deposits insurance systems. Through the dynamic deposit insurance scheme, there are several objectives that could be achieved as depicted in figure 2.2.

2.4.2 Robust Regulatory and Supervisory Function

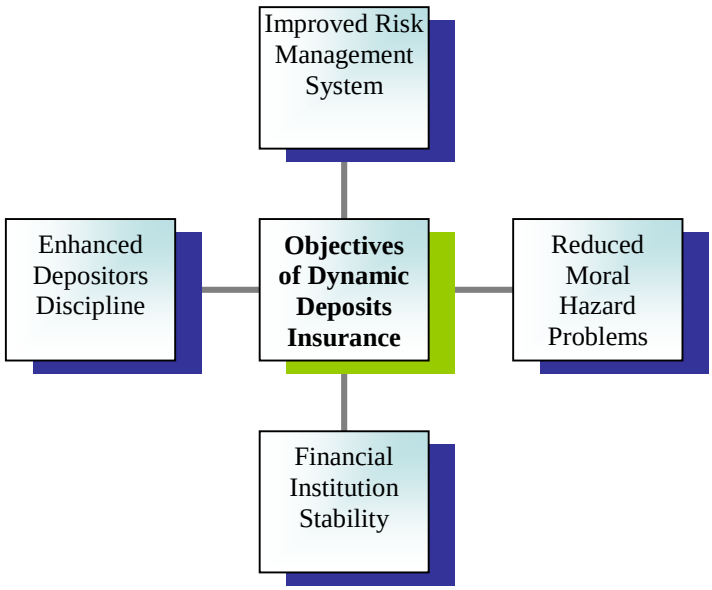
The main difference between banking industries and other financial institutions and the non-financial industry is that the banking system is highly regulated by the government through a central bank. The main purposes of regulation are to promote financial system stability and soundness of monetary policy. Rigorous regulation is also crucial for averting systemic risk (Tirole, 1994: 473).

Banking regulators and supervisors may also contribute to the objectives of deposits protection and customer confidence, with the end result of avoiding systemic risk. A robust regulatory environment and effective supervisory functions carried out by the banking regulatory agencies will promote a stable financial system supported by

healthy financial institutions. A robust regulatory environment includes prudential guidelines issued by the regulators in order to ensure a balanced risk profile of the banking institution. In addition, effective supervisory functions through continuous surveillance activities could act as a watch dog for the banking institutions and indirectly discipline banking institutions from venturing into unnecessary risk taking activities.

Psychologically, the depositors rely on the regulators to ensure the good health of the financial institutions under its purview. Therefore, the regulators and supervisors are expected to meet the expectations of stakeholders, including depositors, by ensuring that a proper regulatory framework is in place to supplement the continuous surveillance functions carried out by the supervisor. For example, capital requirement, coupled with deposits rate control through monetary policies, will help to reduce the tendency of banking institutions to gamble in high risk loans (Hellmann *et al*., 2000: 148).

Figure 2.2: Objectives of Dynamic Deposits Insurance System



2.4.3 Customer Education and Awareness

Customers, primarily depositors, are also crucial in safeguarding their deposits. Research shows that depositors have the capability to monitor the risk taking activities of the banks either by demanding a higher interest rate or by withdrawing their money from the bank if they feel that the return paid was not commensurate with the risk. Peria and Schmukler (2001) argue that in the case of Argentinean, Chilean, and Mexican banks, the customers play a significant role in disciplining the banks' behaviour in order to protect their deposits. Furthermore, they state that the monitoring role demonstrated by the Argentinean depositors was the outcome of the financial crises of the 1980s and 1990s. The crises, hence, acted as wake up call to all the depositors. In addition, a study on Japan suggests that uninsured depositors have been able to restrict banks from venturing into high risk activities (Murata and Hori, 2006). The studies underline the importance of depositors' roles in protecting their own deposits.

In order to include the depositors as part of the effective monitoring system, hence, the deposit insurance agencies as well as the regulators should have a proper customer education process. Continuous effective public communication as well as customer awareness campaigns will increase the customers' awareness of their responsibility towards their investment. For example in Barczak *et al*.(1997), they suggests that customer education and awareness are important aspects in service industries such as banking which may also include the concept of depositors' discipline. In addition, the deposits insurance agencies and regulators must ensure that the financial information of the banking institution will be accurate and accessible to the customer in a timely manner.

In short, the combination of the three main stakeholders' roles in ensuring deposits stability is seen to be an effective tool for meeting the objective of financial systems stability, soundness of financial institutions, and, indirectly, for meeting the social objective of deposits protection. Such a solution is also capable of overcoming other issues raised such as moral hazards and customer complacency, and of reducing the burden of the government in bailing out unhealthy institutions.

2.5 DEMAND FOR DEPOSITS AND DETERMINANTS OF THE BEHAVIOUR OF DEPOSITORS

The stability and sustainability of the banking institutions can only be maintained if banks have a robust assets liability management. Any particular bank could face solvency issues due to liquidity failure, even though it is supported by strong loan quality. Bank run or banking panic[15] are possible examples of liquidity risk which not only have a negative impact on the institution but are also factors that might cause economic problems. According to Grada and White (2003: 213), Banking panics were a much-feared feature of the nineteenth-century American business cycle when the rapid withdrawal of deposits forced a contraction of credit that contributed independently to downswings.

By making reference to the US 1854 and 1857 bank runs, Grada and White (2003) suggest that managing liquidity is the most crucial element in running a banking business. There are also other examples of bank run cases, such as those that occurred to Heritage Loan and Investment Co., Rhode Island (November 1990), the Bank of New England, Massachusetts (January 1991), as quoted by Kohn (2001) and the more recently, UK's Northern Rock in year 2007. A particular bank could go into liquidation within a few days if the bank was unable to predict and manage efficiently the liquidity, even though the bank had a very robust credit risks management.[16] As mentioned earlier, liquidity management is highly correlated to depositors' funds management. A normal commercial bank's deposits constitute 80 to 90 percent of the total funding. Therefore, in order to have a very robust liquidity management system, the bank must be able to forecast its internal behaviour, as well as that of the market depositors.

Currently there is limited research into depositors' behaviour and motives for selecting particular deposits products or banks. Several related studies have given an indirect indication on the determinants of customer behaviour. The most

[15] "Bank panics are the product of observable events that are perceived by depositors to contain adverse information about a bank's solvency"(Kelly and Grada, 2000: 1111).

[16] The main business of banking institutions, granting loans, directly exposes them to non-repayment risks; this is known as credit risk. Credit risk is assumed to be the most critical risk that might pose a threat to a bank. For example, in 1998, Sime Bank Berhad recorded a pre-tax loss of RM1.57 billion due to provisioning of RM1.8 billion made on the bad and doubtful debt of the bank and its subsidiaries ('MAS Press Statement on Sime Bank Berhad', 1998).

comprehensive among these was carried out by Gilkerson *et al*. (1999), who summarized a variety of previous studies and suggested that the pricing and risk of banks' deposits are the main determinant for the behaviour of depositors. The most common determinants can be summarized as follows:

(i) Interest Rate Payment: there is a vast amount of literature which concludes that depositors react to the movement of interest rates in choosing deposits products. Some of the earlier studies by Gibson (1974) and Edmister and Merriken (1984) suggest that depositors' response to rising interest rate scenarios is that they will move their deposits from lower return instruments to higher yield return instruments. Gibson also argued that, even in the case of contractual deposits such as fixed deposits, customers are willing to pay the early termination penalty if the new interest rate offered is high enough.

His findings are further supported by the research of Gilkeson *et al* (1999) on factors of early withdrawal in timed deposits portfolios in chartered thrifts[17] in the US from 1994 and 1995. The authors suggest that timed deposits are sensitive to rate movement, and that customers are willing to forgo the existing interest rate due to the penalty payment in order to benefit from the reinvestment incentive when new deposits rates rise. This study was conducted to further support the findings by Davis and Korobow (1987) that timed deposits have become increasingly interest rate sensitive in the 1980s and 1990s (Gilkeson *et al*., 1999: 104).

Another study by Glennon and Lane (1996), which used the Lancaster-type choice model to analyse the expected impact of the introduction of two events in the US banking market from 1960s to 1980s: firstly, the effect of the deregulation of interest rate payments on the deposits market, and, secondly, the impact of the implementation of interest bearing checkable deposits in the US banking market on money demand and interest rate markets. The findings suggest that the interest rate elasticity of money demand has the ability to increase or reduce the

[17] The author gathered the data from the Office of Thrift Supervision via the Thrift Financial Report.

effectiveness of monetary policy. This indicates that customers react positively to the movement of the interest rate market.

(ii) Bank Risk Profile: this indicates the level of risk that the bank assumed (Wheelock and Kumbhakar, 1994). The customers will monitor the risk taking activities by ensuring that the bank will not engage with any high risk activities which can put their money at stake. If the bank still decides to continue with high risk activities, the depositors will decide to withdraw their money from the bank. Studies by Peria and Schmukler (2001) for Argentinean, Chilean and Mexican banks show that the depositors in those countries did punish banks with risky behaviour by withdrawing their money.

Some of the depositors (so-called risk taking depositors) are, however, willing to accept higher risk levels if the reward is commensurate with the risks. They demand higher interest rates, or else the bank might lose them as depositors. Otherwise, these customers as will react by making heavy withdrawals, which might lead to a bank run (Peria and Schmukler, 2001; Wheelock and Kumbhakar, 1994).

(iii) The Bank's Reputation: this is another factor that might influence the depositors' behaviour in selecting their bank. Grada and White (2003) studied depositors' behaviour during the two banking panics of 1854 and 1857 in New York. The study analysed the records of individual depositors' account opened and closed within the stipulated time frame during the hazard period. The result of the analysis suggested that both banking panics were driven by informational shocks in the face of asymmetric information about the true condition of the banks' portfolio". This implicitly means that the bank run occurred due to negative perceptions concerning the reputation of the banking institutions. In addition, Howcroft and Lavis (1986) further suggest the needs of the banks to develop corporate image which will build ones bank's reputations in order to improve the level of customers' relationship.

(iv) Community Influence: this element can be derived from the case study by Kelly and Grada for the New York banks' panics of 1854 and 1857. The importance of

this factor can also be seen in the case of Heritage Loan and Investment Co., Rhode Island (1990) and Bank of New England (1991). In all these cases, the influence of the community was an important factor which contributed to the banking panic. The panic only occurred when certain groups of people received negative information about the banks[18] (Kelly and Grada, 2000; Kohn, 2001). The findings are further supported by the fact that some of the customers enter into a deposits relationship with a bank without analysing the strength and risk profile of the bank.

Current scenarios also evidence the community's role in influencing depositors' decisions in selecting deposits products as well as banks. For example, Bank Simpanan Nasional in Malaysia[19] has remained very popular among the depositors in rural areas, even though some of the commercial banks tried to penetrate this market by opening their branches in the same area. Therefore there is a tendency of the older generation to influence the younger generation to banking with this particular bank.

(v) Extensive branch networks and effective marketing: the marketing aspect includes, among other factors, extensive advertising, service quality and an extensive and efficient branch network[20] (Elyasiani *et al.*, 1995: 957, Howcroft *et al.* 2003b). One of the essential factors that support effective marketing is the level of service quality. In discussing the comprehensive assessment of service operations, Hesketts *el al*. (1994) have proposed a framework termed Service-profit chain (SPC) which suggests that "revenues of service provider revenues are driven by the service quality perceptions, which in turn are driven by operational inputs and employee efforts" (Kamakura *et al*., 2002: 296). In the SPC

[18] Another instance of bank's panic due to negative information about the institution occurred to MBf Finance Berhad in September 1997. The institution was deemed by the depositors as a 'one man' show owned by Tan Sri Dato' Dr Loy Hean Heong. Some of the depositors were totally rely on the reputation of the owner. There was a rumors circulated among few depositors in few branches stating that the owner had passed away and the institution might face liquidity problems and solvency issues. The depositors of certain branches rushed to the branches to withdraw their money and create the bank panic (Sarawak Securities Sdn. Bhd: 1997)

[19] Bank Simpanan Nasional is a largest savings bank in Malaysia to serve as a savings channel to people. The deposits are explicitly guaranteed by the Government of Malaysia, which is also among the reasons that people choose to save their money in this bank.

[20] Among the main reasons for the increase in number of voluntary mergers and acquisitions in the banking industries, as seen for example in CIMB Bank and Southern Bank in Malaysia, is a desire to increase the branch network in order to increase the deposits base.

framework, the literature suggests that the need to understand the customer assessment and behaviour when building a good service operation, which could translate into higher profitability (Kamakura *et al.*, 2002). In addition, good service quality coupled with an aggressive advertising campaign would be able to influence customer perception in favour of the bank. Normally, a prestige customer always wants to associate themselves with premium branding. Frequent advertising via various dominant marketing channels might instil a good perception of the bank.

Besides that, other marketing methods, such as gifts upon opening an account, could significantly influence non-interest premiums (Gilkeson *et al*., 1999: 104). These marketing initiatives are very useful to attract depositors to banking systems that have regulations which impose a deposit rate ceiling. Taggard (1978) widely acknowledged the tendency of banks to engage in increasing non-price (non-interest) rivalry and expense-preference behaviour if the regulators impose a deposit interest rate ceiling (taken from Basch, 1987: 225). In fact Basch (1987) studied the behaviour of management styles in dealing with deposit interest rates and non-interest expenditures both prior and post the imposition of a deposit interest ceiling in Massachusetts mutual savings banks. His findings suggest that "savings banks paying higher deposit interest rates prior to the ceilings were the ones which most increased their non-interest expenditures after the ceilings imposition".

The strategy of attracting depositors via the non-interest premiums method may also be applicable in the absence of deposit ceiling rates regulation. During intense price competition between banks in situations where the banks are unable to increase the pricing (interest rate), the banks have to resolve to other means to attract deposits; these include, for example, giving out attractive gifts such as insurance coverage, as well as organizing lucky draws for new customers with attractive prizes such as cars and holiday packages.

All of the above marketing strategies would not be very effective in soliciting retail depositors if the bank did not have an effective branch network to reach the customer. Although there are other more advanced banking channels such as internet and phone

banking, the presence of the physical branch in the local area boosts the confidence of the depositors (Wilson, 2007, Howcroft *et al.*, 2003). The retail depositors are more comfortable dealing with the bank officer in the premises in person, rather than communicating via electronic channels; this applies especially to the older generation who are concerned with the security aspect to their deposits (Barczak *et al*., 1997). In addition, with the rapid development of information technologies, besides the present of the physical branch, the customer (especially the IT savvy customer) also expects the bank to have other electronic banking channels, internet banking, and telephone banking to facilitate services such as balance checking, fund transfer, and bills payments (Raza, 2007; Barczak *et al*., 1997).

2.6 SUMMARY AND CONCLUSIONS

This chapter discussed the theory of retail banking deposits in the conventional banks in order to explore the supply and demand side of the banking deposits. It began with describing the concept of banking deposits, reviewed the definition, characteristics, and major underlying reasons for banking deposits, and discussed in detail some of the concerns regarding the characteristics of banking deposits. The argument of supporting and opposing the idea of deposits protection are among the issues discuss.

The chapter further discussed the supply side of the deposits, and described the four major types of retail banking deposits. Subsequently, alternative deposits protection measures that should be taken by the stakeholder were described. All the stakeholders, namely the regulators, deposits insurance agencies, and depositors have their own motives in deposits protection. The proposed approaches emphasized the importance of an interactive process between the stakeholders in promoting deposits protection. As one of the major aims of the present study is to explore the depositors' behaviour and understanding of certain deposit products, the chapter also reviewed the literature on the demand side of the deposits which explains the main behavioural aspects that affect the depositors. Overall, the literature describes the customers of conventional banking deposits as rational customers who react to the financial and service benefits derived from the banks.

Chapter 3

Retail Banking Deposits in Islamic Banking: A Survey of Concepts, Characteristics and Operational Features

3.1 INTRODUCTION

The recent rapid progression of the Islamic banking industry was evidenced by the significant growth of Islamic banking deposits. As in the conventional banking system, Islamic banking deposits are the major component for funding Islamic banking activities. For example, Maybank Islamic Berhad[21] sourced 66.1 percent for its operation via customer deposits. In addition, with the huge Muslim population throughout the world, the potential of attracting more Islamic banking deposits is undeniable (Delorenzo, 2005: 5). Therefore, since the desired objective of most of Islamic financial institutions worldwide is to promote business growth, high attention should be given to the Islamic financial institutions' ability to source their deposits funds. In meeting the funding needs, the Islamic banks have formulated various types of *Shari'ah*-compliant deposits instruments, which are arguably unique in nature, but are still comparable to conventional counterparts' deposits products.

This chapter discusses the underlying principles of Islamic banking deposits, including various types of *Shari'ah*-compliant deposits, with the aim to discuss some of the issues and questions related to each deposits type. Despite the fact that there are a number of studies which discuss and explain Islamic banking deposits, most of these are descriptive in nature and only lay down the types of the deposits account that the banks offer. The scarcity of literature, which discusses issues concerning Islamic banking deposits indirectly, indicates that the topic of Islamic banking deposit is considered a settled issue. However, issues such as the status of *mudarabah* investment deposits still deserve further scholarly attention. The present chapter intends to fill this gap.

[21]Maybank Islamic Berhad incorporated as an Islamic subsidiary on 1 January 2008. The figure given was based on the financial year which ended 30 June 2007. Maybank Islamic is the largest Islamic bank in Malaysia in terms of assets and liabilities. See (*Maybank Berhad Annual Report 2007*, 2007).

3.2 CONCEPTS OF ISLAMIC BANKING DEPOSITS AND INVESTMENT

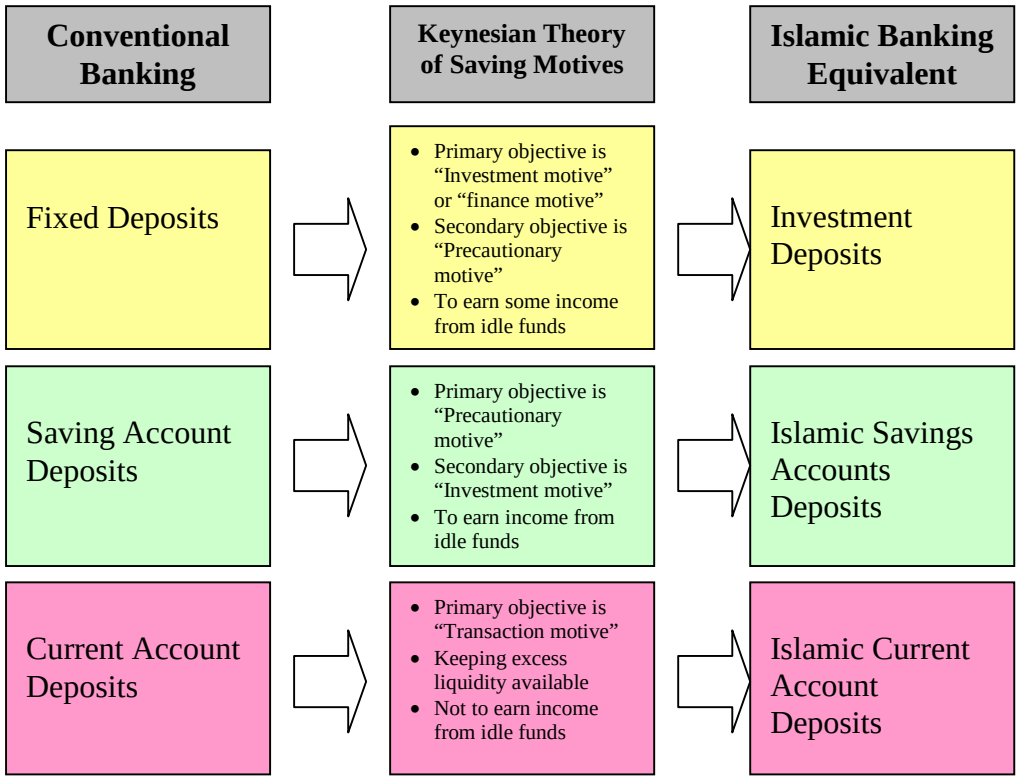
The Islamic banking and finance paradigm is derived from the objectives of Islamic economics, which highly value the principles of ethicality, morality, and social as well as religious dimensions in order to promote equality and social-justice in society (Iqbal, 1997). In this context, the Islamic banking system is seen as an alternative to the conventional banking system. However, there are few fundamental differences between the two systems concerning the way in which banking operations are treated. In this context, the researcher is only focusing on the banking deposits aspect of the differences. Ahmed (2002) categorizes Islamic banks as a hybrid between conventional commercial banks and investment banks. The deposits of Islamic banks have characteristics similar to those of conventional commercial banks in term of no ownership and voting rights, while they resembles investments banks in terms of depositors sharing the profit derived from the utilization of funds.

Islamic banking deposits and investments and conventional banking deposits share the same concepts and characteristics in terms of being (i) a source of funds; (ii) liabilities, and (iii) providing return from deposits mobilization (INCEIF, 2006a). Although both banking system have the same concept of deposits, there are pertinent differences between the two which will be discussed further in section 3.2.3.

Uzair's (1976) work on the introduction of an interest-free banking system was first presented at the first International Conference on Islamic Economics[22]. In his initial discussion of the liability side of the Islamic banks' balance sheets, namely deposits, the paper mapped out the current conventional banking deposits with a Keynesian approach of 'motives', 'liquidity preference', and savings. The following table summarizes the proposal made by Uzair:

[22] The conference was held under the auspices of King Abdul Aziz University, Jeddah from February 21-26, 1976. (Safar 21-26, 1396 H.)

Figure 3.1: Islamic banking deposits equivalent



According to the Malaysian Islamic Banking Act of 1983, the definition of Islamic banking deposits can be indirectly derived from integrating two definitions under section 2 of the Act, which are 'depositors' and 'Islamic banking business'. The word 'depositor' is defined as "a person who has an account at an Islamic bank, whether the account is a current account, a savings account, an investment account or any other deposit account" and 'Islamic banking business' is defined as a "banking business whose aims and operations do not involve any element which is not approved by the religion of Islam". Therefore Islamic banking deposits can be redefined as money deposited in the Islamic banks that are used in a banking business which does not contravene Islamic governance.

Based on the definition given by the Act, it is clear that the main difference between the two systems is that Islamic banking deposits must be solicited and managed by the approved Islamic banks according to the *Shari'ah* governance, which is based on the

two main sources of *Al-Quran* and *Al-Sunnah (Hadith)*, which are the ultimate governance standard (Tamer, 2005). Therefore, the following section discusses the ontological and epistemological sources of Islamic banking principles.

3.2.1 Prohibition of *Riba'* in Banking Deposits

Literally, *riba'* means an increase or excess (Nawawi, 1999; Alias *et al.*, 1993; El-Gamal, 2006). Technically, according to Ibn al-Arabi (d.543/1148), "Every increase, which is without *'iwad* or an equal quantervalue is *riba'*" (taken from Rosly, 2005a: 30). The definition is further supported by Nawawi as "unjustified increase in capital for the earning of which no appropriate effort was made" (1999: 118). According to majority of the scholars, *riba'* can be categorized into two types *i.e. Riba Al-Fadl* and *Riba Al-Nasia* (Al-Zuhayli, 2003a; Ayub, 2002; Nawawi, 1999).

The concept of the prohibition of *riba'* in Islamic banking is widely discussed and unanimously accepted by the majority of Islamic jurists, based on the clear revelation in the *Quran* and *Hadith*, the sayings of the Prophet (*pbuh*). In fact, the element of *riba'* in dealing with financial transactions is also condemned in other religions such as Judaism and Christianity (Kamel, 1997: 7; Khan, 2006; Kula, 2008: 45; Saleh, 1986: 9). The *Quran*, being the source of revelation, emphasised the prohibition of *riba*' in strongest terms; similarly, the *Hadith* clearly indicates the degree of the adverse impact *riba*' has on society. There are many classical and contemporary studies, which extensively defined and discussed the meaning of *riba'* and its categories.[23] In this section, the discussion of *riba'* is focused on the type of *riba'* relevant to the deposit-taking activities in banking institutions.

The concept of deposit-taking in the conventional banking system is based on the loan contract which involves lender and borrower as discussed in Chapter 2. The general consensus of economists is that economic activities such as trade and economic development can only work via loans, and that the cost of the loan is interest (Nawawi, 1999). However, the emergence of Islamic banking and finance signifies that the economic development could also be achieved without the elements of *riba'*.

[23] For a more detailed discussion of *riba'*, please refer to Al-Zuhayli (2003a), Nawawi (1999), and Hosein (1996).

In banking deposits perspectives, a pre-determined rate of return promised by a bank is construed as *riba'* in the Islamic finance literature (Iqbal, 1997). The underlying reason is that the pre-determined or guaranteed returns contain an element of uncertainty in any project and investment taken by the fund recipient; therefore, giving any fixed return to the depositors could be construed as violating the objectives of *Shari'ah* regarding the promotion of risk sharing, social justice, equality, and property rights (Iqbal, 1997; Musa *et al.*, 2006: 115). In addition, Kahf suggests that the wisdom behind the prohibition of *riba'* in the eye of Islamic jurisprudence and Islamic economic is that *riba'* is not in line with the nature of real life, which in itself is uncertain. In other words, the act of giving risk-free contracts via *riba'* is completely against the act of real life (Kahf, 2001). Therefore, the practice of paying a fixed amount of interest to depositors either in terms of the absolute amount or a fixed percentage of capital (deposits amount) is considered *riba'* and not acceptable from an Islamic point of view.

Nevertheless, there were some prominent *Shari'ah* scholars, who express a dissenting view on classifying banks' interest as similar to *riba'*, based on their on *ijtihad*, the interpretation of the *Quranic* verses, and the necessity of the current situation. The famous dissenting views came from the famous *fatwa* of Sheikh-al-Azhar, Muhammad Sayyid Tantawi through The *Azhar* Islamic Research Institute (IRI) *Fatwa* in December 2002. The opinion was earlier being expressed by Ebusuud Efendi, Mufti of Istanbul in 1545/1574C.E. (El-Gamal, 2005; Ayub, 2002). According to this *fatwa*, banks' depositors are allowed to earn the pre-specified rate of profit instead of a percentage of profit from the realized profit. El-Gamal (2005; 2006) and Ahmad (2005) state the basis of the argument given by the dissenting scholars in justifying the permissibility of banks' depositors to earn the pre-specified profit rate on the following ground:

(i) There is no evidence in the two main sources of *Shari'ah*, the *Quran* and S*unnah* of the Prophet (*pbuh*) that forbids the nature of giving a pre-determined return on the capital sum. Nevertheless, the contract must be in mutual consent by both parties.

(ii) The return given by the banks is based on market studies which take into consideration the global and local market scenarios which reflect the average

profitability of the bank. Thus the returns declared are reflecting the economics condition of the society.

(iii) The pre-determined rate of return will give benefit to both parties in a win-win situation, where the depositors will receive a fixed amount of profit in a world in which moral hazard is a big issue. On top of that, it will act as motivation to the bank to manage the portfolio properly, since the bank has the privilege to keep the excess money.

In January 2003, Islamic *Fiqh* Institute in Qatar issued an immediate rebuttal to the IRI's fatwa by rejecting the argument given by the latter (El-Gamal, 2005). The opinion of the Islamic *Fiqh* Institute is that the relationship between the depositors and the bank in a conventional banking environment is 'borrower-lender'. Thus, any return promised by the bank upfront is construed as *riba'*, which is prohibited. The fatwa merged the banking interest and *riba'* into one prohibition which is widely accepted by the majority of *Shari'ah* scholars throughout the world, and which has become the basis of the emergence of the contemporary Islamic banking and finance industries. In fact, the prohibition of interest was already agreed upon by all school of *fiqh* before the issue was brought up again in the IRI's *fatwa* as highlighted by Uzair.

> By this time, there is a complete consensus of all schools of Fiqh… and among Muslim economists, that interest in all forms, of all kinds and for all purposes is completely prohibited in Islam (taken from Tamer, 2005).

In sum, the issue of prohibition of *riba'* in conventional banking is accepted in principle by majority *Shari'ah* scholars worldwide, albeit there are still some other Islamic scholars attempting to justify the permissibility of the banks' interest from a different angle and interpretation.

3.2.2 Time Value of Money in Islamic Transactions

The concept of the time value of money (or time preference theory in the conventional economic theoretical framework) is related to the justification of interest rates and supply of capital funds (Uzair, 1976: 40). With such a conceptualization, interest is considered as very useful, especially in assigning value to a particular project evaluation which uses discounting technique. "The conventional concept of

discounting regards two similar values at two different points of time as two different values because of the time element involved" (Khan, 1991: 36).

It should be noted that the conventional theory of the time value of money was introduced by Austrian economist Bohm-Bawerk[24], who tried to explain the theory of interest from the perspective of time preference (Uzair, 1976). According to this theory, individuals generally prefer present consumption to future spending. However, the individual may forgo present consumption if the compensation known as interest is commensurate with the level of opportunity loss (Ahmad, 2000: 25; Uzair, 1976).

In finance, the theory of the time value of money or positive time preference is closely related to the concept of discounting. The opposite of the concept of discounting is compounding. Both of these finance evaluation techniques are widely used in project evaluation and investment proposal decisions. Most of the time, in applying the tools, the main reference rate used in discounting or compounding any investment proposal will be based on interest rate value. Therefore, in Islamic perspectives, there are two schools of thought with regard to the theory of the time value of money A strict position is taken by scholars who are rejecting the notion of time value of money on the grounds that it promotes an interest-based economy, as stated by Al-Zarqa (2005: 132): "…Islamic uneasiness about discounting stems largely from its alleged connection with interest". This is supported by Khan (2005: 157), who argues that time value money is interrelated with the interest rate which is prohibited by the *Shari'ah*. He states that "acceptance of the discounting for project evaluation would keep the 'ghost' of interest alive and would continue providing a justification for interest".

On the other hand, there are scholars who suggest that the concept of time value of money is permissible from an Islamic point of view, for instance, to promote investment efficiency (Al-Zarqa, 2005; Ayub, 2007; Kahf, 1994; Khan, 1991). For example, a person needs to know what the expected return is for any particular investment in exchange for the opportunity loss in another investment. The opinion is further supported by El-Gamal (2006: 50): "In fact, jurists of all major schools,

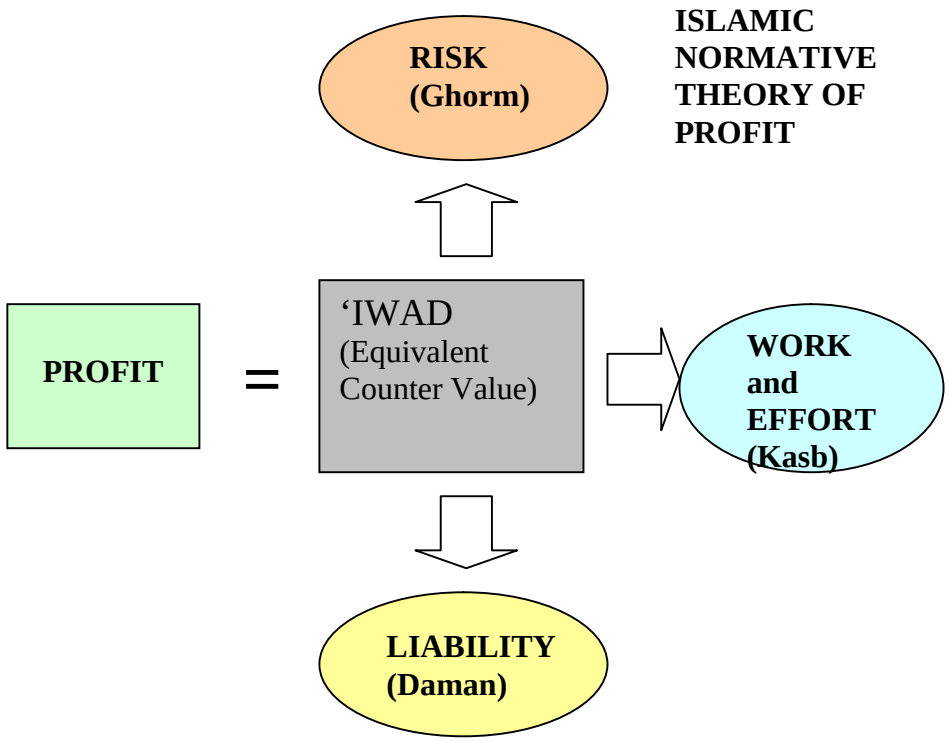
[24] Some of the researcher has term the time preference theory as Bohm-Bawerk theory.

declaring that *'time has a share in the price,'* recognized the legitimacy of seeking compensation for time value…". However, most of the scholars who agreed on the theory of the time value of money, suggest that another reference rate for discounting should be used instead of using interest rate. Many of them propose that, from an Islamic point of view, the best discounting rate to be used is the expected rate of return. This will be the basis of evaluating the investment, but the actual rate of return would only be obtained upon realization of the project.

In this context, the derivation of the rate of return should be based on the actual business return, which is uncertain to be either positive or negative. Pre-determined positive rates of return, such as fixed-rate bank deposits interest, is prohibited according to Islamic injunctions because it is considered as tantamount *to riba'* (INCEIF, 2006a). Therefore, it is important that the rate of return must be in line with *Shari'ah* principles and that it is based on the Islamic theory of profit. In the Islamic theory of profit, Ahmad (1998) and Saud (2005: 101) described the juristic principle of *al ghunm bi al ghurm* which states that the benefits or return derived from the assets should contain the element of risk, responsibility and counter-value. According to Ibn al-'Arabi (d.543/1148), "every increase, which is without '*iwad* or an equal counter value is *riba*" (taken from Rosly, 2005b: 30). Therefore, Rosly (2005b: 29-32) states that the theory of '*iwad* denotes an equivalent counter value to the principles of *al ghunm bi al ghurm*, as shown in the diagram 3.2.

In this theory, every economic transaction aiming at gaining any profit or return should encompass all the elements of 'risk', 'work and effort', as well as 'liability'. The application of this theory is to be carried out universally across any financial transactions such as trading, investment, and contract of trust. Therefore, in the evaluation of any *Shari'ah*-compliant investment project, the rate of return used in discounting the project not only takes into consideration the opportunity costs due to the time factor alone, but the rate of return must be fulfilling the *Shari'ah* requirements for profit-taking.

Figure 3.2: Islamic Theory of Profit



Source: Rosly (2005: 31)

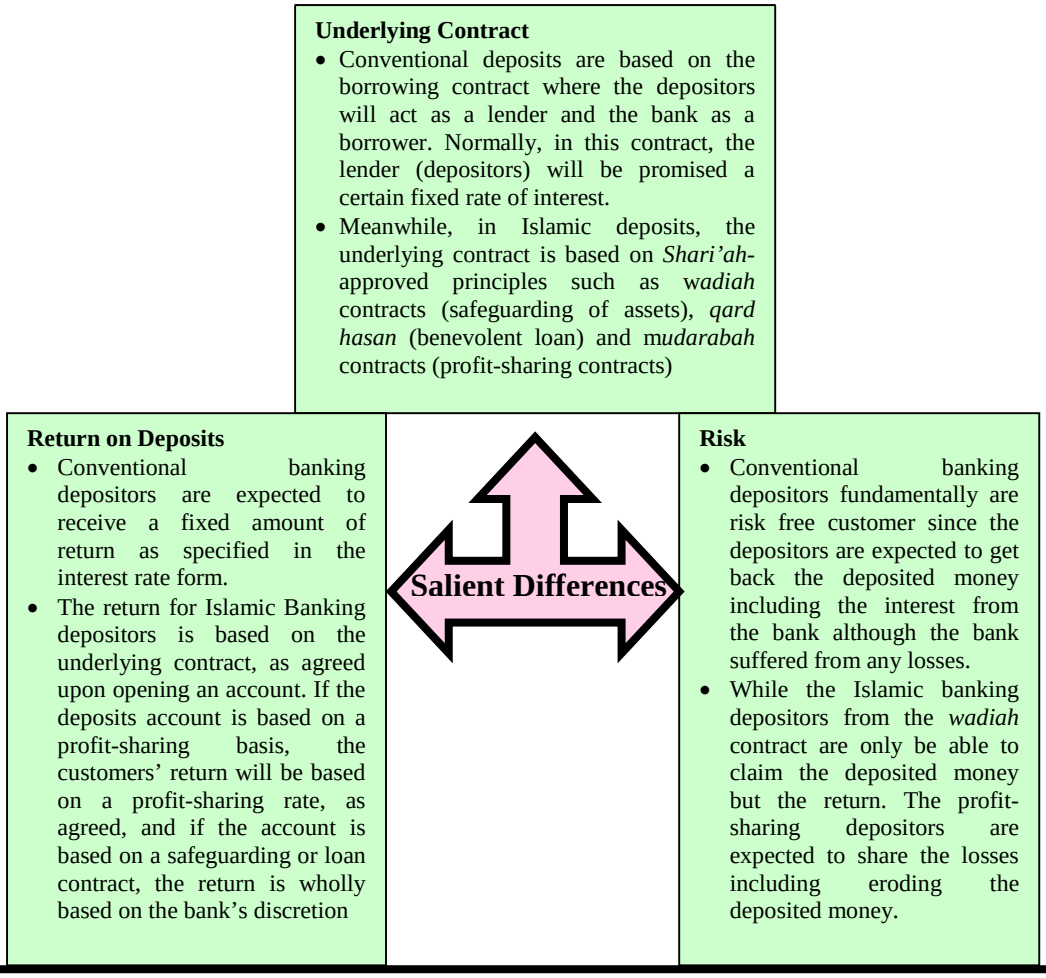
In addition, the recognition of time value of money in the Islamic context can also be explained in light of the concept of *husnal qadha* which means gracious payment of loan or debt (Ayub, 2007: 162-163; Rosly, 2005c: 161). In this respect, the contenders argue that the debtor of a loan is encouraged to pay more than the principle amount on a voluntary basis, without a precondition. They support their argument by referring to the *Sunnah* of the Prophet Muhammad (*pbuh*). Ayub (2007: 162) in this context quotes the example experienced by Jabir (*Abpwh*), a companion of the Prophet Muhammad (*pbuh*), who stated that the Prophet (*pbuh*) owned him a debt; *"he paid to me and gave me more than the principal"*. In another example quoted by Rosly (2005c: 161), a *Hadith* of Prophet (*pbuh*) says *"The best amongst you is he who repays his debts in the most handsome manner*" (al-Bukhari). Based on these two examples from the *Sunnah* and *Hadith* of the Prophet (*pbuh*), it can be concluded that the act of re-paying more than the principal amount of debt is encouraged in view of compensating the opportunity loss of the lender.

These principles may be transferred to the context of Islamic banking deposits, which are based on the concept of investment, loan, or safe custody, as will be described in further detail later in this chapter. Therefore, it can be assumed that the act of giving a return to the depositors is permissible in light of the concept of the time value of money. However, the determination of return for each of the concepts used should be examined thoroughly and rigorously in order to avoid any misconception that Islamic banking deposits are similar to conventional banking deposits. The following section will briefly discuss the salient differences between conventional banking deposits and Islamic banking deposits.

3.2.3 Salient Differences Between Conventional Banking Deposits and Islamic Banking Deposits

The Islamic banking system has a similar operating system as its conventional counterpart, as the main objective in both cases is funding the business via deposit-taking. In addition, both banking system are expected to ensure that the assets of the bank are well-funded and meet the liquidity requirements demanded by the depositors. As a result, most of the deposits products offered by Islamic banks have similar product characteristics as their conventional counterparts. This indirectly indicates that the two banking systems have converged in terms of their operations. However, there are several salient differences between the two. Based on the limited number of available studies, the main differences between conventional and Islamic banking deposits can be grouped into three main categories (INCEIF, 2006a: 84-85; Khir *et al.*, 2008: 88-89; Wilson, 2000: 198). The following diagram 3.3 summarizes the salient differences as suggested by INCEIF and Wilson.

Figure 3.3: Differences between Conventional and Islamic Deposits



As illustrated in figure 3.3., it can be argued that Islamic banking deposits products seem to offer considerable disadvantages compared to their conventional counterparts; Islamic banking depositors bear a higher risk of losing their deposits and face greater uncertainty in terms of deposits return (Meenai, 2000: 264). Nevertheless, Islamic banking deposits products have their own strengths, especially in promoting justice to both parties (the depositors and the banks). Therefore, in the following section, the specific characteristics of Islamic banking products, including the determination of the rate of return, will be discussed further. In addition, the following sections will also highlight some of the practical issues with regard to Islamic banking deposits.

3.3 *SHARI'AH*-COMPLIANT TRANSACTION DEPOSITS

3.3.1 Underlying Contract Forms

Shari'ah-compliant transaction deposits, also known as demand deposits or current accounts, have the same function and purpose as the conventional type of demand deposits. However, the main difference between the two is the contractual relationship between the depositors and the banks (INCEIF, 2006b: 84). In conventional banking, the contractual relationship between the depositors and the bank is a 'lender and borrower' relationship, while in Islamic banking, the contractual relationship is dependent on what type of *Shari'ah*-compliant contract is used to formulate the deposits accounts.

There are a few common underlying *Shari'ah*-compliant contracts that are adopted in structuring *Shari'ah*-compliant transaction deposits. Ahmad (1993) surveyed the contracts used in designing current accounts and found that there are two contracts, namely *qard hassan* and *amanah*, whose product descriptions are similar to the current accounts based on *wadiah* contracts. In addition, Haron and Shanmugam (2001) have stated three main underlying contracts that have been commonly adopted by various countries. All of the applicable contracts mentioned above were summarized in INCEIF, 2006, as the following table 3.1 illustrates:

Table 3.1: Summary of Common *Shari'ah*-compliant contracts used in Transactional Deposits Practiced by Selected Countries

Country	*Shari'ah* Principle Used		
	Qard Hasan	*Wadiah*	*Wadiah Yad-Dhamanah*
Iran	√		
United Arab Emirates – Dubai Islamic Bank	√		
Kuwait – Kuwait Finance House	√		
Bangladesh		√	
Jordan		√	
Malaysia		√	√
Bahrain – Faysal Islamic Bank of Brahrain		√	

Source: Haron and Shanmugam (1998: 91-108).

It is important to note that the study carried out by Haron and Shanmugam dates back to 1998, and that since then there has been a great deal of product innovation for the

transaction deposits in the Islamic banking industry. In Malaysia, for instance, RHB Bank Berhad[25] introduced current accounts based on a *mudarabah* contract. All the contracts related to *Shari'ah*-compliant transactional deposits mentioned are discussed below.

The first underlying contract is *qard hasan; qard* literally means 'loan', and *hasan* is defined as 'good or benevolent'. Therefore, if the two words are combined, *qard hasan* can be defined as 'benevolent loan'. As the name suggests, it can be interpreted as loan extended to the borrower with the agreement to repay at a future date (Al-Zuhayli, 2003a: 370). However, if the borrower fails to repay due to any circumstances, as far as the *hasan* terminology is concerned, the loan will automatically be converted to a charitable gift by the lender. Some *Shari'ah* scholars who deal with the financial institutions industry, for example the chairman of the Central Bank of Malaysia's *Shari'ah* Advisory Board, Mohd Daud Bakar, disagree with the use of *qard hasan* terminology by saying that its use in the banking deposits context is not appropriate by the virtue that banking deposits should be guaranteed. However, it should be noted that in AAOIFI's *Shari'ah* standard, the terminology that is used is *qard*. Therefore they suggest that the *Shari'ah*-compliant transaction deposit should be based on a *qard* or loan contract[26]. The only difference between the two is that in a *qard* contract, the depositors will be guaranteed the amount deposited, regardless of what might happen to the financial institution.

In the *qard* account, since the money deposited is a loan to the Islamic bank, the bank has the right to utilize the deposits for profit-making investment purposes. However, the bank is still liable and needs to honour the depositors' demand in case the investment fails. Likewise, if the bank is able to generate profit, the profit wholly belongs to the bank (Siddiqi, 1983: 48-49). The mechanism of not giving any return generated from investment made is akin to the conventional banking system's transaction deposits product.

[25] RHB Bank Berhad was a conventional bank that had its Islamic banking option in operation during that time. See ("RHB Islamic Bank Berhad," 2008).

[26] Bank Negara Malaysia has listed all Islamic banking products offered by Islamic Financial Institutions on its webpage. With specific reference to Islamic banking current account deposits, the contracts that are used are *wadiah yad- dhamanah*, *mudarabah* and *qard*. There are no current account deposits that are based on *qard hasan* anymore. Please refer to Bank Negara Website for details ("Range of Islamic Banking Products and Services in Malaysia", 2008).

The second underlying contract that is used to design *Shari'ah*-compliant transaction deposits is *wadiah*, which means a safe-custody contract whereby two parties, namely the owner and custodian, enter into a contract of trust. The owner will give the *mal* (property) such as money to the custodian to be kept as safe keeping (INCEIF, 2006c: 98). The responsibility of the custodian is to safe-guard the property. INCEIF (2006c: 99) further categorized the *wadiah* contract into two types: *wadiah yad amanah* (trust) and *wadiah yad dhamanah* (guarantee). The detailed definitions of the two contracts can be found in Table 3.2.:

Table 3.2: Types of *Wadiah* Contracts

Types of *Wadiah* Contract	
***Wadiah Yad Amanah* (Trust)**	***Wadiah Yad Dhamanah* (Guarantee)**
The Islamic bank acts as a trustee to the fund. If the money under the custody is accidentally lost or destroyed, the custodian is not obligated to replace or compensate it	The Islamic bank's responsibility will however change from *Wadiah Yad Amanah* to *Wadiah Yad Dhamanah* if the deposit scheme has any one of the following features: i. Funds pooled together and not segregated according to accounts. ii. Funds deposited by customers are utilized by the Islamic bank in its investment or financing projects. iii. The Islamic bank imposes service charges on the deposits. By pooling and utilizing the fund, the Islamic bank's responsibility is in the form of guarantee and therefore it is compulsory for the Islamic bank to return the fund as and when requested by the customer.

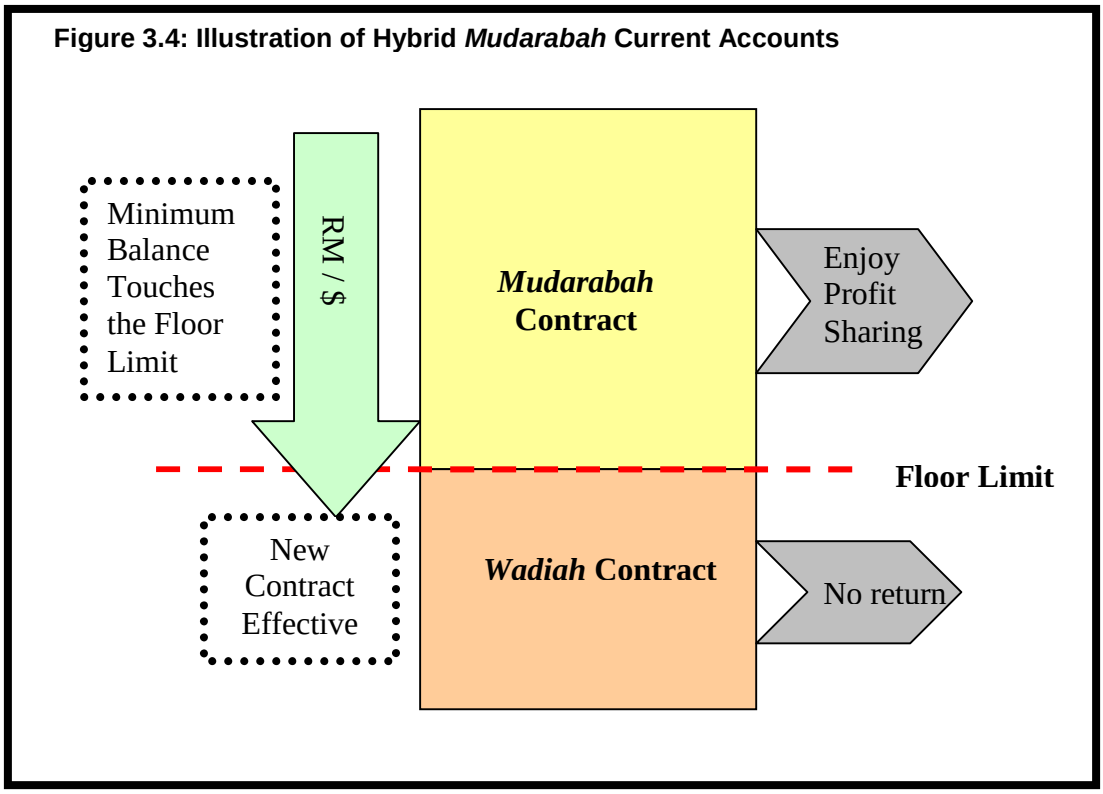
Source: INCEIF (2006; 99)

As stated in table 3.2, Malaysia is the only country that uses *wadiah yad-dhamanah* as the underlying contract for its transaction deposits as approved by the National *Shari'ah* Advisory Council of Bank Negara Malaysia (BNM/SAC) ("Islamic Banking Concepts", 2008). The reason is, as the SAC argued, that the money deposited to the Islamic banks will be pooled in one fund and used for financing and investment purposes. Similar to the *qard* contract, principally both *wadiah* contracts are not allowed to promise any return to the depositors either in terms of money or goods. However, BNM/SAC (2002b) decided that the Islamic banks on their discretion may give returns to the depositors as token of appreciation as well as to maintain the customer relationship provided that the return should not be promised upfront.

The final common contract that is used in *Shari'ah*-compliant transaction deposits is *mudarabah*, which is a profit-sharing contract. It is the latest Islamic financial innovation with regard to transaction deposits. In Malaysia, the product also is termed as '*mudarabah* current account' and is approved by BNM/SAC (2002b). As the name *mudarabah* suggests, the depositors may enjoy the benefit of sharing the profit derived from the utilization of the funds. Besides that, the Islamic banks can also offer any other benefits attached to the account such as *takaful*[27] coverage. The main reason the Islamic banks developed this product was to increase the product competitiveness in order to attract more depositors to the banks. Although the account holder of a *mudarabah* current account fundamentally should enjoy the return as a result of the profit-sharing derived from the investment, the Islamic banks are allowed to innovate the product by combining two contracts in one product, *i.e. wadiah* and *mudarabah*. The hybrid product has been approved by the BNM/SAC with the condition that both contracts cannot be run concurrently (2002: 5). The example given by the BNM/SAC was that the Islamic banks may put a floor limit such as RM2,000 as the minimum deposits amount in order for the *mudarabah* contract to be effective. The customer may enjoy the profit-sharing if the minimum balance of the deposits meets the requirement, and if the depositors withdraw the deposits and the minimum amount falls below the floor amount, the *wadiah* contract will automatically become effective; this means that the banks have the right of not giving any return to the depositors. However, the SAC advised that the Islamic banks should explain to the customer the nature of the contract, as agreed during the *aqad* (offer and acceptance). Figure 3.4 illustrates the working mechanism of *mudarabah* current account deposits.

[27] Takaful refers to the Islamic version of insurance. Takaful is based on the *Shari'ah*-compliant contract. In Islamic principles, all Muslims are prohibited to take conventional insurance coverage.

Figure 3.4: Illustration of Hybrid *Mudarabah* Current Accounts



3.3.2 Issues Related to *Shari'ah*-Compliant Transaction Deposits

There are two major issues that are worth to be discussed in the *Shari'ah*-compliant transactional deposits. The first of these is the statutory reserve maintained by the bank; in other words, the Islamic bank operates in a fractional reserve system for its deposits, which are kept under a contract of loan and safe-custody. Based on the contract, the bank should return the depositors' money on demand at par. Therefore, some researchers suggest that Islamic demand deposits should be backed by a 100% reserve, which is in line with the principle underlying *wadiah* or *qard* contracts (Ahmad, 1998: 29; Iqbal, 1997). Iqbal, and Ahmad's suggestion carries some merit from the point of view of S*hari'ah*, since the responsibility of Islamic banks is to safe-guard the depositors' money in the case of a *wadiah* contract, and full debt payment in case of *qard* contract. In addition, one fundamental aspect of current account deposits, whether Islamic or conventional, is that they should not be paying any return. Therefore, Iqbal, and Ahmad's suggestion is valid because Islamic banks do not have the necessity to risk the *wadiah* and *qard* deposits money in making investments. However, Siddiqi holds an opposing view, and suggests that Islamic banks are allowed to operate under fractional reserve operation (1983: 49). He argues that demand deposits generally are more stable and long-term in nature. Therefore, the

bank would be able to meet the depositors' demand because it is unlikely that they will make deposit withdrawals concurrently.

The second issue related to the S*hari'ah*-compliant deposits is giving out return in terms of *hibah* (either monetary gifts or goods) to the depositors. There are some Islamic banks in Malaysia that practice giving *hibah* to the current account depositors, which stands in contrast to the practice in the Islamic banks in the Gulf, Jordan, as well as Britain (Wilson, 2005). For example, RHB Islamic bank in Malaysia does give *hibah* in terms of monetary reward to loyal corporate customers. Although the Islamic banks need to compete with each other in attracting the deposits, the act of giving *hibah* to current account holders is inappropriate from a *Shari'ah* point of view, as well as from a cost-benefit point of view. Although the *Shari'ah* principles do not prohibit the banks from giving *hibah* to depositors (BNM/SAC, 2002b), the practice of consistently giving *hibah* pay-out may be akin to the practice of giving interest in the conventional banking context. If the banks make the practice of giving *hibah* as continuous and consistent, the depositors may perceive that they will be guaranteed to get the *hibah* monetary reward. The practice, although it does not contradict the *Shari'ah* principle legally, may contravene it practically. In addition, *hibah* payments may increase the overall costs to the bank, since the maintenance cost of current account deposits is considered relatively high (Mishkin, 2007: 220-221). The issue of giving a return to current account depositors also applicable in *mudarabah* current accounts, as the nature of the contract is profit-sharing. In fact, the bank's cost of funds might be higher due to higher deposits' return declared by the bank to the depositors.

3.4 *SHARI'AH*-COMPLIANT SAVING DEPOSITS

3.4.1 Underlying Contract Forms

Shari'ah-compliant savings accounts also have a similar purpose as the conventional savings account, and thus show the same characteristic product features. In general, the account serves those customers who "seek safe custody of their funds, and wish to save money as well as earn an income from that savings" (INCEIF, 2006b: 90). As highlighted before, the main difference between the two is the underlying contract of designing the product. Surveys done by Ahmad (1993: 26-27) on a few Islamic banks,

mostly in Middle Eastern countries, classified savings accounts based on the following categories:

(i) Accepting savings deposits on the principle of *al wadiah*, requesting depositors to give permission to the bank to use these funds at its own risk, but guaranteeing full return of deposits and sharing any profit voluntarily.
(ii) Accepting savings deposits with an authorization to invest and share profits in an agreed manner for the period in which a required balance is maintained.
(iii) Treating savings deposits as *qard hasan* from depositors to the bank and granting pecuniary or non-pecuniary benefits to depositors.
(iv) Accepting savings deposits as part of an investment pool and treating them as investment deposits.

All four categories of *Shari'ah*-compliant savings deposits identified by Ahmad are akin to the contract of *wadiah yad-dhamanah*, conditional *mudarabah, qard hasan* and *mudarabah* respectively. The survey was aligned with another survey performed by Haron and Shanmugam (2001). Based on these two surveys, it can be concluded that the common underlying contracts are similar to the *Shari'ah*-compliant transaction deposits, *i.e. wadiah, wadiah yad dhamanah, qard* and *mudarabah*, depending in which contract each individual bank's *Shari'ah* committee is comfortable with (INCEIF, 2006c: 110). In Malaysia, for example, there are various underlying contracts that are used by the Islamic banks, as evidenced by the broad range of *Shari'ah*-compliant savings account products; for example, Al-Rajhi Bank's (Malaysia) savings accounts are based on a *qard* contract, while CIMB Islamic Bank's savings accounts are based on *wadiah* and *mudarabah* contract. Table 3.3 provides a summary of the *Shari'ah* principles used by various countries in innovating savings accounts. The table was taken from INCEIF (2006c: 110), which is a summarized version of Haron and Shanmugam (2001: 91-108); in modifying the table, Ahmad (1993) was also utilized. The table also indicates the reward or return to depositors' column, which will be discussed later in this section.

Table 3.3: Summary of Common *Shari'ah*-Compliant Contracts used in Saving Deposits Practiced by Selected Countries

Saving Account	Underlying *Shari'ah* Contracts[28]					Reward/ Return on Deposits
	Qard Hasan	***Wadiah***	***Wadiah Yad-Dhamanah***	***Mudarabah***	**Conditional *Mudarabah***	
Iran	√					**√ (cash and non-cash)**
Bahrain						
• Faysal Islamic Bank		√				**No Reward**
• Bahrain Islamic Bank					√	√
UAE						
• Dubai Islamic Bank				√	√	√
Sudan						
• Faysal Islamic Bank		√				**No Reward**
Malaysia						
• Bank Islam Malaysia			√	√		√
• CIMB Islamic Bank			√	√		√
• RHB Islamic Bank			√			√
• Al-Rajhi Bank (Malaysia)	√					**No Reward mentioned**
Kuwait						
• Kuwait Finance House	√			√		√
Bangladesh						
• Islamic Bank Bangladesh				√		√

Source: 1) Haron and Shanmugam (2001). taken from INCEIF, 2006: 91-108.
2) Ahmad (1993; 24-27).

The only difference between *Shari'ah*-compliant transactional deposits and *Shari'ah*-compliant saving deposits is 'conditional *mudarabah*[29]'. Bahrain Islamic Bank termed this contract as "Savings Accounts with Authorization to Invest", instead of *mudarabah* (Ahmad, 1993: 25). However, the mechanism of operation is quite similar

[28] This research also noted that beside the commonly used contracts as specified in the table, there are two other *Shari'ah* approved contracts, namely *wakala* and *tawarruq* (commodity *murabahah*), are also being used by the Islamic banks to structure a deposit product. In *wakala* based deposits product, the depositors appoint the Islamic bank as their agent to invest their deposits, and in return, the bank will get agent fee for the service provided. Meanwhile, for *tawarruq* based deposit account, the depositors will appoint Islamic bank as their agent to buy commodity from the authorised commodity trader on cash basis and subsequently the Islamic bank will buy the commodity from the depositors for higher price which will be paid in the future. The Islamic bank will then sell the commodity back to the authorised commodity trader on cash basis. The higher purchase price between the Islamic bank and depositors is to reflect the profit that depositors will get for depositing their money with the bank. Further details can be found in BNM (2010).

[29] The author's own terminology is based on the understanding of the concept as defined by Ahmad (1993).

to a *mudarabah* contract in which the depositors give the bank the consent to invest the money. The depositors may withdraw the deposits and also get monetary reward derived from the investments' profit. However, the profits declared are based on the minimum balance maintained during the tenure period.

3.4.2 Return Determination of *Shari'ah*-Compliant Savings Deposits

As discussed above, the Islamic savings account is structured by using various *Shari'ah*-compliant contracts. Some of the contracts, *i.e.* the *qard*, *wadiah*, *wadiah yad-dhamana* contracts, technically should not give any return to the depositors. Any upfront promised return is construed as interest or *riba'*. The only underlying contract that is permitted to give any return to the depositors is *mudarabah*. As evidenced by the data in table 3.3, there are some Islamic banks that provide some return to their savings depositors, based on the underlying contract that fundamentally is a 'return free' contract. The Islamic banks argued that, without giving any return to the savings depositors, they would be unable to compete with their conventional counterparts; the result might be that the Islamic banks may be running short of funding. Besides that, some of the bodies that regulate the institutions that offer savings accounts directly indicate that savings accounts are a product that gives interest/return to depositors. For example, Fiennes[30] (2005: 192) defines deposits as follows: "The FSA's interpretation, in line with other developed legal systems, requires capital certainty: unless the bank is actually insolvent, it must return the customer's original money to him in full together with the return earned on it".

In the United Kingdom, the FSA does not have any dedicated legal provision to govern the operation of Islamic banks. The Islamic banking operation in the UK is governed under the same banking act as the conventional banking. Therefore, Fiennes's interpretation indirectly indicates that Islamic banks should also reward the depositors with the return derived from the use of funds. As a result of rival pressure coupled with some regulative restrictions, the Islamic banks are therefore indirectly obliged to give return as well to the depositors, including savings depositors, regardless how the Islamic banks structure the products.

[30] Toby Fiennes was a manager of Wholesale Banks, Financial Services Authority, United Kingdom, at the time the article was written.

Based on the need to give a return to the depositors, the most appropriate contract that should be used is *mudarabah*, as has been practiced by most of Islamic banks in the Middle East. *Mudarabah* is the most dynamic product that can provide continuous return to the depositors, as long as the funds invested are generating enough profit. The returns declared by the Islamic banks are based on a profit-sharing ratio that was agreed earlier by both parties. However, the set-back of using the *mudarabah* contract is that the capital or the principal sums of the deposits are not protected, which in actual fact contradicts the intended purpose of savings accounts acting as safe-custody for depositors.

In contrast, the most suitable contracts to meet the objectives of safe-custody are *qard* and *wadiah* or *wadiah yad-dhamanah*, which are fundamentally 'return-free' contracts. Although they are 'return-free' contracts, *Shari'ah* scholars and the majority of SACs of Islamic banks have approved the concept of giving *hibah* as a method of reward to the depositors with the condition that *hibah* cannot be promised upfront and is solely based on the bank's discretion (BIMB, 1994; BNM, 2008b; INCEIF, 2006c: 100). In fact, according to Rosly (2005c: 151), *hibah* is a crucial element in order to encourage depositors to bank with Islamic banks. In addition, he also suggests that the Islamic banks should have more transparent operational mechanisms in place in order to calculate *hibah.* In Malaysia, for example, one of the methods of calculating *hibah* as stated by INCEIF and BIMB is as follows:

Table 3.4: Method of Calculating *hibah* for Savings Deposits

$$= \frac{\text{*Cumulative daily balance of the month}}{\text{(No. of days in the month)}} \times \text{rate} \times \frac{1}{12}$$

* *Assuming that profit is distributed monthly*

Source: (i) INCEIF(2006:100),
(ii) BIMB (1994:63).

On top of that, Rosly (2005c) also gives his opposing view on the practice of Islamic banks in the Islamic Republic of Iran which use *qard* contracts for savings accounts that do not give any fixed monetary return to the depositors. Rosly claimed that it is not fair for Islamic banks to use free funds to make profit. However, Iranian Islamic banks have different ways of promoting and soliciting deposits. Some of the

incentives given by Iranian Islamic banks as laid down by the State Bank of Iran (taken from Ahmad, 1993: 26) as follows:

(i) Non-fixed bonus either in cash or in kind
(ii) Exempting depositors from or granting discount thereto, in the payment of commissions and/ or fees
(iii) According priority to customers in the use of banking facilities

Although Rosly's (2005c) suggestion and criticism may hold some merit in light of competition with their conventional counterparts, his views may be rebutted on the basis that if the Islamic bank has a well-defined operational procedure for calculating *hibah*, then the bank is obliged to give *hibah*, which indirectly may send a wrong signal to the depositors. In addition, the suggestion may violate the *Shari'ah* principle of the *wadiah* contract, which also can be construed as Islamic banks not being in line with the spirit of prohibition of *riba'*. Moreover, Rosly's (2005c) suggestion also contradicts the theory of *'iwad* (counter value) in justifying earning profit as laid down in the Islamic principles of *al ghunm bi al ghurm*. He strongly promotes these principles, especially when he is very critical of Islamic banks gaining a huge profit from the extension of financing facilities to the customers, which he argues to be unjustified from an '*iwad* perspective; at the same time, he suggests that the bank should declare profit to depositors, even though it is not in line with the principles. In fact, the practice of declaring consistent *hibah* rates to depositors can be construed as violating the Islamic theory of profit, with the depositors earning profit without taking any risk and liabilities (Ahmad, 1998). In addition, the Islamic *Shari'ah muamalah* principles is in tandem with the Keynesian theory which also suggests that return on deposits may not be the ultimate objective of savings deposits (Siddiqi, 1983: 168; Uzair, 1976: 41). This suggests that Islamic banks do not need to put much emphasis on the rate of return to the depositors to be in line with the principle of justice.

3.5 *MUDARABAH* INVESTMENT DEPOSITS

3.5.1 Characteristics of *Mudarabah* Investment Deposits

Mudarabah contracts are used to design Islamic banking investment deposits instruments. There is a large amount of historical and contemporary literature that describes the meaning and mechanisms of *mudarabah* contracts and how these are

applied in the context of contemporary Islamic banking products such deposits and financing.

It should be noted that *mudarabah* contracts have been practiced on the Arabian Peninsula in the pre-Islamic period (Saud, 1976; Uzair, 1976). *Mudarabah* contract is defined as:

> A silent partnership contract, the owner of capital gives it to a worker to trade on their behalf, and profits are shared according to an agreed-upon formula. All financial losses are borne by the provider of capital (the silent partner, or the capitalist), while the entrepreneur can only lose his effort if no profits are made. (Al-Zuhayli, 2003b: 487)

The same definition is rendered in various literatures[31] and in the injunctions of *Shari'ah* advisory boards of Islamic institutions[32]; all of these sources are in line with the definition given by classical Islamic literatures[33]. In other words, if the venture generates profit, the profit will then be shared between the two parties, and if any losses are incurred, the capital provider will lose the capital and the entrepreneur will lose 'human capital' as well as reputation. However, in the case of business loss, the capital provider can be exempt from absorbing any losses in case of a breach of the terms of a *mudarabah* contract, such as misconduct and negligence (AAOIFI, 2004b: 232).

Based on the definition given above, it is clear that, fundamentally, *mudarabah* contracts are a structure aiming to fulfil the social justice principle which promotes equality between capital provider and entrepreneur. In addition, it is argued that deposits products that are designed under profit-sharing modes (*mudarabah*) make the Islamic banks more stable during economic turmoil, besides acting as a valuable tool for disciplining inefficient banks (Ahmad, 1998: 30; Ahmed, 2002: 34). Furthermore, many Islamic economists and *Shari'ah* scholars make the same claim that *mudarabah* contracts give a lot of mutual benefits to both parties involved in the transactions. Uzair puts it as follows:

[31] See (Siddiqi, 1983), (Siddiqi, 1994: 59-60), (Gafoor, 1996), (Ayub, 2002: 79-81).
[32] See (AAOIFI, 2004b), (BNM, 2002) – securities decision.
[33] See Zuhayli p. 487- 492 for more details of definitions and legality and permissibility of *mudarabah* contracts with specific reference to Qur'an, *Sunnah*, and the consensus of Muslim jurist.

> If banking business is reorganized in such a manner that the depositors interested in earning some income on their deposits are required to share the profit and loss with the users of the capital funds or the entrepreneurs, a better equilibrium will emerge and more harmonious relationship between ex ante savings and investment will be possible. (Uzair, 1976: 44)

Moreover, a few Islamic commercial financial institutions agree with this notion in relation to *mudarabah*, such as Islamic Bank Bangladesh Limited which states that

> The *mudarabah* or profit-loss sharing basis of Islamic banking has been conceived as more production-oriented and growth promoting than interest-based deposits. Further, the replacement of interest with profit-loss sharing principle was also said to increase investment opportunities in the economy. (taken from INCEIF, 2006a: 3)

In applying the concept of *mudarabah* in bank deposits, as pointed out by Uzair, depositors who have an 'investment motive' or a 'finance motive' should place their money in an investment account which is based on profit-loss sharing mechanisms rather than on a fixed return agreement. Therefore, a *mudarabah* contract is the most suitable contract to be applied to *Shari'ah*-compliant investment deposits. In fact, most of the Islamic banks throughout the world have applied *mudarabah* contracts in their investment deposits accounts. The account has the same characteristics and modus operandi as the *mudarabah* savings and current deposits, which means that depositors will make the placement of their money in the investment account on the basis of profit-sharing. However, there are few differences between *mudarabah* investment accounts and *mudarabah* current or savings accounts. The main difference is that investment accounts have various fixed-term maturity dates,[34] unlike the other two types of account; secondly, the investment account holders (IAH) will only receive investment certificates which state all the terms of the deposits. Besides that, similar to the operation of fixed-term deposits in conventional banking, *mudarabah* investment deposits do not enjoy the benefit of withdrawing money on demand,[35] nor do they include access to other electronic services such as ATM and immediate online transfers.

[34] The tenure periods range from 1 month to 60 months depending on the bank's risk appetite as well as IT infrastructure capabilities. This rule has been approved by Hanbali Schools of law. However, the majority of other Islamic schools of law disagrees by saying that it is inappropriate to set a time-limit, as, under a *mudarabah* agreement, both parties have the right to terminate the contract at any time (AAOIFI, 2004a: 211).

[35] The depositors need to give notice to the bank if they need to make early withdrawal before the maturity date.

In order for the *mudarabah* investment account to be legally binding, both parties must specify the following terms prior to the contract: (i) amount of investment, (ii) tenure of the investment, (iii) profit-sharing ratio (PSR). PSR is important element in *mudarabah* contracts, as it will determine the effective return from the investment, based on the profit amount declared. In addition, both parties are also allowed to add on other conditions, such as a minimum amount of deposit for short-term tenure (INCEIF, 2006c: 103), which makes the contract more practical and convenient. Furthermore, there are some Islamic banks that also introduced a minimum notice-period in case the depositor wishes to make a withdrawal. As stated above in the discussion of other *Shari'a*h-compliant deposits products, Haron and Shanmugam (2001) have made a substantial contribution to the literature on Islamic banking deposits through their survey of some countries that offer *mudarabah* investment deposits. Although the survey conducted by Haron and Shanmugam was carried out quite some time ago, based on a review by the researcher of the *mudarabah* investment deposits product offered by a major Islamic bank in Malaysia, the survey results of Haron and Shanmugam are still relevant and applicable. Table 3.5 summarizes the survey done by them.

From the characteristics and nature of *mudarabah* contracts as highlighted in the table, it seems that *mudarabah* investment deposits are akin to the characteristics of equity-holders in any typical company. Furthermore, the uniqueness of *mudarabah* investment deposits with regards to risk and return, which requires the depositors to share the profit and bear the losses (if any), are also highlighted by various academic studies,[36] industry practitioners,[37] as well as regulatory agencies. For example, AAOIFI (1999), being the pioneer in issuing prudential accounting standards and capital adequacy guidelines for Islamic financial institutions, recognized the nature of *mudarabah* investment account as profit-sharing instruments[38]. Subsequently, the Islamic Financial Services Board (IFSB) has issued capital adequacy guidelines

[36] Refer to Ausaf Ahmad (1998).
[37] Ibrahim (2007) is a Assistant Governor of Bank Negara Malaysia, has also mentioned the uniqueness of profit-sharing investment accounts in terms of risk absorbent.
[38] Technically, the *mudarabah* Investment account holder (IAH) should absorb the business loss as a result from credit and market risk. However due to fiduciary risk of Islamic banks, AAOIFI request that Islamic banks to absorb 50% risk weight assets funded by the IAH. This indicates that AAOIFI still recognized the risk that should be absorbed by the IAH. However, the 50% figure decided by AAOIFI was set arbitrarily.

(IFSB, 2005a), which allow the banks to transfer all the losses resulted from business loss (credit and market risk) to the *mudarabah* investment depositors, depending upon supervisory discretion. The members' countries of IFSB are also encouraged to adopt these guidelines. So far there are few member countries that have accepted these guidelines via their central banks. Examples include the Central bank of Bahrain and Bank Negara Malaysia (BNM, 2007). Based on the guidelines issued, it can be concluded that the stand taken by regulatory bodies on the interpretation of *mudarabah* investment deposits is consistent with the characteristics of *mudarabah* contracts in light of the interpretation of *Shari'ah* principles. Therefore, they resemble the nature of equity-holders who bear the risk of losing the capital they invested.

Table 3.5: Summary of Common *Shari'ah*-Compliant Contracts Used in *Mudarabah* Investment Deposits Practiced by Selected Countries

Investment Deposits	Basis of Investment Deposits			Period of Investment Deposits
	Duration	**Notice**	**Specific Project or purpose**	
Malaysia	√			Monthly
Kuwait				
- Kuwait Finance House	√			Yearly basis only (minimum =one year) Options: (a) limited period valid for one year and renewable (b) Unlimited period; withdrawal after one year; termination requires 3 months notice, otherwise auto-renewal.
Bangladesh				
- Islamic Bank Bangladesh	√	√ - not allowed to withdraw unless with written notice (7 days)		Quarterly basis
Jordan				
- Jordan Islamic Bank		√ - not allowed to withdraw unless with written notice (90 days)		Yearly basis only (minimum = one year)

Source: Haron and Shanmugam (1997: 91-108).

Recognizing the fact that *mudarabah* investment deposits are high risk in nature, the regulatory agencies and other official bodies have taken various initiatives to minimize the risk to the depositors. For example, Bank Negara Malaysia issued guidelines on the 'Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent' (BNM, 2008a) and *Shari'ah* parameters on *mudarabah* contract guidelines (BNM, 2009), which specify the stringent criteria that Islamic banks need to fulfill in order for them to be able to enjoy lower capital allocation as result of the ability to recognize *mudarabah* investment accounts as risk absorbent. In other word, the bank cannot simply transfer the business losses to the depositors. In addition, IFSB issued various guidelines which require regulators as well as Islamic banks to give special attention to the area of risk management, financial disclosure, supervisory review, and corporate governance with regard to the management of *mudarabah* investment deposits[39]. In fact, some of these guidelines would be able to solve the issues highlighted by scholars in relation to the treatment to investment account holders. For example, Iqbal and Mirakhor (2007: 152) highlighted that the "investment account holders are not granted any participation in the governance or monitoring process although they form the big chunk of the funding of the bank. Therefore, it is worthwhile to briefly overview the relevant part of all the guidelines issued by IFSB in relation to the treatment of *mudarabah* investment deposits".

The foremost guideline issued by IFSB in dealing with *mudarabah* investment accounts is the guiding principle on corporate governance. In this guideline, it was suggested that Islamic banks incorporated governance committees,[40] among whose functions is to oversee the bank's activities in order to protect the interest of other stakeholder except for shareholders. The guideline gives special attention to the protection of investment account holder (IAH) interest and in particular the commingled investment account holders' fund. Besides that, the guideline also has dedicated one specific section on the rights of investment account holders. In this provision, IFSB suggested two guiding principles and followed by recommended best

[39] See (IFSB, 2007a), (IFSB, 2007b), (IFSB, 2005b), (IFSB, 2006), (IFSB, 2010).
[40] The Governance Committee suggested by IFSB should at least have three members, *i.e.* (i) one member of the Audit Committee, (ii) a *shari'ah* scholar (iii) a non-executive director. The banks are encouraged to increase the number of committee members, but preferably by selecting independent non-executive directors.

practices to facilitate the Islamic banks in carrying out these functions. Table 3.6 summarizes the principle.

Table 3.6: IFSB Corporate Governance Guiding Principles: Rights of Investment Account Holders (IAH)

IFSB Corporate Governance Guiding Principles : Rights of Investment Account Holders (IAH)	
Principle 1: "IIFS shall acknowledge IAHs' right to monitor the performance of their investments and the associated risk, and put into place adequate means to ensure that these rights are observed and exercised"	**Principle 2: "IIFS shall adopt a sound investment strategy which is appropriately aligned to the risk and return expectations of IAH (bearing in mind the distinction between restricted and unrestricted IAH), and is transparent in smoothing any return."**
Recommended Best Practices	
• The potential depositors are sufficiently advised by the bank on their rights and risks relating to the product. The depositors must be aware and understand the assets allocation strategies and the method of profit distribution	• Develop an investment strategy which takes into consideration the risk and return expectations of the depositors. Therefore the following points should be considered: ▪ Formulate an efficient know-your-customer framework to identify the nature of the risk-return profile of potential depositors (unrestricted and restricted) ▪ Employ qualified personnel who have sound knowledge and skills in dealing with the risk-return expectation of the depositors ▪ Provide timely and adequate information to the Governance committee regarding the investment strategy
• The Governance Committee is to ensure that all relevant information is disclosed to the depositors effectively and in a timely manner.	• In the case of Islamic banks' practice of smoothing the rate of return to the depositors via reserve accounts (PER or IRR), the depositors should be well informed whenever there is any movement (transfer in or draw out) in the account. • The depositors should also be informed of the reasons for the movement in the reserve account.
• The bank should have internal guidelines which address the following: ▪ Eligibility of the employee for a managing investment account ▪ Adequate protection of the IAH investment ▪ Disclosure of relevant information ▪ Disclosure of basis of profit distribution.	• Governance Committee should be mandated to examine the management of the reserve account.
• Restricted investment account holders should have access to all information about their investment which is similar to Islamic mutual funds investors/ Islamic unit trust investor.	• The Islamic banks shall distinguish between "distribution rate" – the rate at which banks distribute the profit, and "profit rate" – the actual profit derived from the investment.
• Islamic banks should also explain the treatment of losses from various scenarios to the potential depositors.	

Source: IFSB (2006: 6-10).

Although the guideline has a very noble intention of protecting the rights of investment account holders, the guideline has been widely criticized by the Islamic banking practitioners on the basis of escalating both overhead costs and practicality. The incorporation of a Governance Committee will definitely require additional costs such as a meeting allowance, as well as operating costs for information technology, and costs related to generating tailor-made reports. The practitioners also argue that the disclosure of the investment strategy, including assets allocation decisions, is not practical on the grounds that the strategy might become known to competitors. On top of that, they argue that the investment account is another type of deposit which is akin to the fixed deposits which should not require such disclosure. Despite all the claims made by the practitioners, Islamic banks should take the recommendations positively in light of the unique characteristics of the Islamic banking business.

IFSB also issued a guideline on transparency and market discipline via adequate disclosure to complement the corporate governance guideline which is intended to protect the interest of investment account holders. In this guideline, IFSB laid down minimum disclosure elements, including the frequency of disclosure according to the type of investment (*i.e.* restricted and unrestricted investment). The objective of adequate disclosure is that the depositors are well informed of the activities that might affect their investment. With sufficient information, hopefully the investment account holders would be able to make a sound judgment on their investment, as well as indirectly discipline the bank for its risk-taking behaviour. For example, if the bank declared a lower return to its depositors as a result of a bad selection of investment, the depositors would be able to react by withdrawing their deposits. Therefore, if the bank is unwilling to lose their depositors, it should have a very rigorous process of making investment decisions. In this scenario, the depositors have managed to discipline the bank for its risk-taking behaviour; this is in line with depositors-discipline in the banking market discipline.

Furthermore, Standard & Poor's (S&P's) which is well-known global rating agency, has launched a "stability rating for Islamic financial institutions (IFIs) offering profit-sharing investment accounts" (Islamic Finance news, 2008). The intended purpose of stability rating is to indicate S&P's outlook on the expected stability of cashflow distributable to PSIA holders. Their view will be discussed later, based on the

assessment of the composition of the Islamic banks' assets. This rating will assist potential IAH to have a better view on the cashflow projection of any particular Islamic banks of interest which may affect the return as well as the risk to the amount deposited. All these guidelines and initiative taken by various organizations are basically meant to protect the interest investment depositors by recognizing the fact that *mudarabah* investment deposits are risky in nature.

Nevertheless, there are also views from scholars who do not accept *mudarabah* investment deposits as bearing the same characteristics of equity-holders in terms of risk. Wilson (2007) deemed *mudarabah* investment deposits as a normal deposits instrument which needs to be guaranteed. His claims are supported by the majority of Islamic banker practitioners, who state that *mudarabah* investment deposits are akin to the fixed deposits instruments in conventional banking. In addition, Rosly and Zaini's (2008) views are also in line with Wilson's, based on their studies which prove that *mudarabah* investment accounts are not much different from the conventional fixed deposits product. The findings of their study show that the average return declared by Islamic banks is not much different from the conventional banks' interest rate, but below the return of the actual investment or even the stock market return. Thus the claim that *mudarabah* investment deposits are akin to the investment concept and are not a mere banking deposits product is not justified. On the same note, the claims that *mudarabah* investment deposits are not an equity-based instrument is also supported by Ahmed (2002) who identifies a clear distinction between the two in terms of attitude of depositors and equity-holder towards risk and return, and also in terms of liquidity. According to Ahmed, depositors and equity-holders have a different risk appetite: the former prefer to accept lower risk compared to the latter, who are willing to take higher risks in anticipation of better return. The second difference lies in the 'liquidity' perspective. When depositors withdraw money from the bank, they will reduce the bank's liability, unlike equity-holders who sell their shares, in which case the bank's capital and liability remain the same.

Based on the definition, characteristics, and arguments highlighted, it is necessary to discuss the nature of the product in practical terms, which is part of the intended purpose of this research.

3.5.2 Types of *Mudarabah* Investment Deposits

Mudarabah contracts can be classified into two major types namely 'unrestricted' and 'restricted' contracts (AAOIFI, 2004b: 490; Al-Zuhayli, 2003b). The detailed definition of each type of *mudarabah* contract is as follows:

(i) Unrestricted *Mudarabah*

With this type of *mudarabah* contract, the provider of the capital (*rab-al-mal*) does not specify any specific purpose for the utilization of the capital. In other words, the capital provider gives full freedom to the entrepreneur (*mudarib*) to deal with the capital as long as it is within the requirements of the *Shari'ah.* This means that the *mudarib* has the right to make any investment choice, provided that the investment is in the interest of both parties and follows the objectives of the *mudarabah* contract, which is to maximize profit. Before the *mudarabah* contract is concluded, both parties must agree on the profit-sharing ratio which will determine the rate of return of the investment.

An example of unrestricted *mudarabah* is when a capital provider approaches a general merchandise trader and provides capital for its business purpose, after a profit-sharing ratio has been agreed. In this case, the capital provider did not specify the product that the trader should sell such as furniture or clothing. Therefore, the trader may engage in any type of trading business, provided that the purpose of the business is to maximize profit for the benefit of both parties, and in accordance with the business customs relating to the operation of *mudarabah*. The *mudarib* is not allowed to act negligently in dealing with the funds, although he has freedom in utilizing them. A possible example of negligence in the case of unrestricted *mudarabah* is venturing into a business without undertaking any proper assessment and research, which is similar to gambling.

(ii) Restricted *Mudarabah*

On the other hand, a restricted *mudarabah* contract is defined by AAOIFI (2004b: 232) as "a contract in which the capital provider restricts the actions of the *mudarib*". The restriction as defined by AAOIFI could be in form of location or type of investment, based on the capital provider's preference. However, the restriction

imposed by the capital provider must not encroach onto the operation of the *mudarabah*, which may restrict the *mudarib* in managing the capital.

According to Al-Zuhayli (2003b: 490), Islamic jurists have different opinions regarding this type of *mudarabah.* Abu Hanifa and Ahmad Ibn Hanbal permitted the specification of time-framework, business partner, and delay in business operation. However, Malik and Shafie disagree with this view by saying that the restrictions imposed are impermissible.

Both types of *mudarabah* contract may also be applied to *mudarabah* investment deposits. In addition, AAOIFI (2004a: 211) further classified *mudarabah* into two natures, *i.e.* 'single *mudarabah*' and 'compound *mudarabah*'. 'Single *mudarabah*' refer to a bilateral relationship between a single capital provider and entrepreneur, while 'compound *mudarabah'* refers to the relationship between multiple capital providers with a single entrepreneur or vice versa. However, the former nature of 'compound *mudarabah*' is applied in banking operations.

In the 'unrestricted' *mudarabah* investment deposits, also known as 'general investment deposits', the depositors' funds are pooled into one fund where the depositors do not specify the intended investment purpose of the capital. Therefore, the Islamic banks are allowed to use the funds in any type of investment, such as granting project financing, house financing, or purchase *sukuk* (Islamic securities). The profit derived from the utilization of the funds will be shared by the depositors and the banks according to an agreed profit-sharing ratio. Although the profit-sharing ratio can be negotiated, for practical purposes (as banks deal with many depositors), the profit-sharing ratios are normally standardized across the board, for example 70:30 (70 percent for customer and 30 percent for the bank). However, some Islamic banks introduced another type of *mudarabah* investment deposit, which is a sub-set of the 'unrestricted' *mudarabah* investment deposits known as 'special' investment account. With this special investment account, funds are still in one general pool with unrestricted funds, but the only difference is the depositors have the right to negotiate for higher PSR (Ismail, 2005: 316). These privileges are normally being given to depositors that are known to the bank, who may want to place deposits in substantial amounts and for longer durations.

Furthermore, in the management of unrestricted *mudarabah* investment deposits, some jurists allow the practice of commingling of other funds, such as mixing shareholders' funds, current accounts and savings accounts. The practice is considered common among Malaysian Islamic banks (BIMB, 1994). The practice of commingling of these funds is unanimously permitted by jurists, provided that the banks must get consent either explicitly or implicitly under a blanket authorization (AAOIFI, 2004a: 213).

The restricted *mudarabah* investment deposits can be worked out in two scenarios. The first scenario may be termed as 'supply-driven restricted *mudarabah'*. This scenario perhaps applies to wealthy depositors who have large amounts of deposits. The depositors may specify what type of investment they want the bank venture into, for example, a millionaire might be interested to invest their deposits in low-risk investments, such as purchasing 'AAA' Islamic *sukuk*. Therefore, the Islamic bank must adhere to the requirement of the depositor by only investing in 'AAA' Islamic *sukuk*. The second scenario may be termed as 'demand-driven restricted *mudarabah*'. In this case, a prospective customer with a viable investment project approaches the bank to seek funding. The bank can play the role by soliciting deposits via restricted *mudarabah* investment accounts for this project. Therefore, depositors who may want to participate in the investment of this particular project may place their deposits in this type of restricted *mudarabah* investment account.

3.5.3 Rate of Return Framework for Return Distribution

Seeking additional wealth from the invested capital is highly encouraged in Islamic teaching, as Prophet Muhammad (*pbuh*) was also an entrepreneur. However, obtaining pre-determine fixed profits is not allowed, as it is tantamount to interest on capital which is *riba*'. As highlighted by Chapra (2005: 57),

> Islam does recognize the role of capital as a factor of production. However, since the return on capital can be determined only after all costs have been accounted for, and may be either positive or negative, Islam prohibits a predetermined positive rate of return in the form of interest. Islam requires profit and loss sharing in an equitable manner… (Chapra, 2005: 57)

There are two important points that can be derived from this statement: firstly, all return that is derived from capital investment should be based on a profit and loss

sharing basis, and secondly the method of calculation of profit and loss sharing should be proper and in a just manner. The first point has been discussed extensively above; the second point, *i.e.* the methodology of distributing the profit, will be the focus of the current section.

Before discussing the methodology of distributing the profit, it is worthwhile to have a look at the juristic aspects pertaining to the treatment of profit and loss in investment accounts, as laid down in the AAOIFI's accounting standard.

Table 3.7: Juristic Aspects Pertaining to the Treatment of Profit and Losses in Investment Accounts

Juristic aspects pertaining to the treatment of Profit and Losses in investment account	
Treatment of Profits	**Treatment of Losses**
• The profit-sharing ratio (common percentage) must be clearly agreed upon by both parties upon contracting. • Changes to the PSR during the contract are permitted but must be agreed upon by both parties	• The *Mudarib* shall not bear any business losses resulting from the investment
• Periodic distribution of profit is permissible, provided it is agreed upon by both parties	• However, the *mudarib* should absorb losses if the loss comes as a result of misconduct, negligence or violation of the contract's terms.
• In the case of commingled funds, the profit distribution must be assigned according to the ratio of contributed funds. However, some jurists allow it to be distributed according to PSR, provided it is agreed upon by both parties.	• Profit derived from the other transactions shall be used to set off losses incurred.
• Islamic bank as the *mudarib*, which has a right towards a share of profit, must deduct their portion of profit from the overall profits derives from the utilization of funds.	• Losses should not erode *mudarabah* capital, unless the losses are not set off against profit derived from other transactions. • Unanimous agreement that losses can be set off against profit from other transactions periodically throughout the same financial period.

Source: AAOIFI (2004a: 210-214).

Presently, there is limited research available which discusses the mechanics of distributing profit for *mudarabah* investment accounts. Most of the documents only

describe the principal aspects of profit distribution. In addition, some of the books only prescribe the formula of calculating the profit as follows:

Table 3.8: Method of Calculating profit for Investment Account Deposits

$$\frac{\text{Principal X Profit Rate X Period of Investment (in months)}}{12}$$

Source: (i) INCEIF(2006:100).
(ii) BIMB (1994:63).

In fact, AAOIFI and IFSB also have not issued any guidelines or specific procedural frameworks as a guide for Islamic banks to calculate the distributional profit. Therefore it is believed that each Islamic bank throughout the world has its own profit distribution guidelines; this poses difficulties for global investors when attempting to make comparisons. The same is true also for the Malaysian Islamic banking industry. Before BNM introduced a standardized rate of return (ROR) framework, the Islamic banks and Islamic banking windows used their internal governing standard in distributing profit to the depositors. This has resulted in various practices among the players which open the industry to criticism by academics and researchers (Rosly, 2005a). Some banks gave high rate of return, but in actual fact the high rate was not due to significant profit but due to different mechanics in distributing the profit. Therefore, realizing the need for a standardized rate of return framework, BNM issued the first ROR framework in 2001, and subsequently a revised framework in 2004[41]. The purpose of having the framework as prescribed by BNM (2004) is threefold:

(i) Set the minimum standard in calculating the rate of return
(ii) Provide a level playing field and standardized terms of reference for the Islamic banking players in deriving the rate of return; and
(iii) Provide Bank Negara Malaysia with better means of assessing the efficiency of the Islamic banking institutions as well as their profitability, prudent management, and fairness.

After the implementation of Bank Negara Malaysia's rate of return framework in year 2001, it emerged that the rate of return of the Islamic banking industry has become

[41] For details, see detail framework issued by BNM in (2001) and (2004).

easier to compare (Karim, 2003). Although the framework managed to reduce various issues with regard to the distribution mechanism, there are still few issues that are highly debatable among both industry players and researchers.

The first issue with regard to the reserve account, as suggested by Siddiqi (1983; 1994), is the smoothing of the rate of return to the depositors. For this, the reserve account serves as a buffer to top up any shortfall in the current distributable profit or losses incurred which may post a high withdrawal risk to the bank. In fact it is argued by the industry players that, if the rate of return is fluctuating, there will be high variability in the deposits amount, which may affect the management of the liquidity risk. However, this claim is still debatable as there were some instances that show severe liquidity risk did not happen. For example in year 1984, Kuwait Finance House in Kuwait KFHK did not declare the return to the depositors for a particular month, but this did not result in bank runs or huge amounts of withdrawals (Haron and Azmi, 2005: 24). Nevertheless, the case perhaps is an isolated one, and is unique to the behaviour of the depositors in this particular country, which may be not true for other countries. As a result, the reserve account has been suggested by AAOIFI and IFSB in the issued standard guidelines in order to smooth the return to the depositors. For this purpose, there are two types of reserve account as suggested by IFSB:

(i) Profit Equalisation Reserve (PER)

The Profit equalization reserve is a reserve account appropriated from the gross income level basis which comprises the depositors' and shareholders' portion of income (BNM, 2004: 12; IFSB, 2005a: 20). Normally, a bank will appropriate a sum of money to the PER account if there is any extra income received for that particular period, which will raise the rate of return beyond the market or desirable rate. Indirectly this contributes to a fluctuation in the rate of return, which may impact on the stability of the deposits structure. Therefore, it is allowable by the regulatory agencies to appropriate some of this extra income to a PER account in order to smoothen the effect of fluctuating trends in the deposits rate of return. The amount accumulated in the PER account will be utilized in the event that the actual rate of return for the period is undesirable. In this case, the accumulated PER will be clawed back to the gross income in achieving the desire level rate of return.

(ii) Investment Risk Reserve (IRR)

Investment risk reserve is a reserve account which is built from the amount appropriated out from income attributable to the investment account holder after deduction of the *mudarib*'s share of income (IFSB, 2005a: 20). The difference between PER and IRR is that the PER amount appropriated out on the gross income basis before the deduction of the *mudarib*'s share while the IRR amount is appropriated out from the net income basis after deduction of the *mudarib*'s share. However, the underlying philosophy and function of IRR is the same as per PER.

Although the idea of introducing the reserve account is noble, it is however argued that it may pose some operational as well as *Shari'ah*-compliance issues. In the case of Malaysia, for example, the ROR has adopted the first type of reserve account which is PER. Despite BNM has stated certain conditions for operating PER accounts[42] which reduced a lot of uncertainties in treating the provision of the PER, there are still some areas that need be address in the guidelines.

Firstly, PER is deducted on the gross profit basis, which means that the reserve account includes dual rights, *i.e.* those of depositors and shareholders. Under the *Shari'ah* principle of justice and equality, the Islamic banks should get depositors' prior consent to deduct some portion of the gross profit to the PER account. If the depositors are not informed in advance, Islamic banks may be reckoned as denying depositors' right to the actual profit.

Another issue of justice arises with regard to distributing PER accounts to future depositors. If existing depositors are denied the actual profit, they may decide to switch to other Islamic banks. The future new depositors might then enjoy the privilege of a huge amount of the reserve account in the event that the rate of return is undesirable. This creates a situation, as Iqbal and Mirakhor (2007: 238) note, where the present short-term depositors are subsidizing the long-term future depositors in terms of enjoyment of profit.

[42] See ROR framework (2001) and (2004) for the details of the restrictions.

The second issue regards the declaration of previous profit as indicative of future profit for depositors. In this context, the declaration of past profit made may insinuate that the bank will give consistent rates of profit, which may send an erroneous signal to the depositors. Depositors who misunderstand this issue may think that the bank is obliged to pay a fixed return to depositors, which could be misinterpreted as fixed interest or return.

In continuation of these highlighted issues, the stable rate of return and the declaration of the indicative profit rate can be appraised in light of the Islamic theory of profit. In this case, the depositors place their money in the Islamic banks with the expectation of receiving constant return, without acknowledging the capital risk embedded in the *mudarabah* contract, when, in actual fact, it has not fulfilled the requirement of the Islamic theory of profit. The profit derived from the investment might be invalid, since the depositors do not understand the elements of liability (*daman),* effort *(kasb),* and risk *(ghurm)* in return for profit from the investment. The profit earned is deemed not to be commensurate with the level of liability and effort, and on top of this, the depositors are expecting capital protection, which contradicts the underlying element of capital risk in *mudarabah* contracts.

To sum up, the regulators have made a tremendous effort in strengthening the regulatory and supervisory framework in order to inculcate the confidence of the *mudarabah* depositors. However, all parties should intensify their effort in educating the depositors to understand the concepts of risk and return.

3.5.4 Others Elements Affecting the Return Distribution

Although there are guiding principles either developed internally by the respective bank or through the standardizing framework issued by regulating agencies, there are other factors that might affect the actual rate declared to the depositors. The Islamic banking industry should take into consideration all of these factors because the industry is still a subset of financial intermediation in the wider scope of the financial industry in a particular country and globally. Any changes made to one of the variables might affect the overall macroeconomic structure of the country. For example, a government may want to encourage saving and reduce spending in the economy as a measure to curb escalating inflation. The normal measure taken by

government via central banks would intervene in the market and increase the market interest rate, *i.e.* the interbank money market. The conventional banking system adapts to the changes more easily by increasing the loan interest rate and, thus, indirectly increasing the interest rate for the deposits.

In the Islamic banking environment, the same mechanisms can apply. The only difference is that the government or central bank needs to influence the decision of determining the profit-sharing rate from time to time in order to maintain the overall stability of the economic structure of the country (Uzair, 1976). In addition, countries that have integrated an 'Islamic interbank money market' system, such as Malaysia, may use the 'interbank money market' as a channel to influence market conditions in order to achieve the desired economic objectives. Another mechanism that the central bank can do to influence the market rate is via mopping up the liquidity instrument. If the central bank wishes to lower down the market reference rate, the central bank can purchase back the Islamic government securities in the market and increase the level of liquidity. According to the law of demand and supply, ample supply of liquidity in the Islamic interbank money market will push down the price or rate of the funds. Therefore it is cheaper for the bank to source their funding from the Islamic interbank money market instead of soliciting from the customer deposits. The same rules of demand and supply also apply to the depositors who have to accept the lower profit-sharing ratio return if they still wish to deposit their money in the bank.

Besides fulfilling the macroeconomic objectives of the nations, the Islamic banks also have to withstand intense competition to source their deposits. Islamic banks are not operating in isolation, and, being commercial entities, they must be equipped not only to compete with their conventional counterparts, but also with other Islamic banking players as well. In fact, Rosly (2005c) questions the low return given by Islamic banks as compared to their conventional counterparts. Islamic banks are pressured to give rates of return comparable to those of their conventional counterparts, as well as to other Islamic banks, in order to be able to retain their existing depositors (Ahmad, 1998). Therefore, it is crucial for Islamic banks to be able to portray good performance and offer a quality service. However, there might be certain periods during which the bank is unable to declare a lucrative return to depositors due to poor performance of the bank's financing and investments. As mentioned in the previous

section, ideally the Islamic banks may use their reserve account such as PER or IRR to make good the return to the depositors. However, there are some Islamic banks which do not have to maintain any reserve accounts, or which have run out of funds. As a result, the shareholders of the affected Islamic bank may consider forgoing part of their profit to the depositors under the *hibah* contract. Technically, the shareholders of the banks have to scarify part of their agreed profit-sharing ratio to the depositors, for example from 30 percent to 20 percent or lower in order to meet the market rate of return. The action taken by the bank actually conforms with the argument of some research on the determinant of savings behaviour theory, according to which depositors are sensitive to the movement of the rate of return.

On the other hand, there are some scholars who disagree with the view of emphasizing the rate of return as the main factor to solicit more deposits. Siddiqi (1983), for example, suggests that the rate of return element should not be the main determinant in savings behaviour. He supported his argument with Keynes' theory of savings determinants which ranked the return or interest rate element as the least important. Furthermore, Siddiqi supported the argument based on two committee reports, namely those of the Commission on Money and Credit (1964) in United States, and of the Radcliffe Committee (1959) in Britain. Both committees have been assigned to study the monetary and credit systems of their respective countries.. Both reports, according to Siddiqi, suggest that the interest rate is negligible as a determinant of savings, when compared to other factors.

3.6 DEPOSIT PROTECTION SCHEME

The purpose of a deposits insurance scheme and its advantages and disadvantages were discussed in the previous chapter (chapter 2) in detail. As a recapitulation, those who are the proponents of a deposits protection scheme are of the view that its main objectives to ensure banking stability, as well as prevent any bank run or panic (Starr and Yilmaz, 2007). On the other hand, the opponents of the scheme are of the view that it will increase the risk profile of the banks, since there is the tendency of the banks to assume higher risk-taking activities. In addition, the protection will dampen the objective of market discipline via depositors monitoring the risk taking activities of the banks. Although there are a lot of debates between the two schools of thought,

many of the developed countries such as United Kingdom and United States, and developing nations such as Malaysia have decided to implement deposits protection schemes. Various stakeholders[43] of Islamic banks also desire similar objectives to be implemented in Islamic banking products.

Nevertheless, the introduction of such a scheme in Islamic banking deposits products is highly debatable in view of the *Shari'ah* principles in the underlying contracts. Although the related issues are much of research interest, research into this area with regard to Islamic banking is still considered scare, especially from an empirical point of view. Therefore, this section aims to present the theoretical aspects of the issues.

As mentioned above, Islamic banking deposits products are designed according to certain *Shari'ah* principles. The underlying contracts make the products distinct from their conventional counterparts. Therefore, theoretically, the design of a deposits insurance scheme should be according to the underlying contract of the deposits. In all deposits products that are structured using *wadiah, qard*, and *amanah* in nature, the deposits should in actual fact be fully guaranteed by the bank, regardless of the situation of the bank (Ahmad, 1998: 32), while those deposits products that are structured using *mudarabah* contracts should not be guaranteed at all. Therefore, theoretically, Islamic banking deposits should not have any deposits insurance scheme at all. The depositors by right should choose the correct deposits products from the very beginning, based on their risk and return preference (Ayub, 2007). These unique features as a right should be the strength of Islamic banks, which is in line with the desire of Islamic finance to promote social justice not only to the depositors but also to the bank.

Nevertheless, the conventional banking deposits offer deposits insurance coverage to all depositors, regardless of deposit type. Therefore it is argued that the absence of a deposits protection scheme that is similar to conventional banking will place Islamic banking industry at a disadvantage, and can also pose the risk of bank run for Islamic banks ("Update on Islamic Deposits Insurance Issues", 2006; Wilson, 1997: 65). The following statement by the International Association of Deposit Insurers (IADI)

[43] 'Stakeholders' in this case refers to depositors, regulators, the government, and shareholders.

suggests that Islamic banks need to have adequate deposits insurance schemes in place in order to protect uninformed depositors

> Islamic banks are also exposed to bank-run risks when the financial system loses public confidence. Deposits insurance systems – whether they are explicit or implicit – can play an important role in mitigating bank-runs and thereby promote financial stability (IADI, 2006: 3).

The IADI's suggestion is also supported by Ayub (2002) and Othman (2006), who highlight the need to have an Islamic deposits insurance scheme. In fact, several regulatory agencies have made it compulsory for Islamic banks to be coved under deposits insurance schemes as well, for example in the United Kingdom and Malaysia. In the case of the UK, the Financial Services Authority requires Islamic Bank of Britain (IBB) to give a deposits protection scheme to the depositors. However, IBB's *Shari'ah* Supervisory Board has dissenting views on this matter. Therefore as a matter of compliance to the regulatory requirement, by default, all depositors of IBB will have a similar deposits protection scheme. Nevertheless, IBB also took into consideration the *Shari'ah* Supervisory Board's restrictions; therefore, the depositors are given an option whether to take or reject the deposits protection scheme, which is clearly stated in the IBB's terms for deposit accounts (Plews, 2005).

On the other hand, Malaysia's Islamic banking industry has a separate deposits insurance scheme which runs parallel to the conventional banking deposit insurance scheme. The Islamic deposits insurance scheme has been approved by Bank Negara Malaysia's *Shari'ah* Advisory Council in 2005, and is based on the concepts of *kafalah* (guarantee) and *tabarru'* (donation) which is a common contract in designing *takaful* (Islamic insurance) products. The member institutions are required to make donations to the Malaysia Deposit Insurance Corporation (MDIC) based on a certain calculation of premiums, which then provide depositors with insurance coverage and ensure pay-outs in the event of bank failure. At the moment, the coverage is similar to conventional deposits products, and the premium funds contributed by the Islamic banks and the conventional banks are managed separately by the Malaysian Deposits Insurance Corporation (MDIC) in order to comply with the *Shari'ah* requirements (Malaysian Deposit Insurance Corporation, 2006). The insurance scheme also primarily covers retail banking deposits, which include savings and investment

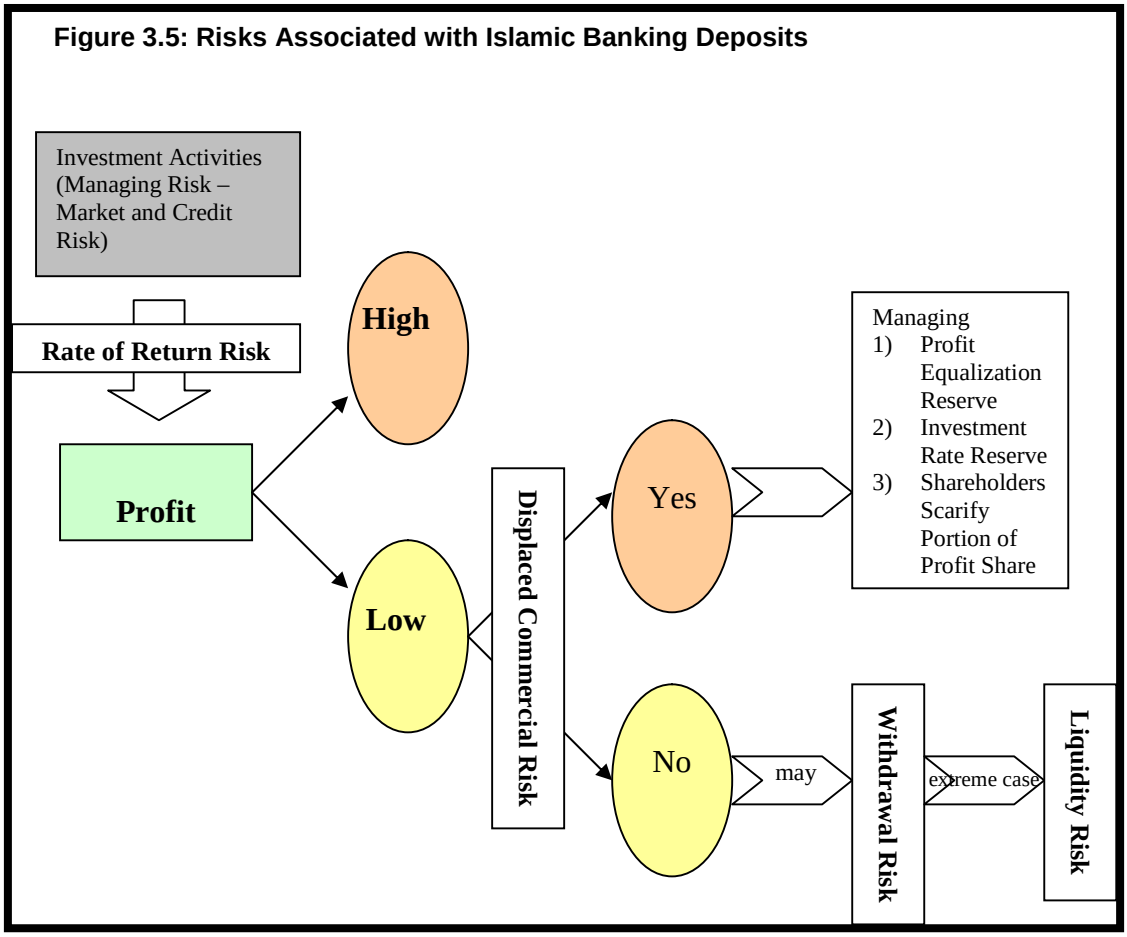
deposits, both *mudarabah* and *non-mudarabah*, but exclude deposits payable outside Malaysia, foreign currency deposits, negotiable instruments of deposit, other bearer deposits, and repurchase agreements (Malaysia Deposit Insurance Corporation, 2006). In this case, the deposits under the *mudarabah* contract also are covered, since the *Shari'ah* principles permit coverage by a third party (Ayub, 2007: 188). However, MDIC take the stand that the depositors under the *wadiah* contract should be given priority for claims over *mudarabah* depositors.

3.7 RISKS ASSOCIATED WITH ISLAMIC BANKING DEPOSITS

After discussing the structural, product and operational nature of Islamic deposit accounts, it is also important to touch on the related risk management issues, as risk management is one of the roles of banks being financial intermediaries (Allen and Santomero, 1997). Because Islamic banks are part of financial intermediaries, they are not exempt from this. However, it is suggested that the nature of the risk and its management should be dealt with differently as compared to the conventional banking system because of the different nature of the business sectors.

As mentioned previously, it is known that theoretically Islamic banking deposit products are structured differently, based on certain underlying *Shari'ah*-compliant contracts. Therefore, some of the risks associated with Islamic banking deposits are unique and peculiar to particular products; nevertheless, some still face the same risks as conventional banks. Although all risk elements are interrelated, this subsection discusses only risk elements that have a direct relationship with Islamic banking deposits, as shown in the following diagram:

Figure 3.5: Risks Associated with Islamic Banking Deposits



3.7.1 Rate of Return Risk

IFSB has defined the risk as "an increase in benchmark rates that may result in investment account holders' having expectations of a higher rate of return" (2005b: 23). The risk arises from the uncertainty in the bank's return of the investment assets (Iqbal and Mirakhor, 2007: 236). Unlike conventional banks that price their assets based on a floating rate of interest, the bulk of Islamic banks' assets are fixed-rate in nature due to the underlying contract of *murabahah*. Although Islamic banks have avenues of holding floating-rate assets, such equity financing based on *mudarabah* and *musharakah*, the instruments seem to be unpopular because of the uncertainty[44] of their nature, which is regarded as posing a higher rate of return risk. Therefore, due to the nature of their assets which cannot immediately be re-priced, Islamic banks would face opportunity loss if there is any movement to the benchmark rate.

[44] 'Uncertainty' in this case refers to uncertainty in terms of return to the equity financing, since the return will only be realized upon the maturity of the contract. If the contract is long-term in nature, the banks are unable to declare and distribute the profit to the investment account holders.

It is argued that any upward shift in the benchmark rate, such as a rise in market interest rate, would also change the expectation of depositors. The depositors would expect higher return in tandem with the market rate movement. The conventional banking is adversely affected by this type of risk because of two reasons. Firstly, conventional banks' deposits are fixed interest-rate in nature; therefore, the existing depositors will receive the contracted interest rate regardless of the movement of the interest rate. The changes in the deposits interest rate are only applicable to new depositors. Secondly, the conventional banks would be able to give out higher interest rates to the new depositors because the banks have the avenue to re-price their assets, which are floating-rate in nature. This means that the conventional banks will charge a higher interest rate to the borrower and pass on some of the spread to the depositors. On the other hand, as mentioned before, Islamic banks are unable to re-price their existing assets immediately; therefore, if there are any changes to the depositors' expectations which cause them to demand a higher return, the Islamic banks may face displaced commercial risk. Therefore, if the bank decides to pay the return based on the actual rate of return, the bank may face withdrawal risk. High withdrawal risk may also lead to more significant risk, *e.g.* liquidity risk.

3.7.2 Displaced Commercial Risk

As a consequence of the rate of return risk, the Islamic banks may be exposed to displaced commercial risk. Displaced commercial risk is defined as risk arising due to market pressure from depositors who are demanding a higher rate of return compared to the actual rate of return (AAOIFI, 2004a; IFSB, 2005b: 23; Iqbal and Mirakhor, 2007: 236). Therefore, in order to meet the depositors' expectations, the bank may decide to sacrifice partly or wholly its right to the share of profit. The trade-off of displaced commercial risk is that the depositors may withdraw their deposits from the bank. In turn, the depositors will enjoy a bigger portion from the profit-sharing agreed earlier. It is called displaced commercial risk because it is a commercial decision which must be approved by the board of directors in order to retain the existing deposits and at the same time solicit for new depositors (IFSB, 2005b: 23).

There are two situations where displaced commercial risk may come into place: firstly as mentioned above, a rising trend in the market benchmark rate may cause the Islamic banks to pay a higher rate of return to depositors in order to meet their

expectation; the second scenario occurs when Islamic banks' assets are underperforming and thus unable to generate sufficient profit to be distributed. This results in the distributable rate being lower than that of competitors. Therefore it is argued that Islamic bank engage in *self-imposed* practice to avoid any unnecessary withdrawal from the existing depositors (Iqbal and Mirakhor, 2007: 237). Warde (2000) has given an example that occurred to the International Islamic Bank for Investment & Development in Egypt, where, in 1988, the bank recorded losses which were being carried forward due to the distribution of profit to the depositors at a rate which was exceeding the profit. This practice and example is contrary to the suggestion made by Siddiqi (1983), who states that profit is not a main determinant factor of savings.

To mitigate displaced commercial risk, the Islamic banking industry has designed two mitigating techniques which have been endorsed by *Shari'ah* boards: Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) which have been discussed above.

3.7.3 Withdrawal Risk

As mentioned before, withdrawal risk is the trade-off to the displaced commercial risk. It is argued that Islamic banks are more vulnerable to this type of risk as a result of a lower rate of return than other competitors (Iqbal and Mirakhor, 2007: 238). The argument remains true based on the assumption that depositors are sensitive to changes in the rate of return.

3.7.4 Liquidity Risk

As a consequently of high withdrawal risk, Islamic banks may face liquidity risk, which is deemed to be a significant risk that has a direct impact on the depositors (Iqbal and Mirakhor, 2007: 239). The Islamic Financial Services Board (IFSB) has defined liquidity risk as "potential loss to Islamic Financial Institutions arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses" (IFSB, 2005b: 19).

In IFSB's definition, the meaning of 'inability to meet their obligations' refers to the inability of the Islamic banks to meet depositors' demand on the spot. Iqbal and

Mirakhor (2007: 239) suggest that there are two types of liquidity risk that affect Islamic banks: firstly, the Islamic bank may lack liquid assets and, secondly, the ability of Islamic banks to access the market for fundraising at reasonable costs. The implication of the inability to meet the demand may cause more serious results such as bank panic and bank runs that could also lead to reputation risk to the bank and the Islamic banking industry as a whole.

Therefore, it is very important for Islamic banks to manage their liquidity risk effectively. IFSB (2005b) has recommended the Islamic banks to manage the liquidity according to the deposits type, *i.e.* current accounts, unrestricted, and restricted investment accounts. It suggests that Islamic banks have a liquidity management framework, which takes into consideration the liquidity exposures for each type of deposit on an individual basis and as a whole. Besides this, good assets and liabilities management is highly desirable in order to be able to balance the liquidity needs vis-à-vis the bank's profitability, since the two elements are a trade-off to each other. The higher the banks' liquid assets, the lower would be the return to the bank and ultimately the depositors.

Currently it is argued that the main challenges that face the Islamic banking industry are an underdeveloped *Shari'ah*-compliant money market coupled with a lack of liquidity instruments for effective liquidity management ("Stability Rating for Profit-Sharing Investment Accounts", 2007; Iqbal and Mirakhor, 2007). It is also argued that most of the globally acceptable *Shari'ah*-compliant liquidity instruments such as *sukuk*[45] are normally being held until maturity, instead of being traded in the secondary market because the yield of the securities is lucrative ("Stability Rating for Profit-Sharing Investment Accounts", 2007). In addition, the prohibition under *Shari'ah* law of borrowing from the interbank money market on the interest basis has limited the avenues for Islamic banks to manage their liquidity risk.

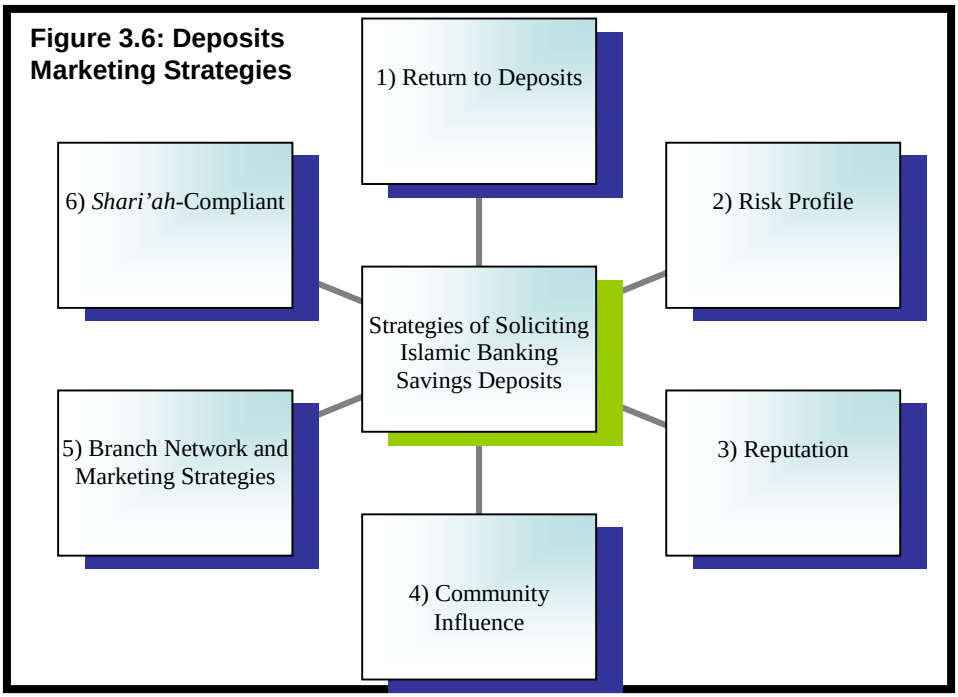
However, there are a few developments in the Islamic banking industry that are intended to help overcome the challenges. Many central banks and *Shari'ah* scholars have to arrive at a consensus to permit the issuance of *sukuk* as instruments. This is

[45] *Sukuk* represent a certificate for Islamic securities or in another word Islamic bond. The issuance of the securities must be based on certain underlying *Shari'ah*-approved mechanisms.

particularly important as evidenced by the increased amount of *sukuk* issued throughout the world. In addition, the establishment of a new institutional framework also creates the avenue for better liquidity management. The International Islamic Financial Market (IIFM) and the Liquidity Management Centre (LMC) that were set up by the Central Bank of Bahrain are examples of the initiatives taken by the global Islamic banking industry to facilitate liquidity management (Ariffin, 2007). By contrast, the Malaysian Islamic banking industry has taken a leading role in establishing its own interbank money market in 1994 that has vast instruments such as a *mudarabah* interbank money market, Islamic repurchase agreements, Islamic *sukuk*, Islamic accepted bills and other monies which are tradable in the market, facilitated by the central bank of Malaysia.

3.8 STRATEGIES FOR SOLICITING *SHARI'AH*-COMPLIANT RETAIL BANKING DEPOSITS

Islamic banking retail deposits are one of the most stable types of funding sources for banks. Therefore all of the banks, including Islamic banks, aggressively attempt to get a bigger share of this market. Since the product mechanism is homogeneous in nature throughout the Islamic banking industry, there are several factors that may influence the decision of depositors to choose *Shari'ah*-compliant deposits. Few of the common factors, which are applicable to conventional banking, may also apply to Islamic banks. These factors, which in turn drive the banks' strategy, are directly correlated to the research done in determining the savings behaviour of the depositors. The Islamic banks should choose the best strategies that suit their size as well as their business goals. For example, a small bank which has a limited branch network must be creative and needs to strengthen its position in other areas such as offering internet banking facilities, which other banks of similar size do not have. The internet banking services offered might be able to capture the attention of IT savvy customers, since they facilitate remote banking transactions without having to go to the branch. Figure 3.6 summarizes important factors that need to be considered by Islamic banks when formulating their marketing strategies:



The only difference between the elements relating to deposits marketing strategies for Islamic banking, as depicted in figure 3.6, and the one presented in section 2.5 (chapter 2) for conventional banking, is the element of *Shari'ah*-compliance. To some depositors, *Shari'ah*-compliance is one of the influencing factors that cause them to bank with Islamic banks. This factor rightfully should be the main determinant for the Islamic banks when soliciting for *Shari'ah*-compliant deposits. However, some studies focusing on patronage issues suggest that religious elements or *Shari'ah*-compliance elements were not the prime factor that determines the motivation of depositors to bank with Islamic banks (INCEIF, 2006d: 144-153). The findings seem to contradict the underlying reasons for the establishment of an Islamic banking industry. The empirical research on the importance of Islamic banking patronage studies together with the other customers' behavioural studies will be presented and discussed in depth in the following chapter (Chapter 4)

3.9 SUMMARY AND CONCLUSION

This chapter provides a brief overview of the definitions, characteristics, and operational nature of *Shari'ah*-compliant deposits instruments offered by Islamic banks. In addition, the chapter also presented common *Shari'ah*-compliant contracts or structures of deposits instruments that were used by several prominent Islamic banks in selected countries. Furthermore, the chapter discussed some of the issues

related to the Islamic banking deposits, such as determinants of deposits returns, and the concept of deposits protection. In addition, risks associated with the Islamic banks in dealing with Islamic banking deposits were also discussed. The overall information and discussion that have been presented in this chapter should be able to provide the readers with some basic knowledge of Islamic banking deposits and also the issues surrounding it; some of the variables and characteristics will be selected in further developing this research.

Chapter 4

A Survey on the Characteristics of Islamic Bank Customers: Awareness and Behavioural Issues

4.1 INTRODUCTION

The previous chapter provided a detailed discussion of the theoretical aspects of the Islamic banking deposits, which are considered as a catalyst to the growth of the banking system. The idea behind the establishment of Islamic banking was to provide an alternative financing paradigm to engage in banking activities, whereby financial exclusion could also be prevented. Prior to the establishment of Islamic banking, most religiously-oriented Muslim depositors kept their monies in conventional current accounts to avoid any interest earning (Wilson, 1984: 30). Thus, with the provision of Islamic banking deposits products, the Muslims have an alternative avenue to invest their money according to their faith by earning *Shari'ah*-compliant returns.

Depositors are a subset of the larger group of bank customers; it is, therefore, worthwhile to provide an overview of the existing body of knowledge on Islamic bank customers' behavioural norms. This chapter offers a detailed discussion of related literature on Islamic banking customers' awareness, knowledge, perceptions, and attitudes towards the Islamic banking industry. For this, research on patronage, customer service quality, product related perception studies are consulted and examined to draw relevant conclusions. In addition, this chapter also refers to those studies specifically focused on the behaviour of Islamic banking depositors by using several economics-related real data in time-series data analysis.

In rendering a comprehensive literature survey, this chapter is organized into five broad sections. Subsequent to the introductory section, section 4.2 provides a discussion of studies relating to customer behaviour analysis in the Islamic banking industry. This section is further broken down into four sub-sections: awareness, knowledge and understanding; patronage studies; customer service quality; and product-specific perception studies. Subsequently, section 4.3 discusses the depositors' behaviour based on time-series data analysis. Section 4.4 aims to contextualize the findings based on the results of empirical studies; and, finally,

section 4.5 conducts an assessment on the existing gap in the literature which justifies this research. Section 4.6 provides a summary and conclusion to this chapter.

4.2 BEHAVIOURAL ANALYSIS OF ISLAMIC BANKING CUSTOMERS: LITERATURE SURVEY

The study of behavioural aspects of customers is an integral element in any marketing research, especially in service-oriented industries such as banking. A vast amount of research on customer behavioural analysis (such as customer patronage studies, or studies related to customer satisfaction with their bank's customer service) has been carried out with a focus on conventional banking operations. This evidences the importance of these issues in this context.

Among the large studies, Kaynak and Whiteley (1999), for instance, study the patronage factors that influence retail banking customers in selecting commercial banks in Australia. The study concludes that convenience and good customer service have significant impact on customers' selection of a particular bank; this is in line with the notion that was promoted by Howcroft (1991) that these factors would lead to overall customer satisfaction in retail banking. In another example, Babakus *et al* (2004) studied consumers' bank choice behaviour in a south eastern city in the USA by developing a model based on the economics of information theory. The results of the study indicate that three attributes may influence the customers to select any particular bank, namely 'search attributes' such as interest rate pricing, 'experience attributes' such as the customers' service experience, and finally 'credence attributes' such as the integrity of the bank. Likewise, among other studies focusing on UK bank customers, Devlin (2002) and Devlin and Gerrard (2004) found that recommendation from friends was a significant factor that influenced people to select a specific bank, while Durkin *et al.* (2003) and Howcroft *et al.* (2003b, 2007) suggest that the importance of having physical banks' branches (i.e. face-to-face interaction) is still the main factor in retaining existing customers and attracting new customers, especially when marketing financial products which are sophisticated in nature, such as complicated investment products.

By contrast, research into customers' behaviour, including perceptions, patronage and customer service satisfaction, in the context of the Islamic banking industry is still considered scarce (Gait and Worthington, 2008). In fact, based on a review of the existing literature, the first ever published study in this area was conducted by Erol and El-Bdour in 1989. In addition, an extensive literature search during this study showed that fewer than one hundred items of published research exist, and that only a small number of these items was published in top academic journals in the area of mainstream banking and finance. The limited number of studies in the field of Islamic banking can be partly explained by the fact that the industry is still considered to be at the maturing stage, since the first ever Islamic bank, *Mit Ghamr*, was established only in 1963 in Egypt. However, the first commercial Islamic bank, Dubai Islamic Bank, commenced its operation in 1975. In the case of Malaysia, the first regulated Islamic bank was established only in 1983 with the incorporation of Bank Islam Malaysia Berhad. Since then, the development of the Islamic banking industry can be seen as experiencing slow development until recently, when the industry has gained a dynamic momentum with more footing not only in the Muslim majority countries but also in non-Muslim majority countries such as Singapore, the United Kingdom, and Hong Kong.

The slow pace of growth further explains the lack of research on customer behaviour. In other words, it is often considered that the small size of the industry may not warrant any urgent research to be conducted at this juncture. There is also another aspect to the lack of research, as during this maturing period the availability of data, either primary or secondary, posed a considerable obstacle to most of the interested researchers. The lack of research is even more noticeable in relation to the liability side of the Islamic banks' balance sheet, namely customer deposits (Tahir, 2007). Tahir (2007), after reviewing the selected available literature on Islamic banking theory and practice from the period of 1995 to 2005, stated that:

> Most of the intellectual activities over the past few decades have been geared toward into developing *Shari'ah*-compliance for bank financing. The deposits side attracted little attention. A closer look at the matter reveals that the line of distinction between Islamic banks and their interest-based counterparts is thin. Depositors are attracted that they will get return out of *riba'*-free financing, but the contract forms, the funds management practices, the accounting conventions, the profit-and-loss calculations and methods of

> distribution of profits are not different from those in vogue among interest-based banks (Tahir, 2007: 23).

From this statement by Tahir (2007) it can be inferred that researchers held the opinion that the issues surrounding the liability side of the Islamic banks' balance sheet are negligible and do not warrant any urgent attention. One possible reason that might explain this problem is perhaps their perception that the deposits products offered by Islamic banks are just an ordinary financial product which is straight forward in nature. Therefore, this section aims at reviewing and summarising the available literature on the behavioural studies that relate to the Islamic banking activities. For the purpose of simplicity and clarity, the researcher has classified the studies of the behaviour of Islamic banking customers into separate categories, as depicted in figure 4.1:

Figure 4.1: Breakdown of Customer Behaviour Analysis

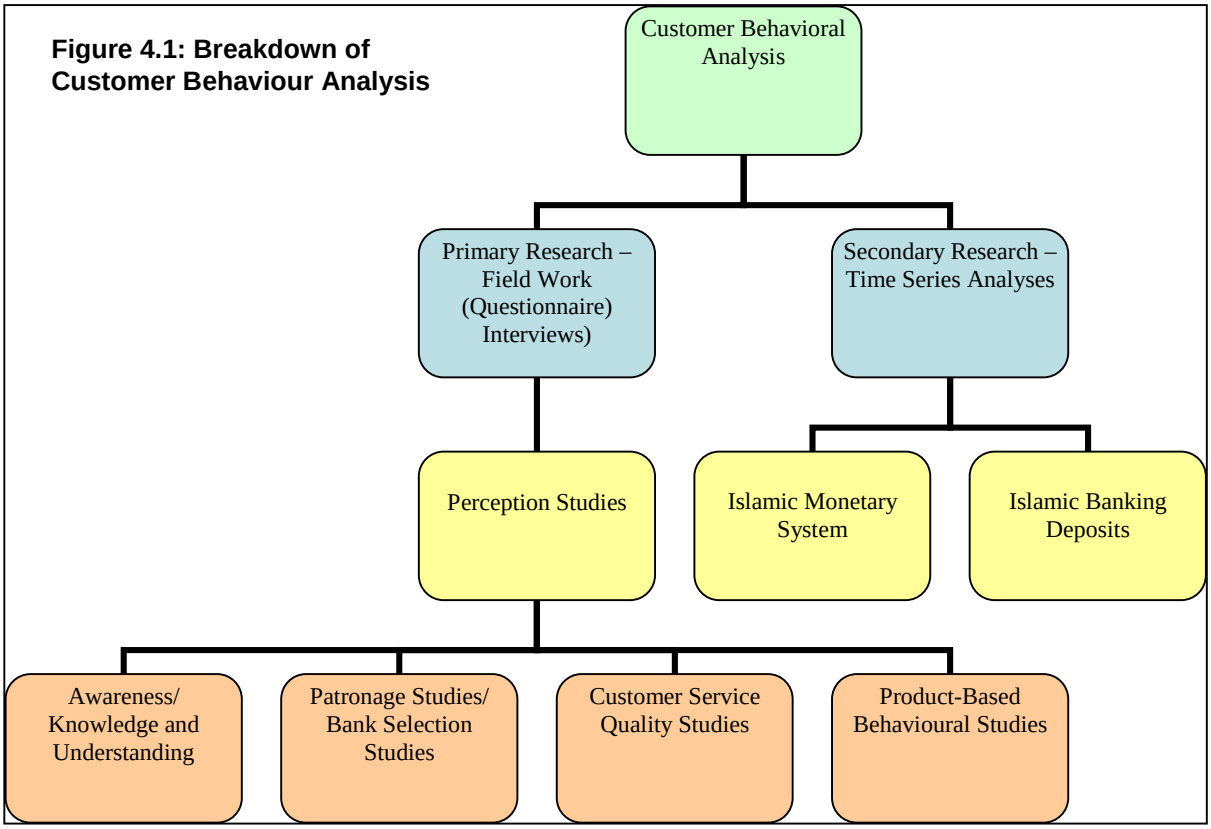


Figure 4.1 shows that the analysis of studies on banking customers' behaviour can be categorized into two main types: primary research and secondary research. The main distinction between the two is related to the method used in gauging the customers' behaviour. The primary research is conducted by gathering the data through field work studies, such as questionnaires, in order to get a better understanding of the

customers' opinions, attitudes and behaviours. The studies using these methods can further be categorized into four main sub-categories, as depicted in Figure 4.1: *awareness, knowledge and understanding studies*; *patronage studies or bank selection criteria studies; customer service satisfaction studies; and lastly product-based behavioural studies.* The reviews of studies related to these categories are presented in the subsequent sub-sections of this chapter.

The studies that focused on secondary data utilized statistical data which was obtained from various official sources such as annual reports, data streams, and published official statistical reports; these sources were analysed using time-series oriented statistical and econometric methods, with the objective of analysing and determining the significant factors that contribute to the customers' reaction to changes in some of the economic variables. Therefore, reviewing such studies will help to ascertain whether there are any factors that might be relevant in assessing depositors' behaviour.

4.2.1 Customer Awareness, Knowledge, and Understanding of Islamic Banking Principles, Products, and Services

The first step in analysing customers' reaction towards Islamic banking and finance is to gauge their level of awareness, understanding, and knowledge. The research findings are meaningful in giving some indication about the level of awareness, knowledge and understanding of various stakeholders[46], which is crucial in the development of Islamic banking and finance. The results of such studies can help the stakeholders take appropriate initiatives in order to abolish any inadequacies or overcome the gaps identified by the research. In fact, Howcroft *et al.* (2003a: 80) stressed the important of the level of knowledge and understanding of the financial products that the banks' customer should have, as this will determine their level of confidence in using any of the products, especially the sophisticated ones.

Based on the available literature in this field, the studies can be grouped together according to two demographic areas: Muslim majority countries and non-Muslim majority countries. The rationale behind this decision is that, ostensively, there are

[46]'Stakeholders' in the context of banking refer to regulators, bank managers, shareholders, *Shari'ah* advisors, employees, customers, and local communities (Dusuki, 2005, 2007a, 2008).

significant differences in terms of the level of awareness and knowledge between the respondents from Muslim majority countries and non-Muslim majority countries.

4.2.1.1 Muslim Majority Countries

There are not many studies that investigate the level of awareness, knowledge and understanding of customers towards Islamic banking in Muslim majority countries. As mentioned earlier, theoretically, the findings from the studies conducted from these countries are expected to give favourable results implying that parties involved in the Islamic banking industry should have a high level of awareness and understanding. However, based on the findings, surprisingly the outcome of the studies is opposed to the earlier expectation. Although some of studies indicate that the level of awareness is acceptably high, the level of understanding or knowledge about Islamic banking principles is still considered as low. In fact, based on the findings, a high level of awareness does not translate into a high level of usage. One of the reasons that can explain the situation of low utilization of the products and services is the low level of understanding of Islamic banking products and services on the part of the customers. This section further discusses the results of the studies that were conducted in Muslim majority countries.

The first Muslim majority country reviewed to be reviewed is Malaysia. Even though it is one of the leading countries in Islamic banking and finance, and shows the ambition to become the world's main Islamic banking hub, it is surprising to discover that not many studies are available concerning the level of awareness and understanding of Islamic banking in Malaysia.

One of the earliest studies was conducted by Haron *et al*. (1994). The sample consisted of Muslim and non-Muslim commercial bank customers in the northern region of Malaysia. The result showed that, although the level of awareness of the existence of Islamic banking is considered high for both categories of respondents, the level of knowledge for both is deemed low given the fact Islamic banking has been present in the country for a decade. Subsequently, Hamid and Nordin (2001) test the awareness and knowledge of commercial bank customers, including the customers of Bank Islam Malaysia Berhad in Kuala Lumpur, which is the capital city of Malaysia. The research outcomes do not significantly differ from the study conducted by Haron

et al. (1994), as the research findings stated that almost 100 percent of the respondents are aware of the existence of Islamic banking in Malaysia. However, the research found that the level of understanding about the differences between Islamic banking and conventional banking was rather low, with fewer than 30 percent of respondents who clearly understood the difference between the two. It is also interesting to note from the latter research that fewer than 40 percent of the respondents stated that they favour Islamic banks because of religious considerations.

Ahmad and Haron (2002) again conducted a similar study. However, this time the research investigated a different category of customers – corporate customers selected from Bursa Malaysia Stock Exchange lists (formally known as Kuala Lumpur Stock Exchange). The questionnaires were sent to 100 companies, and among the respondents were the top management, such as financial directors, financial managers, and accountants. The response rate was 45 percent, without a further attempt to increase the number of respondents. The findings suggest that the respondents have limited knowledge on Islamic banking, with more than 65 percent who indicated that they are unfamiliar with the meaning of the concept used in the underlying product principles.

Abdullah and Rahman (2007) adopted a different approach when they conducted a study to measure the level of knowledge among the bank managers (as opposed to customers) involved in the Islamic banking industry in Kuala Lumpur, Malaysia. Interestingly, the findings conclude that on the overall basis, the bank managers possess a good level of knowledge on general principles of Islamic banking and finance, including some basic and commonly used *Shari'ah*-compliant contracts such as *murabahah/ bai bithaman ajil, qard* and *ijara*[47]. On the other hand, the level of knowledge of some of the more unpopular basic concepts likes *mudarabah* and *musharakah* is rather moderate. In addition, the study also points out that the level of knowledge concerning some advanced principles of Islamic banking such as the concepts of *ghurmi* (risk) and *gharar* (uncertainty) are deemed poor.

[47] *Murabahah* and *bai bithaman ajil* defines as deferred payment sale contract and *ijara* means leasing. See glossary for a detailed interpretation of the terminologies.

Nevertheless, there are some more recent studies that also attempt to measure the customers' level of awareness and understanding concerning Islamic banking products and services in Malaysia. For example, Amin (2007) studied the awareness level towards Islamic automobile financing products in Eastern Malaysia, while Aziz (2009) studied these parameters with regard to one of the banks in Malaysia that offers Islamic mortgages, and, finally, Haque *et al.* (2009) who studied the level of awareness of Malaysians concerning Islamic banking product and services. The results from all of the studies revealed that there had not been much improvement in terms of respondents' understanding of the technical aspects of *Shari'ah* contracts, although, in general, the level of awareness among the respondents was deemed acceptably high.

It can be concluded from the findings of all six surveyed studies conducted in Malaysia that the low level of customers' awareness and knowledge of Islamic banking and finance is partly due to the lack of strong understanding and knowledge among the bank managers. Moreover, Kahf (2002, taken from Bley and Kuehn 2004) argue that the level of understanding of bank managers concerning *Shari'ah* requirements and principles has contributed to the lack of understanding among the customers in differentiating the distinct features of Islamic banking products and services. Such results suggest that the bank managers should play an active role by equipping themselves with a strong background of knowledge to be disseminated to the customers, since they are the customers' main point of contact.

Similar studies were conducted in other Muslim majority countries, especially in Gulf countries such as Bahrain (Metawa and Almossawi, 1998) and the United Arab Emirates (UAE) (Bley and Kuehn, 2004), as well as in Middle Eastern countries such as Jordan (Naser *et al.*, 1999), and North African regions such as Libya (Gait and Worthington, 2009a; 2009b). The researcher will henceforth refer to these countries as the MENA region. The results of these studies suggests that most of the customers in the MENA region have a high level of awareness and usage of at least basic Islamic banking products and services such as savings accounts, current accounts, and ATM services (Metawa and Almossawi, 1998), with some respondents adding that they are aware of the Islamic banking products which have conventional compatible products such as letters of credit and travellers cheques (Naser *et al.*, 1999). However, these

studies demonstrate that most of the respondents are not aware of and do not use sophisticated products and services offered by Islamic banks which are commonly referred to with Arabic terminology i.e. *mudarabah*, *musharakah*, and *murabahah* (Bley and Kuehn, 2004; Gait and Worthington, 2009b; Metawa and Almossawi, 1998; Naser *et al*., 1999; Zaabi, 2007). One possible reason that might explain the lack of awareness and usage of the more advanced products and services is most likely the lack of knowledge and understanding of the products. In addition, Arabic terminology might be a major obstacle in promoting the products especially to the non-Arabic native speaker, as is evident from Bley and Kuehn (2004).

Bley and Kuehn's (2004) study found out that the non-Arabic speaking respondents[48] had a significantly lower level of knowledge of the Islamic banking products and services as compared to the respondents that were fluent in Arabic. In fact, the concern on the overreliance on Arabic terminology in structuring Islamic banking products was raised and discussed extensively among the regulators, academics, and industry players in Malaysia. As a result, in 2002 the Islamic banking industry players came to a consensus to make it compulsory for all the Islamic banks in Malaysia to use generic product names with the '*i*' at the end of the product for example 'house financing-*i* or current account-*i* ' in all their publications, including the marketing brochures, in order to minimize the confusion among the users of the products, when prior to this there were some instances where the product only used Arabic terminology[49] (BNM, 2002: 154-155).

Meanwhile, Okumus (2005) also studied the awareness among the customers of Special Finance Houses namely Islamic banks, in Turkey. The findings suggest that the majority of the customers are only aware of and only understand basic Islamic banking products such as current accounts. Nevertheless, most of the respondents do not know anything about other more advanced products and services. In addition, Okumus expressed his concern about the survey's outcome, where majority of the bank's customers are not aware of the full range of Islamic banking products and

[48] The respondents from Bley and Kuehn's (2004) studies comprised students from more than 40 different nationalities in a private university in the United Arab Emirates.
[49] The purpose of '*i*' at the end of the generic product is differentiate between conventional banking products and Islamic banking products.

therefore use other products and services that are provided by the bank, although the majority of them indicated that they selected the bank for religious reasons.

A more recent study conducted by Khattak and Rehmen (2010) focused on Islamic banking customers in Pakistan. The findings of the study do not differ from the other studies which concluded that generally the level of awareness of basic deposits products is satisfactory, in contrast to the more sophisticated financing products that use other *Shari'ah*-compliant contracts such as *murabahah* and *ijara*.

4.2.1.2 Non-Muslim Majority Countries

There are also several studies attempting to gauge the level of awareness of Islamic banking principles, products, and services in non-Muslim majority countries. Nevertheless, all of the studies were mainly surveying the Muslim population as the main respondent pool, as it is argued that the Muslims should be the ones who will be driving the growth of the Islamic banking industry in these countries. Indeed, the purpose of the Financial Services Authority of the United Kingdom's decision to issue licenses to operate Islamic banking businesses in the UK is to provide opportunities to the more than 1.8 million Muslims in the UK to have access to the financial products and services without having to compromise their religious beliefs. The following section will briefly summarize the research outcomes of studies conducted in the United Kingdom (UK), Singapore, and Australia.

Among the research on non-Muslim majority countries, the UK has been subject to a number of studies aiming to survey the level of awareness, knowledge, and understanding among the participants of Islamic banking. Based on a review of the available literature, it is found that the major hindrance of Islamic banking in UK was the low level of awareness among the UK population – even among British Muslims (Dar, 2004; Haque, 2007; Karbhari *et al*., 2004; Omer, 1993; Tameme, 2009; Warsame, 2009). In addition, it can be stated that the level of awareness among the UK population concerning Islamic banking products and services has not progressed since the first study by Omer in 1993, as is evident from the results from the other studies conducted by Dar (2004), Karbhari *et al*. (2004), Haque (2007), and more recently by Tameme (2009), and Warsame (2009).

Meanwhile, Hamdan (2007) conducted a study to estimate the awareness of Singaporeans concerning Islamic banking, and found that a limited number of respondents (Muslim and non-Muslim) have any engagements with Islamic banks. The main reason given by the respondents was that they have limited knowledge of Islamic banking products and services. This study confirms the earlier research by Gerrard and Cunningham (1997), who found that the level of awareness among Muslims and non-Muslims in Singapore was very much lacking. Although the two studies were conducted with a ten-year gap between them, the research findings may suggest that the Islamic banking players in Singapore did not really play an adequate role in educating the Singaporeans about Islamic banking products and services, although the country has the strategic goal of becoming the Islamic financial hub for Southeast Asia..

As for the Australian case study, Rammal and Zurbruegg (2007) examined the awareness among Muslim Australians of Islamic banking products, in particular profit-and-loss sharing agreements. Based on the empirical findings, the study's result shows that there was a low level of correlation between holding any Islamic financial products and the level of awareness and understanding of profit-loss sharing practices. In other word, it can be stated that the level of understanding on the concept of profit-loss sharing agreement was not satisfactory enough, although the respondents claimed that they had experience in using the products. In addition, the study also revealed that some of the respondents indicated their willingness to use profit-sharing based deposits account, but only with the provision of credit facilities which are mainly interest-based; this further proved the poor level of holistic understanding of the principles of Islamic banking. Nevertheless, despite the poor level of understanding of the product mechanism, there is a bright future in developing the industry as indicated by the majority of the respondents who are keen to engage in the products. In short, Rammal and Zurbruegg (2007) further concluded that the Muslim Australians have inadequate understanding of the principles of Islamic finance, despite pledging their continuous support to use the products.

In conclusion, it can be stated that knowledge and understanding is the utmost pre-requisite for customers to engage in Islamic finance, as evident in Dar's (2004) study. The findings from the reviewed literature from both Muslim majority and non-

Muslim majority countries may suggest that most of the respondents have limited knowledge and understanding of advanced products and services, despite their acceptable awareness level. One of the reasons that explain the lack of knowledge and understanding of the technical aspects of the products among the customer is due to the lack of understanding among the bank employees themselves, as is evident in the studies by Abdullah and Rahman (2007) and Khan *et al.* (2007). This implies that pertinent information about the technical aspects of the products was not explained to customers as well it should have been.

4.2.2 Patronage Studies/ Bank Selection Criteria Studies

The next sub-category reviews banking patronage studies, or bank selection criteria studies. Banking patronage studies is another important area that investigates customers' motivation for selecting Islamic banking. In other words, it is another way of gauging the behavioural aspects of customers in selecting and dealing with Islamic banking. The results of the available patronage studies would be very useful in providing some general holistic indication of the main factors that motivate the depositors to select Islamic banks as their banks of choice. The following sections briefly discuss the overall results of the literature on Islamic banking patronage studies; this is followed by a discussion of some of the banking selection criteria variables that are peculiar to the depositors' motivation for selecting Islamic deposits.

The primary framework of patronage studies in Islamic banking is based on the main premise of religious motivation. Many studies state that state that Islamic banking is different from its conventional counterpart because it is governed by *Shari'ah* principles. Therefore, it is believed that Muslims opt for Islamic banks because of religious responsibility. Nevertheless, in the actual scenario, religious motivation is not the sole criterion of selecting Islamic banks, even among Muslims. As some of the studies show, there are two categories of Muslims in society – practicing and non-practicing Muslims (Dar, 2004; Yusuf and Kusumastutie, 2006). It is argued that non-practicing Muslims do not set religious motivation as the main criterion for selecting Islamic banks (Yusuf and Kusumastutie, 2006). In addition, the Islamic banks, being commercial entities, need to expand their business beyond Muslim customers who are unlikely to put religion as the main motivating factor for selecting Islamic banks.

Hence, in addition to religious criteria, the framework of patronage studies in Islamic banking has also incorporated a few other factors such as pricing of the products, extensive branch network, and other factors which are non-exhaustive. However, for reasons of simplicity and clarity, the other criteria found in the literature has been summarised into a few common broad categories, as adapted from Dusuki's (2005; 2007b) work.

The listed criteria cover a broader spectrum of selection criteria and include, among other, factors of religious motivation, reputation, commercial aspects, service satisfaction, staff, confidentiality, and convenience. The criteria were further refined to include more specific criteria for example cost and benefits, service delivery (fast and efficient), size and reputation of the bank, convenience (location and availability of parking), and the friendliness of bank personnel. Table 4.1 provides a summary of customers' selection criteria based on the patronage studies results as summarised by Dusuki (2005; 2007b), which are further expanded by including a few more of the latest studies which were not covered in Dusuki's research.

As mentioned earlier, it is argued that the formation of Islamic banking is principally based on the religious belief among the Muslim. Therefore, it is theoretically expected that the main motivation of selecting Islamic banks should purely be based on religious reasons, especially for Muslim customers. Based on the tabulation of the results, in line with the expectation, the majority of studies show that the respondents indeed indicated religious motivation as the one of the primary factors in selecting Islamic banks (Bley and Kuehn, 2004; Al-Sultan, 1999 taken from Gait and Worthington, 2008; Kader, 1993, 1995; Metawa and Almossawi, 1998; Naser *et al.*, 1999; Omer, 1993). The results suggest that the customers of the Islamic banks know their responsibility to support the establishment and growth of Islamic banks based on their religious belief. This can further be supported by the fact that most of the respondents in the Muslim nations have high level of awareness of Islamic banking products and services, as has been discussed earlier in the chapter.

On the other hand, there are also some studies which indicate that the respondents perceived that religious motivation was not a significant criterion, despite the fact that the sample was taken among the Muslim community. For example, a survey

conducted by Dar (2004) among UK Muslim communities suggests that only five percent of the Muslim population claimed that they want to use Islamic financial services. The results of Dar's study may suggest that the establishment of Islamic banking institutions, envisaged by the UK government to provide an alternative financial service to the Muslims, was not well accepted by the Muslim community. Moreover even among some of the pious Muslims, who can be seen as strictly following other aspects of Islamic teaching, also claimed that they are not aware and do not understand the alternative services provided by Islamic financial institutions.

In relating the overall findings to the depositors' behaviour analysis, the results from the patronage studies are also useful in determining the depositors' motivation in selecting Islamic banks. As mentioned at the beginning of this chapter, the depositors are a subset of a larger group of bank customers; thus the elements and results of customers' patronage studies are in one way or another related to depositors' behaviour. Therefore, the ability of any particular bank to attract high amounts of deposits and large numbers of depositors is partly dependent on the ability of the bank to understand the customers' motivation for selecting their bank of choice. One of the important motivating factors to the depositors in selecting Islamic banks is the higher deposit rate of return (Erol and El-Bdour, 1989; Erol *et al.*, 1990; Haron *et al*., 1994; Rammal and Zurbruegg, 2007; Yusuf and Kusumastutie, 2006). In this section, the motivation for seeking a higher rate of deposits return is covered under the category of 'cost/benefit' factors. The results in the table clearly indicate that the customers of Islamic banks have rated the 'cost/ benefit' factor as another important criterion in selecting Islamic banks. This argument is based on the results of some of the studies which show respondents indicating that they are willing to move their money from the Islamic banks either to another Islamic bank or even to a conventional bank if the return on their deposits is not favourable and does not meet their expected return (Erol and El-Bdour, 1989; Erol *et al*., 1990; Gerrard and Cunningham, 1997; Hamdan, 2007; Yusuf and Kusumastutie, 2006). Moreover, Zaabi (2007) also supports the idea that Islamic banks need to give a commendable rate of return; he argues that the overall level of the perceived quality of service will be elevated as a consequence of high return pay-outs on the investment deposits. Based on the findings, it seems that a high rate of return is a very crucial factor in determining for depositors in selecting any Islamic bank.

Table 4.1: Summary of Relevant Literature Review on Patronage Studies in Islamic Banking and Islamic countries [50]

Literature		Criteria in Banking Reaction										Method – Sample Country
		A	B	C	D	E	F	G	H	I	J	
Erol and El Bdour	(1989)	-	+	+	+	+	+	+	+	+	n/a	Questionnaire – Jordan
Erol and El Bdour	(1990)	-	+	+	+	+	+	+	+	+	n/a	Questionnaire – Jordan
Omer	(1993)	+	+	n/a	n/a	n/a	n/a	n/a	+	n/a	n/a	Questionnaire – UK
Kader	(1993)	+	-	+	+	n/a	+	n/a	+	+	n/a	Questionnaire – Malaysia
Haron, Ahmad *et al*	(1994)	-	+	+	+	+	+	+	+	+	n/a	Questionnaire – Malaysia
Hegazy	(1995)	±	-	+	+	+	+	n/a	+	+	+	Questionnaire – Egypt
Kader	(1995)	+	-	+	+	n/a	+	n/a	+	+	n/a	Questionnaire – Malaysia
Metwally[51]	(1996)	+	+	+	n/a	+	+	n/a	n/a	n/a	n/a	Telephone Interviews – Kuwait, Saudi Arabia, Egypt
Edris and Almahmeed	(1997)	-	±	+	+	+	±	n/a	n/a	-	n/a	Questionnaire – Kuwait
Gerrard and Cunningham	(1997)	±	+	+	+	+	+	+	+	+	n/a	Questionnaire – Singapore
Metawa and Almossawi	(1998)	+	+	n/a	n/a	n/a	+	n/a	+	n/a	n/a	Questionnaire – Bahrain
Jalaluddin and Metwally	(1999)	-	+	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Questionnaire – Australia
Naser, Jamal and Al-Khatib	(1999)	+	+	+	+	+	+	+	+	n/a	n/a	Questionnaire – Jordan
Al-Sultan[52]	(1999)	+	+	+	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Questionnaire – Kuwait
Triyuwono *et al.*	(2000)	(4)	n/a	n/a	n/a	n/a	(1)	(2)	(3)	n/a	n/a	Questionnaire - Indonesia
Almossawi	(2001)	n/a	+	+	+	+	+	+	-	-	n/a	Questionnaire – Bahrain
Ahmad and Haron	(2002)	-	+	+	+	+	+	n/a	n/a	n/a	n/a	Questionnaire – Malaysia
Abbas, Hamid *et al.*[53]	(2003)	±	+	+	n/a	+	+	+	+	n/a	n/a	Not available
Khoirunnissa	(2003)	+	+	+	+	n/a	+	n/a	+	n/a	n/a	Questionnaire - Indonesia
Bley and Kuehn	(2004)	+	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Questionnaire – UAE
Karbhari *et al.*	(2004)	n/a	+	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Focused Interviews – UK
Zainuddin, Jahya and Ramayah[54]	(2004)	+	n/a	n/a	n/a	n/a	n/a	n/a	+	n/a	n/a	Questionnaire – Malaysia
Dar	(2004)	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Interview/Questionnaire – UK
Okumus	(2005)	+	-	+	n/a	+	+	+	-	-	n/a	Questionnaire – Turkey
Yusuf and Kusumastutie	(2006)	+	+	+	+	n/a	+	+	n/a	n/a	n/a	Questionnaire – Indonesia
Rammal and Zurbruegg	(2006)	-	+	n/a	+	n/a	n/a	n/a	n/a	n/a	n/a	Questionnaire –Australia
Ali *et. al*	(2006)	(4)	n/a	(1)	n/a	(2)	(5)	(3)	n/a	n/a	n/a	Questionnaire - Malaysia
Hamdan	(2007)	±	+	+	+	+	+	+	-	-	n/a	Questionnaire – Singapore
Dusuki and Abdullah	(2007)	±	-	+	+	+	+	n/a	n/a	n/a	+	Questionnaire – Malaysia
Khan *et al.*	(2007)	(1)	(4)	-	-	-	(2)	-	(3)	-	-	Questionnaire - Bangladesh
Dusuki	(2008)	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	+	Questionnaire – Malaysia
Dali and Hamid	(2008)	n/a	-	-	n/a	-	+	n/a	n/a	+	n/a	Questionnaire - Malaysia
Haque *et. al*	(2009)	+	n/a	+	n/a	n/a	+	n/a	n/a	n/a	n/a	Questionnaire - Malaysia
Rashid *et. al*	(2009)	+	-	+	+	+	+	n/a	n/a	n/a	n/a	Questionnaire - Bangladesh
Rashid and Hassan	(2009)	-	-	+	+	+	-	n/a	n/a	n/a	n/a	Questionnaire - Bangladesh
Gait and Worthington	(2009a)	(1)	(3)	(4)	n/a	n/a	n/a	n/a	n/a	n/a	(2)	Questionnaire - Libya
Gait and Worthington	(2009b)	(1)	(2)	(3)	n/a	(4)	n/a	n/a	n/a	n/a	n/a	Questionnaire - Libya
Khattak and Rehmen	(2010)	+	n/a	+	n/a	n/a	+	+	n/a	n/a	n/a	Questionnaire - Pakistan
Abduh and Omar	(2010)	+	-	-	+	n/a	-	n/a	n/a	+	n/a	Questionnaire - Indonesia
Haque	(2010)	+	+	+	n/a	+	+	+	n/a	n/a	n/a	Questionnaire - Malaysia

Notes: + indicates a positive and important result, ± indicates an equivocal result, – indicates negative or no significant result and n/a indicates variable was not investigated/examined in the study.
( ) indicates the raking of the variable

[50] For a detail discussion on the research method used and results of customers' perception of selection and patronage factors, please refer to the respective research mentioned in the table.
[51] The results are taken from Gait and Worthington (2008).
[52] The results are taken from Gait and Worthington (2008).
[53] The results are taken from Dusuki (2005; 2007b).
[54] The results are taken from Gait and Worthington (2008).

A:	Religious factor	This factor includes, among others, religious motivation and concern about the level compliance to *Shari'ah* principles as factors for selecting Islamic banks.
B:	Cost/Benefit	Cost/benefit factors include the cost of the services and products offered by the bank as perceived by the customers, e.g. rate of return on deposits, investments, etc.
C:	Service Delivery	Service Delivery criteria include factors such as provision of a fast and efficient service, e.g. the speed of the application process and range of services offered.
D:	Size and Reputation	Size and reputation here imply the bank's reputation and image.
E:	Staff factors	Staff factors include the competence and courtesy of bank staff and their ability to convey trust and confidence. For example, politeness and friendliness of staff; efficiency and effectiveness in handling any transaction; and knowledge and preparedness in providing solutions and answers concerning bank's products and services.
F:	Convenience	Convenience criteria include the location, ample parking space, external appearance, and interior comfort.
G:	Confidentiality	Confidentiality means the extent customers can have trust in their transactions with the bank.
H:	Friends' and relatives' influence	Friends and relatives may directly and indirectly promote any particular personal choice of preferred bank.
I:	Mass media Advertising	The advertising effort of the banks in various media such as television, radio, newspaper, billboard, webpage, flyers and etc.
J:	Social Responsibility	The various aspects of social responsibilities environments, human resource development and ethical aspect of business.

Source: Adapted from Dusuki (2005)

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Echoing the argument of the needs of the Islamic banks to give a higher return, Dar (2004) further suggests that Islamic banks should adopt an approach similar to that taken by building societies in the UK, whereby the latter managed to increase their market share by giving favourable pricing, i.e. a higher rate of return, for deposits, and lowering the financing rate to their customers. However, the suggestion made by Dar can be criticized from the *Shari'ah*-compliance perspective. The proposal of increasing the deposits rate of return to Islamic banks depositors without taking into account the performance of the Islamic banks is wholly contradictory to the principles of most of the *Shari'ah*-compliant contracts (*wadiah, qard and mudarabah*) that underlie the formulation of Islamic banking deposits accounts. In fact, the mechanism of declaring a deposit return in Islamic banking is completely different from the building societies' mechanism. Unlike the conventional mechanism of increasing the interest rate which is arbitrary in nature, in Islamic banking, the return to the depositors is based on the return of the assets. This means that the return would only be paid out to depositors if the utilization of the depositors' fund is able to generate returns from the invested assets. In fact, the depositors of Islamic banks should be ready to absorb any losses similar to the principles of other business activities.

Nevertheless, when it comes to the banking deposits, the depositors radically behave against the norm of investment as indicated by Meenai (2000: 265):

> The fact that businesses may fail, and even the principal can be partially or wholly lost, is so repugnant that few people are willing to think of it, or discuss it. The same set of people would readily agree that the future is uncertain. Yet when it comes to investing their savings, they desire that it should be the entrepreneur who should bear the entire brunt of the uncertainties, while the investors always earn a positive return on their investment. (Meenai, 2000: 265)

Another perspective in looking at the patronage factor based on cost and benefit motivation as can be seen in Wilson (1984: 30), who suggests that one of the reasons the Islamic banking depositors open an account with Islamic banks is to enjoy the benefits of taking *Shari'ah*-compliant financing or loans. According to him, it is common for any banks to give financing to the existing depositors. The situation is a win-win situation for both parties as the bank would be at the advantage of being able to have more credential information of the customer with regard to their financial standing and conduct, which in turn mitigates part of the credit risk in giving out financing. As for the customers, it is convenient to obtain financing and opening a deposits account at the same bank. In fact, his opinion is worthy since most of the bank customer try to avoid the hassle of dealing with several different banks. Moreover, dealing with one bank may create a sense of loyalty of customers towards any particular bank (Beckett *et. al*, 2000:24) Thus, having a deposits account can help to secure financing from the bank as well. As a result, loyal customers may be willing to trade off some deficiency that they face with their existing bank and minimize the possibility of shifting to other banks if the motivating or attracting factors are very insignificant.

Some other studies, on the other hand, show that the respondents do not perceive cost and benefit factors as the main factors in selecting Islamic banks (Dusuki, 2007b; Hegazy, 1995; Kader, 1993, 1995; Okumus, 2005). Based on these studies, the respondents seem to have ranked religiosity factors as the priority and higher returns among the least important criteria for selecting an Islamic bank. Furthermore, another study by Dusuki (2007a) on Malaysia suggests that the depositors and customers believe that profit-loss-sharing principles are the only principles representing the true

spirit of the Islamic banking system, which indicates that the customers are highly informed about the nature of Islamic banking. Based on these findings, it may be concluded that the depositors in Malaysia do support the true principles of profit-loss-sharing concepts which are one of the features differentiating the two banking systems.

Another recent study by Dusuki (2008) may also be used to support the notion that depositors in Malaysia are not profit-motived. In his study, he measured the understanding of various stakeholders in Malaysia of the objectives of Islamic banking which is either on 'social welfare objectives' or 'commercial objectives'. Based on the survey result, it is interesting to note that among the groups of stakeholders, the depositors' group ranked last in perceiving the commercial objectives as the main objectives of Islamic banking; the same group emerged at the top-three out of seven stakeholders in terms of perceiving the social welfare objectives. It can be inferred from the finding of the study that deposits' rate of returns is deemed as less of a priority among the depositors, as return on deposits is a subset of the overall commercial objective. In fact, the act of balancing the 'social welfare' objective and 'commercial' objective observed in every single stakeholder is in line with the spirit of *Shari'ah*. Moreover, as discussed in the previous chapter (Chapter 3), Islam does not prohibit people to gain profit as long as it is in line with *Shari'ah* requirements. However, the transactions must be according to the spirit of Islamic business ethics, which uphold the concept of honesty, justice and equity (Haron and Azmi, 2005a; INCEIF, 2006c). Therefore, the depositors of Islamic banks principally should not expect a pre-set rate of return as the sole criterion when selecting Islamic banks.

4.2.3 Customers Service Satisfaction Studies

In terms of customer satisfaction studies, most of the research conducted was intended to measure how the customers perceived the quality of service in Islamic banks. The results of the research normally gives an indication of how satisfied the customers are with the current level of services rendered or what the most important elements are that the customers perceived about the Islamic banks' service quality. Most of the related studies used the SERVQUAL model which represents the following elements;

tangibles, *assurance*, *reliability*, *responsiveness*, and *empathy*. The model was initially developed by Parasuraman *et al.* (1988) and is widely used to measure the service quality for various service industries (Shafie *et al*, 2004; Zaabi, 2007).

In the Islamic banking context, the pioneer in using the SERVQUAL model in measuring service quality is a study by Othman and Owen (2001). However, they modified the model by including a *compliance* element as part of the assessments; the new model is termed as CARTER model. The compliance element in this case refers to the adherence to the *Shari'ah*-compliance principles. Thus, any violation of the compliance aspect will give not only a negative perception towards the Islamic banks, but it might also tarnish the overall image of the Islamic banking industry, which leads to *Shari'ah* non-compliant risk and also reputational risks. In other words, any negative experience or dissatisfaction with the customer service may influence the customers' behaviour towards Islamic banks, which can carry negative connotations concerning the image of Islamic banking industry as a whole into the future. Therefore, the service quality aspect should not be ignored as it also may influence the overall behaviour of the customers towards Islamic banking.

Table 4.2 below summarizes the result of research conducted on the measurement of service quality in Islamic banks. The variables on the table are based on the CARTER model developed by Othman and Owen (2001). However, the table is modified to incorporate other studies that measure service quality in Islamic banks into the CARTER model according to the values, principles, and elements of the findings from various studies, although the original studies did not adopt the CARTER model as the basis.

For the discussion in this subsection, the researcher would like to draw the attention to only one of the elements of the CARTER model, *i.e*. the compliance factor; this factor is closely associated with the religiosity factor, and thus has considerable influence on why customers select the Islamic banks. The Islamic banks should be more cautious in ensuring that their service level meets the standard in complying with the *Shari'ah* principles, as any incidences of non-compliance would lead the customers to end the banking relationship. Based on Table 4.2, the tabulated results show that the majority of the studies put significant importance on the compliance factor, or even ranked it as

the top priority factor in the customer service level. This may be due to the fact that customers who use Islamic bank products and services are influenced or motivated by the religious motive as discussed in the previous section (section 4.2.2). In fact, compliance to the *Shari'ah* principles is the only main distinct element that differentiates the Islamic banks and from conventional banks.

Table 4.2: Summary of Relevant Literature Review on Service Quality Measurement in Islamic Banking and Islamic countries[55]

Literature		CARTER variables						Method – Sample Country
		A	B	C	D	E	F	
Othman and Owen	2001	+(1)	+(2)	+(5)	+(6)	+(4)	+(3)	Questionnaire – Kuwait
Jamal and Naser	2002	n/a	+	+	-	+	+	Questionnaire – UAE
Jamal and Naser	2003	n/a	+	+	-	+	+	Questionnaire – Pakistan
Shafie *et al*.	2004	+(1)	+(4)	+(2)	+(6)	+(5)	+(3)	Questionnaire – Malaysia
Ismail, Razak *et al*.	2005	+(5)	+(1)	+(3)	+(6)	+(2)	+(4)	Questionnaire – Malaysia
Vijayan	2005	n/a	-	+	+	-	-	Questionnaire – Malaysia
Okumus	2005	n/a	+	+	+	+	+	Questionnaire – Turkey
Al Zaabi	2007	+(1)	+(4)	+(2)	+(1)	+(3)	- (5)	Questionnaire – UAE

Notes: + indicates a positive and important result, ± indicates an equivocal result, – indicates negative or no significant result and n/a indicates variable was not investigated/examined in the study

( ) indicates the raking of the variable

A:	Compliance	The ability to comply with Islamic Law and operate under the principles of Islamic Banking and Economy
B:	Assurance	The knowledge and courtesy of employees and their ability to convey trust and confidence. This also includes verbal and written communication between bank staff and customers
C:	Reliability	The ability to perform the promised service, dependability, and accuracy
D:	Tangibles	The appearance of physical facilities, equipment, personnel, and communication materials
E:	Empathy	The element of caring and individual attention which the Islamic bank provides for its customers
F:	Responsiveness	The willingness to help customers and provide prompt service.

Source: Othman and Owen (2001)

4.2.4 Product-Based Behavioural Studies in Islamic Banking

Another area of research can be located in the studies, which investigates the perceptions and attitudes towards Islamic banking operation, is that of perceptions studies of Islamic banking products and services. These studies usually research the factors that influence the preference of the customers in using specific products or services. In this section, the researcher limited the review and discussion of literature to that related to retail banking products and services, which is in line with the scope of this thesis. Therefore, for the purpose of locating the behavioural aspects in this literature review, the researcher only focuses on studies on three main and popular

[55] For details on the research methods used and the results of service quality satisfaction measurement, refer to the respective studies mentioned in the table.

Islamic retail banking products, namely Islamic mortgages, Islamic vehicle financing, and Islamic credit cards.

These studies used questionnaire surveys as the main method to gather data, since it is the most suitable method to elicit customer perceptions in the case of large numbers of samples. Based on the review of such studies, several factors were located as the main forces that influence or attract customers to use the Islamic retail banking products. Nevertheless, for purposes of simplicity, consistency and clarity, the researcher grouped the findings into four main categories: (i) religiosity aspect; (ii) monetary value aspect; (iii) customer service aspect, and, finally, (iv) non-monetary value or product attractiveness aspect. The 'religiosity aspect' category basically includes the attitudes, perceptions, and awareness of the importance of *Shari'ah*-compliance matters in selecting products offered by the Islamic banks. The second category of 'monetary value aspect' covers any matters that have a positive financial impact, or benefits such as competitive product pricing. In the 'customer service aspect', the customers are attracted to the product because of the good service attached, which includes, among others factors, extensive branch networks and internet banking facilities for easy payments. Finally, the 'non-monetary value or product attractiveness aspect' includes the reputations and prestige attached to using the product offered by any particular bank. Adopting a similar approach from the previous two sections, Table 4.3 summarizes the all the relevant studies that were reviewed.

The tabulated results from table 4.3 show that is consistent with findings from sections 4.2.2 and 4.2.3, in which the majority of the customers of the Islamic banks stated that they use Islamic banking products was mainly due to their religious beliefs. As discussed in section 4.2.3, the findings in this section provide further evidence that the Islamic banks should ensure the compliance to *Shari'ah* principles. In fact, strict compliance with *Shari'ah* principles would provide protection and reassurance to uninformed users of the product, who use the product merely based on their trust that the product is *Shari'ah*-compliant, as can be seen in one of the finding in Abdullah and Dusuki's (2006) study. In their study, the customers of the Islamic banks were unable to identify the differences between Islamic hire-purchase and conventional hire-purchase. From these findings, it can be stated that the majority of the users of

Islamic banking products are mere user of the products without fully understanding of products' mechanisms, differences, risks and benefits.

In relating this argument to the deposits account aspect, the same arguments may also apply to the profit-sharing based deposits accounts. Even though, from a statistical data point of view, there is commendable growth, it can be argued that the levels of understanding of the products' mechanisms, including the risk and return aspect very much are doubtful. This means that the depositors of the Islamic banking deposits products are often just mere users without proper knowledge and understanding of the underlying *Shari'ah* principles.

Table 4.3: Summary of Relevant Literature Review on Product-based Behavioural Studies in Islamic Banking and Islamic countries

Literature							
		A	B	C	D	**Product**	**Countries**
Abdullah	(2005)	+	+	-	-	Vehicle	Malaysia
Abdullah and Dusuki	(2006)	+	+	-	-	Vehicle	Malaysia
Dali and Hamid	(2007)	+	+	+	+	Credit Card	Malaysia
Samad	(2007)	±	+	-	n/a	Mortgage	Malaysia
Amin	(2008)	+	+	-	+	Mortgage	Malaysia
Amin *et al.*	(2009)	+	+	+	-	Mortgage	Eastern Malaysia
Taib *et al.*	(2008)	+	-	-	-	Mortgage	Malaysia
Aziz	(2009)	+	-	-	-	Mortgage	Malaysia
Tameme	(2009)	+	-	-	+	Mortgage	United Kingdom
Shahwan	(2008)	-	n/a	n/a	n/a	Credit Card	Malaysia
Jalil *et al.*	(Unknown)	+	+	-	+	Mortgage	Johor - Malaysia
Dali	(Unknown)	+	+	+	-	Credit Card	Interview - Malaysia

Notes: + indicates a positive and important result, ± indicates an equivocal result, – indicates negative or no significant result and n/a indicates variable was not investigated/examined in the study

A:	Religiosity aspect	The perceptions, attitudes, and awareness of the customers to engage in Islamic banking products for religious reasons.
B:	Monetary value aspect	The perceptions, attitudes, and awareness of the customers to engage in Islamic banking products because of monetary value benefits such as attractive pricing
C:	Customer service aspect	The perceptions, attitudes, and awareness of the customers to engage in Islamic banking products because of the good aspect of customer services, which include extensive branch networks, internet banking service for easy payment, etc.
D:	Non-monetary value product attractiveness aspect	The perceptions, attitudes, and awareness of the customers to engage in Islamic banking products because of the prestige or branding of the bank's products which will improve the lifestyle of the user.

4.3 SURVEY OF STUDIES BASED ON SECONDARY DATA: TIME-SERIES EMPIRICAL ANALYSES

Another method used in the literature to gauge depositors' behaviour is that of time-series data analysis, which is conducted by using actual secondary data in measuring depositors' behaviour and reaction towards certain economic variables such as business cycles, conventional banking interest rates, money supply, and Islamic banking deposits rates of return. In addition, non-economic variables, such as the number of bank branches, were also employed in some of the studies.

There are several empirical studies that used either econometric methods or observation analysis in evaluating the behavioural pattern of Islamic banking depositors. In most of the studies, the research was conducted on the Muslim majority countries such as Malaysia and Indonesia, which have strong presence of the Islamic banking system in parallel to the conventional banking system. In locating the depositors' behavioural patterns in the research related to time-series data analysis, the researcher has classified the studies into two broad categories: (i) Islamic monetary system analysis, and (ii) Islamic banking deposits analysis.

In most cases, the studies related to the Islamic monetary system measure the stability of the Islamic monetary system vis-à-vis to the conventional monetary system. These studies usually utilise Islamic monetary instruments as the independent variables as part of the analysis, which, among others, include the time-series data of Islamic banking deposits. The time-series Islamic banking data reflect the patterns of depositors' behaviour when they react to certain monetary policy changes. Normally this type of study assesses the stability of Islamic monetary instruments, which is significantly correlated to the stability of Islamic banking deposits.

One of the earliest studies in this area was conducted by Darrat (1988), who established the theory that the financial (banking) system is more stable if it relies on monetary instruments which are non-interest bearing, such as Islamic monetary instruments. The study used data related to Tunisian monetary instruments for the period of 1960-1984. The results from the study suggest that the Islam-based interest-free monetary system has many advantages from the point of view of financial

stability, usefulness as monetary policy channel, and economic efficiency. In continuation, similar studies were also conducted by using data from other Muslim majority countries, such as the studies conducted by Yousefi *et al.* (1997) in the case of Iran; Hassan and Aldayel (1998) in the case of 15 Muslim countries; Kaleem (2000), Yusoff and Wilson (2005; 2006), and Yusof *et al.* (2008) in the case of Malaysia. With the exception of Yousefi *et al.* (2008), the results from the remaining studies further support Darrat's theory that Islamic or interest-free monetary instruments are more stable than the conventional or interest-based monetary instruments. In addition, Darrat (2000), in his other articles, rebuts the conclusions drawn by Yousefi *et al*. (1997) by correcting an error in Yousefi *et al*'s model. He consequently arrived at a similar conclusion that an interest-free monetary system is superior to an interest-based system. The reason offered for such a conclusion is that Islamic monetary instruments have a low and stable velocity rate. One of the factors that might contribute to this aspect is lower variability of the structure of Islamic banking deposits instruments. In other words, the Islamic banks were not experiencing any significant deposits inflows or outflows. The lower variability in the structure of Islamic banking deposits may be explained by various reasons which have been presented in the earlier part of this chapter, such as religiosity factors, financial returns and good service quality.

The second category of the time-series data analysis that relates to the depositors' behavioural aspect includes studies of the relationship between several economic indicators and Islamic banking deposits. The economic indicators such as 'Gross Domestic Product (GDP)', conventional banking interest rate, Islamic banking rate of return and inflation rate were used as the independent variables, and Islamic banking deposits were used as dependent variable. The purpose of these studies is to determine the economic variables that significantly influence the movement of Islamic banking deposits. Following a review of the available literature, the studies can be further categorized into three types of analyses ranging from the simplest analysis methods such as observations of deposits movement to the more sophisticated analysis utilizing various econometric models.

The first type of analysis technique that was used for measuring the depositors' behavioural aspect is the 'simple observation' technique. This technique offers a

simple observation of the movement of Islamic banking deposits against the economic variables such as GDP and Islamic bank's rate of return throughout a specified period of time. Any significant movement trend vis-à-vis the economic variables was noted as findings in deriving the conclusion of Islamic banks depositors' behaviour. Among the earlier research using the observation method was a study conducted by Wilson (1995), in which data of Bank Islam Malaysia Berhad deposits from the years of 1984 to 1993 were observed against the deposits' interest rate and the GDP. Based on the observation, the findings noted that there was a significant increase in the deposits level of Bank Islam Malaysia Berhad and other financial institutions when the banking industry experienced an increasing trend of interest rate rising even though the GDP was falling or stagnant. The findings of this study suggest that Malaysian depositors reacted positively to the changes in interest rate, as is evident in the overall growth of banking institutions' deposits in tandem with a growth in interest rate. Wilson's views can be further supported by other studies by Sum (1995) and Ramlee (2000), which analysed the performance of deposits' growth in Bank Islam Malaysia Berhad for the same period studied by Wilson (1995). The research came to the same conclusion that Malaysian depositors are profit-motivated, as is evidenced by a slow deposits growth rate for BIMB as compared to the banking industry, as the bank declared a lower rate of return to their depositors during the relevant period.

The second analysis technique is an empirical study of the relationship between the trends of Islamic banking deposits with either conventional banking interest rates or Islamic banking deposits rates of return. In these studies, which use econometric analysis tools, the Islamic banking deposits trends for a given period of time were regressed with either conventional banking deposits' interest rates or Islamic banking deposits rates of return (or a combination of both) in order to determine whether the deposits returns declared by the respective banking institutions' industry had significantly influenced the behaviour of the depositors.

One of the earlier studies was conducted by Haron and Shanmugam (1995), who measured the strength of the relationship between the total deposits of Islamic banks and their rate of profit over a ten-year period (1984-1993), with annual data for the Bank Islam Malaysia Berhad. They used the Pearson Product-Moment Coefficient of correlation to measure the strength of the relationship between the two variables.

Interestingly, their findings suggest that there is no significant direct relationship between the two variables, which means that the rate of return was not the major element that influenced the decision of Bank Islam depositors to deposit with the bank. In addition, the study further suggests that there were other factors that influenced the depositors such as religious factors.

In contrast, other similar studies which also focused on Malaysia, for example Kaleem and Isa (2003), Bacha (2004), Sukmana and Yusof (2005), and Chong and Liu (2009) produced contradictory results when compared to Haron and Shanmugam (1995). In fact, Haron, in his study with Ahmad (2000), also suggests findings that are contradictory to his earlier research. Based on their study, the finding suggests that the Malaysian Islamic banking depositors were driven by a profit motive in selecting in the bank, or, in other words, higher deposits returns declared by either conventional or Islamic banks would significantly influence the depositors to select that particular bank. One of the reasons that explain the difference between Haron and Shanmugam's (1995) conclusions and the other studies is that their research at that time was based on a case study with a single bank, Bank Islam Malaysia Berhad's yearly data; by contrast, the other studies were using industry-based data on a monthly basis, which, arguably, is more reflective and accurate. Nevertheless, a more recent study conducted by Yusof *et al.* (2008) arrived at the same conclusion as Haron and Shanmugam (1995). Yusof *et al.* (2008: 11) "infer that interest rate changes do not significantly affect deposits and that perhaps other factors like Islamic awareness rather than profit-driven aspects attract depositors to deposit more funds in Islamic banks".

Based on the review of the literature, the mixture of contradictory results and findings may be explained by two main reasons. Firstly, the studies employed different econometric models to test and analyse their data. For example, Bacha (2004), Kaleem and Isa (2003), Sukmana and Yusof (2005) mainly used 'granger causality' as one of the testing models, while Yusof *et al.* (2008) used the 'auto-regressive distributed lag (ARDL) model'. The usage of different econometric models may result in different findings and conclusions. Secondly, it is noted as well that each of the studies used different time frame data; for example, Bacha (2004) used monthly data from January 1994 to July 2003, while Yusof *et al.* (2003) used much a shorter data

period from January 2001 to June 2006. The difference in the sampled data time frame may yield different results, as the time frame of the relevant period may also have be influenced by other economic events or indicators such as GDP growth, stock market index indices, and inflation rate.

In addressing these concerns, therefore, other studies attempted to incorporate other economic variables as well in the econometric model in order to see whether these variables may also have a strong relationship in boosting the Islamic banks' deposits level besides higher rate of returns. In other words, the trend of the deposit level in Islamic banks is not necessarily being driven by the depositors who were influenced by the higher deposits return declared by the Islamic banks. Such an analysis is categorized by this review as the third analysis type, which in one way or another also aims at assessing the behavioural aspect of the depositors of Islamic banks using time-series secondary data.

Earlier research that can be seen as employing this type of analysis was conducted by Rachmawati and Syamsulhakim (2004). They studied the factors affecting *mudarabah* deposits in Indonesia using the 'cointegration' method. The research utilized quarterly industry data over the period of 1993-2003. Besides the Islamic banks' profit-sharing rate, the research also included three other independent variables, i.e. GDP, the number of an Islamic bank's branch offices, and conventional banking interest rates as part of the equation in the model. The result of the study found that two variables, namely number of branches and profit-sharing rate, significantly affect the volume of *mudarabah* deposits in Indonesia, whilst the remaining two variables, GDP and interest rate, were not significant. Therefore, the researchers concluded that the Indonesian depositors bank with the Islamic banks partly due to profit maximization motives and not necessarily because of religious considerations. In addition, the findings also ruled out that other economic indicators, such as interest rate and GDP, may influence the deposits level in the Islamic banks in Indonesia. Rachmawati and Syamsulhakim's (2004) findings were further supported by the findings of similar studies conducted by Omar and Rohmah (2007), and Kasri and Kassim (2009), although they were using a different econometric approach and data period.

In the case of Malaysia, similar studies were conducted by Haron and Azmi (2005a; 2005b; 2008). In their studies, besides Islamic banking deposits rates of returns, they also included other economic variables such as 'Base Lending Rate (BLR)', 'Malaysian Stock Composite Index (KLCI)', 'Consumer Price Index (CPI)' and GDP. Interestingly, their finding appear to be different from the studies conducted by Rachmawati and Syamsulhakim (2004), Omar and Rohmah (2007), and Kasri and Kassim (2009) for Indonesia. In Haron and Azmi's (2005a; 2005b; 2008) studies, the results show that besides higher rates of return, other economic variables such as BLR, KLCI, CPI and GDP also have a significant long-term relationship with the amount of deposits placed with Islamic banks. The finding also do not seem to be in line with the conclusions drawn by Wilson (1995), who states that GDP was not a significant factor influencing BIMB deposits level. In another study by Kassim *et al.* (2009), although the research did not directly measured the factors that influence the deposits' level of Islamic banks, part of the study relates to the behavioural aspect of Islamic banking depositors, which found that there was a negative correlation between conventional interest rates and the Islamic banks' level of deposits. In other words, they suggest that the depositors of Islamic banks would shift their deposits to the conventional banks if the conventional banks declare a higher interest rate and vice versa, which means that the depositors of Islamic banks in Malaysia are also driven by profit motives.

On the other hand, there is one study conducted by Nezhad and Askari (2006) that came to a conclusion which is in contradiction to all these studies, based on the Indonesian and Malaysian cases. In their study, they investigated the role of interest rates in influencing the decision of money demand and investment. The study used the 'general least square' econometrics method by using panel data (1990-2000) from selected Muslim countries (Jordan, Algeria, Morroco, Egypt, Iran and Guinea) and non-Muslim countries (Peru, Bolivia, Guatemala, Colombia, Philippines and Ecuador). The results of the study showed that people in selected Muslim countries are completely inelastic to the interest rates, but interest was found to be a significant factor in influencing the investment decision for the people from the non-Muslim countries. Their study also concluded that religious values may influence the economic behaviour of Muslims, at least in the case of selected Muslim majority countries.

Based on the results and conclusions from the review of the above mentioned studies, it is interesting to note that there is a difference in terms of depositing motives between the depositors of Muslim- majority countries from South Asia (Malaysia and Indonesia) and Muslim-majority from the Middle Eastern and North Africa (MENA) region (Jordan, Algeria, Morroco, Egypt, Iran and Guinea). The majority of the results from South Asian countries conclude that the depositors were driven by the profit motive in making deposit decisions, while for the depositors in the MENA region countries, Nezhad and Askari's (2006) study concluded that the depositors from the sampled Muslim countries were not influenced by the deposits' return. The conclusion reached by Nezhad and Askari (2006) can be further supported with studies by Ahmed (2003) and also the statement made by Haron and Ahmad (2000), and Kassim *et al.* (2009). Furthermore, the banking deposits statistics from Saudi Arabia may also be used to strengthen Nezhad and Askari's (2006) conclusion.

In Ahmed's (2003) study, one of the survey findings from the three countries (Bahrain, Bangladesh, and Sudan) discovered that close to 70.0 percent of the depositors still stay with their existing Islamic banks, although their banks declared a lower return for the period of one year than their competitors. Based on the findings, it can be inferred that the depositors of the three countries, two of which are from the MENA region, did not consider higher deposits return as the ultimate motivation in depositing money. In addition, various statements by Haron and Ahmad (2000) that "there were no significant withdrawal of deposits from Kuwait's Islamic banks, although the banks rate of deposits returns were lower than the conventional banks' interest rate", as well as a statement by Kassim *et al* (2009) that "in Sudan, the depositors still continue to support the Islamic banks, although not being rewarded accordingly in terms of higher deposits return", further evidence that the depositors from the MENA region may not be strongly influenced by the higher rate of deposits returns. Furthermore, in Saudi Arabia, the banking statistics for the year 2006 for deposits products showed that more than 80.0 percent of the total deposits are comprised of current account deposits, which arguably carry no or only a very minimal deposits return (Abdullah, 2007). Based on the above discussion, it can, therefore, be argued that the depositors from the MENA region countries have a better understanding on the meaning of *riba'* prohibition, as compared to the depositors

from the South Asian countries; this may be mainly due to the differences in the level of exposure and awareness.

In short, the previous studies provide some insight into the determinants of Islamic banking deposits. Almost all of the studies focused on Malaysia and Indonesia, as the case studies suggest that Islamic banking depositors react positively to the changes in conventional banking interest rate as well as market rate of return for Islamic banking. The findings, thus, suggest that the Malaysian and Indonesian depositors behave rationally in line with the argument by Chapra and Ahmed (2002: 2) who state that "in any financial systems, the provider of the funds (the depositors) enter into the financial system with the expectations that not only their funds are protected but also expecting for satisfactory returns". Nevertheless, the evidence from the studies from the MENA region countries provide a very good example to the depositors in South Asia in which the depositors' behaviour pattern shows that the aim of seeking higher deposits return without wanting to assume any risk as the main motive can be corrected with concerted effort to educate the depositors. This, in the long run, may be translated into norms as evident from Saudi Arabia's banking market. It is highly recommended that the depositors of Islamic banks should be educated to make decisions about banking their money according to the purpose or need, namely 'transactional', 'investment' and 'precautionary' motives as discussed in chapter 3.

4.4 CONTEXTUALISING THE FINDINGS FROM THE EMPIRICAL ANALYSIS

Based on the review of the studies based on primary data (patronage studies, customer service quality, and product-based studies), the research findings show that the religiosity aspect emerged as the primary factor that motivates or elicits the customers to opt for Islamic banking products or services. This is due to fact that the majority of the respondents were those Muslims, who believed that Islamic banking provided them with the opportunity not only to uphold their Muslim faith, but also to be part of a larger society that can participate in financial systems. Therefore, it is expected that the customers' religious conviction in opting for Islamic banking, namely the attitude, can be translated into the actual behaviour when it comes to the dealing with fundamental aspects of *Shari'ah muamalah* principles. In relating this to the Islamic

banking deposits aspect, it is highly desirable to see that the depositors opting for profit-sharing based deposits accounts behave according to the main principles of profit-sharing contracts. In this regard, the depositors, who claim that they opt for Islamic banking deposits accounts as their primary choice because of their Islamic faith, should be willing to face the risk of receiving lower deposits return as compared to conventional banking, and at the same time to remain loyal to the Islamic banking industry.

Nevertheless, the empirical studies based on the actual time-series data seem to show that most of the depositors of Islamic banks were using Islamic banking deposits products not because of religious belief but merely for other reasons such as hunting for higher rates of deposits returns, even though this is against the spirit of *Shari'ah* objective. This can be seen in the findings of some of the studies such as in Ramlee (2000), Bacha (2004) and Sukmana and Yusof (2005), who found that there were significant deposit outflows from Islamic banking to the conventional banking as a result of Islamic banks declaring a lower return than their conventional counterparts. The discrepancies in the findings in terms of depositors' behaviour between the primary data based and secondary data based studies may be justified from the point of view of a lack of understanding and knowledge about the technical aspects of the Islamic banking products and services. As discussed in the earlier part of this chapter, most of the findings in the literature suggest that the customers of Islamic banks had a low level of understanding about the products, even though the level of awareness of the importance of using the products was considered as acceptable. The acceptable level of awareness may be mainly due to the effective awareness campaigns promulgated by various parties either formally such as the regulators, industry players, and the mainstream educationist, or informally such informal religious speeches in the mosques about the importance of Islamic banking as alternative to *riba'*-based banking systems. This can be evident from the survey conducted by Kader (1992) and Samad (2007), who found that the respondents have a high level of awareness about the prohibition of *riba'* as the main basis of founding the Islamic banks.

4.5 RATIONALE FOR THIS STUDY

Based on a review of the existing literature in terms of primary data based research or secondary data based research, none of the studies aimed at investigating the behavioural aspect of retail customers towards the characteristics of deposits accounts based on profit-sharing contracts. In fact, one of the recommendations of Tahir (2007) is that more studies are needed to fill in the gap on the liability side of the Islamic banks' balance sheet. The present patronage studies mainly look at the general factors that motivate the respondents in selecting Islamic banks. Similarly, in the studies related to product-based behavioural studies, all of the available studies mainly focus on gauging customers' opinions and perceptions of the assets side of the balance sheet of the Islamic banks, namely the financing product. Meanwhile, in the secondary data based research, which utilized time-series data, the main focus was on the depositors' behaviour based on the aggregate data which was comprised of data from the business, government and retail deposits. This kind of analysis is thus unable to render accurate evidence of the retail depositors' behaviour, since the bulk of the deposits in Islamic banks come from institutional depositors such as financial institution, government sectors and business entity. These institutional depositors are believed to be the ones that behave rationally, i.e. in a profit-oriented manner, which is justified for such behaviour, since the financial institutions and business entities are established with business orientation and the purpose of maximizing shareholders' funds.

This study, therefore, is deemed to be significant in filling the gaps that have been identified. This study is believed to be the first of its kind which uses primary data when studying the situation in Malaysia. This research takes an approach which is similar to that of Abdullah (2005), who aims at eliciting customers' perceptions of the characteristics of profit-sharing deposits accounts. Based on the review of the existing literature, none of the studies focused on the perceptions when aiming to gauge the level of awareness, understanding, and the attitudes of the depositors towards the characteristics of deposits accounts based on profit-sharing contracts. In addition, the increase in market share of profit-sharing investment deposits compared to the total deposits of Islamic banks warrants for a specific study of the genuine understanding

and reaction of the depositors to the concept of profit-sharing based deposits account product.

4.6 CONCLUSION

This chapter provided a comprehensive literature review of customers' behavioural studies in the banking industry. The existing studies have been very useful to the Islamic banking industry in assessing and reviewing the behaviour of their customers, which changes from time to time, according to development and changes that occur in the landscape of the banking system either through regulative changes and product development, but also due to the level of sophistication of the customers' demand for the products and services. This chapter also identified the gaps that exist within the available body of knowledge. In addition, this literature review also helped to identify relevant research variables and suitable research methods for this research, which are further elaborated in the research methodology and framework chapter.

Chapter 5

Research Framework and Methodology

5.1 INTRODUCTION

The preceding three chapters have provided a thorough discussion of various aspects of banking deposits, including types of deposits and factors that may influence the behavioural aspect of the depositors. Studies in human behaviour are part of social science. In that field, the aspect of research methodology is very crucial in order to obtain reliable results. The researcher should adopt a suitable methodology coupled with proper planning throughout the research process. Therefore this chapter will briefly discuss the methodologies that are used by the researcher in order to answer the research questions that have been outlined earlier in the introduction chapter (Chapter 1).

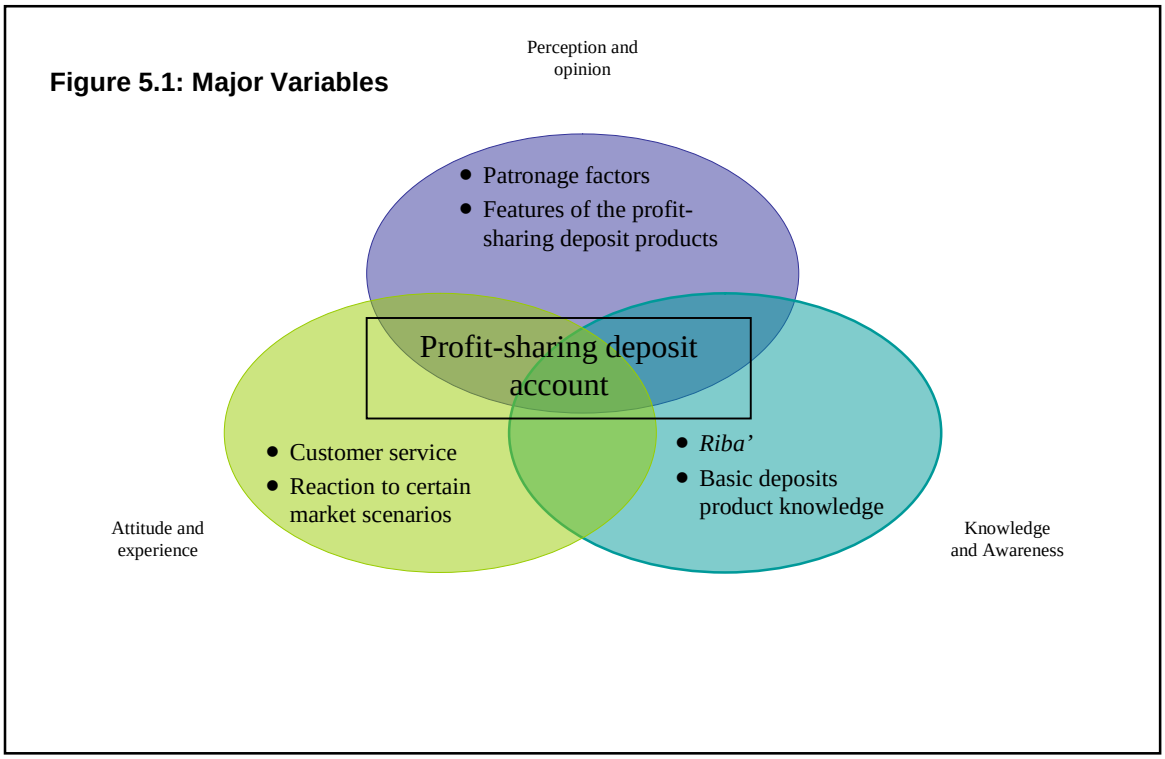
This chapter has been has been organised in eleven sections. The following section will be discussing the theoretical underpinning of the study, together with the research hypotheses. Subsequently, the following sections will be discussing the research design and methodology, research methods and strategy, sampling process, research instruments, data collection, data analysis, data quality and reliability, as well as limitations and difficulties. Lastly, a summary and conclusion section will be provided.

5.2 IDENTIFICATION OF VARIABLES AND HYPOTHESIS DEVELOPMENT

Since the main objective of this study is to explore the level of understanding, behaviour and attitude of Islamic banking depositors towards profit-sharing deposits products, the researcher has identified several characteristics that are unique in nature to profit-sharing deposits accounts as compared to other types of account. As a result, a well-formulated questionnaire needed to be developed in order to facilitate the respondents to provide answers which could be analysed by the researcher accordingly.

The selection of the variables was identified based on various sources from different perspectives that are related to the research area in question. This research intends to gauge in a holistic manner not only the perception and attitude of the depositors towards the nature of profit-sharing contracts, as applied to deposits products, but also to examine, to a certain extent, the basic knowledge of matters relating to *Shari'ah*, which is paramount and makes Islamic banking distinct from the conventional counterpart. The following diagram gives a snapshot overview of the major variables selected in formulating the research tools required to facilitate the achievement of the research objectives.

Figure 5.1: Major Variables



From the diagram above, coupled with the review of the literature, the following hypotheses are formulated.

5.2.1 Knowledge and Awareness of *Riba'* and Existing Account Features

Hypothesis 1: The majority of the Malaysian Islamic banking depositors do have a fair level of awareness of riba' terminology.

$H_{1\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology between ordinary depositors and bank employees.

$H_{1\text{-}2}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

$H_{1\text{-}3}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various age groups.

$H_{1\text{-}4}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various educational backgrounds and qualification profile groups.

$H_{1\text{-}5}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various groups with differing durations of banking relationships.

Hypothesis 2: The majority of the Malaysian Islamic banking depositors who are familiar with riba' terminology do have a fair level of knowledge about the subject matter.

$H_{2\text{-}1}$: There is no statistically significant difference in the level of understanding of riba' between ordinary depositors and bank employees.

$H_{2\text{-}2}$: There is no statistically significant difference in the level of understanding of riba' between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

$H_{2\text{-}3}$: There is no statistically significant difference in the level of understanding of riba' across various age groups.

$H_{2\text{-}4}$: There is no statistically significant difference in the level of understanding of riba' across various educational backgrounds and qualification profile groups.

$H_{2\text{-}5}$: There is no statistically significant difference in the level of understanding of riba' across various groups with differing durations of banking relationships.

Hypothesis 3: The majority of Malaysian Islamic banking depositors do understand the Shari'ah principles underlying their existing deposits account.

$H_{3\text{-}1}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts between ordinary depositors and bank employees.

$H_{3\text{-}2}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

$H_{3\text{-}3}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various age groups.

$H_{3\text{-}4}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various educational backgrounds and qualification profile groups.

$H_{3\text{-}5}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various groups with differing durations of banking relationships.

5.2.2 Patronage Factors Influencing the Opening of Deposits Accounts

Hypothesis 4: Malaysian depositors apply equal importance to the religiosity/Islamic identity factor along with other banking selection criteria when deciding to open a deposit account with Islamic banks

$H_{4\text{-}1}$: There is no statistically significant difference in terms of preference between ordinary depositors and bank employees when considering the religious factor as an important patronage criterion for deciding to open an Islamic banking deposits account.

$H_{4\text{-}2}$: There is no statistically significant difference in terms of preference between depositors of stand-alone Islamic banks and Islamic subsidiaries when considering the religiosity factor as an important patronage criterion for deciding to open an Islamic banking deposits account.

$H_{4\text{-}3}$: There are no statistically significant differences across various age groups' preferences when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

$H_{4\text{-}4}$: There are no statistically significant differences across various educational backgrounds and qualification profile groups when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

$H_{4\text{-}5}$: There are no statistically significant differences across various groups with differing durations of banking relationships when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

5.2.3 Features of Profit-Sharing Deposits Accounts

- **Awareness of profit-sharing deposits accounts**

Hypothesis 5: The majority of Islamic banking depositors are familiar with deposits accounts based on profit-sharing contracts.

$H_{5\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts between ordinary depositors and bank employees.

H_{5-2}: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts between the depositors of stand-alone Islamic banks and of Islamic subsidiaries.

H_{5-3}: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various age groups.

H_{5-4}: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various educational backgrounds and qualification profile groups.

H_{5-5}: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various income groups

H_{5-6}: There is no statistically significant difference on the level of familiarity with profit-sharing base deposits accounts across various groups with differing durations of banking relationships.

- **Attitude towards the *Shari'ah*-approved patronage features attached to profit-sharing deposits accounts.**

Hypothesis 6: Malaysian depositors apply equal importance to the religiosity factor along with other product attracting features when making the decision to open a profit-sharing deposits account.

- **Knowledge, perception and attitude towards the rate of return concept in profit-sharing deposits accounts**

Hypothesis 7: The majority of Malaysian depositors do express concern about their financial return when deciding upon which instruments to invest in.

H_{7-1}: There is no statistically significant difference between the opinion of ordinary depositors and bank employees in relation to the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

$H_{7\text{-}2}$: There is no statistically significant difference between the opinion of depositors of stand-alone Islamic banks and of Islamic subsidiaries in relation to the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

$H_{7\text{-}3}$: There are no statistically significant differences across groups from various educational backgrounds and their opinions on the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

$H_{7\text{-}4}$: There are no statistically significant differences across various groups of different income levels and their opinions on the published board rate, which will be part of their consideration prior to opening profit-sharing deposits account.

$H_{7\text{-}5}$: There are no statistically significant differences across the various groups with differing durations of banking relationships and their opinion on the published board rate, as part of their consideration prior to opening profit-sharing deposits account.

Hypothesis 8: The majority of Malaysian depositors deemed that the published board rate is not indicative of the rate of return for deposits.

$H_{8\text{-}1}$: There is no statistically significant difference between ordinary depositors and bank employees in terms of their perception of the published board rate as indicative of the rate of return.

$H_{8\text{-}2}$: There is no statistically significant difference between depositors of stand-alone Islamic banks and of Islamic subsidiaries in terms of their perception of the published board rate as indicative of the rate of return.

$H_{8\text{-}3}$: There are no significant differences across groups from various educational backgrounds in terms of their perception of the published board rate as indicative of the rate of return.

$H_{8\text{-}4}$: There are no significant differences across various income level groups in terms of their perceptions of published board rate as indicative of the rate of return.

$H_{8\text{-}5}$: There are no significant differences across various groups with differing durations of banking relationships in terms of their perception of the published board rate as indicative of the rate of return.

Hypothesis 9: The majority of Malaysian depositors are not familiar with the concept of Profit Equalization Reserve.

$H_{9\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept between ordinary depositors and bank employees.

$H_{9\text{-}2}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept between the depositors of the stand-alone Islamic banks and of Islamic subsidiaries.

$H_{9\text{-}3}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across groups from various educational backgrounds.

$H_{9\text{-}4}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across various income groups.

$H_{9\text{-}5}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across various groups with differing durations of banking relationships.

Hypothesis 10: The majority of the depositors accept the overall spirit and concept of profit equalization reserve (PER) to smooth their future return on deposits.

$H_{10\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to transferring a portion of extra profit to profit equalization reserve accounts.

$H_{10\text{-}2}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to the practice of clawing-back the funds in profit equalization reserve accounts for smoothing the future deposits rate of return.

Hypothesis 11: The majority of the depositors do not agree with the current practice of not disclosing the meanings and mechanisms of profit equalization reserve prior to opening an account.

$H_{11\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to non-disclosure of the meanings and mechanisms of profit equalization reserve.

Hypothesis 12: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank when their bank announces a lower return in comparison with other financial institutions (including other Islamic banks) based on the various scenarios of lower deposits rate of returns.

$H_{12\text{-}1}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces a lower return than other Islamic banks.

$H_{12\text{-}2}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces lower return than other conventional banks but comparable with other Islamic banks.

$H_{12\text{-}3}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces a lower return than other Islamic and conventional banks but at the same time giving financing products which have a lower financing rate as compared to other competitors.

$H_{12\text{-}4}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank is found to conduct business not in line with the Shari'ah principles.

- **Perceptions and attitudes towards deposits protection schemes in profit-sharing deposits accounts.**

Hypothesis 13: The majority of Malaysian Islamic banking depositors have a strong desire that the money they deposited in Islamic banks must be guaranteed and protected.

$H_{13\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in stating their desire for a deposits protection scheme.

Hypothesis 14: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank if their money in the Islamic bank is not protected and guaranteed.

$H_{14\text{-}1}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if both conventional banks and Islamic banks are not guaranteed by the government.

$H_{14\text{-}2}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if only Islamic banking deposits are not guaranteed by the government.

$H_{14\text{-}3}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if their Islamic bank is the only one not guaranteeing their deposits because of the restriction imposed by their Shari'ah Advisory Committee.

- **Perceptions and attitudes towards financial disclosure for better transparency and timely performance monitoring purposes**

Hypothesis 15: The majority of Malaysian Islamic banking depositors regard financial disclosure as an important instrument through which they can observe the performance of their deposits.

$H_{15\text{-}1}$: There is no statistically significant difference between the interest of ordinary depositors and bank employees in relation to the importance of financial disclosure for deposits performance monitoring tools.

$H_{15\text{-}2}$: There is no statistically significant difference between the interest of depositors of stand-alone Islamic banks and of Islamic subsidiaries in relation to the importance of financial disclosure for deposits performance monitoring tools.

$H_{15\text{-}3}$: There are no statistically significant differences across groups from various educational backgrounds and their interest in the importance of financial disclosure for deposits performance monitoring tools.

$H_{15\text{-}4}$: There are no statistically significant differences across the various income level groups and their interest in the importance of financial disclosure for deposits performance monitoring tools.

$H_{15\text{-}5}$: There are no statistically significant differences across various groups with differing durations of banking relationships and their interest in the importance of financial disclosure for deposits performance monitoring tools.

5.2.4 Customers' Opinion and Experience of Bank's Customer Service During the Opening of an Account

Hypothesis 16: Most of the Malaysian Islamic banking depositors were not informed or given any explanation of the characteristics of the Shari'ah contract when they first opened an Islamic banking deposits account.

Hypothesis 17: The majority of Malaysian Islamic banking depositors are interested to understand and learn about the Shari'ah principles underlying the deposits product that they have acquired or are going to acquire.

After identifying the hypotheses which are to be tested with the primary data collected for this study, the following sections present the operational nature of the research in terms of methodological approaches.

5.3 RESEARCH METHODOLOGY AND APPROACH

Research methodology is defined as "a way of systematically solve the research problems". In other word, it can be termed as research procedures and its rationale in order to solve the research problems (Kumar, 2008). It is wider research framework which includes among other the research design and research methods i.e data collection techniques (Saunders *et al.*, 2007). Appropriate research methodology identification would assist the researcher in developing clear research framework which gives the advantages of meeting the research objective and goals.

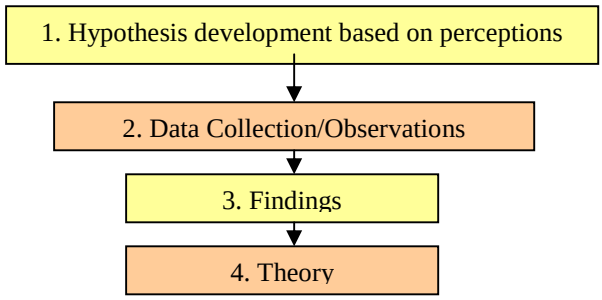
There are two types of research methodology, namely quantitative research methodology and qualitative research methodology (Kumar, 2008). Quantitative research methodology is a process which involves observations that are quantifiable or data that can be converted into numbers (Kumar, 2008). By contrast, qualitative research methodology is used to observe or investigate matters that relate and affect human behaviour (Kumar, 2008). Among the aspects that are covered in the study of human behaviour is the study of people's culture, value systems, attitudes, behaviours, concerns, motivations, and aspirations. Since the aim of the current study is to investigate a particular aspect of human behaviour, namely the attitude of Islamic banking depositors towards profit-sharing deposits accounts, the current analysis is conducted as a qualitative study. In other words, since its motivation is to explore a particular phenomenon, a qualitative approach is the most suitable methodology for this study.

The identification both research methodology and research approach cannot be looked at in isolation, as they are strongly interrelated. Saunders *et al*. (2007), as well as

Bryman and Bell (2003) state that social research, which studies behavioural aspects, can be conducted by using either an inductive or a deductive research approach.

The inductive research approach is defined by Bryman and Bell (2003: 569) as "an approach to the relationship between theory and research in which the former is generated out of the latter"[56]. In other words, inductive research means that a theory or general preposition is derived from the observations. This research strategy is more appropriate for any research that deals with behavioural analysis, where the findings and conclusion of the research are formed through observations. Figure 5.2 shows the process of inductive approach.

Figure 5.2: The process of induction



Source: Bryman and Bell (2003: 12)

The process of the inductive approach begins with an idea or expectation which may develops into a research hypothesis. This hypothesis or expectation then will be tested. Primary data will need to be gathered through various data collection methods such as interviews, observations, surveys, or a combination these. The results of the observations are used to form a general preposition or a theory. For this research, an inductive approach is considered to be the most appropriate method. The data collected from observations will be used to form conclusions concerning the behavioural aspects of the Islamic banking depositors. In addition, this research also makes a significant contribution to the existing areas of similar research on the behavioural aspect of Islamic banking depositors, and will therefore undoubtedly be useful for developing a theory in the future.

[56] On the other hand, the deductive method is "an approach to the relationship between theory and research in which the latter is conducted with the reference to hypotheses and ideas inferred from the former" (Bryman and Bell, 2003: 570).

5.4 RESEARCH DESIGN AND STRATEGIES

Another important aspect that needs to be considered is the research design or research strategies, as defined by Saunders *et al*. (2007). Research design or strategies are very crucial factors in any particular area of research, through which all the research questions will be properly put into perspective and a proper general plan will be formulated in order to achieve the research objectives (Bryman and Bell, 2007; Saunders *et al.*, 2007). Frankfort-Nachmias and Nachmias (1996) have defined research design as the 'blueprint' of a particular research work, in which the research design is a tool to facilitate and guide the researcher through the various stages of the research. Therefore, for any particular research project to be undertaken, a proper research design must be formulated, using the most appropriate tools. Each one of the tools and methods has its own strengths and weaknesses; therefore a proper process of methods selection would facilitate the researcher in achieving his or her research objectives by getting close to accurate results and conclusions.

However, before determining the research design, the researcher should identify the purpose of their study or research. Saunders *et al*. (2007), Kothari (2004), Kumar *et al.* (2002) and Sekaran (2000) have laid out three types of studies that are associated with any of particular research, namely 'exploratory', 'descriptive' and 'explanatory' studies. Any particular research should fall into one of the categories.

Exploratory studies are usually conducted when the researcher is looking for answers to unknown situations or in a situation when there is not much information available on the problem (Saunders *et al*., 2007; Sekaran, 2000). Churchill (1983) described exploratory research as a process to discover ideas and insights. Meanwhile, in descriptive studies, the objective is to "ascertain a profile or to describe relevant aspects of the phenomena of interest to the researcher from an individual, organizational, industry-oriented, or other perspective" (Sekaran, 2000: 125). In other words, the outcomes of a descriptive research study will give valuable insight into the characteristics of the subject matter of the research. The final category is termed as 'explanatory' study, as stated by Saunders *el at*. (2007), or 'hypothesis' testing as mentioned by Sekaran (2000). In this category, the purpose of the study is to explain the outcome of certain causal relationships between variables or differences among

groups. An example for this category is the study of the relationship between the outputs of a production machine against the age of the machine.

The research strategy selected for any given research should be the one that is suited best to the research questions and objectives. Yin (2003) stated that each of the strategies can be used for exploratory, descriptive and explanatory research (taken from Saunders *et al.*, 2007: 135). Table 5.1 summarises the types of research design[57] strategy, as stated in various research methodology textbooks[58].

This study adopts a combination of both 'exploratory' and 'descriptive' research purposes. In the situation of exploratory research, the researcher attempted to discover the perceptions of depositors towards the unique characteristics of profit-sharing contracts in devising a deposits account products. As far as the researcher is aware, hardly any research has been conducted to study the perception of depositors towards the unique characteristics of profit-sharing contract in Islamic deposits accounts, which are completely different from normal conventional banking deposits account. As for the descriptive research, this study makes a substantial contribution to the existing research on the behavioural of depositors towards certain patronage factors, such as, for example, the deposit rates of return. In order to accomplish the objectives of the research, the researcher has identified that a combination of strategies is the most appropriate way to approach the topic. Survey techniques using a cross-sectional time horizon have been used, as well as case studies of Islamic banking industry in Malaysia.

[57] Some of the authors have termed the research strategy as research design as well. Please see Bryman (2004); Bryman and Bell (2007), Tharenou *et al.* (2007), and Baily (1978), for the example.
[58] The list of research strategies in the table is non-exhaustive.

Table 5.1: Types of Research Design Strategy

Research Design Strategy	Authors	Descriptions
Experimental	(Baily, 1978; Bryman and Bell, 2007; Saunders *et al*., 2007)	A design used to determine whether any changes in one or more independent variables cause or affect one or more outcomes or dependent variables.
Cross-Sectional[59]	(Bryman and Bell, 2007)	A process where the collection of data is made based on more than one case and at single point in time.
Longitudinal [4]	(Bryman and Bell, 2007)	A process where the collection of data used to measure the population occurred at several points in time.
Case Study	(Bryman and Bell, 2007; Saunders *et al*., 2007; Sekaran, 2000)	An in-depth, contextual analysis of similar situations that occurred in other organizations, which can be applied to the current situations.
Comparative	(Bryman and Bell, 2007)	A strategy where the researcher is using identical methods for two or more contrasting cases, for example in a study of cross-cultural and cross-national research.
Survey	(Saunders *et al.*, 2007)	A strategy that adopts a standard format which would allow the researcher to collect a huge amount of data and analyse it using descriptive and inferential statistics.
Action research	(Saunders *et al*., 2007)	A process where the researcher is involved directly as part of the organization to improve the process of addressing issues and solve problems.
Grounded theory	(Saunders *et al*., 2007)	A process of data collection which started without any initial theoretical framework. As the data gathering process improves and more observations are recorded, a theory may be formulated and a series of predictions may be tested for future observation.

[59] In Bryman (2004) and Bryman and Bell (2007), cross-sectional and longitudinal research strategies are described as part of research design types, but Saunders *el at*. (2007) have described these as part of time-horizon categories. Meanwhile Churchill (1983) and Wilson (2006) have grouped the cross-sectional and longitudinal strategies together with types of descriptive research analysis.

Research Design Strategy	Authors	Descriptions
Archival research	(Baily, 1978; Saunders *et al*., 2007)	A strategy that makes use of administrative records and documents as a principal source of data. It is a type of research where the researchers obtain past data/ documents and event to be use in anticipation of future events.

5.5 RESEARCH METHODS

Another element under the research design framework is the research method. Research design and research method are distinct in that the former is related to the overall research plan and the latter is related to the details of how the data is being collected and analysed (Saunders *et al*., 2007). Therefore, research methods can be defined as a process of employing various techniques for the data gathering stage. It is crucial that the researcher identifies the most suitable technique for any given study, in order obtain the desired data for analysis. There are two types of research approaches that could lead to data gathering process namely 'qualitative' approach and 'quantitative' approach. Qualitative research is defined as "research involving analysis of data/information that are descriptive in nature and non-quantified" (Sekaran, 1992: 424); by contrast, quantitative research is an approach where the data collected is quantifiable and can be analysed using statistical tools. Quantitative research normally involves huge amounts of data. Therefore, as the number of the data collected increases, the more precise and representative the outcome of study will be. However, the researcher must be mindful of the advantages and disadvantages between both research approaches[60]. Again, the researcher ought to select the most suitable approach which is carefully tailored to the research objectives and questions. The identification of the research approach is paramount since it will determine the data collection techniques, such as questionnaires, interviews, focus groups, or published data that will be used.

In the context of this research which has been mentioned earlier in this chapter, the researcher adopts a combination of exploratory and descriptive research using a cross-

[60] For details about the advantages and disadvantage of qualitative and quantitative research approach, see Bryman and Bell (2003); Bryman and Bell (2007); and Bryman (2004).

sectional strategy as a primary research design. Therefore, the most suitable research method in this case is to use a quantitative research approach through a questionnaire schedule. Furthermore, in this research, since the researcher explores a topic related to human behaviour, quantitative research is the most appropriate research approach. For this purpose primary data was assembled through a questionnaire as a quantitative research method instrument.

5.6 RESEARCH METHOD INSTRUMENTS

5.6.1 Data Collection Tools

A researcher should consider various factors in order to choose the most appropriate research instruments. There are various research instruments available in collecting the data such as questionnaires and semi-structured interviews. Nevertheless, factors like good response rates and also tools that will be used to analyse the data should be given the utmost consideration when deciding and formulating the research instruments (Vaus, 2002). There are mainly two categories of data that are normally utilized in any research project, namely primary data and also secondary data. In the secondary data category, the data is obtained from other sources, published or raw format (Saunders *et al*., 2007). Examples of secondary data include government statistical reports, economic indicators, companies' shares prices, and other similar information which is available from reliable sources. In the case of this study, the researcher also utilised secondary data for the purpose of providing an overview of Malaysian Islamic banking system, and also during the process of selecting samples of Islamic banks for the field work. The data is gathered primarily from published reports from the Central Bank of Malaysia (Bank Negara Malaysia) and also from compilations of various quarterly, semi-annual and annual financial reports of all licensed Islamic banks in Malaysia[61]. In addition, the researcher also utilised other secondary data from various sources such as Islamic banking magazines, online articles and web-pages, and professional and academic conferences in order to obtain the most up-to date information about the development of the Islamic banking business.

[61] See Appendix 5.1 for the full list of Islamic banks in Malaysia.

For the main part of this study, the researcher decided to use primary data for the empirical analysis and also to test the hypotheses. Primary data is selected mainly because it is the most suitable approach in mostly social science or marketing based research studies in which the data is not readily available and also subjective. Churchill (1983) suggests that primary data collection is most suitable for the following data type: (i) Demographic/Socioeconomic Characteristics; (ii) Attitudes/Opinions; (iii) Awareness/Knowledge; (iv) Intentions; (v) Motivation; and (vi) Behaviour. Moreover, the data that was collected by other researchers is normally being used for specific purposes; therefore it may not be applicable to other research. Therefore, due unavailability of suitable data, and also due to the nature and objectives of this research which is to aspects of knowledge, perception, opinions, and also behaviour, the most appropriate way of obtaining data is through a primary data collection process. In fact, this method has been widely used by other similar studies, for example in the research conducted by Erol and El-Bdour (1989), Erol *et al*. (1990), Kader (1993), Haron *et al*. (1994), Okumus (2005), and Dusuki (2007).

There are various techniques that can be utilised by the researcher in collecting primary data. The most important aspect in selecting the best technique again goes back to nature and objective of the research, since each of the techniques has its own advantages and disadvantages. Selecting the appropriate technique would facilitate the researcher to obtain reliable data as much as possible, which adds credibility to the research findings. Nevertheless, the researcher should also be mindful of prospective limitations or challenges that may be faced by selecting any of the techniques; for example, in order to collect a large amount of samples using questionnaires from various geographical locations, the researcher might be faced with the problem of a limited budget, which would impede on the success of the study.

Churchill (1983) divided primary data choices into two broad categories, namely communication and observation. Communication is a method where the researcher needs to ask the respondents questions in order to secure the desired data. By contrast, for the observation method, the researcher needs to observe the subject matter or area of interest, and subsequently the relevant facts, actions, or behaviours are recorded. The communication choice can be further be broken down into two main methods, namely interview and survey method. Saunders *et al.* (2007) have listed three main

interview techniques, each of which has its own advantages and disadvantages, according to its suitability for the area of research[62]. Meanwhile, for survey methods, Wilson (2006), as well as Burns and Bush (2003) have explained quite extensively various interviewer-administered[63] and also self-administered techniques. Figure 5.3 depicts various methods and techniques in collecting quantitative data.

A self-administered survey means that the prospective respondents will complete the given survey questionnaire by him or herself without any interference from the researcher (Burns and Bush, 2003; Wilson, 2006). Unlike interviewer-administered questionnaires, self-administered survey is one of the most popular survey methods used in the area of social science and marketing survey especially when the area of research dealing with behavioural aspect of human being. The self-administered tool is more attractive than the interviewer-administered because it gives advantages in terms of minimising the cost for the researcher. In addition, it also gives more control to the respondents to answer the questionnaire by having ample time to digest, think, and complete the survey. Furthermore, by answering the questionnaire without any interference by the researcher make the respondents more comfortable and honest in answering it (Burns and Bush, 2003).

For the purpose of the present study, the researcher has selected a survey method using questionnaires where the drop-off method is the questionnaire delivery channel. The questionnaire is designed as the self-administered type which consists of mainly close-ended type questions and few optional open-ended questions. The closed-ended or forced-choice type of question is preferable in this research because it will increase the response rate, since it is easier and faster to be answered by the prospective respondents (Vaus, 2002). In addition, the closed-ended type of question is also have the advantages of being easier administer, code and analyse (Vaus, 2002).

Drop-off survey is one of the methods in self-administered survey method where prospective respondents are approached and the objective of the survey is explained, and subsequently a set of questionnaires are given out to the prospective respondents

[62] See Saunders *et al*. (2007), for details for each of the interview technique.
[63] Interviewer-administered survey is a technique where the questions of the survey are being read out and recorded by the researcher or enumerators either face-to-face or by telephone (Burns and Bush, 2003; Wilson, 2006).

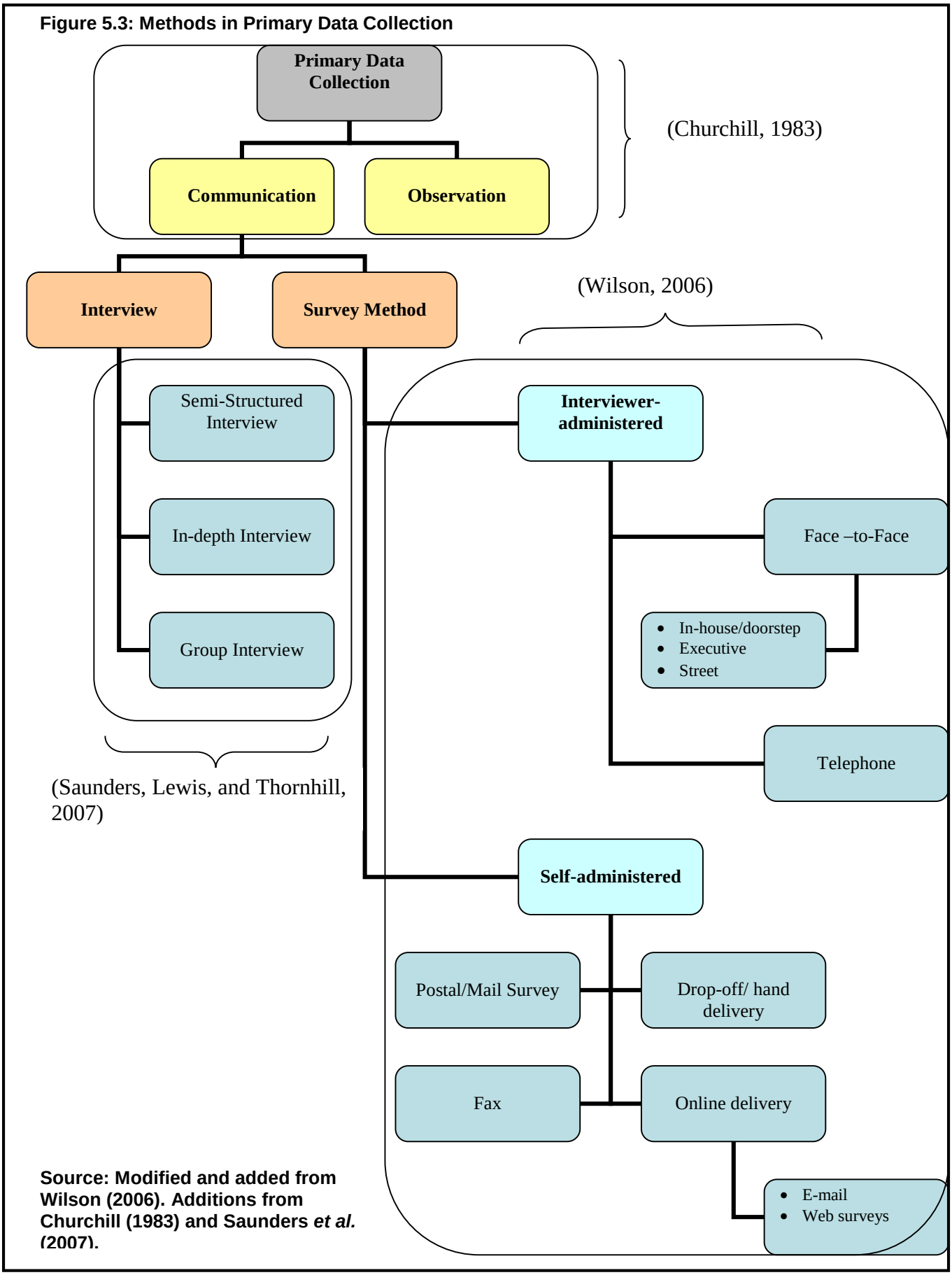
for completion on their own. The completed questionnaire can either be returned on the spot or later through collection in person or by post. This method has been selected after considering various factors including the research objectives, advantages and disadvantages[64] of other survey choices and also considering previous studies on customers' behaviour which have similar objectives. In addition, since the amount of data is the key success factor for this research coupled with the funding constrain that the researcher faced, the drop-off survey mechanism is the most suitable in order to boost the response rate as well as control the research costs.

5.6.2 Instrument Development

The development of the questionnaire was carried out after reviewing most of the relevant literature which included, among others, journal articles, books, PhD theses, and internet materials. Most of the relevant variables that are related to the characteristics of profit-sharing deposits accounts, depositors' behavioural analysis, Islamic banking patronage studies, and banking sector customer service studies were considered as part of the variables in the questionnaires. The next stage was to make references to the content and format of several questionnaires from various research articles and theses in similar research areas such as Islamic banking depositors' behaviour, Islamic banking patronage studies, and Islamic banking customer service studies. This was done in order to ensure that the content of the questionnaire is valid and that perhaps some of the format of questions presentation styles could be replicated. The replication of the presentation only is adopted if there is evidence that it managed to achieve a good response rate; it also makes the coding and analysis of the data easier.

[64] See Burns and Bush (2003) for more discussion of the advantages and disadvantages of various self-administered survey techniques.

Figure 5.3: Methods in Primary Data Collection



Source: Modified and added from Wilson (2006). Additions from Churchill (1983) and Saunders *et al.* (2007).

5.6.3 Level of Measurement

An appropriate selection of measurement and scaling is vital to ensure that research objectives are fulfilled, since it will affect the data analysis and interpretation. (Malhotra and Birks, 2007;Proctor, 2005). In formulating the questionnaires, the researcher took into consideration various standard measurement and scaling methods, namely nominal, ordinal, interval and ratio (Malhotra and Birks, 2007; Kumar *et al.*, 2002; Burns and Bush, 2003; Proctor, 2005). There are four main scales of measurement as follows:

Nominal Scale: It is the most simple scale, where numbers or letters are assigned to objects, which serve as labels for identification or classification (Zikmund, 2003). A simple example to illustrate nominal scales being used are gender, geographical location, and marital status.

Ordinal Scale: It is a scale that arranges the object by order with regards to some common variable (Kumar *et al*., 2002). Common examples of ordinal scale are class ranking and companies rating. Ordinal scales also normally used in many studies related to perception, attitudes, opinions, and preference.

Interval Scale is "a scale in which the numbers are used to rank objects such that numerically equal distances on the scale represent equal distances in characteristic being measured" (Malhotra and Birks, 2007: 340). An example of interval scale is to gives rating to specific product by from the rating of one (1) to five (5) being number one being the lowest rating and ten as the highest rating.

Ratio scale is the highest scale level among the four main scales of measurement. The scale allows the researcher to identify or classify objects, rank order the objects and compare intervals or differences and also add another advantage of computing ratios of the scale (Sekaran, 2000).

Nominal and ordinal scales were found to be the most suitable tools for this study. Nevertheless, a few of the questions are using an interval scale. As for the scaling

form, a mixture of various rating types[65] was adopted in designing the questionnaire according to the nature and objectives of the questions; these include dichotomous, category, Likert and itemized rating scales. Most of the scales used in this research are easy to understand by the respondents, and will therefore yield a better response rate and more reliable results for the researcher. The following table summarises the definition of the scales form defined by Sekaran (2000), and shows the corresponding question number used in the questionnaire.

Table 5.2: Type of Scale used in the Questionnaire

Scale	Definition	Question Number
Dichotomous	It is used to obtain a 'yes' or 'no' answer	Question 16, 22, 34 (a)(b), 36
Category	Uses multiple items to elicit a single response.	Question 1 – 11, 14-15, 18, 23-25, 33, 35, 37
Likert	Uses to examine how strongly subjects agree or disagree with statements.	Question 13, 27, 29,
Itemized rating	A 5-point or 7-point scale with anchors, as needed, is provided for each item and the respondent states the appropriate number on the side of each item, or circles/ tick the relevant number against each item.	Question 12, 19, 20-21, 26, 28, 30-32

5.6.4 Questionnaire Content

The questionnaire consists of 37 major questions, with some of the questions broken down into sub-sections. The questionnaire is divided into three (3) main themes. Part one (sections 2 and 3) measure the depositors' understanding and knowledge about basic principles underlying the Islamic banking deposits accounts. Part two (sections 4 to section 7) deals with depositors' understanding, attitude and perception towards various features of profit-sharing deposits accounts, and, lastly, part three (section 8) deals with the depositors' experience with customer service when dealing with Islamic banks. Since the questions cover a wide range of topics related to knowledge, attitude, and perceptions of respondents towards profit-sharing deposits account, the questions were grouped into eight (8) sections according to the themes and objectives of the research in order to ensure that the respondents are focused and aware of the type of questions that they were answering. The eight sections also correspond to the hypotheses that are mentioned in the beginning of this chapter. Appendix 5.2 provides a sample of the questionnaire used in this study.

[65] See Sekaran (2000: 197-202) for the explanation and details with regard to the difference between various rating types of scaling forms.

The description of each part is as follows:

Section 1: This section consists of eleven (11) questions which are intended to obtain personal information from the respondents. It is used as a control variable for the research.

Section 2: This section consists of question 12 and 13 (a), (b), (c) and deals with respondents' knowledge and understanding of the *riba'* concept, which is the main aspect of disapproval for conventional banking deposits accounts. Therefore, this section will help to gauge the level of understanding and knowledge of the Islamic banking depositors concerning *riba'*.

Section 3: This section consists of questions 14 to 19; these questions mainly cover the awareness and knowledge of the depositors regarding their existing deposits accounts. The questions ask whether the depositors know about what type of account they have, and for how long they have already been holding their existing Islamic banking account. The section also asks whether the depositors understand the underlying *Shari'ah* principles governing their existing deposits account, and the reasons behind it. The section concludes with a question that consists of 14 items in order to study the patronage factors that induce the depositors opening deposits account with Islamic banks.

Section 4: This section consists of two questions which test the knowledge and attitude of depositors towards profit-sharing deposits accounts. In Question 20, the objective is to gauge the level of familiarity of the depositors with the deposits accounts using profit-sharing contracts as the underlying *Shari'ah* principle. In addition, in question 21 the depositors were asked to rate their preferences of the factors that may influence their decision to open deposits accounts based on profit-sharing contracts.

Section 5: This section consists of seven questions (questions 22 to 28) which are intended to measure the knowledge, perceptions and attitudes of depositors towards the concept of return on their deposits account which is based on profit-sharing contract. This includes, among other factors, the unique features that distinguish

deposit accounts based on profit-sharing contracts from normal deposit account; these include, for example, concepts such as the profit equalisation reserve (PER).

Section 6: This section consists of two questions (questions 29 and 30), which deal with another distinct feature of deposit account based on profit-sharing contract: the concept of deposits guarantee. Question 29 intends to obtain the depositors' opinion on the deposits guarantee, and subsequently, in question 30, the respondents are asked to rate their reaction towards a few possible scenarios that might occur if their deposits account is not guaranteed.

Section 7: This section consists of two questions, which are intended to gauge the opinions and attitudes of the respondents' interest in the financial disclosure by the Islamic banks. As discussed, financial disclosure would be the primary monitoring avenue for the depositors to track their profit-sharing deposits accounts' performance, given the facts that their return on deposits is not fixed and their deposited money is not protected. The depositors are asked to rate of likeliness of their desire to see the financial reports based on a few scenarios. The following questions dealt with the depositors' interest in non-mandatory disclosure by the regulators; this would be very pertinent in helping the depositors by providing timely information which is useable for monitoring their deposits' performance.

Section 8: This last section consists of four questions which are intended to gauge the depositors' experience in dealing with Islamic banks upon opening an Islamic banking account. In addition, the depositors are asked whether they are interested in understanding the nature and the underlying principles of their Islamic banking deposits account if the banks' officer would like to explain these concepts to them.

The final questionnaire was prepared with two versions: one was using English and the other in Malay. The Malay language version was translated from the English version using back-translation techniques[66]. Using back-translation techniques, the English version (source questionnaire) was first translated to Malay (target questionnaire) by one person, and subsequently the translated Malay language version

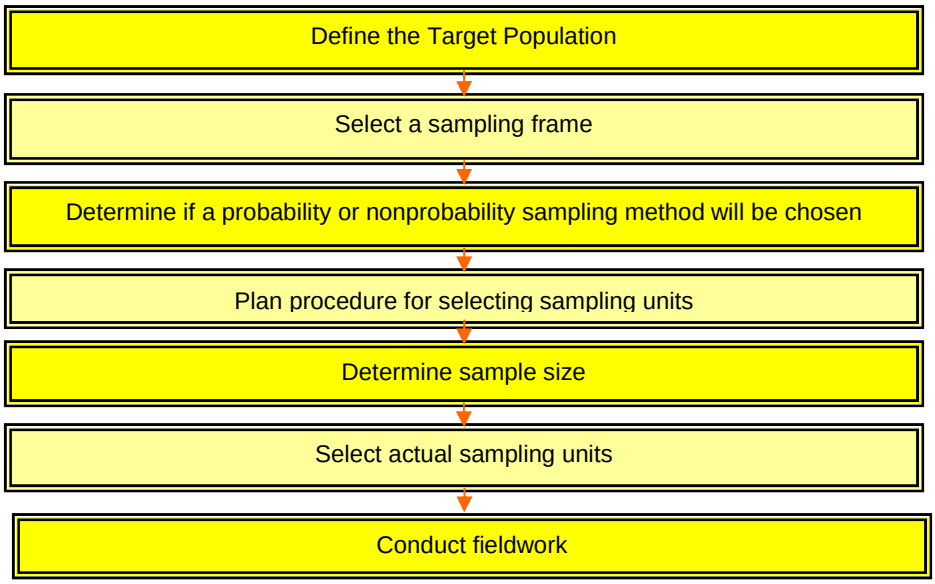
[66] There are four translation techniques namely direct translation, back-translation, parallel translation and mixed techniques. Each of the techniques has its own advantages and disadvantages. For more details see Saunders *et al*. (2007).

was translated back into English by another independent person (Saunders *et al*., 2007). This technique was selected because it minimizes the probability of errors and discrepancies that might occur during the process, and at the same time it is still not costly. In this research, two independent experienced translators, who possess a good command of both languages, were hired for the back-translation process. Based on the back-translation process, the researcher discovered that there were minor inconsistencies between the primary source questionnaire and the translated questionnaire. These discrepancies were rectified accordingly.

5.7 SAMPLING PROCESS

Sampling is the process of selecting a number of items or parts of the population. To a certain extent, if a proper process of selecting samples is followed, the outcome of the research may be used to draw conclusions about the population (Zikmund, 2003). If the population is known and small enough, it might be sampled in its entirety; this is known as census. In most cases, however, this is next to impossible because the population size is unknown or too large for the researcher to select all the elements in the population. Therefore, appropriate sampling is needed in order to ensure that the research findings are at least representative, albeit not conclusive about the population. In order to obtain good and representative samples, it is essential that an appropriate selection is made in order to avoid or at the very least minimize the sampling error. This can be achieved if the researcher follows the sampling procedures properly. Thus, the following sampling procedures are being used in guiding the researcher through the sampling stage, as outlined by Zikmund (2003):

Figure 5.4: Stages in the Selection of a Sample



Source: Zikmund (2003: 292)

5.7.1 Research Population

For the purpose of this study, the researcher has identified Islamic banking depositors as the research population. The ideal target population for this study is the entire depositors of the Islamic banking system in Malaysia[67]. An Islamic banking depositor is defined as any person who has a deposits account with Islamic banks in Malaysia. The accounts can be savings account, current account, general investment account, specific investment account, or other types of deposits accounts that are structured by the Islamic banks. The account holder may be individuals, societies, corporations, or governments. Nevertheless, due to certain limitations, the researcher has to redefine the target population by trimming it into a smaller target population. The justification for this decision will be explained below. First of all, the existing Islamic banking depositors are identified as the target population because it is expected that existing deposits account holders will at least have some knowledge of Islamic banking principles and are also familiar with Islamic banking system. Although the existing deposits account holders are not necessarily the holders of profit-sharing deposit accounts, this does not disqualify them from being part of the target population, since they are likely to be prospective new account holders for additional products offered by their banks. Thus, it is expected that the prospective respondents would be able to

[67] Please refer to Appendix 5.1 for the full listing of Islamic banks and conventional banks that offer Islamic banking services.

give answers and opinions on other products which are readily available and offered by the Islamic banks.

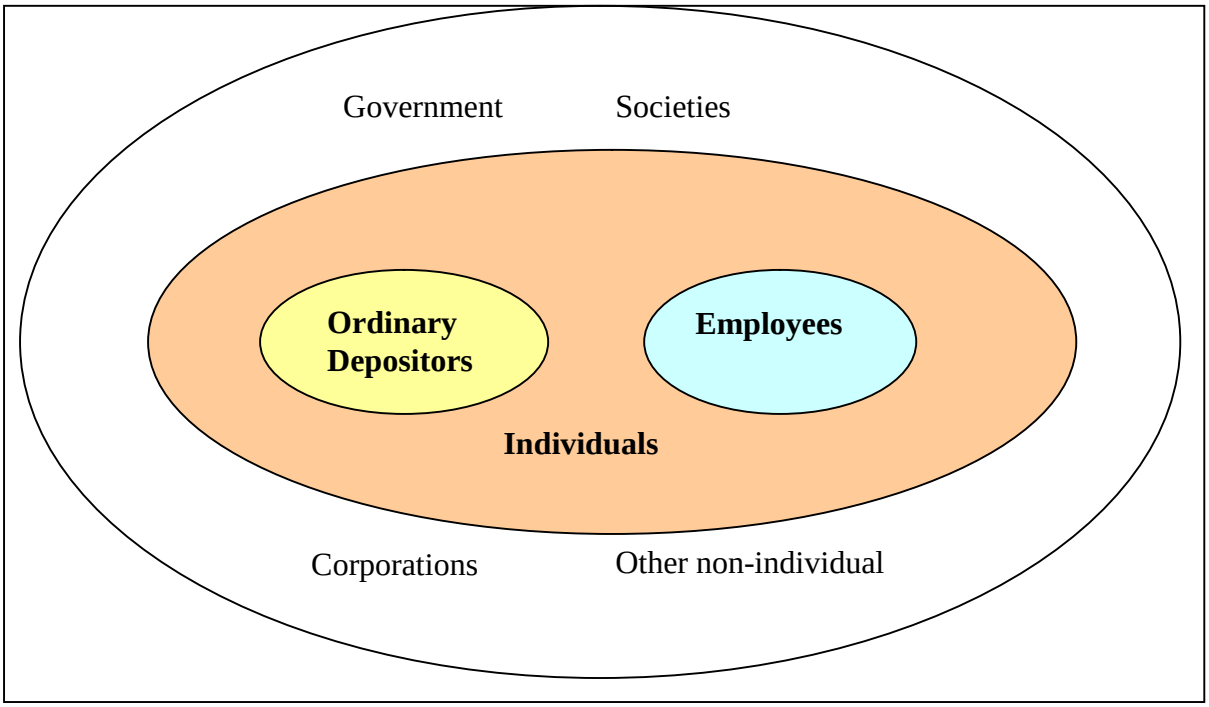
As mentioned earlier, there is limitation that may impede the process of data gathering and thus warrants the researcher to redefine the population size: this is the category of the depositors. As stated above, depositors can be classified into different categories, *i.e.* individuals, corporations, governments and societies. For the purpose of this research, the target population is limited to include only individual depositors. This is done because it is almost impossible to identify depositors other than individuals due to regulatory restrictions[68]. In addition, if the researcher would like to include the remaining categories[69] as respondents, the opinions expressed by this group may not necessarily represent the opinion of the whole organization. Thus it is justified for the researcher to limit the target population to only individual depositors.

The population is further divided into ordinary depositors and Islamic banks employees. The purpose of creating a sub-population of bank employees is to make comparison of the survey results on various variables such as opinion and perceptions between ordinary depositors and Islamic banking employees who have Islamic banking deposit accounts. It is expected that Islamic banking employees have more information and knowledge and that they should therefore perceive the product differently as compared to the ordinary depositors.

To sum up, the final population target group has been identified as individual depositors, including the Islamic banks' employees, who hold an Islamic banking deposits account with one of the Islamic banks in Malaysia. The following diagram represents the population for this research. The final identified research population is located in the shaded area.

[68] In Malaysia, all customer information is classified as confidential under the Islamic Banking Act of 1983. Thus it is impossible to select the total number of depositors as the target population.
[69] The researcher may take any representative from each organization.

Figure 5.5: The research population group



5.7.2 Sampling Frame

Selecting a sampling frame is a process where the researcher will need to list all the elements from which the actual sample may be drawn (Churchill, 1983). It is also known as working population because it provides the list for operational work (Zikmund, 2003). In an ideal situation, all elements of the population are known thus the selection of the sampling frame would be carried out appropriately. However, in reality it is hard to get a complete list of the elements especially in populations of unknown size, very large populations, and in situations where there are legal restrictions that make the complete list of population elements unavailable. Therefore, certain other measures which could also reflect the population are also acceptable. The example given by Zikmund (2003) is that, in absence of a complete list of population elements, other materials such as maps or aerial photographs may be acceptable as the sampling frame.

In this study, the ideal situation is having a list of depositors for all of the Islamic banks in Malaysia. However, there are limitations that hinder the researcher from obtaining a complete list of the depositors. As mentioned above, the Islamic Banking Act of 1983 has restricted public to access to any of the customer profiles. Therefore

it is impossible for the researcher to get access to the complete list of the depositors in Malaysia.

Having mentioned the limitation, the researcher has managed to select most suitable sampling frame, which is believed to be the best alternative that is available at the time of the fieldwork. The sampling frame was constructed based on statistical data collated from Bank Negara Malaysia and each of the respective Islamic banks. This is to verify that all of the Islamic banks have individual depositors, and also that they are offering profit-sharing deposit accounts as one of their deposits products. Details of the results for the sampling frame process can be found in Appendix 5.1. In addition to the absence of a complete list of the population, the researcher has modified the sampling strategy: instead of using random sampling from the listings, sampling from walk-in depositors of the Islamic banks is used. Therefore the sampling frame for this research is all walk-in depositors of all Islamic banks throughout Malaysia, based on the geographical location of Islamic banking branches. The construction of this sample frame includes the use of maps or aerial photography, as suggested by Zikmund (2003).

Another sampling frame which is related to this research is the employees of the Islamic banks who are also having an Islamic banking deposits account. Again, due to the confidentiality of the information with regard to the employees' data, the researcher was unable to obtain a full list of employees of each particular Islamic bank. Nevertheless, the researcher was able to overcome the limitation by relying on staff at each particular Islamic bank to act as representatives and to distribute the survey questionnaires to the prospective respondents.

5.7.3 Determination of Sampling Methods, Sampling Procedure and Its Rationale

The next stage in the sampling process is to determine the most appropriate sampling method to be used in selecting samples from the sample frame. There are various sampling techniques, which fall under two broad categories, namely probability sampling[70] and nonprobability sampling. Probability sampling is suitable if the case of

[70] In probability sampling, since the population members are known to the researcher, the techniques used in selecting the samples are somewhat more systematic as compared to the nonprobability

every member or element in the population is known and has an equal chance of being selected as the sample; by contrast, nonprobability sampling is more suitable for situations where the selection of samples is carried out on the basis of personal judgement or convenience; in most cases the population members are unknown (Zikmund, 2003; Saunders *et al.*, 2007; Sekaran, 2000).

The population size of the current study is unknown and is deemed impossible to identify. Therefore, the most appropriate sampling technique for this study must be selected from the nonprobability category. There are various techniques for selecting samples in the nonprobability sampling category. The most common methods are convenience sampling, purposive (judgement) sampling, referral (snowball) sampling, and quota sampling (Burns and Bush, 2003; Zikmund, 2003)[71].

In selecting the most appropriate sampling techniques, Zikmund (2003) has outlined several factors that need to be considered in order for the sampling to be realistic and manageable. Among the critical factors that need to be given due consideration are cost, time, and also the availability of resources, and cooperation. Therefore, after taking into consideration all the limitations at hand, the researcher has decided to opt for a combination of purposive and convenience sampling methods. In a multi-stage sampling process the researcher first uses a purposive sampling method in order to narrow down the sampled Islamic banks and also the geographical area of the selected sampled branches; subsequently, convenient sampling methods were applied in selecting the individual respondents. The Purposive sampling method is a process where the researcher uses his or her personal judgement based on certain knowledge in deciding who will be part of the sample for the research (Burns and Bush, 2003). In this research, the method was applied during the process of selecting particular Islamic banks and branches as samples. The consideration and judgement in selecting the Islamic banks were based on certain knowledge such as financial figures and demographic information of the banks and branches. Meanwhile, convenience sampling is the easiest way to get the desired sample size, for example when a person

sampling, which only relies on human judgement. There are few sampling methods suggested under the umbrella of probability sampling; these are, among others, simple random sampling, systematic sampling, stratified sampling, cluster sampling and multistage area sampling. For more details see Zikmund (2003) Sekaran (2000), Saunders *et al*. (2007), Burns and Bush (2003).

[71] For details and explanations for each of the sampling techniques, see Zikmund (2003), Sekaran (2000), Saunders *et al*. (2007), Burns and Bush (2003).

is interviewed at random in a shopping mall (Saunders *et al*., 2007). In the research, the samples were selected from walk-in depositors over a particular time frame, and the researcher ended the selection process when the desired sample size is achieved.

Going back to the suggestion made by Zikmund (2003), the following decisions for selecting the sampling methods were made, based on the following limitations and constrains: firstly, the main constrain is the resources factor. It is almost impossible for this research to embark on a nationwide sampling process, since the researcher does not have enough manpower to help with distributing the questionnaire nationwide. Therefore, the researcher has purposively narrowed down the scope of the sample only to Klang Valley area. Klang Valley is the area in Malaysia which comprises the Kuala Lumpur region and its suburbs. This includes, among others, the adjoining cities and towns in the state of Selangor, such as, for example, Shah Alam, Bangi Petaling Jaya, Gombak, and others. In addition, Klang Valley is the most highly populated area in Malaysia since it houses the administration centre for the Malaysian government, is a main hub for most of commercial activities, and also home to most of the universities. Most of the people throughout the country normally migrate to Klang Valley for better employment and business prospects, either with the public or private sectors. As a result, the population of Klang Valley is formed from various socioeconomic, ethnic, and religious backgrounds, which are representative of the population of Malaysia.

Another limitation encountered by the researcher was the unavailability of branches for Islamic banks which were incorporated under the banner of Islamic banking subsidiaries. Since 2004, the Central Bank of Malaysia has encouraged those conventional banks which are offering Islamic banking business under the concept of a bank within a bank (Islamic banking window concept) to convert their existing Islamic banking business into a full-fledged Islamic bank licensed under the Malaysian' Islamic Banking Act of 1983[72]. This means that the business will be

[72] The main purpose of the initiative taken by Bank Negara Malaysia is twofold: it is one of the strategic initiative of Malaysia to become the Islamic banking hub by offering more Islamic banking licenses, under which the new converted Islamic banking entity would automatically be able to enjoy the benefit of offering a wider range of Islamic banking products; this is not allowed when they are under the preview of the Banking and Financial Institution Act. This move will create more competition for the existing Islamic banks with the intention of providing innovative products and services to the customers. Secondly, by legally segregating the Islamic banking business from the

handled by a new entity which has the same corporate structure of a full-fledged bank, even though it is wholly-owned by their parent conventional bank. These entities are henceforth referred to as Islamic banking subsidiaries. However, these Islamic banking subsidiaries are also given some relaxation in terms of their operations. They are allowed to leverage on their existing parent's conventional branches to conduct their business. In other words, the branches that belong to the parent's conventional bank can still service both the customers of the conventional and also the Islamic banks[73]. As a result, there are a few Islamic banking subsidiaries which hold the view that they do not need to have any dedicated full-fledged Islamic banking branches, due to their strategic operational objectives.

Therefore, for this research, although the ideal situation would be to include samples from all Islamic banks licensed under the Islamic Banking Act, the researcher again has purposely omitted certain Islamic banking subsidiaries that do not have any full-fledged branch system at the time of the commencement of the fieldwork. Appendix 5.3 depicts an overview of various categories and list of Islamic banks licensed under the Malaysian Islamic Banking Act; it also indicates which Islamic banks have full-fledge Islamic banking branches.

Finally, due to cost and timing constraints, the researcher has not been able to cover all of the available branches. The researcher has to further trim down the scope of the sample to the maximum of two branches for each selected Islamic bank. It is based on the total deposits size of the bank and also the number of full-fledged Islamic banking branches.

Based on the above limitations, the final sample selection of the Islamic banks and branches was based on the following rationale. Although the selection of the bank and the branches was carried out on the ground of purposive sampling, the researcher at the best possible effort attempted to cover a wide spectrum of the Islamic banking industry's depositors, based on the following criteria:

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conventional counterpart the standard of regulation and supervision by the central bank will be improved. It is easier for the central bank to supervise and regulate the Islamic banking system entirely as they are at level playing field

[73] This is allowed with the condition that the Islamic banking entity enters into a service level agreement with their conventional counterpart, in which the former should pay some service fee to reflect that they are two separate entities.

(i) A total of eight Islamic banks were selected with at least one Islamic bank representing the four categories of full-fledge Islamic Bank. However, none of the Islamic banks from the Islamic subsidiaries of foreign institutions were selected, for to two reasons: firstly, all of the banks were newly incorporated as Islamic banks upon the commencement of the research fieldwork, and secondly the banks were yet to establish a full-fledged Islamic banking branch at that point in time[74]. The final selection of Islamic banks, according to the categories, is as follows:

Table 5.3: Sampled Islamic Banks

	Category	Islamic Bank
a.	**Full-fledge Local Islamic Bank**	• Bank Islam Malaysia Berhad (BIMB • Bank Muamalat Malaysia Berhad (BMMB)
b.	**Full-fledged Foreign Islamic Bank**	• Al Rajhi Banking & Investment Corporation (Malaysia) Berhad (Al Rajhi Bank)
c.	**Islamic Subsidiary Local Institution**	• Affin Islamic Bank Berhad (AffinIslamic) • AmIslamic Bank Berhad (AmIslamic) • EONCAP Islamic Bank Berhad (EONCAP) • Maybank Islamic Berhad (Maybank Islamic) • RHB Islamic Bank Berhad (RHB Islamic)

(ii) For the category of Islamic subsidiaries of local institutions, five banks were selected mainly due to the fact that these banks have dedicated full-fledged Islamic banking branches for their operation. The researcher intentionally selected the banks with dedicated branch in order to facilitate the chances of selecting depositors who have Islamic banking accounts[75].

(iii) The selection of branch locations again was done on the purposive basis. The identification and distribution of the banks' branch location was made arbitrarily according to certain considerations: firstly, it was based on the availability of the branch at respective locations. For example, Affin Islamic Bank only has a branch which is located at Petaling Jaya. Therefore, the Affin Islamic Bank branch was selected to represent the Petaling Jaya area, although there is also a Bank Muamalat branch at the same location. For the rest of the sampled branches, the consideration was to get prospective respondents from various demographic

[74] Refer to Appendix 5.3 for the categories of Islamic banks in Malaysia

[75] As mentioned before, those banks which do not have dedicated Islamic banking branches are leveraging on their conventional banking branches to service both Islamic and conventional banking branches. Therefore, it is quite difficult to identify any of the walk-in depositors who have an Islamic banking account.

profiles, such as ethnicity, age, income level, and employment type, with the objective to get a good mixture of respondents. For this purpose, the researcher utilized population distribution and basic demographic characteristics statistics for the year 2000, issued by the Department of Statistics Malaysia (2001) as a main source. The map in Appendix 5.4 gives a better overview of the geographical area of the Klang Valley. The areas of the sample branch (various Islamic banks) are also indicated in the map. The justification for each of the locations that were selected, based on the reasons discussed above is presented in Appendix 5.5.

As mentioned above, another category of respondents that is included in this research are Islamic banking employees who also hold an Islamic banking deposits account. For this category of respondents, the samples were selected on the convenient basis. The researcher distributed the survey questionnaires form through a representative for each of the respective Islamic banks that are included in the sample. The completed forms were returned back to the representative and were forwarded back to the researcher.

5.7.4 Sample Size and Sample Breakdown

Since this research is based on nonprobability sampling methods, the determination of the sample size process is not as rigorous as it would be with probability sampling methods. According to Burns and Bush (2003: 392), “when using nonprobability sampling, sample size is unrelated to accuracy, so cost-benefit considerations must be used”. Nevertheless, adequate sampling size is still needed in order to get better interpretation of the research outcomes.

Krejie and Morgan (1970) have prepared a table as a general guideline for determining the sample size (taken from Sekaran, 2000). According to them, for a population which has one million elements or greater, a sample size of 384 is sufficient. Meanwhile, Roscoe (1975) suggests that a sample size of larger than 30 and less than 500 are appropriate for most research as a rule of thumb (taken from Sekaran, 2000). Therefore, for the purpose of this research, the researcher has taken the view of Roscoe in deciding the sample size after taking into consideration various limitations such as cost and time.

The researcher has decided to target a minimum of 500 completed questionnaires for the walk-in depositors whilst for the Islamic bank employees group, the target to distribute was only 240 questionnaires (30 questionnaires for each bank) in order to reflect smaller population size for bank employees group. In order to achieve the defined target, the researcher only stopped sampling for each branch when the figure of response reached 50 for each branch[76]. On the other hand, the sample size for the employees group was decided arbitrarily by distributing 30 survey forms for each Islamic bank based on Roscoe's rule of thumb suggestion[77].

The samples were further broken down according to the respective Islamic banks and branches as depicted in Table 5.4 and Table 5.5, which also shows the actual number of questionnaires received from depositors and the bank staff.

Table 5.4: Sample Size for Walk-in Depositors

			Questionnaire	
Category	**Islamic Bank**	**Branch**	**Distributed and Received**	**Completed**
Full Fledged	Bank Islam Malaysia Berhad	Medan Mara	52	50
		Bangi	53	50
	Bank Muamalat Malaysia Berhad	Taman Melawati	51	50
		Jalan TAR	54	50
	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Main Branch	52	50
Islamic Subsidiary	Maybank Islamic Berhad	Shah Alam	53	50
	RHB Islamic Bank Berhad	Jalan Pinang	61	50
	AmIslamic Bank Berhad	Putrajaya	55	50
	EONCAP Islamic Bank Berhad	Main Branch	50	50
	Affin Islamic Bank Berhad	SS2 Branch	50	50
Grand Total			531	500

[76] There are some respondents who did not complete the whole questionnaire. Therefore, the researcher has to replace the respondent with a new respondent. The first layer of checking is entirely based on the completion of the survey form, without looking into the reliability of the answers.

[77] For the bank employees group, no further attempt to increase the sample size due to limitation of meeting all bank employees since the researcher only in contact with a representative for each bank.

Table 5.5: Sample Size for Islamic Banks employees which have Islamic banking deposits account

Category	Islamic Bank	Distributed	Completed
Full Fledge	Bank Islam Malaysia Berhad	30	19
	Bank Muamalat Malaysia Berhad	30	20
	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	30	27
Islamic Subsidiary	Maybank Islamic Berhad	30	19
	RHB Islamic Bank Berhad	30	21
	AmIslamic Bank Berhad	30	23
	EONCAP Islamic Bank Berhad	30	13
	Affin Islamic Bank Berhad	30	30
Grand Total		240	172

5.8 PILOT TESTING

It is highly recommended that the final draft of the questionnaire to be tested on a group of people at the pilot testing stage, before the actual fieldwork is being carried out. This process would be able to help the researcher to improve the questionnaire by identifying and eliminating potential problems (Malhotra and Birks, 2007). In the process of carrying out the pilot testing, there are critical areas that must be given due attention by the researcher, as suggested by Malhotra and Birks (2007) and Saunders *et al.* (2007). The suggested areas of concern are as follows:

- **Duration of answering the questionnaires**. It is recommended that the questionnaire will not take much of the respondents time especially when the researcher targeting people on the street as the respondents.

- **Clarity of the instruction.** The instruction given in the questionnaire should be able to guide the respondents to answer the questionnaire easily.

- **Identify unclear or ambiguous question.** The unclear question should be amended to make it clearer or drop less important questions.

- **Difficult questions:** Based on the feedback received from the pilot test, identify questions that are deemed to be difficult to answer. It is suggest that the questions should be restructured to make them easier to understand or drop them from the questionnaire if they are less important.

- **Any omission of a major topic:** Normally during the pilot-testing stage, any major topic and contents would be able to be detected by the expert group; thus necessary amendment could be done in due course.

- **Clear, attractive, sequence of layout presentation:** It is also important for the researcher to give attention on the layout. The respondents for the pilot testing group would be able to highlight their feeling with regards to the layout and presentation of the questionnaire; thus necessary changes to the layout may be carried out in due course.

Zikmund (2003) suggests that there are two major groups of respondents that are recommended for participation in the pilot-testing questionnaire. The first group is expert professionals, and the other group is a sample from the actual population. The expert professional respondents are the best persons to give feedback on any content, wording, sequence, and layout issues while the sample from the population would be best to give feedback on the duration of answering the survey, difficult questions, clarity of the instruction, and, to a certain extent, also comments on the layout of the questionnaire form.

For this research, the researcher has conducted two rounds of pilot-testing comprising 25 respondents for each pre-test. The response rate was quite satisfactory where in the first pre-test, 21 respondents returned the survey form together with their feedback; for the second pre-test, 19 responses were collected. The sampling process of the pilot-testing was done on a convenience basis, where a mixture of people from different backgrounds was selected from among family, friends, and colleagues. These respondents included, among others, the expert professional groups such as experienced bank officers who have knowledge of Islamic banking to give feedback on the contents, university lecturers to give feedback on the layout, and lastly the major group which is the people who are holding Islamic banking deposits accounts.

The researcher benefited from the first pre-test phase, where there were major issues with regard to the content and also question structure were identified coupled, with some issues concerning the layout of the survey form. All the necessary modifications were carried out with the consultation of the research supervisors. In the second pre-

test phase, the result was encouraging, as fewer adverse comments were received; after the second test survey, some minor modifications were carried out accordingly.

5.9 OPERATIONALISING DATA COLLECTION

The actual data collection processes were carried out over the duration of three months from the middle of January to middle of April 2008. As discussed earlier, this research employs a self-administered survey method in which the prospective respondents were given a survey questionnaire form to be answered individually at their own pace and returned to the researcher once completed. Nevertheless, there are various modes that can be used in collecting the data such as in-house interviews, mall-intercept interviews, online and internet-based surveys, drop-off surveys, mail surveys, and others (Burns and Bush, 2003)[78]. In this research, the researcher only adopted the drop-off survey mode, since it was the most suitable, viable, and economical mode.

5.9.1 Drop-off Survey

As mentioned earlier in this chapter, in this research there are two groups of respondents, namely the depositors of Islamic banks and the employees of Islamic banks who hold an Islamic banking deposits account. Although the mode of data collection was a drop-off survey for both groups, there were slight differences in the process of data collection; these will be explained later in this section.

In drop-off survey mode, "the researcher or the survey representative approaches a prospective respondent, introduces the general purpose of the survey to the prospect, and leaves it with the respondent to fill out on his or her own" (Burns and Bush, 2003: 256). The completed survey form will be return back to the researcher either on the same day or at a later time, according to the preference of the respondents. The walk-in depositors were approached either by the researcher or the research assistant[79]. The

[78] For more discussion of various mode of data collection, see Burns and Bush (2003: 244-257).

[79] There were around ten research assistants recruited by the research to assist in distributing the questionnaires to the prospective respondents. The recruited research assistants were undergraduate students from three local public universities in Malaysia, namely International Islamic University Malaysia, University Kebangsaan Malaysia (National University of Malaysia), and University Teknologi Mara (Mara Technology University). Each of the appointed research assistants was assigned to one branch according to the nearest location; for example, University Kebangsaan Malaysia is located in Bangi therefore, the research assistants from that university were assigned to assist in Bank

prospective respondent was given a brief explanation regarding the general purpose of the survey, and subsequently a copy of the survey form was given to the respondent to be completed. Most of the respondents completed and returned the survey form the same day, either before or after they performed their banking transaction at the counter or automated teller machine.

The respondents were randomly selected from the walk-in customers who visited the sample branch during the period of fieldwork. The prospective customers were approached in a friendly manner by the researcher or the research assistants, and were asked whether they were one of the depositors of the Islamic bank. If the approached customer did not have any deposits account, or they went to the branch on behalf of another person, or had banking products other than deposits accounts, the customer was replaced with another customer who met the selection criteria. Secondly, the prospective respondent was asked about their willingness to participate in the survey. Once the agreement was received from the respondent, a copy of the survey form either in English or Malay language was be given to them, based on their language preference. The respondents were given some time to complete the survey and were not disturbed during the process in order to avoid bias to the response. Nevertheless, the respondents were allowed to ask questions if they need some clarification, especially on certain Arabic terminologies related to Islamic banking. The completed survey forms were then returned to the researcher or research assistants.

In order to avoid sampling bias and respondents from similar background concentrations (*e.g.* the respondents from the same income background), the researcher had outlined a time schedule for the researcher's and research assistants' guidance. The time schedule took into consideration customer transaction patterns such as peak and low periods, and probability profiles of certain depositor group visiting the branch. The data for the preparation of the time schedule was obtain from the respective branch managers, as they are very familiar with their customer turnaround every month. For example, most of the visited branches experienced a high volume of transactions and large numbers of customers at the beginning and end of the month. Therefore, a higher number of samples should be obtained from these

Islam Malaysia Behad at the Bangi branch and at AmIslamic bank at the Putrajaya branch. The approach was to reduce the cost and ease the burden of travel for the research assistants.

periods in order to increase the probability of a getting mixture of respondent profiles. To add another example, most of the small retail business people will perform their banking transactions in the morning, either to deposit the business proceeds from the day before, or to withdraw for current usage. By contrast, housewives will normally go to the bank in the afternoon, after they have done all the necessary housework in the morning. Strict adherence to the time schedule was crucial in order to avoid any potential bias and also to obtain a good mixture of respondent profiles. Therefore, all the depositors who were visiting the branch at various times, days, and weeks had an equal chance of being randomly selected. This indirectly helped to minimize the sampling concentration: if the selection of samples were only done at certain time, day, week, or month respectively. In addition, the respondents were assured that none of their personal details would be taken, and that all responses would be treated as highly confidential in order to increase the respondents' level of confidence to participate in the process. The following table shows the time schedule prepared by the researcher as part of survey data collection guidance.

Table 5.6: Guidance for target number of prospective respondents' breakdown for three months period

Week	Accumulated for three months (number of respondents)
Week one of the month (peak)	15
Week two of the month	10
Week three of the month	10
Week four of the month (peak)	15
Total for three months period per branch	50

Table 5.7: Guidance for number of respondents for daily time period

	Define time
Morning	9.00am to 11.00am
Afternoon	11.00am to 2.00pm
Evening	2.00pm to 4.30pm

As for the employees of the Islamic banks group, the survey forms were given to the representative of the respective sample Islamic bank. The employees of the bank were given one week to complete the questionnaire, and the completed questionnaires were returned to the respective banks' representative, and subsequently collected by the researcher. Ample time was given to the employees to allow them to answer the survey conveniently in their own time. Similarly, the employees were also assured

that none of their personal details would be taken, and that all responses would be treated as highly confidential.

5.9.2 Response

The overall response rate was considered as very encouraging. A total of 771 questionnaires were distributed, of which 649 were completed and usable for the research, yielding usable response rate of 84.2%. The high response rate was mainly attributed to the comprehensive process of instrument development, coupled with an appropriate data collection mode. As discussed before, the survey adopted closed-ended or forced-choice type of questions. As suggested by Vaus (2002), forced-choice type questionnaires give the researcher the advantage of getting a high response rate due to fact that it they easier to understand and less time consuming to complete. This has motivated the respondents to answer the survey to the end. Secondly, the drop-off survey data collection mode has also proven to be the best choice for getting a high response rate, as suggested by Burns and Bush (2003). Based on Sekaran's (2000) suggestion, the response rate and number of respondents were sufficient for statistical analysis; thus there was no attempt to increase the number of respondents.

Tables, 5.8 and 5.9 (at the end of this chapter), provide a summary of the response rate for both categories of respondents, ordinary depositors and employees of Islamic banks. As mentioned before, for the ordinary walk-in depositors' category, the attempt was to obtain a total of five hundred (500) completed questionnaires. Upon completion, each of the questionnaires was reviewed thoroughly by the researcher in order to identify unusable[80] questionnaires which may distort the analysis. The response rates for this category was quite encouraging: 477 out of 500 questionnaires (95.4%) received were complete and usable. The high response rate was mainly due to the fact that the researcher obtained permission from the bankers of most of the

[80] Unusable in this case were identified through checking the pattern of the answer. As suggested by most research methods textbook (see Saunders *et al*., 2007; Vaus, 2002), a few of the questions in the questionnaire form are recommended to be negatively worded in order to know whether the respondents read the question and not merely tick the answer without reading the question. Based on the researcher's review process, most of the unusable questionnaires that had to be excluded showed a high level of ambiguity in the pattern of the answers. In other words, the answers for the negatively worded questions were not consistent with the similar themed questions that were asked in the positively worded questions.

sampled Islamic banks[81] to stay inside the banks' branches during the survey period. With the approval, the researcher received good cooperation from the branch's staff, and the researcher was provided with a convenient space to conduct the survey. This indirectly encouraged the prospective respondents to answer the survey in a very comfortable environment. In addition, the fact that the researcher was granted permission to remain on the premises helped to increase the respondents' level of confidence that the survey was genuine.

As for the employees' category, the response rate was 71.7%. A total of 240 questionnaires were distributed and of which 172 were completed and usable. For this category, all of the questionnaires received were complete and usable. This may have been due to the higher level of familiarity of the research subject matter to the respondents. Nevertheless, the response rate was lower as compared to the previous category, perhaps due to other urgent work commitment. In other words, the remaining distributed questionnaires were not returned to the researcher at collection time.

The adopted survey technique for this research was also inspired by high response rate from the other previous research that related to banking customer behaviour, patronage, perception studies, which were also using a similar technique. For example, Dusuki (2005) yielded 84%, Gerrard and Cunningham (1997) yielded 55%; Metawa and Almossawi (1998) yielded 75%, Naser *et al*. (1999) yielded 69%, and, lastly, Jamal and Naser (2002) yielded 85% response rate. Therefore, the response rate outcome from this research further strengthens the evidence that survey technique using closed-ended self-administered questionnaires is suitable for research into this type of customer behaviour.

5.10 RESEARCH METHOD FOR DATA ANALYSIS: TECHNIQUES OF ANALYSIS

Data analysis is a very important stage in any of primary research study. Appropriate data analysis techniques would facilitate the researcher to get valuable interpretative results which able to lead the researcher to get meaningful conclusion that meet the

[81] With the exception of Maybank Islamic Bank and RHB Islamic Bank which only allowed the researcher to conduct the survey outside the branch premises.

research objectives (Kumar *et al*., 2002). On the other hand, Kumar *et al.* (2002) further mention that any inappropriate or misused data analysis would results in unclear, incomplete, and in the worst case, erroneous, conclusions. Therefore, it is very important for a researcher to pay due attention to the appropriate data analysis process, and subsequently select the most suitable data analysis techniques that meets the research objectives.

Sekaran (2000: 302) suggest that the following essential steps for data analysis: (1) getting the data ready for analysis, (2) getting a feel for the data, (3) testing the quality of data, and finally (4) testing the hypothesis. The presentations of data analysis discussion in this section will be based on the steps suggested by Sekaran.

Step 1 (Getting the data ready for the analysis): for this study, the researcher opted to use SPSS statistical software. The data were coded and keyed-in accordingly into the system. Subsequently, necessary data checking processes such as handling incomplete or missing data and categorising the data (grouping the data) were conducted as specified, for example, by Sekaran (2000), Kumar *et al*. (2002) and Proctor (2005).

Step 2 (Getting a feel for the data): The complete version of data was then tabulated in order to get a preliminary idea of the survey outcome. In this situation, the researcher used frequency distributions analysis, together with mean and standard deviation in order to see the preliminary perceptions of the depositors towards the key variables that were asked in the questionnaires. In additions, cross-tabulation analysis was also utilized.

Step 3 (Quality of the data): Subsequently, data were tested to ensure the reliability and validity. For this research, the researcher used Cronbach's Alpha reliability. The detail of the Cronbach's Alpha discussion and results will be presented in Section 5.11.

Step 4 (Hypotheses testing): After undertaking the previous three steps, the researcher was satisfied with the final set of data, which means that the data was ready for further analysis for the hypotheses testing. For the hypotheses testing, the researcher needed to identify appropriate statistical tests that would turn out results that meet the

research objectives. In this research, the researcher has identified the following statistical tests for the descriptive and empirical analysis:

Descriptive analysis: The purpose of descriptive analysis is to describe the characteristics of the data or, in other words, it is used to summarize, organize and describe the data (Pallant, 2007). In this analysis, frequency distributions were used together with the measurement of mean and standard deviations. The results of the distributions were analysed and described according to the common theme as presented in the descriptive analysis chapter (Chapter 6).

Empirical analysis: In the empirical analysis, various empirical statistical analyses were used, ranging from cross-tabulation to more advance inferential statistics analysis. In determining the appropriate inferential analysis to be used, the researcher needs to identify whether the data is parametric or non-parametric data. In parametric testing, Pallant (2007) has laid down several assumptions that need to be fulfilled in order for data to qualify for using parametric testing statistical tools; these are 1) the level of measurement should be measured at the internal or ratio level that uses a continuous scale rather than discrete categories, 2) the sampling must be based on probability sampling or random sampling 3) the sample/observations must be independent of one another, 4) the data distribution is assumed to be a normal distribution. Meanwhile, non-parametric testing is more lenient, as it does not make assumptions about the underlying populations' distributions; it is therefore also known as distributions-free test (Field, 2005). In this research, the researcher has identified that the data gathered was non-parametric data, since the data was collected using the non-probability sampling technique (non-random sampling). In addition, many of the variables asked for in the questionnaire were based on discrete categories. Therefore, the most appropriate inferential statistical testing is using non-parametric testing. The statistical tools that were used for the empirical analysis are as follows:

In exploring the differences between groups, the following statistical methods were used:

Cross-tabulation: The purpose of cross-tabulation is to see the relationship between the dependent and independent variables. It organizes the data according

to groups, categories, or classes in order to make comparisons between two or more groups within the same categories (Zikmund, 2003). In this research, most of the data that utilizes cross-tabulation analysis were independent variables that were cross-tabulated with demographic profile (control variables) in order to compare the results across the groups within the respective demographic profile.

Non-Parametric statistics - Mann-Whitney U-test: It is a test that is equivalent to the independent t-test for the parametric statistics. It is used to looks for differences between two independent samples from the same populations (Field, 2005). In this research the Mann-Whitney U-test was used to determine whether there was any statistically significant difference in terms of the level of awareness, knowledge, attitudes, and perceptions between two groups within the category. The categories that used this test are 1) Respondent category and 2) Islamic bank type. The testing is also able to indicate which group has better scores (Pallant, 2007).

Non-Parametric statistics – Kruskal Walis test: The function is similar to Mann-Whitney U-test but the only difference its measure the differences of independents samples for three or more groups (Field, 2005; Pallant, 2007). In this research, the Kruskal Walis test was used to determine whether there are any statistically significant differences in terms of the level of awareness, knowledge, attitudes, and perceptions across the various groups within the category. The tests were conducted to determine whether there were significant differences for the 'age group', 'income level', 'education level', and 'relationship durations' categories. Similar to the Mann-Whitney U-test, Kruskal Walis test results are also able to determine which group has a better score.

In exploring relationships, the following statistical methods are utilised:

Factor analysis: Field (2005) defined factor analysis as "a multivariate technique for identifying whether the correlations between a set of observed variables stem from their relationship to one or more latent variables in the data". In other words, it is a data reduction technique that helps to reduce or summarise large sets of variables into smaller and manageable set of factors or component (Pallant, 2007).

One of the main purposes of the technique as mentioned by Pallant (2007) is "to reduce a large number of related variables to a more manageable number, prior to using them in other analyses such as multiple regression or multivariate analysis of variance." In this research, factor analysis was used on two occasions. First, it was used to reduce the set of thirteen related variables of bank patronage into a smaller number of factors that are more meaningful. Second, the analysis was used to determine the smaller common factors from the five items that may influence the depositors to take up profit-sharing deposits account. The details of the analysis are discussed extensively in the respective analysis in Chapters 7 and 8. Subsequently, the results of the factor analysis were used with other analysis methods such as comparing the mean value for each factor, and logistic regression in order to get more meaningful conclusions.

Logistic regression analysis: It is a branch of multiple regression models, and the only different is the dependent variable is dichotomous (Field, 2005). In other words, the dependent variable that is used in logistic regression should be categorical, *i.e.* 'yes/no', or 'pass/fail', instead of continuous data (Pallant, 2007). In addition, logistic regression also allows the independent variables to be taken from the categorical data, continuous data or combination of both (Pallant, 2007). The purpose of logistic regression is to predict the significant independent variables that may predict the outcome of the categorical dependent variable. In this research, logistic regression was used in two situations. First, it was used to identify significant independent variables that constitute strong predictors to the level of knowledge that the depositors' possess regarding underlying *Shari'ah*-compliant contracts, and second, it was used to identify significant determinants that predict the depositors to demand profit-sharing deposits account. The details of analysis including pre-requisite testing in carrying out the analysis are discussed extensively in Chapters 7 and 8.

5.11 DATA QUALITY AND RELIABILITY

It is highly recommended that prior to the actual data collection process, the researcher ensures that the content and measurement of the variables in the questionnaires are reliable and valid (Vaus, 2002). Validity and reliability of data for any particular research are crucial for avoiding errors which could lead to a

misrepresentation of the concepts or theory that the researcher has laid down earlier. As a result, the research would be of little use (Vaus, 2002). Therefore, the pilot testing process which has been discussed earlier could be the best tool to minimize or overcome any problems with regard to validity and reliability issues.

"Reliability refers to the consistency in reaching the same results when the measurement is made over and over again" (Proctor, 2005: 208). In other words, the researcher would be able to have a high level of confidence that the results are reliable if the same questions were answered similarly (provided that there is no change of views or facts) by the same person at different times. This, in turn, means that the questions were properly designed and could easily be understood, which would lead to obtaining the same answer. Vaus (2002: 53), has suggested various ways of improving the reliability of any survey, such as careful wording of the question, and proper interviewer (research assistant) training. In addition, Vaus also suggests that it is sensible to avoid asking questions that the respondents are unlikely to have an opinion or knowledge of, or, in other words, questions which they are likely to avoid answering.

Validity refers to "the degree to which the question measures what it is supposed to be measuring" (Proctor, 2005: 208). This means that the measurement used in the survey must be appropriate and tally to the concept that the research intends to measure. The example given by Vaus (2002) to illustrate the validity concept is that, when a researcher wants to measure social status, is it appropriate to use education level as a measurement variable. As mentioned by Vaus (2002), there are three basic ways in which to access validity, namely content validity, construct validity, and, lastly, criterion validity[82].

As has already been discussed above, the researcher paid close attention to fulfilling the validity criteria by ensuring 1) careful design of the research questionnaires, including obtaining expert feedback; and 2) ensuring the reliability of the data by drawing on comments and feedback gathered during the pilot phase**.** In addition, the researcher provided training to all research assistants who were involved in the project; this aspect will be discussed in some detail below.

[82] For details and discussions for each validity assessment, see Vaus (2002: 53-54).

5.11.1 Fieldwork Training and Briefing

Since this research relied on the assistance of a few research assistants (enumerators) to handle the distribution and collection of the survey questionnaires, these individuals had to be given sufficient training and briefing to ensure they met the required standards while carrying out their tasks. The competency of research assistants is one of the critical success factors for the data collection process, since it will affect the accuracy and reliability of data gathered during the fieldwork (Vaus, 2002). Therefore, to fulfil the competency gaps, attendance at a one-day mandatory training workshop with two sessions was required of all research assistants.

The first training session primarily covered the topic of basic principles of Islamic banking and finance, with an emphasis on the features of profit-sharing deposits account products. The objective of the first session was to equip the research assistant with background knowledge regarding the research topic. The second training session dealt with the content of the questionnaires, the ethics of distributing the questionnaires, the rules and regulations as specified by the respective sampled banks, and, lastly, administrative matters such as recording and indexing the completed questionnaires. In addition to the training session, the researcher also conducted regular meetings with the research assistants upon completion of each day of the fieldwork to identify weaknesses and implement appropriate remedial action strategies. The meetings also gave the researcher valuable insights and preliminary ideas of types of data that were gathered. Based on the researcher's experience, the training and regular meetings between the researcher and research assistants also contributed to the high response rate and to the overall high quality of the data gathered.

5.11.2 Cronbach's Alpha Test

A commonly used tool to measure the internal consistency reliability is Cronbach's Alpha coefficient, which refers to the "degree to which the items that make up the scale 'hang together'" (Pallant, 2007: 95). The test is carried out to determine the consistency of a respondent's answer for one item compared to other scaled items (Vaus, 2002). In other words, it measures the inter-item correlations within one scale, which provides the overall reliability of the scale. The result of Cronbach's Alpha

result ranges from zero to one. The higher the score of the test, the more reliable is the scale (Pallant, 2007; Vaus, 2002). As a rule of thumb, Vaus and Pallant further suggest that the outcome of the test should be at least 0.7 in order to consider the scale to be reliable (the scale has good internal consistency).

In view of the fact that some of the questions also adopted Likert and Itemized type scales, it was essential and appropriate to test the questionnaires' scale reliability using the Cronbach's Alpha coefficient indicators. The Cronbach Alpha coefficient indicator for all respondent groups in this study was 0.81 after considering 39 items that used the scale (see Table 5.11 below). The value of 0.81 is above the recommended 0.7, signifying that the scale has a good level of internal consistency. Therefore, it would be acceptable to say that the scale used in this research sample was reliable.

Table 5.10: Reliability Statistics (Cronbach's Alpha Coefficient)

Cronbach's Alpha	N of items
0.810	39

5.12 LIMITATIONS AND DIFFICULTIES

As discussed earlier in this chapter, the researcher encountered various challenges and difficulties in the fieldwork process, from identification of samples to the actual data collection process. The following Table 5.11 summarises the main limitations and difficulties faced by the researcher at every stage of the data collection process.

Despite of numerous major and minor challenges and difficulties faced, the researcher would consider that the data collection process was a success. The researcher was able to overcome all the limitation and difficulties either through changes of strategies or with the assistance of colleagues.

Table 5.11: Summary of Researcher's Limitations and Difficulties

Stage/ Process	Limitation and Difficulties
Population Identification	Unable to access to the full listing of depositors due to legal restrictions. Therefore, the researcher was unable to use probability sampling methods which are claimed to be superior to non-probability sampling.
Sampling Process	Cost – The researcher used own funding for the data collection. Therefore, the budgetary restrictions hindered the researcher from reaching a larger number of respondents throughout the country. The researcher had to narrow down the sampling scope to only the Klang Valley area. Time – The researcher had very limited time to complete the fieldwork. Most of the researcher's time was occupied with getting the approval from the sampled Islamic banks, which was time consuming. Cooperation- The researcher also faced some difficulties in getting cooperation from some of the Islamic banks. For example, Maybank Islamic Bank and RHB Islamic Bank did not allow the researcher to conduct the survey inside the banks' branch premises. This slowed down the data collection process, since it was quite difficult to get responses from outside the premises.
Employing Research Assistants	Initially, the researcher intended to employ full-time research assistant, who would have been easier to monitor. However, based on the limited budget and timing issue, the researcher had to resolve this issue by using part-time research assistants; as a result, the researcher had to re-strategise the monitoring mechanisms for better control and reliable data collection.
Actual Data Collection	Some of the approached respondents were very sceptical to answer the questionnaires because they were afraid of fraud. It is normal in Malaysia to have this attitude towards any survey.

5.13 SUMMARY AND CONCLUSION

This chapter comprehensively discussed the research framework and methodology used in this study. The chapter began with a discussion of the hypothesis development revolving around the various behavioural, opinion and perceptions of depositors towards profit-sharing deposits account. Subsequently, the chapter discussed the research design and the research strategy. This research is based on quantitative

methods; primary data gathered by means of survey questionnaires was utilised as a research method. The chapter further discussed various matters and issues related to the research methods and fieldwork, including among others the population and sampling identification, questionnaire instrument development, data collection mode, data analysis techniques, and finally data quality and reliability. In conclusion, the data collection process was considered as successful based on the identified research design and research planning, although some changes were made in light of the limitations and difficulties faced throughout the data collection process.

Table 5.8: Response rate for Ordinary Depositors Category

Islamic Bank			Questionnaire						
Category	**Bank**	**Branch**	**Distributed and Received**	**Completed**	**%**	**Rejected**	**%**	**Reliable and Usable**	**% of Completed**
Full-Fledged	Bank Islam Malaysia Berhad	Medan Mara	52	50	96.2%	2	3.8%	46	92.0%
		Bangi	53	50	94.3%	3	5.7%	46	92.0%
	Bank Muamalat Malaysia Berhad	Taman Melawati	51	50	98.0%	1	2.0%	48	96.0%
		Jalan TAR	54	50	92.6%	4	7.4%	47	94.0%
	Al Rajhi Bank Berhad	Main Branch	52	50	96.2%	2	3.8%	50	100.0%
Islamic Subsidiary	Maybank Islamic Berhad	Shah Alam	53	50	94.3%	3	5.7%	50	100.0%
	RHB Islamic Bank Berhad	Jalan Pinang	61	50	82.0%	11	18.0%	50	100.0%
	AmIslamic Bank Berhad	Putrajaya	55	50	90.9%	5	9.1%	48	96.0%
	EONCAP Islamic Bank Berhad	Main Branch	50	50	100.0%	0	0.0%	44	88.0%
	Affin Islamic Bank Berhad	SS2 Branch	50	50	100.0%	0	0.0%	48	96.0%
Grand Total			**531**	**500**	**94.2%**	**31**	**5.8%**	**477**	**95.4%**

Table 5.9: Response rate for Islamic bank Employees Category

Category	Bank	Distributed	Received and Usable	Response Rate (%)
Full-Fledged	Bank Islam Malaysia Berhad	30	19	63.3%
	Bank Muamalat Malaysia Berhad	30	20	66.7%
	Al Rajhi Bank Berhad	30	27	90.0%
Islamic Subsidiary	Maybank Islamic Berhad	30	19	63.3%
	RHB Islamic Bank Berhad	30	21	70.0%
	AmIslamic Bank Berhad	30	23	76.7%
	EONCAP Islamic Bank Berhad	30	13	43.3%
	Affin Islamic Bank Berhad	30	30	100%
Grand Total		**240**	**172**	**71.7%**

Chapter 6

Searching for the Nature and Characteristics of Islamic Deposit Accounts and Depositors: Perception Analysis of the Account Holders

6.1 INTRODUCTION

From this chapter onwards, this study will describe and analyse the research findings based on the data gathered during the fieldwork process, as defined in the research methodology chapter. This chapter will provide an introductory analysis which will give the reader some insight into the data and overall characteristic of the respondents' profiles. The data was analysed by utilizing SPSS software, which is frequently used by social science researchers who adopt questionnaire-surveys as tools for the data collection process. According to Kumar *et al*. (2002: 362), "descriptive analysis is utilising descriptive statistics which are normally associated with a frequency distribution that helps summarize the information presented in the frequency table". In the typical frequency distribution, the basic statistics tools such as mean, median, and mode for measuring central tendency are used, while standard deviation is used for measuring range of dispersion (Kumar *et al*., 2002).

The structure of presentation in this chapter closely follows the flow of presentation in the questionnaires. The presentation of the descriptive data consists of five parts with thirteen subsections. It begins with part 1 on respondents' profile (section 6.2: summary of sample profiles; 6.3: respondents' background variables; 6.4: background of respondents' banking relationship), followed by part 2 on respondents' knowledge on the underlying principles of Islamic banking deposits (6.5: respondents' knowledge and awareness on the concept of *riba'*; 6.6: respondents' knowledge on the underlying S*hari'ah* principles governing the deposit account; 6.7: banking patronage factors for Islamic banks depositors), part 3 on opinion, perceptions and reaction towards characteristics of profit-sharing deposits account (6.8: opinion on general features of profit-sharing deposits account; 6.9: behaviour and perception of board rate; 6.10: perception and opinion on the concept of profit-equalisation reserve (PER); 6.11: reaction of depositors towards various scenarios of lower return; 6.12: risk and deposits guarantee for profit-sharing deposits account; 6.13: financial

disclosure to the depositors), and finally part 4, which covers section 6.14: on experience and opinion of respondents towards Islamic banking customer service.

6.2 SUMMARY OF SAMPLE PROFILE

This section gives a snapshot overview of various categories of the respondents from the survey outcome. As mentioned in chapter 5, a total of 649 out of 771 questionnaires were deemed usable and fit for analysis. Table 6.1 shows the statistics of the samples profiles based on type of respondent, category of Islamic bank, and lastly according to name of the bank. For the type of respondent profile, out of 649 respondents, 477 or 73.5% were from the category of ordinary depositor, and the remaining were the employees of the Islamic banks who hold at least one Islamic banking deposit account. The substantial difference between the numbers of respondents from the ordinary deposits category and from the employee category is intentional, as it reflects the reality of the larger ratio of ordinary depositors vs bank employees among the general population**.**

Secondly, the distribution of the respondents based on category was roughly equal, with 346 respondents or 53.3% from Islamic banks incorporated under the flagship of Islamic subsidiaries, and 303 respondents or 46.7% from the full-fledged stand-alone Islamic banks. The strategy of targeting roughly equal numbers of respondents was intentional in order to produce comparable results. Nevertheless, the slight differences were due to a higher number of respondents from the employees of Islamic banking subsidiaries.

Lastly, as for the number of respondents based on the name of the bank, Bank Muamalat Malaysia Berhad had the highest number of respondents, which accounted for 115 respondents or 17.7%; this was followed by Bank Islam Malaysia Berhad with 111 respondents or 17.1% of the total number of respondents. Again, the selection of a higher number of respondents from these two Islamic banks was intentional, in order to reflect these two Islamic banks are the oldest, and also that they have the largest number of branches in Malaysia; this indicates that they should have higher market shares in terms of the number of deposits accounts. Therefore, they should be represented by a higher number of respondents in this study.

Table 6.1: Summary of sample profile

Respondent				
	Frequency	Percent		
Employee	172	26.5		
Ordinary	477	73.5		
Total	649	100.0		
Islamic Bank Type				
	Frequency	Percent		
Islamic subsidiaries	346	53.3		
Stand-alone	303	46.7		
Total	649	100.0		
Islamic Bank				
	Frequency	Percent		
Affin Islamic Bank Berhad	78	12.0		
Al Rajhi Bank Berhad	77	11.9		
AmIslamic Bank Berhad	71	10.9		
Bank Islam Malaysia Berhad	111	17.1		
Bank Muamalat Malaysia Berhad	115	17.7		
EONCAP Islamic Bank Berhad	57	8.8		
Maybank Islamic Berhad	69	10.6		
RHB Islamic Bank Berhad	71	10.9		
Total	649	100.0		

6.3 RESPONDENTS' BACKGROUND VARIABLES

This section will briefly describe and analyse categorical background information from the samples, such as gender, age marital status, ethnicity, religion, education level, monthly income and lastly occupation, as these will provide some insight into the characteristics and nature of the respondents. The descriptive analysis in this section will be using 'percentages' as the tool to describe the data. A summary of the background information of the respondents is depicted in Table 6.2.

The first background category that will be described is the respondents' gender. From the samples, 54.6% of the respondents were male while 45.4% were female. The results from the samples therefore roughly mirror the Malaysian national population statistics. The report from the Department of Statistics, Malaysia showed that in year 2009, 51.0% of the total population of Malaysia were male and 49.0% were female (Department of Statistics, Malaysia, 2009). The sample results were also in line with the statistics for the state of Selangor and for Wilayah Persekutuan Kuala Lumpur, which make up a major part of the Klang Valley region which was where the samples derived from. The average gender statistics for these two states for the year 2009 was 50.9% and 49.1% for male and female respectively.

Secondly, in terms of age, the samples mainly came from the youth[83] category with 78.4% of the respondents being age 40 and below. The main bulk of the respondents (42.1%) were from the range of 21-30 years old, followed by the age group of 31-40 (31.4%), and the age group of 41-50 years (16.5%). The two remaining age groups were consider insignificant because they constituted only 4.9% and 5.1% for the age groups of '20 and below' and 'above 50' respectively. The figures for this survey indicate that the majority of Islamic banking customers were from the youth category, which may be explained by the fact that they are active working groups, which gain income either as salary earners or by running a business, and therefore need avenues for safekeeping their money.

The next category of the background variables is marital status. From the survey result, out of 638 respondents who answered this question, 58.2% claimed to be married, while 41.8% were single. Based on these survey results, the findings may suggest that the majority of the married respondents actively deal with banking systems. This may be explained by the fact that married persons have more banking needs, such as financing facilities, than single persons.

The next two categories (i.e. ethnicity and religion) may be described simultaneously, since, in Malaysia, the two categories have a very strong relationship with each other. For example, Article 160 of the Federal Constitution of Malaysia has defined Malay as "a person who professes the religion of Islam …", whereas the majority of the Chinese ethnic group in Malaysia embrace Buddhism as their religion. Based on the survey results, Malay ethnic and Muslim faith were forming a big portion of the respondents which constitutes 90.1% and 92.9% respectively. This is followed by the insignificant numbers of 4.2%, 2.5%, and 3.3% from Chinese, Indian, and others ethnic groups, respectively. Meanwhile for the religion category, the highest numbers of respondents next to the Muslim group were Buddhist, followed by Hindu and Christian. The results from the survey may suggest that Islamic banks are still being dominated by the Muslim and Malay customers due to religious belief. Nevertheless, the existence of customers from other ethnic and religious backgrounds may suggest

[83] Youth in Malaysia is defined as "a person not less than fifteen years and not more than forty years old".

that there are some aspects besides religious factors that attract them to bank with Islamic banks.

In term of their level of education, 76.4% of the respondents have a minimum qualification of a college diploma or elementary university level. Out of the total 647 respondents who were willing to reveal their educational background, 34.3% had at least a bachelor degree, 29.2% had at least a college diploma or were still in pre-university education, and 8.7% had a postgraduate degree; 4.2% had a professional qualification. Nevertheless, it is worthwhile to note that quite a substantial percentage of 23.3% of the respondents only have primary or secondary school as the highest level of education.

The final two respondents (monthly income and occupation) can be described simultaneously, as they are deemed to have a significant relationship with each other. The majority of the respondents (44.5 %) are earning in the range of RM1,000 to RM3,000 followed by those earning in the range of RM3,001 to RM5,000 which constitute 24.4%. The outcome for this survey was in line with the national per capita income which stood around RM2,000 per month[84]. With regard to occupation, 42.6% of the respondents were from the manager or executive category, followed by students with 12.0%, professional (11.4%), merchant/business (8.4%), academics/teachers (6.1%). The group of manager/executive, professional, merchant/business and academics/teachers is considered as medium income earner earning from the range of RM1, 000 to RM5,000. The total percentage made up by this group was 68.4% which was close to the percentage of 68.9% coming from the group earning between RM1,000 to RM5,000.

In short, the following group represents the majority of the respondents: they were male, aged between 21-30, married, of Malay ethnicity, Muslim, holding bachelor degrees as the highest level of education, earning in the range of RM1,001 to RM3,000, and finally being employed as managers or holding an executive post.

[84] In year 2007, Malaysian per capita income was RM23,140 (USD7,231). See Malaysian International Islamic Financial Centre website at http://www.mifc.com/index.php?ch=con_mas&pg=con_mas_overview&tpt=mifc_2008 (2007). Accessed date: 23 October 2009.

Table 6.2: Respondents background variables

Gender						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Male	353	54.4	54.6	1.45	0.498
	Female	294	45.3	45.4		
	Total	647	99.7	100.0		
Missing	No Response	2	0.3			
Total		649	100.0			
Age						
		Frequency	Percent	Mean Value	Standard Deviation	
Valid	20 and below	32	4.9	2.75	0.961	
	21 – 30	273	42.1			
	31 – 40	204	31.4			
	41 – 50	107	16.5			
	Above 50	33	5.1			
	Total	649	100.0			
Marital Status						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Single	267	41.1	41.8	1.58	0.494
	Married	371	57.2	58.2		
	Total	638	98.3	100.0		
Missing	No Response	11	1.7			
Total		649	100.0			
Ethnicity						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Malay	580	89.4	90.1	1.19	0.632
	Chinese	27	4.2	4.2		
	Indian	16	2.5	2.5		
	Others	21	3.2	3.3		
	Total	644	99.2	100.0		
Missing	No Response	5	0.8			
Total		649	100.0			
Religion						
		Frequency	Percent	Mean Value	Standard Deviation	
Valid	Muslim	603	92.9	1.15	0.598	
	Christian	11	1.7			
	Buddhist	20	3.1			
	Hindu	12	1.8			
	Others	3	0.5			
	Total	649	100.0			

Highest Education Level						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Primary/Secondary School	151	23.3	23.3	2.47	1.165
	College Diploma/Matriculation/A-Level	189	29.1	29.2		
	Bachelor (First Degree)	222	34.2	34.3		
	Professional Qualification	27	4.2	4.2		
	Postgraduate (Master or PhD)	56	8.6	8.7		
	Others	2	0.3	0.3		
	Total	647	99.7	100.0		
Missing	No Response	2	0.3			
Total		649	100.0			
Monthly Income						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	RM 1,000 and below	85	13.1	13.4	2.51	1.037
	RM 1,001 - RM 3,000	281	43.3	44.5		
	RM 3,001 - RM 5,000	154	23.7	24.4		
	RM 5,001 - RM 10,000	85	13.1	13.4		
	RM 10,001 - RM 20,000	24	3.7	3.8		
	More than RM 20,000	3	0.5	0.5		
	Total	632	97.4	100.0		
Missing	No Response	17	2.6			
Total		649	100.0			
Occupation						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Manager/Executive	274	42.2	42.6	3.99	3.727
	Professional (lawyer, engineer, accountant, doctor etc.)	73	11.2	11.4		
	Academicians/ Education	39	6.0	6.1		
	Housewife	8	1.2	1.2		
	Student	77	11.9	12.0		
	Merchants/Businessman	54	8.3	8.4		
	Unemployed	5	0.8	0.8		
	Retired	9	1.4	1.4		
	Government Servant	12	1.8	1.9		
	Clerical	35	5.4	5.4		
	General Workers (Driver, Technician, Security Guard)	22	3.4	3.4		
	Others	35	5.4	5.4		
	Total	643	99.1	100.0		
Missing	No Response	6	0.9			
Total		649	100.0			

6.4 BACKGROUND OF RESPONDENTS' BANKING RELATIONSHIP

In this section, the respondents' profiles were further analysed based on their banking relationship with the Islamic banking system. The objective for this section was to further understand the duration of the respondents' banking experience, products they used and also what type of deposits account they were holding during the survey period. It is important to have this information before analysing further the respondents' knowledge of other aspects of Islamic banking deposits concepts. The full outcomes from this part are depicted in Table 6.3.

Firstly, the majority of the respondents (78.8%) have been dealing with their present Islamic bank for more than one year, and 30.2% have been with their bank for more than five years. This may indicate that they are quite comfortable or satisfied with their existing Islamic banks, either in terms of services or products. With regard to the banking facilities, the majority of the respondents were still using a normal core banking product offered by any banking institution. At the top of the list were savings accounts with 41.1%, followed by current accounts (17.6%), vehicle financing (10.3%), credit card/charge card (9.5%), home financing (9.5%), and personal financing (6.8%). The other banking products or facilities such as education financing, specific and general investment account were deemed not popular among the respondents, with each group only recording 0.7%, 0.5% and 3.0% respectively.

Since the majority of the respondents had at least one account with Islamic banks, another aspect that is worthwhile to be analysed is the type of deposit account that the respondents were holding. Since all of the deposits accounts by Islamic banks are tied to specific underlying *Shari'ah* principles, *Shari'ah* contract terminology such as *wadiah*, *mudarabah* and *qard* will often appear in the marketing brochures and other documents. It was expected that the respondents should be able to identify the type and name of the account that they were holding. Based on the survey outcome, the majority of the respondents knew what type and name of account they were holding. As can be seen from Table 6.3, the top three types of account were *wadiah* savings account with 450 respondent, followed by *mudarabah* savings account (143 respondents), and *wadiah* current account (103 respondents). Nevertheless, the researcher also noted other important finding from this variable: there were 94 respondents or 14.5% (out of total 649 respondents) who answered that they were

unsure of the type of the account that they were holding. These findings may suggest that the respondents may not understand the underlying principles that govern Islamic banking deposits account and that are paramount to differentiating Islamic banking from conventional banking.

Moving on to the next variable, the relevant survey question was intended to provide information regarding the respondents' level of loyalty towards their existing banks. Based on the results, 89.2% of the respondents also held other accounts with either any of conventional banks, other Islamic banks, or both. This indicates that they are not loyal to only one particular Islamic bank, perhaps due to diversifying their concentration risk to various banks in the banking system. Another interesting outcome of the survey was that there was a small numbers of respondents who totally loyal to the Islamic banking institution. Out of 647 respondents who were willing to answer this question, only 170 or 26.3% stated that they only have an account with their existing Islamic bank or with another Islamic bank. This finding was in contrary to the finding in the previous section on the religious background of the respondents. Based on the numbers of respondents, 603 or 92.9% were Muslim, whereas with regard to this variable, the number was significantly less than half of the Muslim respondents.

To sum up, based on the survey, the majority of the respondents were having quite a number of years' worth of banking experienced with Islamic banks. Nevertheless, it is worthwhile to note that there were still some gaps in terms of awareness when it came to depositors' attempts at identifying what type of deposits account that they held, since knowing and understanding the underlying concept of their deposits account is vital for them to differentiate the nature of their deposits account. This is substantiated by the result that 14.5% of the respondents were not sure of the type and contract of their deposits account.

Table 6.3: Background of respondents' banking relationship

Duration of Banking Relationship with the Present Islamic Bank						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Less than 1 year	136	21.0	21.2	2.56	1.130
	1 - 3 years	203	31.3	31.6		
	3 – 5 years	109	16.8	17.0		
	More than 5 years	194	29.9	30.2		
	Total	642	98.9	100.0		
Missing	No Response	7	1.1			
Total		649	100.0			

Respondents' Existing Banking Facilities with the Islamic Banks					
	Frequency	Percent			
Current Account	219	17.6			
Saving Account	512	41.1			
General Investment Account	37	3.0			
Specific Investment Account	6	0.5			
Home Financing	118	9.5			
Vehicle Financing	129	10.3			
Education Financing	9	0.7			
Personal Financing	85	6.8			
Credit Card/ Charge Card	119	9.5			
Others	13	1.0			
Total	1,247	100.0			

What are the types of deposit accounts that you have in Islamic bank?					
	Frequency	Percent			
Wadiah Saving Account	450	50.1			
Mudarabah Saving Account	143	15.9			
Qard Saving Account	13	1.4			
Wadiah Current Account	103	11.5			
Mudarabah Current Account	56	6.2			
Qard Current Account	6	0.7			
Mudarabah General Investment	34	3.8			
Not sure of the type of account	94	10.5			
Total	899	100.0			

Account Holder with other Banks					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Conventional banks	227	35.0	2.25	1.053
	Other Islamic Banks	100	15.4		
	Both conventional banks and other Islamic banks	250	38.5		
	This Islamic bank only	70	10.8		
	Total	647	99.7		
Missing	No Response	2	0.3		
Total		649	100.0		

6.5 RESPONDENTS' KNOWLEDGE AND AWARENESS ON THE CONCEPT OF *RIBA'*

This section continues the discussion by providing an analysis of the findings regarding the respondents' awareness and knowledge of the concept of *riba'*, which is the main factor that differentiates conventional deposits accounts from Islamic banking deposits accounts. Table 6.4 provides a summary of the results.

The first question asked in this section of the survey was related to the level of familiarity on the *riba'* terminology. Based on the results, a substantial portion of the respondents (41.1% and 44.4% respectively) answered that they were 'very familiar' or 'familiar' with the terminology. This result can be further substantiated with a mean-value of 1.83, which is close to the second category for the answer (i.e. 'familiar'). This result indicates that the *riba'* terminology was quite familiar to the majority of Islamic banks' customers. This may be a of the effective creation of awareness via marketing brochures provided by the Islamic banks themselves, and also via promotional media campaigns carried out by other government agencies such as BNM, and SCM. However, around 14.4% (in aggregate) of the respondents either answered 'not sure', 'not familiar', or 'not familiar at all with the terminology'. Those respondents who provided the last three answers were asked to proceed to the following section, while the respondents who answered that they have some level of familiarity were asked to proceed to question 13 (a), (b) and (c).

The objective of question 13 (a), (b) and (c) was to further assess the level of understanding or knowledge of the respondents concerning the basic meaning of *riba'*. In question 13(a), the respondents were presented with a statement that a bank's 'interest' is not *riba'*. Out of 553 respondents who qualified to answer this question, 42.5% and 34.4% (respectively) stated that they 'strongly disagreed' and 'disagreed' with the statement. On the other hand, a total of 23.2% of the respondents indicated that either they did not know, agreed or strongly agreed, or refused to provide an opinion regarding the statement.

As for question 13(b), the respondents were further asked to provide an opinion on the statement whether the interest on a deposit paid by conventional banks is the same as the profit paid by Islamic banks. Compared with the previous question, the results

showed that a lower number of the respondents managed to provide a correct answer that should be in line with the *Shari'ah* prohibition of conventional banks' interest, which is a concept that is totally different from that of profit paid by Islamic banks. Only 29.1% and 38.0% of the respondents gave the opinion that they 'strongly disagree' and 'disagree' with the statement, while 16.1% stated that they 'do not know', followed by 'agree' (15.0%), 'strongly agree' (0.9%), and 0.9% who did not give an opinion. This indicates that the some of the respondents who managed to identify that 'interest' is *riba'* on the general terms were bit confused when attempting to relate the concept of *riba'* to more specific products, and in this case to the difference between return paid by conventional banks and Islamic banks.

The final question in this section (question 13(c)) was intended to further strengthen the assessment of the level of understanding of *riba'*. The respondents were asked to give an opinion on whether it is a sinful act to take or consume interest paid by the conventional bank. The result was quite similar to that of question 13(b), which showed signs of a lower level of knowledge concerning the concept of *riba'*. Only around 25.1% and 39.2% (a total of 64.3%) answered that they 'strongly agree' and 'agree', respectively, with the statement. Meanwhile, 17.0% answered that they 'do not know', 11.8% answered that they 'disagree', and 5.6% answered that they 'strongly disagree' with the statement.

Based on the results from questions 12 and 13, the researcher arrived at the conclusion that the majority of the respondents, most of whom were Muslim, were familiar with the *riba'* terminology. This may be due to the effectiveness of campaigns and awareness programmes created by those who are directly and indirectly involved in promoting Islamic banking as an alternative channel for all customers, but especially for Muslims, based on the system's use of *Shari'ah* doctrine. Nevertheless, the results of subsequent questions, which intended to gauge the level of understanding of the respondents, showed that some of the respondents are aware of the terminology, but are still unable to locate the existence of *riba'* with regard to the deposits instruments by conventional banks. In other words, they have theoretical knowledge about the concept of *riba'*, but they are unable to apply this knowledge in practical terms when it comes to specific products. This can be substantiated by the results from question 13 (a) (b) and (c), as shown in Table 6.4.

Table 6.4: Respondents' knowledge and awareness on the concept of *riba'*

Question 12: Are you familiar with the term *riba'*?						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Very familiar	266	41.0	41.1	1.83	0.947
	Familiar	287	44.2	44.4		
	Not sure	50	7.7	7.7		
	Not familiar	23	3.5	3.6		
	Not familiar at all	21	3.2	3.2		
	Total	647	99.7	100.0		
Missing	No Response	2	0.3			
Total		649	100.0			
Question 13(a): Bank's 'interest' is not *Riba'*						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	235	36.2	42.5	2.02	1.182
	Disagree	190	29.3	34.4		
	Do Not Know	25	3.9	4.5		
	Agree	80	12.3	14.5		
	Strongly Agree	21	3.2	3.8		
	No Opinion	2	0.3	0.4		
	Total	553	85.2	100.0		
Question 13(b): 'Interest' on deposit paid by conventional banks is the same as profit on deposits paid by Islamic banks.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	161	24.8	29.1	2.20	1.052
	Disagree	210	32.4	38.0		
	Do Not Know	89	13.7	16.1		
	Agree	83	12.8	15.0		
	Strongly Agree	5	0.8	0.9		
	No Opinion	5	0.8	0.9		
	Total	553	85.2	100.0		
Question 13(c): It is sinful to take conventional bank deposit 'interest'.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	31	4.8	5.6	3.67	1.145
	Disagree	65	10.0	11.8		
	Do Not Know	94	14.5	17.0		
	Agree	217	33.4	39.2		
	Strongly Agree	139	21.4	25.1		
	No Opinion	7	1.1	1.3		
	Total	553	85.2	100.0		

6.6 RESPONDENTS' KNOWLEDGE ON THE UNDERLYING *SHARI'AH* PRINCIPLES GOVERNING THE DEPOSIT ACCOUNT

As mentioned in previous chapters (Chapters 3 and 5), it is critical for each of the depositor to understand the underlying *Shari'ah* principles governing their deposits account. This is because that each of the underlying contracts carries different levels of risk and return.

The lead question for this section was question 16, and subsequent to answering this question, the respondents need to answer either question 17 or 18 based on the answer in question 16. Question 16 required the respondents to provide information on whether they understand the underlying principles governing their deposit account. Based on the survey results (Table 6.5), only slightly above half of the respondents, or 52.4%, declared that they know the underlying principles governing their deposits account. The result signifies that the level of understanding among the depositors regarding the nature of their deposits account is still deemed low. The results should trigger some concern from the various parties that are directly involved in the Islamic banking industry, such as the regulators, industry players and also institutions that promote Islamic finance.

Those who indicated that they understand the underlying *Shari'ah* principles that govern their deposits accounts were required to give further information on the channels through which they acquired the knowledge. In this question, they were allowed to select more than one of the provided options. The top three were knowledge gathered by reading, with 36.3%, followed by 'education' (university or college) with 24.4%, and, lastly, through explanation by the bank staff during the opening of the account (21.6%). Only 11.8% and 5.9%, respectively, selected 'explanation from friends and family' and 'others'[85] as the channels through which they acquired their knowledge. Based on the results, it seems that formal media of information dissemination such as written materials, education, and explanation from the authorised personnel were popular and perhaps were more effective than informal channels such as friends and family members.

[85] Those who selected 'others' in this question indicated that they had acquired their knowledge by attending religious talks given in the mosques.

Table 6.5: Respondents' knowledge on the underlying *Shari'ah* principles governing the deposit account

Question 16: Do you know what are the underlying *Shari'ah* principle/ contract of your deposits account?						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	No	307	47.3	47.6	0.52	0.500
	Yes	338	52.1	52.4		
	Total	645	99.4	100.0		
Missing	No Response	4	0.6			
Total		649	100.0			
Question 17: If your answer is 'yes' in question 16, how did you know about the underlying *Shari'ah* principle/contract?						
		Frequency	Percent			
Prior knowledge from reading		210	36.3			
Education (University or college)		141	24.4			
Explanation by the banks' staff during the opening of the account		125	21.6			
Explanation from friends and family		68	11.8			
Others		34	5.9			
Total		578	100.0			
Question 18: If your answer is 'no' in Question 16, why do you not know the underlying *Shari'ah* principle/ contract?						
		Frequency	Valid Percent	Mean Value	Standard Deviation	
Valid	Difficult to understand	52	16.9	2.85	1.365	
	Banks' staff does not explain it	88	28.7			
	Do not know where to get the information about the underlying contract.	80	26.1			
	Not interested	34	11.1			
	Assume it is the same as conventional deposits products	46	15.0			
	Others	7	2.3			
	Total	307	100.0			

Those respondents who declared that they do not understand the underlying *Shari'ah* principles that govern their deposits accounts were required to give their opinion on the reason behind it. Based on the survey outcome, it seems that 28.7% of the qualified respondents held the banks' staff responsible for not being able to explain the terms to them upon opening of the account. Meanwhile, the researcher argues that

52.2% of the qualified respondents could be blamed for their knowledge gaps with regard to the issue. This can be substantiated with 26.1% of the respondents admitting that they did not know where to obtain information on the matter. Moreover, 15.0% of the qualified respondents stated that they assumed that their Islamic banking account was the same as a conventional deposits product, and 11.1% stated that they had no interest in obtaining knowledge of this kind. There was also significant number of respondents (16.9%) who stated that the *Shari'ah* principles were difficult to understand, perhaps due to their Arabic terminology.

In short, although it can be safely stated that the respondents' level of understanding of matter was acceptable (slightly above 50.0%), as evidenced by the figure in the table, the fact that a significant percentage of respondents admitted that they did not know must be addressed as a matter of urgency. In addition, the gaps in this matter were due to the ignorance of the respondents of where to turn for information. This problem could be overcome with a more proactive role taken by the promoters of Islamic finance, such as the Islamic bankers themselves.

6.7 BANKING PATRONAGE FACTORS FOR ISLAMIC BANKS DEPOSITORS

This section considers the respondents' inclination towards a wide range of patronage factors (*i.e.* 13 factors), including religiosity, customer service, and financial gain. The respondents needed to rate each of the factors according to their preferences (ranging from 'not important at all' to 'very important'). Table 6.6 presents the frequency results gathered during the fieldwork. The presentation of the descriptive analysis is shown according to the ranking based on the highest mean-value.

(1) **The account is free from any interest** – The mean-value for this factor is 4.15, with a low standard deviation of 0.907. In general, this indicates that the majority of respondents feel that their deposits account must be free from any element of 'interest' which is prohibited by *Shari'ah* principles. About 35.0% and 43.0% of the respondents have rated the factor as 'important' and 'very important', respectively.

(2) **Customer service quality** - The mean-value for this factor is 4.14, with a standard deviation of 0.845. The result implies that a high-quality of customer service provided by the bank is very crucial in attracting the depositors to open an account with the particular bank or branch. A percentage of 40.0% and 39.0% of the respondents indicated that the factor as 'important' and 'very important', respectively.

(3) **Religious obligation/requirement** – The third highest ranking according to the mean-value is the religious obligation/requirement factor, with the mean value and standard deviation of 4.13 and 0.993, respectively. In line with the high percentage of Muslim respondents, the majority of those surveyed indicated that they opted for Islamic banking deposits accounts due to religious beliefs. There were 32.8% of the respondents who indicated that the factor as 'important', and 44.7% indicated that the factor was 'very important'. This factor has the highest percentage of 'very important' among all listed factors.

(4) **Number of branches available** – This is the fourth highest ranked factor, with a mean-value and standard deviation of 4.06 and 0.863 respectively. A total of 78.3% of the respondents indicated the factor as 'important' and 'very important'. The result suggests that the respondents need flexibility in terms of location when they have the need to perform their banking.

(5) **Sound financial reputation of the bank**- The mean-value for this factor is 3.95, with a standard deviation of 0.848. The respondents rated this factor as 'important' (48.4%) and 'very important' (26.4%), perhaps due to the facts that a strong financial position of the bank serves as an indicator of the security of their deposits.

(6) **Convenience (e.g. available parking space, interior comfort)** - The mean-value and standard deviation for this factor is 3.93 and 0.915, respectively. The factor again highlights the important of physical facilities provided by the bank to make the customers feel comfortable. A percentage of 44.7 and 28.4 of the respondents rated this factor as 'important' and 'very important', respectively.

(7) **Location being clear to the home or workplace –** With a mean-value of 3.90 and standard deviation of 0.891, the factor was indicated as 'important' and 'very important' by a total of 71.3% of the respondents. The importance of this factor to the respondents was that the closer the bank's location is to their work place or home, the easier it will be for them to travel to the location, which can be time-consuming in densely populated urban areas.

(8) **The brand name of the Islamic bank –** The factor's mean-value and standard deviation are 3.83 and 0.938 respectively. Although the factor ranked in the middle among all the listed factors, it is still deemed as important, as 46.8% and 23.8% rated it as 'important' and 'very important', respectively.

(9) **Opportunity to get other financing facilities** - The factor ranked ninth with a mean-value of 3.75. Those who rated this factor as 'important' (49.0%) and 'very important' (17.9%) indicated that they opened an account with the bank with hopes of being able to take advantage of other financing facilities which sometime could be very difficult for some customers to obtain if they had no prior relationship with the bank.

(10) **Greater coverage of deposits guarantee** – This is a new variable introduced in this research. With the inception of the Malaysian Deposits Insurance Cooperation in 2005, the amount of the guarantee provided has been limited to RM60,000 per account. Therefore, there might be some customers, for whom it is important to get a higher coverage guaranteed. With a mean-value of 3.73, about 43.0% of the respondents rated the factor as 'important', and 20.6% as 'very important'.

(11) **Attractive product packages and services** – The factor ranked third from the bottom, with the mean-value of 3.55 and standard deviation of 0.937. Slightly above half of the respondents (55.6%) stated that this factor was an 'important' aspect in attracting them to open an Islamic banking account.

(12) **Bank pays out higher return on deposits** – The factor emerged as second to last in terms of mean-value (3.44) ranking. Only about half (49.2%) of the

respondents feel that getting higher deposits return was an important factor. The result suggests that higher return is not a primary factor for the depositors to attract them open an Islamic banking account.

(13) **Encouragement from friends and family** – With a mean-value of 3.30, this factor was ranked last because only a combination of 40.9% of the respondents rated it as 'important' and 'very important'. On the other hand, most of the respondents selected 'neutral' (41.8%) for this factor. The result suggests that encouragement from friends and family not a strong factor that influenced the depositors to open an account with Islamic banks.

Table 6.6: Banking patronage factors for Islamic banks depositors

	Not Important At All	Not Important	Neutral	Important	Very Important	Mean Value	Standard Deviation
a) Religious obligation/ requirement	15 (2.3%)	31 (4.8%)	99 (15.3%)	212 (32.8%)	289 (44.7%)	4.13	0.993
b) The account is free from any 'interest'.	5 (0.8%)	28 (4.4%)	108 (16.8%)	224 (34.9%)	277 (43.1%)	4.15	0.907
c) The brand name of the Islamic bank (Islamic reputation and image)	13 (2.1%)	44 (7.0%)	129 (20.4%)	295 (46.8%)	150 (23.8)	3.83	0.938
d) Bank pays out higher return on deposits	16 (2.5%)	77 (12.0%)	233 (36.3%)	239 (37.2%)	77 (12.0%)	3.44	0.937
e) Encouragement from friends and family	18 (2.8%)	93 (14.5%)	268 (41.8%)	203 (31.7%)	59 (9.2%)	3.30	0.924
f) Attractive product package and services (such as free *takaful* coverage, attractive competition prize)	12 (1.9%)	73 (11.4%)	200 (31.2%)	264 (41.1%)	93 (14.5%)	3.55	0.937
g) Opportunity to get other financing facilities such as house or car financing	9 (1.4%)	44 (6.8%)	162 (25.0%)	318 (49.0%)	116 (17.9%)	3.75	0.874
h) Sound financial reputation of the bank	6 (0.9%)	28 (4.3%)	129 (20.0%)	312 (48.4%)	170 (26.4%)	3.95	0.848
i) Customer service quality (fast and efficient service)	6 (0.9%)	13 (2.0%)	116 (17.9%)	260 (40.1%)	253 (39.0%)	4.14	0.845
j) Number of branches available	4 (0.6%)	30 (4.7%)	106 (16.5%)	285 (44.3%)	219 (34.0%)	4.06	0.863
k) Convenience (e.g. available parking space, interior comfort)	9 (1.4%)	38 (5.9%)	126 (19.6%)	288 (44.7%)	183 (28.4%)	3.93	0.915
l) Location being near home or work	7 (1.1%)	36 (5.6%)	142 (22.0%)	291 (45.1%)	169 (26.2%)	3.90	0.891
m) Greater coverage of deposit guarantee (for example, Islamic banking will cover up to RM60,000 and conventional banking will also cover another RM60,000. Therefore the total coverage is RM120,000)	14 (2.2%)	40 (6.2%)	181 (28.2%)	275 (42.8%)	132 (20.6%)	3.73	0.929

However, the ranking would be slightly different if it was based on the combination of percentages for 'important' and 'very important' factors. The ranking would only affecting the top four factors as presented above. The ranking based on the combined percentage of 'important' and 'very important' would be as follows: 1) Customer service quality (79.1%) 2) Number of branches available (78.3%) 3) The account is free from any interest (78.0%) 4) Religious obligation/requirement (77.5%). The ranking for the remaining factors from the fifth onward would remain unchanged.

6.8 OPINION ON GENERAL FEATURES OF PROFIT-SHARING DEPOSITS ACCOUNTS

This section describes the findings related to the respondents' level of familiarity with deposits accounts that use profit-sharing contracts. Subsequently, this section will further discuss the relevant factors that may attract the respondents to open an account that uses a profit-sharing contract as a basis. The details of the survey results can be found in Table 6.7.

Based on the survey outcome, only 44.5% of the respondents claimed that they were quite familiar with deposits product based on profit-sharing contracts. On the other hand, around 55.5% of the respondents stated that either they knew only a little, knew nothing, or had never even heard of it before. The majority of the respondents stated that they know only very little about the account, as can be seen from the mean value of 2.74.

As for the factors that may attract the respondents to open a profit-sharing deposits account, the results showed that all of the listed factors were deemed to be important (see Table 6.7, question 21). These factors are (a) potential of giving higher return, (b) attractive promotion, (c) attractive product packaging, (d) profit-sharing contract is highly encouraged in Islamic banking, and, lastly, (e) flexibility of deposits withdrawal scheme. They were seen as 'important', with most of the mean values of the factors ranging from 3.85 to 4.01 (with the exception of 'attractive promotion', which recorded a lower mean value of 3.43). In terms of factors ranking, the factors that scored the highest percentage based on the rating of 'important' and 'very important was 'profit-sharing contract is highly encourage in Islamic banking' with 77.0%. This were followed by 'flexibility of deposits withdrawal scheme' with

76.3%, 'potential of giving higher return' with 76.5%, 'attractive product packing' with 73.3% and lastly 'attractive promotion' with 48.1%. The results indicate the opinion and desire of the respondents of putting almost equal important to three main criteria i.e. religiosity (profit-sharing contract is highly encourage in Islamic banking), financial gain (potential of giving higher return, attractive product packing) and also financial security (flexibility of deposits withdrawal scheme).

Table 6.7: Opinion on general features of profit-sharing deposits account

Question 20: Are you familiar with deposit accounts using profit-sharing contract?						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	I am very familiar with it	117	18.0	18.1	2.74	1.224
	I am quite familiar with it	171	26.3	26.4		
	I know only a little about it	193	29.7	29.8		
	I have heard of it but know nothing about it	98	15.1	15.1		
	I have never heard of it	69	10.6	10.6		
	Total	648	99.8	100.0		
Missing	No Response	1	0.2			
Total		649	100.0			
Question 21: If you want to open a profit-sharing deposits account, how far are the following factors may influence your decision?						
Potential of giving higher return						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Not Important At All	9	1.4	1.4	3.98	0.842
	Not Important	20	3.1	3.1		
	Neutral	123	19.0	19.0		
	Important	321	49.5	49.5		
	Very Important	175	27.0	27.0		
	Total	648	99.8	100.0		
Missing	No Response	1	0.2			
Total		649	100.0			
Attractive promotion						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Not Important At All	14	2.2	2.2	3.43	0.942
	Not Important	85	13.1	13.2		
	Neutral	236	36.4	36.6		
	Important	230	35.4	35.7		
	Very Important	80	12.3	12.4		
	Total	645	99.4	100.0		
Missing	No Response	4	0.6			
Total		649	100.0			

Attractive product packaging						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Not Important At All	7	1.1	1.1	3.85	0.819
	Not Important	29	4.5	4.5		
	Neutral	144	22.2	22.2		
	Important	343	52.9	52.9		
	Very Important	126	19.4	19.4		
	Total	649	100.0	100.0		
Profit-sharing contract is highly encouraged in Islamic banking						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Not Important At All	5	0.8	0.8	4.01	0.817
	Not Important	19	2.9	2.9		
	Neutral	125	19.3	19.3		
	Important	313	48.2	48.3		
	Very Important	186	28.7	28.7		
	Total	648	99.8	100.0		
Missing	No Response	1	0.2			
Total		649	100.0			
Flexibility of deposits withdrawal scheme						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Not Important At All	5	0.8	0.8	3.95	0.753
	Not Important	11	1.7	1.7		
	Neutral	137	21.1	21.2		
	Important	351	54.1	54.4		
	Very Important	141	21.7	21.9		
	Total	645	99.4	100.0		
Missing	No Response	4	0.6			
Total		649	100.0			

6.9 BEHAVIOUR AND PERCEPTION OF THE BOARD RATE

This section will describe the respondents' behaviour and perception of one of the main issues relating to profit-sharing deposits account, that of the board rate. As discussed in the previous chapter, the board rate displayed by Islamic banks is an indicative rate for the purpose of guidance to the existing and potential depositors. Therefore, the objective of this section was to determine respondents' perception of whether they fully understand the concept of the board rate. The outcomes were determined from the results of the survey questions 22 to 25, as depicted in Table 6.8.

The lead question for this section was question 22, in which the respondents were asked to indicate whether they will refer to the board rate as part of their consideration and make a comparison with the rates of return of other financial institutions or other

financial instruments prior to the opening a profit-sharing deposits account. The results in Table 6.8 shows that close to 70% of the respondents stated they will refer to the indicative rate given by the Islamic banks and make comparisons with other financial instruments offered by various financial institutions opening a profit-sharing account. The results can be interpreted that financial returns would be one of the prime considerations; this is in line with the normal rational behaviour of any investors.

Those respondents who answered 'yes' to question 22 were required to proceed to question 23, in which they were asked to choose from the selection of the most common financial instruments, with which they will make a comparison (the respondent may select more than one option). Based on the survey outcome, 381 out of 450 (84.7%) who answered 'yes' to the preceding question indicated that they will make a comparison with the rates of return offered by other Islamic banks' profit-sharing deposits accounts. The second most popular financial instrument, with which the respondents will make comparison, was Islamic unit trust return (38.4%), followed by the interest rates of other conventional banks (24.4%), and, finally, stock market return (16.7%). The rest of the options were not very popular, and the results only showed less than 10%. Based on the result, it can be interpreted that the respondents were behaving like rational investors, but were guided by strong religious boundaries. This can be evidenced from the fact that the top two most popular financial instruments were *Shari'ah*-compliant financial instruments.

Those respondents, who indicated that they will not make comparison with other financial instruments offered by various financial institutions, were required to proceed to question 24. In this question, the qualified respondents were asked to select the choice that was the best match to the reasoning. Based on the outcome, 37 out of 199 (37.7%), who claimed that they will not make any comparison, agreed with the reason that they will accept any return as long as it is compliant with the *Shari'ah*. The second most popular option, selected by 23.1%, was that the respondents were highly aware of the fact that the nature of Islamic investment products is such, that the nature of the return is entirely based on the performance of the bank, and that therefore it is not worthwhile to make any comparisons. This was followed by two more options: firstly, the respondents feel that they were not interested in checking the

rate (14.6%), and some of the respondents, who did not realize that there was declared rate on the board. The least popular option selected by the respondents, with 10.6%, was that related to convenience: the respondents simply did not care about the return rate, as they had other accounts or financing facilities with the Islamic bank. Again, based on the result, it seems that the respondents were behaving in line with the spirit of the *Shari'ah* principles, as evidenced by the two most popular options selected.

Lastly, the respondents were asked to answer question 25, which intended to test their perception of the board rate. In this question, the only acceptable option was 'it is the indicative rate that the bank is going to pay'. Based on the survey outcome, only 31.6% of the respondents identified it correctly. Most of the respondent (35.0%) perceived that the board rate was a fixed rate that the Islamic banks were going to pay, while 13.8% perceived it as minimum return rate that they would get from the Islamic banks. The last two options with 10.7% and 9.0% were 'do not bother to check the rate' and 'do not realize that there is a declared rate on the board' respectively.

To sum up this section, it seems that the concept of 'board rate' as indicative rate was not really disseminated. There were huge gaps in terms of level of understanding among the respondents; most did not understand that they will obtain their deposits return, based on the profit-sharing contract, only at the end of the investment period. This can be substantiated from the outcome of question 25, where close to 70% perceived that 'board rate' as something other than an indicative rate. Nevertheless, based on the outcome from questions 22 to 24, it can be concluded that the respondents had good intentions, in which the *Shari'ah*-compliance of the return was one of the main criteria when they made their decision.

Table 6.8: Behaviour and perception on board rate

Question 22: If you want to open a profit-sharing deposit account, will the 'board rate' will be part of your consideration factor for comparing with other financial instrument or other financial institution?

		Frequency	Percent	Mean Value	Standard Deviation
Valid	No	199	30.7	0.69	0.461
	Yes	450	69.3		
	Total	649	100.0		

Question 23: What are the other financial instruments' returns that you may compare with before opening a profit-sharing deposits account?

		Frequency	Percentage
Valid	Other Islamic banks profit-sharing rates deposit account	381	84.7
	Other conventional banks deposits account interest rate	110	24.4
	Islamic unit trust return	173	38.4
	Conventional unit trust return	31	6.9
	Stock market performance	75	16.7
	Others	5	1.1
	Total Respondents	450	

Question 24: Why do you not consider 'board rate' as part of the consideration factors?

		Frequency	Valid Percent	Mean Value	Standard Deviation
Valid	Do not care how much the return is as long as it is *Shari'ah* compliance	75	37.7	2.46	1.490
	Board rate is only an indicative rate; the actual rate might be lower or higher depending on the on the bank's performance	46	23.1		
	Have other deposit account or facilities with the banks, so a higher return is not part of consideration	21	10.6		
	Do not realize that there is a declared rate on the board	27	13.6		
	Do not bother to check the rate	29	14.6		
	Others	1	0.5		
	Total	199	100.0		

Question 25: What is your perception of the rate of return displayed on the bank branches if you want to open a profit-sharing deposits account?

		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	It is the fixed rate that the Islamic banks are going to pay	226	34.8	35.0	2.47	1.331
	It is the minimum rate that the bank is going to pay	89	13.7	13.8		
	It is the indicative rate that the bank is going to pay	204	31.4	31.6		
	Do not realize that there is a declared rate on the board	58	8.9	9.0		
	Do not bother to check the rate	69	10.6	10.7		
	Total	646	99.5	100.0		

6.10 PERCEPTION AND OPINION ON THE CONCEPT OF PROFIT EQUALIZATION RESERVE (PER)

This section discusses the perception and opinion of the respondents on the concept of profit equalization reserve (PER). As discussed in chapter 3, profit equalization reserve is a concept introduced to mitigate displaced commercial risk. The concept has been approved by the Central Bank of Malaysia and has been widely adopted by many Islamic banks. Nevertheless, a few of the *Shari'ah* scholars raised concern that the concept of PER is against the nature of profit-sharing contracts, and that it is therefore not permissible under the *Shari'ah* requirements. On the other hand, there are also few *Shari'ah* scholars who agree to the concept but with certain reservations that the Islamic banks must communicate and obtain prior approval from the depositors upon signing the contract.

Therefore, to achieve the objective of gauging the respondents' perceptions and opinion on this concept, two major questions coupled with eight sub questions were asked. Firstly, in question 26, the respondents were asked to rate their level of familiarity with the concept. The result shown in Table 6.9 is that 45.7%, or almost half of the respondents, stated that they have never heard of the concept; 18.1% stated that they heard about it but did not have any idea regarding what it involves, and only 22.1% have some idea about it. Less than 15.0% of the respondents knew what PER means; of those, only 3.9% claimed that they were very familiar with the concept. The result was alarming. A total of 63.8% claimed that they know nothing about it. It is crucial for the depositors to be familiar with the concept, as suggest by some *Shari'ah* scholars, since it involves the depositors' rights towards the profit generated, as spelled out clearly in the principles of a *mudarabah* contract.

Table 6.9: Level of familiarity towards profit equalization reserve (PER)

Question 26: Are you familiar with the Profit Equalization Reserve (PER) concept?						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	I am very familiar with it	25	3.9	3.9	3.92	1.196
	I am quite familiar with it	66	10.2	10.2		
	I know only a little about it	143	22.0	22.1		
	I have heard of it but know nothing about it	117	18.0	18.1		
	I have never heard of it	296	45.6	45.7		
	Total	647	99.7	100.0		

The next question (question 27) consists of eight statements related to the concept of PER. The respondents were asked to give their opinions on each of the statements. There were two parts for this question. The first part (question 27 (a) – (d)) looked at the respondents' perceptions towards profit-distribution, based on actual principles of profit-sharing contracts; the second part (question 27 (e) – (h)) dealt with respondents' opinions and acceptance of the overall concept of profit-equalization reserve. The description of the results was based on Table 6.10.

Part One (Question 27 (a) – (d)). As mentioned, the first part was to look at the respondents' perceptions on profit-distribution, based on various actual scenarios. In question 27 (a), the respondents were asked to state the level of their agreement to whether they should receive more return if their respective bank performs well. With the mean value of 4.18, which was in the middle between 'agree' (code 4) and 'strongly agree' (code 5), 59.0% of the respondents felt that the bank should give more return to them if it performs better. In addition, 25.9 further reinforce the answer by stating that they 'strongly agreed' with the statement. The two mentioned result have a combined percentage of 84.9%.

For question 27(b), the respondents were asked to state the level of their agreement if the reverse scenario happens, i.e. would they be they willing to accept lower return if the bank performs badly. The result for this question was a mixture. Only a total of 56.0% of the respondents stated that they agreed and strongly agreed with the statement while 21.0% were neutral, 18.8% disagree and 3.2% strongly disagree with it. A roughly similar pattern can be seen for question 27 (c). The respondents were asked to state their opinion on the statement 'I expect my bank to give the same return throughout my deposit period, regardless of my bank's performance'. A total of 49.0% of the respondents stated that they agreed and strongly agreed with the statement, 25.7% stated that they were neutral, and slightly less than 25.0% (combination) stated that they disagreed and strongly disagreed.

Lastly, the respondents were asked whether they agree if the bank does not share any extra profit generated as per the agreement in the contract. 34.8% and 11.9% stated that they disagreed and strongly disagreed with this scenario, while 22.0% stated that

they were neutral, and only 26.2% and 4.6% stated that they agreed and strongly agreed.

The overall results of part one (questions (a) – (d)) again suggest that the majority of the respondents act as rational investors, for whom profit was orientation major priority. In addition, it is useful to recognise that almost half of the respondents (49.0%), based on the result in question 27 (c), expected that they would receive the same return throughout the deposit period, regardless of the bank's performance. This category of respondents may pose a massive withdrawal risk for the bank, which any bank will try to avoid. Therefore, in mitigating the withdrawal risk, the bank has to match the return to the expectations of this group of depositors. In mitigating the withdrawal risk with this strategy, the bank has transformed the withdrawal risk to displaced commercial risk (see chapter 3 for details). In current practice, displaced commercial risk, as faced by Islamic banks, can be mitigated via the profit equalization reserve. Therefore, the second part of the question 27 ((e) - (h)) aims at analysing the opinion of the respondents towards the PER concept.

Part Two (Question 27 (e) – (h)). In question 27 (e), in continuation of the previous part of question 27, the respondents were asked to state their level of agreement if the bank set aside a portion of the extra profit it generated into a 'special reserve' account. As indicated in Table 6.10, 35.4% and 4.3%, respectively, stated that they 'agree' and 'strongly agree' with the notion, while 27.3% and 5.4%, respectively, stated that they 'disagree' and 'strongly disagree' with it. In the following question (question 27 (f)), the respondents were asked to give their opinion on whether they agree if the 'special reserve' account is to be used by the banks for the purpose of increasing the future return to guarantee the stability of the return rate. Surprisingly, the results for this question almost seem to match those of question 27 (c), where a total of 49.5% of the respondents stated that they 'agree' and 'strongly agree' with the notion. While 20.5% and 4.5% of the respondents, respectively, indicated that they 'disagree' and 'strongly disagree' with the statement. About a quarter of the respondents were neutral. Based on the outcome from the two questions, quite a number of the respondents would agree with the concept of profit equalization reserve, especially those who think that they should receive a stable return throughout the deposits duration, as shown in table 6.10 (question 27 (c)).

As has been mentioned above mentioned, there was a suggestion by some *Shari'ah* scholars that the PER matters must be clearly communicated and consented to by the prospective depositors. Taking into consideration this suggestion, the last two sub-questions in question 27 were formulated. In question 27 (g), the respondents were asked to state whether they would agree that they should be informed in writing about the 'special reserve' account. The result indicated that 57.0% and 26.0%, respectively, stated that they agreed and strongly agreed with the statement, while 14.3% stated that they were neutral. Only an insignificant percentage of 1.7% and 0.6%, respectively, stated that they disagreed and strongly disagreed with the statement.

Lastly, the respondents were asked whether they would feel misled by the Islamic bank if their prior consent were not obtained with regard to the 'special reserve' account. Again in line with the pattern of the previous question (question 27 (g)), 49.8% and 20.8% of the respondents, respectively, agreed and strongly agreed with the statement, while 24.8 stated that they were neutral. Again, an insignificant total percentage of 4.3% felt that they were not misled by the Islamic banks if their prior consent were not obtained.

The outcomes of the four questions in part two (question 27 (e) – (h)) suggest that, generally, the respondents would agree on the overall concept of PER for ensuring a stable return, but at the same time they are also concerned that the overall PER concept must be clearly communicated to them.

Overall, based on the available descriptive data, the majority of respondents can be categorized as rational depositors, who are concerned about the financial return on their deposits. In fact, as evidenced by the results, almost half of the respondents were expecting that they will receive the same level of return throughout the deposit tenure which is entirely against the *Shari'ah* principles of profit-sharing. As a result, about the same number of the respondents, who want a stable return, approved the concept of PER, but with the condition that they should be informed and that their consent should be obtained beforehand.

Table 6.10: Perception and opinion on the concept of profit equalization reserve

Question 27: What are your opinions on the following statements?												
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean Value	Standard Deviation
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%		
(a) I should receive more return if my bank performs well	8	*1.2*	31	*4.8*	58	*8.9*	383	*59.0*	168	*25.9*	4.18	3.814
(b) I agree to accept lower return if my bank performs badly	21	*3.2*	122	*18.8*	136	*21.0*	330	*50.8*	34	*5.2*	4.25	9.209
(c) I expect my bank to give the same return throughout my deposit period, regardless of my bank's performance	25	*3.9*	134	*20.6*	167	*25.7*	266	*41.0*	52	*8.0*	4.03	8.435
(d) I agree if my bank does not share any extra profit generated with me as agreed.	77	*11.9*	226	*34.8*	143	*22.0*	170	*26.2*	30	*4.6*	3.21	6.663
(e) Do you agree if your bank keep some portion of the extra profit to a 'special reserve' account?	35	*5.4*	177	*27.3*	178	*27.4*	230	*35.4*	28	*4.3*	3.21	3.898
(f) Do you agree if this 'special reserve' account is to be used for the benefit of future depositors to ensure stability of the return?	29	*4.5*	133	*20.5*	165	*25.4*	273	*42.1*	48	*7.4*	3.42	3.892
(g) I should be informed in writing about this 'special reserve' account	4	*0.6*	11	*1.7*	93	*14.3*	370	*57.0*	169	*26.0*	4.36	5.316
(h) I feel mislead by the bank if my consent is not obtained with regard to this 'special reserve' account	6	*0.9*	22	*3.4*	161	*24.8*	323	*49.8*	135	*20.8*	4.16	5.339

6.11 REACTION OF DEPOSITORS TOWARDS VARIOUS SCENARIOS OF LOWER RETURN

In this section, the aim was to further reinforce the previous section's findings on the behaviour of the respondents towards deposits returns. The questions (question 28) were posed to the respondents with the objective of seeing the respondents' reaction towards few specific scenarios (question 28 (a) to (e)), in which their Islamic banks declare a lower return on their deposits. The results of the survey are depicted in Table 6.11.

First, in question 28 (a), the respondents were asked to state their reaction if their Islamic banks declared a lower return for their profit-sharing deposit account, compared to other Islamic banks. Based on the result, there was a mixture of reactions on this situation. Around 40% of the respondents stated that they would retain their deposited money with the same Islamic bank, 24.6% said that they would shift all of their money to other Islamic banks, and 24.5% stated that they would rather shift a portion of their money to the other Islamic banks. On the other hand, around 7.1% stated that they would shift a portion to conventional banks, and only 3.7% would shift everything to the conventional banks.

Secondly, in question 28 (b), the respondents were asked to state what their most probable reaction would be if their Islamic banks announced a lower deposits return than conventional banks, but still comparable to Islamic banks. The results were a little different from those of the previous scenario (question 28 (a)). In this situation, many of the respondents (i.e. 74.8%) would prefer to stay with their present Islamic bank, and only 11.9% would still shift all of their deposits to other Islamic banks, perhaps with other considerations coming into play too. While only 5.4%, 4.6% and 3.2% of the respondents, respectively, would shift a portion to other Islamic banks, shift a portion to conventional banks, and shift all to the conventional banks.

In the following question (question 28 (c)), the researcher purposely changed the theme of the question in order to test the consistency of the respondents in answering the questionnaire. The respondents were confronted with a question that needs them to state what their most probable reaction would be if their Islamic bank was found to

be conducting business that went against *Shari'ah* principles. The results were that 62.3% of the respondents would move all of their deposited money to other Islamic banks, while 18.8% and 8.8%, respectively, stated that they would remain with their exiting bank, or shift a portion of their money to other Islamic banks. Only around 5.6% and 4.7%, respectively, stated that they would shift all, or some, of their deposits to conventional banks.

In the following sub question (question 28 (d)), the respondents were asked to indicate their most probable reaction if their Islamic bank declared a lower return compared to other Islamic and conventional banks, but at the same time provided financing products which have a lower financing rate than the other competitors. As can be seen from Table 6.11 below, around 67.0% of the respondents would rather remain with their present Islamic bank, which also can be seen in the mean value of 3.32. Another 16.0% said that they would shift all of their money to other Islamic banks, and 11.5% would shift a portion of deposits to other Islamic banks. The final two remaining answers of shifting all or a portion of their money to conventional banks would remain insignificant, with only 1.4% and 4.5%, respectively, opting to select these answers.

Two points can be derived from the results described above: firstly, consistent with the previous questions' results (question 21, 22 and 27), the respondents seem to be very concerned about the financial benefits derived from their deposits (i.e. higher deposits return and lower costs of financing). This can be seen in questions 28 (a), (b), and (d). Having said that, the majority of the respondents can still be seen to regard *Shari'ah*-compliance aspects as primary elements which underpin the financial benefits of their financial products. This can be seen clearly in question 28 (c) and the rest of the sub-questions, in which the majority of the respondents, who opted to shift all or part of their money to another bank, would select other Islamic banks as their choice.

The second issue is to be addressed to the Islamic banks' management as a point of concern. The Islamic banks might face serious withdrawal risk if their deposits return is unable to match that of their competitors. Based on the results, about half of

respondents claimed that they would move their money from their existing banks if their banks were unable to give a financial advantage to the customer.

Table 6.11: Reaction of depositors towards various scenarios of lower return declared by Islamic banks

Question 28. What will be your most probable action on all of following situations for your Profit-sharing Deposits Account, if your Islamic bank ……. (see statement from (a) to (e) below),:				
a) Announces lower return than other Islamic banks.				
		Frequency	Percent	Valid Percent
Valid	Shift all to conventional banks	24	3.7	3.7
	Shift portion to conventional banks	46	7.1	7.1
	Retain with existing Islamic banks	259	39.9	40.1
	Shift all to other Islamic banks	159	24.5	24.6
	Shift portion to other Islamic banks	158	24.3	24.5
	Total	646	99.5	100.0
b) Announces lower return than other conventional banks but comparable with other Islamic banks.				
		Frequency	Percent	Valid Percent
Valid	Shift all to conventional banks	21	3.2	3.2
	Shift portion to conventional banks	30	4.6	4.6
	Retain with existing Islamic banks	484	74.6	74.8
	Shift all to other Islamic banks	77	11.9	11.9
	Shift portion to other Islamic banks	35	5.4	5.4
	Total	647	99.7	100.0
c) Found of conducting business not according to the *Shari'ah* principles				
		Frequency	Percent	Valid Percent
Valid	Shift all to conventional banks	36	5.5	5.6
	Shift portion to conventional banks	30	4.6	4.7
	Retain with existing Islamic banks	120	18.5	18.6
	Shift all to other Islamic banks	402	61.9	62.3
	Shift portion to other Islamic banks	57	8.8	8.8
	Total	645	99.4	100.0
d) Announces lower return than other Islamic and commercial banks but at the same time giving financing products which have lower financing rate as compared to other competitors.				
		Frequency	Percent	Valid Percent
Valid	Shift all to conventional banks	9	1.4	1.4
	Shift portion to conventional banks	29	4.5	4.5
	Retain with existing Islamic banks	430	66.3	66.7
	Shift all to other Islamic banks	103	15.9	16.0
	Shift portion to other Islamic banks	74	11.4	11.5
	Total	645	99.4	100.0

6.12 RISK AND DEPOSITS GUARANTEE FOR PROFIT-SHARING DEPOSITS ACCOUNT

This section describes the data for another important distinct characteristic of profit-sharing deposits accounts. As discussed in Chapters 3, fundamentally, all deposits that are based on the concept of profit-sharing are not guaranteed. Nevertheless, there are some *Shari'ah* views that allow the money deposited to be guaranteed by a third party such as the government or government-back deposit insurance cooperation, with the condition that the structure of the deposits insurance scheme should not contravene the *Shari'ah* principles. Therefore, questions 29 and 30 aimed at looking at the respondents' opinion and attitude towards the deposits guarantee.

In question 29 (a), the respondents were asked to give their opinion on the level of their agreement that, if Islamic banking deposits are not guaranteed by the government, the Islamic banks are deemed to be riskier than the conventional banking institutions. From Table 6.12 below it can be seen that a total of 54.7% of the respondents stated that they agreed and strongly agreed with the statement, while slightly over 20.0% of those surveyed were neutral, and a total of 24.5% disagreed and strongly disagreed with the statement.

Table 6.12: Depositors' opinion on risk and deposits guarantee scheme

Question 29: Please give your opinion on the following statements regarding deposit guarantee scheme?						
a) If Islamic banking deposits are not guaranteed by government, they are deemed riskier than conventional banking deposits.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	48	7.4	7.4	3.51	3.921
	Disagree	111	17.1	17.1		
	Neutral	134	20.6	20.6		
	Agree	269	41.4	41.4		
	Strongly Agree	86	13.3	13.3		
	Total	648	100.0	100.0		
b) I will not monitor my bank's performance if I know that my deposits are being guaranteed by the government.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	38	5.9	5.9	3.30	3.917
	Disagree	173	26.7	26.7		
	Neutral	146	22.5	22.5		
	Agree	235	36.2	36.2		
	Strongly Agree	56	8.6	8.6		
	Total	648	100.0	100.0		

Consequently, the respondents were asked to give their opinion on the level of their agreement that they will not monitor their bank's performance if they know that their deposits are being guaranteed by the government. It can be seen from the data in Table 6.12 that the results were rather mixed. Approximately 45.0% of the respondents stated that they agreed that they would not monitor their bank's performance. Meanwhile, 32.6% of the respondents disagreed with the statement, suggesting that the bank's performance was still paramount to them, regardless of explicit support from the government. It is also worth to note that there was a significant percentage (22.5%) of respondents, who were neutral on this matter.

In short, the majority of the respondents felt that, if their Islamic deposits account is based on a profit-sharing contract, it is much riskier if it is not guaranteed by the government. This indirectly indicates that there is desire for security among the respondents, although this may contradict the fundamental *Shari'ah* concepts underlying the profit-sharing contract. On the other hand, not all respondents stated that they would be very complacent if they knew that their deposits are being guaranteed. As depicted in Table 6.12 (question 29 (b)), there was also a significant percentage of respondents, who held the view that they will still monitors their bank's performance, even though their money is secure.

Similar to the questions posed in section 6.11, the respondents were asked to state what their most probable reaction would be towards some scenarios related to deposits guarantee. There were three sub-questions (question 30 (a), (b) and (c)), and the results are set out in Table 6.13.

In the first sub-question (question 30 (a)), the respondents were asked what their reaction would be if they knew that all deposits (including conventional banking) were not guaranteed by the government. The results indicate that more than two-thirds of the respondents (92.1%) were still loyal to the Islamic banking system, although there was some indication that about 36.0% would shift to other Islamic banks. Only about 8.0% of the respondents stated that they would move to conventional banking.

Next, in question 30 (b), the scenario was Islamic banking deposits not being guaranteed by the government. The result was a bit different compared to the previous

question. About 27.4% of the respondents indicated that they desired for financial security by stating that they would rather shift their deposits to conventional banking if Islamic banks' deposits were not guaranteed by the government. By contrast, there was quite a significant percentage (72.7%), which would remain loyal to Islamic banks, even though they know that they were in a disadvantaged situation compared to conventional banking. This, perhaps, is due to their attitude towards *Shari'ah*-compliance.

Lastly, in question 30 (c), the respondents were asked what their most probable reaction would be, based on the scenario that only their Islamic bank is not guaranteeing their deposits because of restriction imposed by their bank's *Shari'ah* Advisory Committee/Council. The results indicate that 55.8% would shift to other Islamic banks, and 33.6% would remain with their existing bank. In contrast, there were about 10.6%, who stated that they would rather shift to conventional banking, perhaps to ease their worried about the uncertainty of *Shari'ah* rulings.

Table 6.13: Depositors' reaction towards various scenarios of no guarantee on their deposits

Question 30: Please indicate what will be your most probable action on all of the following scenarios if you have a profit-sharing deposits account in your existing Islamic bank:				
a) If all deposits - conventional banks and Islamic banks are not guaranteed by government.				
		Frequency	Percent	Valid Percent
Valid	Shift to conventional banks	51	7.9	7.9
	Retain with existing Islamic banks	359	55.3	55.5
	Shift to other Islamic banks	237	36.5	36.6
	Total	647	99.7	100.0
b) If only Islamic banking deposits is not guaranteed by the government.				
		Frequency	Percent	Valid Percent
Valid	Shift to conventional banks	176	27.1	27.4
	Retain with existing Islamic banks	291	44.8	45.3
	Shift to other Islamic banks	176	27.1	27.4
	Total	643	99.1	100.0
c) If your Islamic bank is the only not guaranteeing your deposits because of restriction imposed by their *Shari'ah* Advisory Committee.				
		Frequency	Percent	Valid Percent
Valid	Shift to conventional banks	68	10.5	10.6
	Retain with existing Islamic banks	216	33.3	33.6
	Shift to other Islamic banks	359	55.3	55.8
	Total	643	99.1	100.0

Based on the results presented above, again it seems that *Shari'ah*-compliance and also financial security factors are considered as a priority. It the overall picture, the results suggest that the majority of respondents would like to secure their best financial advantage within the scope of *Shari'ah*-compliance. Nevertheless, if given a case where the alternative that gives financial advantage to them is non-*Shari'ah* compliance, the results suggest that the majority would hold their position and limit themselves to *Shari'ah*-compliance instruments only.

6.13 FINANCIAL DISCLOSURE TO THE DEPOSITORS

Another element that is highly related to the profit-sharing deposits account is financial disclosure. Adequate and timely financial disclosure by the Islamic banks would enable depositors to make sound judgements concerning their deposited money. Therefore, questions 31 to 33 were asked with the objective of looking at the respondents' interest and attitude towards financial disclosure from the Islamic banks.

In question 31 (a) – (c) the respondents were asked to provide their opinion on a statement relating to the existing available financial disclosure by the Islamic banks. Firstly (question 31 (a)), the question asked for the likelihood of the respondents seeking out more information on the usage of their deposited money. The survey result in Table 6.14 shows that 65.7% and 16.0%, respectively, stated that they would likely and most likely seek financial information. Meanwhile, about 16.5% and 1.7%, respectively, stated that they were unlikely and very unlikely to seek the available financial information.

In part (b) of the question 31, the respondents were asked about the likelihood of them looking at the bank's present financial performance before opening a profit-sharing deposits account. Based on the result as presented in Table 6.14, 60.4% and 19.3% of the respondents, respectively, stated that they were likely and most likely to have a look at the bank's financial performance before opening an account. In contrast, about 18.5% and 1.8%, respectively, stated that they were unlikely and very unlikely to do so.

Lastly, question 31 (c) was about the likelihood of the respondents using the available financial statements as one of the tools to monitor the performance of their profit-

sharing deposit account. In response to the question, most of those surveyed indicated that they were likely (63.1%) and most likely (16.5%) use it to monitor the performance of profit-sharing deposits account. The remaining 19.0% and 1.4% stated that they were unlikely and very unlikely to use the financial statement for this purpose.

Table 6.14: Depositors' attitude and interest on the available financial reports

Question 31: Please choose what would be your opinion on the following statements on financial information disclosure related to your deposit account?						
a) I will seek out more financial information from Islamic banks on the usage of my deposits.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Very Unlikely	11	1.7	1.7	2.96	0.627
	Unlikely	107	16.5	16.5		
	Likely	426	65.6	65.7		
	Most Likely	104	16.0	16.0		
	Total	648	99.8	100.0		
Missing	No Response	1	0.2			
Total		649	100.0			
b) I will look at the bank's financial performance before opening an account with a bank.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Very Unlikely	12	1.8	1.8	2.97	0.672
	Unlikely	120	18.5	18.5		
	Likely	392	60.4	60.4		
	Most Likely	125	19.3	19.3		
	Total	649	100.0	100.0		
c) I will use the financial statement reported by the bank to monitor my investment deposit performance.						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Very Unlikely	9	1.4	1.4	2.95	0.639
	Unlikely	123	19.0	19.0		
	Likely	409	63.0	63.1		
	Most Likely	107	16.5	16.5		
	Total	648	99.8	100.0		
Missing	No Response	1	0.2			
Total		649	100.0			

Furthermore, besides looking at the respondents' interest in the current available financial information, the researcher also aimed at looking at the respondents' interest towards additional financial information which was currently being prepared by the Islamic banks but had not yet been disclosed to the public. For that purpose, questions 32 (a), (b) and question 33 were posed to the respondents. The results from the questions are presented in the Table 6.15.

In question 32 (a), the respondents were asked to state level of their interest if their bank voluntarily discloses financial statement on a monthly basis. It is apparent from this table that the majority of the respondents indicated that they had an interest in this. There were 46.4% and 12.8% of the respondents, who stated that they were interested and highly interested in the monthly financial statement disclosure by the bank. Meanwhile, 29.4% of the respondents indicated that they were neutral, and about 11.4% stated that they uninterested in this.

The next piece of important financial information, which was prepared by the Islamic banks but had not yet been disclosed to the public, is information on the mechanisms of deriving and calculating the declared deposit rate of return. As mentioned before, the depositors were only informed on the final rate of return, although there were some other considerations, such as profit equalization reserves, involved in the process. Therefore, question 32 (b) aimed at looking at the respondents level of interest if the bank would have to disclose the mechanism of deriving the rate of return. The result for this question echoed the trend of the previous question, but there was a slight increase from those who indicated an interest in it. From the table, the percentage of respondents, who stated that were interested and highly interested in the mechanism increased to 48.2% and 15.9%, respectively. On the other hand, the numbers that indicated that they were neutral, not interested, and not interested at all slightly declined to 27.7%, 6.8% and 1.4%, respectively.

Subsequently, respondents, who indicated at least once in questions 32 (a) or (b) that they were neutral, not interested, or not interested at all, were asked to proceed to question 33 which aimed at investigating the reason behind their disinterest. The respondents were asked to select one of the options listed, based on the most probable reason for their choice of reply. Out of 294 respondents, 54.8% stated that they only read the financial information as and when there is a need. The statistic for the other reason were 20.7% - do not understand the financial statement, 17.3% - do not bother to read the financial statement, and 6.5%, who claimed that they have difficulties in obtaining the financial statement.

In summary, generally the majority of the respondents indicated that they have a positive attitude towards the disclosure of financial information, as evidenced from

the results presented in the table. There was a high percentage of respondents, who stated that they would use the available financial statement to make assessment prior opening a deposit account, and who would also use it as a tool to monitor the bank's financial performance, as it may affect the return on their deposits. In addition to that, more than half of the respondents also indicated their interest in the other aspects of financial disclosure, i.e. monthly financial statements, and also mechanism of calculating deposits rate of return.

Table 6.15: Depositors' attitude and interest on the voluntary additional financial reports

Question 32: What is your preference on <u>additional voluntary financial information disclosure</u> for each of the following statements?						
a) If the bank voluntarily discloses monthly financial statement						
		Frequency	Percent	Mean Value	Standard Deviation	
Valid	Not Interested at all	12	1.8	3.59	0.895	
	Not Interested	62	9.6			
	Neutral	191	29.4			
	Interested	301	46.4			
	Highly Interested	83	12.8			
	Total	649	100.0			
b) The mechanism of deriving and calculating declared rate of return on deposits						
		Frequency	Percent	Mean Value	Standard Deviation	
Valid	Not Interested at all	9	1.4	3.70	0.864	
	Not Interested	44	6.8			
	Neutral	180	27.7			
	Interested	313	48.2			
	Highly Interested	103	15.9			
	Total	649	100.0			
Question 33: If your answer is either 'neutral', 'not interested' or 'not interested at all' in one of the above questions (question 32 (a) or (b)) please select the following reasons:						
		Frequency	Percent	Valid Percent	Mean Value	Standard Deviation
Valid	Do not bother to read financial statement	51	7.9	17.3	2.52	0.877
	Do not understand the financial statement	61	9.4	20.7		
	Only read when necessary	161	24.8	54.8		
	Difficult to get financial statement	19	2.9	6.5		
	Others	2	0.3	0.7		
	Total	294	45.3	100.0		

6.14 EXPERIENCE AND OPINION OF RESPONDENTS TOWARDS ISLAMIC BANKING CUSTOMER SERVICE

The last section in this chapter discusses the experience and opinion of the respondents concerning customer service. There are two parts that the researcher investigated in this section. The first part, which consists of questions 34 and question 35, deals with the experience of the respondents when they first opened an account with their respective Islamic banks; the second part (question 36 and question 37) deals with the respondents' interest in learning more about the *Shari'ah*-compliance aspects of their deposits accounts from the bankers.

The first part (question 34 (a) and (b)) in the section asked the respondents to indicate either 'yes', 'no', or 'not sure' on their experience on the following situation:

Question 34 (a) – The bank's staff explained the features of the deposits account that they opened. As is shown in Table 6.16, only slightly above 50.0% of the respondents stated that their respective bank's staff did explain the features of their deposit account prior to the opening of account. While 35.3% of the respondents claimed that their bank staff did not provide such information. About 14.2% indicated that they were not sure.

Question 34 (b) – The situation asked was whether their respective bank's staff explained the characteristics of the *Shari'ah* contract used to govern their deposits account (including the risk and return mechanism). The results as per Table 6.16 show that 43.3% of the respondents claimed that the bank's staff did not explain it to them. The other responses were 38.7%, who stated that the bank's staff did explain to them, and the remaining 17.8%, who indicated that they were not sure.

Next, respondents, who answered 'no' at least once in question 34, were required to proceed to question 35. In this question, the respective respondents needed to give their opinion by selecting one of the available options that closely described the main reason why the banks' staff did not play their part by giving adequate explanations regarding their features and characteristics of their deposits account. The most popular reason (29.6%) selected by the respondent was the banks' staffs assumed that the customer already knew the information. The other reasons selected by the

respondents, according to the ranking of popularity, were lack of knowledge concerning Islamic banking principles among the bank staff, (25.1%), time constrain due to large volumes of customers (23.1%), lack of professional attitude (19.5%), and others (2.6%).

Table 6.16: Depositors' experience dealing with the Islamic banks employees upon opening an Islamic banking account

Question 34: When you first open an Islamic banking deposit account with this bank, what was your experience on the following situations?				
a) The bank's staff explained the features of the account before I opened my account				
		Frequency	Percent	Valid Percent
Valid	Yes	326	50.2	50.4
	No	229	35.3	35.4
	Not Sure	92	14.2	14.2
	Total	647	99.7	100.0
Missing	No Response	2	0.3	
Total		649	100.0	
b) The bank's staff explained the characteristics of the *Shari'ah* contract used (including risk and return mechanism).				
		Frequency	Percent	Valid Percent
Valid	Yes	251	38.7	38.9
	No	280	43.1	43.3
	Not Sure	115	17.7	17.8
	Total	646	99.5	100.0
Missing	No Response	3	0.5	
Total		649	100.0	
Question 35: If at least one of the answers is 'no' from the above question (Question 34 (a) or (b)), what do you think is the main reason on the side of bank staff?				
			Frequency	Valid Percent
Valid	Time constrain due to many customers		71	23.1
	Lack of knowledge on Islamic banking principles among the		77	25.1
	Assume customer already knows		91	29.6
	Lack of professional attitude		60	19.5
	Others		8	2.6
	Total		307	100.0

In the second part, the respondents were asked whether they are interested to understand the *Shari'ah* aspects that govern all of their financial products if their respective bank's staffs are willingly to explain these to them. The answer for this question (question 36) as depicted in Table 6.17 was overwhelming with about 85.0% of the respondents, who stated that they were interested to learn the information from

the bank's staff. Only 8.7% and 6.8% of the respondents replied 'no' and 'indifferent' to this question, respectively.

Consequently, those respondents, who indicated that they were not interested to understand the information, were asked to select one of the available options that best describes the reason behind their indifference (question 37). The most likely reason selected was that the respondents have limitations in terms of time constraints, with 44.3% of respondents selecting this option. The others reasons, according to the highest frequency ranking, were as follows: very difficult to understand (30.0%), not important at all (14.3%), similar to conventional product (8.6%), and others (2.9%).

Table 6.17: Depositors' level of interest towards understanding *Shari'ah* aspect of their financial product

Question 36: Are you interested in understanding the *Shari'ah* aspect of your product if the bank's staffs are willing to explain it?				
		Frequency	Percent	Valid Percent
Valid	No	56	8.6	8.7
	Yes	544	83.8	84.5
	Indifferent	44	6.8	6.8
	Total	644	99.2	100.0
Missing	No Response	5	0.8	
Total		649	100.0	
Question 37: If no, what is your reason?				
		Frequency	Percent	Valid Percent
Valid	Time constraint	31	44.3	44.3
	Not important at all	10	14.3	14.3
	Very difficult to understand	21	30.0	30.0
	Similar to conventional products	6	8.6	8.6
	Others	2	2.9	2.9
	Total	70	10.8	100.0

In short, the respondents, and perhaps the majority of the banks' customers, are willing to learn and understand various aspects that are related to their financial products. These include, among others, the features of their products and also, most crucially, the underlying *Shari'ah* principles that govern their financial products which can be seen in the results presented in Table 6.17. Nevertheless, the banks so far did not adequately support the customers' need. There were huge gaps in the bankers' role in discharging their duties, as evidenced in the result shown in Table 6.16.

6.15 CONCLUSION

This chapter has provided information on the characteristics of the respondents, and also discussed the preliminary findings based on the overall results of the survey. All in all, the survey is considered to provide a balanced demographic profile for respondents in terms of gender, age, marital status, education level, income, and occupation. Moreover, more than three quarters of the respondents had a relationship of at least a year's duration with their respective bank, which implied that the respondents were quite familiar with the banking institution.

The results of other aspects of the questionnaire were rather mixed. Firstly, there is a gap in terms of respondents' knowledge and understanding of certain characteristics of Islamic banking, as indicated by the fact that almost half of the respondents did not know the underlying contract for their deposits account. There is also evidence that indicates that the respondents' position on financial return is a priority, but within the limits of *Shari'ah*-compliance. There are also some interesting findings with regard to various characteristics related to the profit-sharing contract deposits account, in which the majority of the respondents did not fully understand the true spirit of profit-sharing contract mechanisms. Lastly, the respondents demonstrated that they are willing to close the gaps by learning about the principles of Islamic banking, which are related to their product. Therefore, the Islamic bankers should play a more proactive role in meeting the demand from their customers.

Chapter 7

Exploring the Awareness and Knowledge of Deposits Account Holders on the Fundamental Aspects of Islamic Deposit Accounts: Inferential Statistical Analysis

7.1 INTRODUCTION

This chapter is continuation of the previous chapter, which explored and analysed the opinions, perceptions, and attitudes of the respondents by providing a comparative analysis between several identified groups (*i.e.* respondent category, Islamic banking type, level of education, age, and relationship duration). In addition, the chapter considered some determinants and factors, which contribute to the awareness and knowledge of the respondents concerning Islamic banking deposits.

As mentioned earlier in the research methodology chapter, the inferential analysis in the present chapter employs several inferential statistics tools for non-parametric data analysis, ranging from cross-tabulation, Mann-Whitney U-Test, Kruskal-Wallis test to factor analysis and logistic regression. The chapter is divided into three broad sections: Section 7.2: Awareness and knowledge on the general principles of Islamic banking deposits account; Section 7.3: Support for Islamic banking industry; and 7.4: Relationship between awareness, knowledge and loyalty. Section 7.2 of the chapter is further broken down into several strands, namely 'awareness and knowledge of *riba'* principles', 'awareness of types of account', and, lastly, 'knowledge of the principles underlying the deposits account'. In section 7.3, the main focus is on the analysis of various patronage factors that influence the depositors to open an account with Islamic banks; finally, in section 7.4, the main focus of discussion is to see whether there is any relationship between the findings in sections 7.2 and 7.3, *i.e.* a comparative analysis between the findings in sections 7.2 and 7.3, which discusses the profiles of those respondents, who have other deposits accounts with other financial institutions. The goal is to determine whether there are any cohesive reasons for selecting their existing bank competitors. This chapter concludes with a brief summary of the overall analysis and findings.

7.2 AWARENESS AND KNOWLEDGE ON THE GENERAL PRINCIPLES OF ISLAMIC BANKING DEPOSITS ACCOUNT

It is highly expected that the respondents as depositors of Islamic banks possesses a high level of awareness and knowledge concerning the Islamic banking principles, such as the concept of *riba'*. A strong understanding and conviction towards Islamic banking principles are expected to create loyalty towards Islamic banking. Therefore, in this section, the analysis assesses the respondents' level of awareness and understanding according to the selected category of the respondents' profile.

7.2.1 Awareness and knowledge on *Riba*' principles

The first factor to be examined is the respondents' awareness of the concept of *riba'*. As mentioned in chapter 3, prohibition of *riba'* is the main basis for the formulation of Islamic banking deposits as an alternative to conventional banking deposits accounts. As described in the previous chapter, there were more than 80% of the respondents, who stated that they are familiar with the *riba'* terminology. This section will investigate further to see which subgroups of respondents have a better awareness on the terminology. For this purpose, the researcher has employed the Mann-Whitney U-test to examine for 'respondent category' and 'Islamic bank type', and the Kruskal-Wallis- tests for 'age', 'education', and 'duration of relationship. A summary of the findings for these variables is depicted in Table 7.1.

The first subgroup is 'respondent category'. The result from the Mann-Whitney U-test above indicates that there is no statistically significant difference between ordinary depositors (mean ranking= 322.93) and bank employees (mean ranking = 330.75) in terms of their awareness level concerning the *riba'* terminology. This can be seen as the significant value of 0.609 is significantly higher than the significant level of 0.05 confidence level, which is also evident from the mean ranking.

The second subgroup is 'Islamic bank type'. Again for this group, the Mann-Whitney U-test was used to see if there is any statistically significant difference in the awareness levels on *riba'* terminology between respondents of 'stand-alone' Islamic banks and also Islamic subsidiaries. The result indicates that respondents from Islamic subsidiaries (mean = 323.25) did not seem to differ in their awareness levels from

respondents from stand-alone Islamic banks (mean = 327.00). This can be seen from the p-value of 0.782, which is significantly higher than critical p-value of 0.005.

Table 7.1: Mann-Whitney U and Kruskal-Wallis Test: Respondents' Familiarity with the term *riba'*

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 12: Familiar with the term *'Riba'*	**RESPONDENT CATEGORY:**		**U-Test:**	*z*= -0.511	0.609
	Ordinary Depositor	477	u_1=322.93		
	Bank Employees	172	u_2=330.75		
	ISLAMIC BANK TYPE:		**U-Test:**	*z*= -0.277	0.782
	Stand-Alone	303	u_1=327.00		
	Islamic Subsidiaries	346	u_2=323.25		
	Total N	649			
	AGE:		**K-W Test:**	χ^2= 7.091	0.131
	Below 20	32	k_1= 299.98		
	21-30	273	k_2= 327.22		
	31-40	204	k_3= 307.25		
	41-50	107	k_4= 345.47		
	Above 50	33	k_5= 374.23		
	Total N	649			
	EDUCATION:		**K-W Test:**	χ^2= 10.400	0.034
	Primary/Secondary School	151	k_1= 307.80		
	College Diploma/Matriculation/A-Level	189	k_2= 304.27		
	Bachelor (First Degree)	222	k_3= 331.50		
	Professional Qualification	27	k_4= 370.56		
	Postgraduate (Master or PhD)	56	k_5= 370.58		
	Total N	645			
	DURATION OF RELATIONSHIP:		**K-W Test:**	χ^2= 19.009	0.000
	Less than 1 year	136	k_1= 274.60		
	1 - 3 years	203	k_2= 312.44		
	3 - 5 years	109	k_3= 356.84		
	More than 5 years	194	k_4= 344.01		
	Total N	642			

The analysis of the following three subgroups intended to determine whether there are any significant differences in terms of awareness levels according to demographic profile, namely 'age', 'education level' and 'duration of the banking relationship'. It is expected that respondents in the lower to middle aged groups have a better awareness mainly due to better exposure, while those who have a better education level will have better awareness; lastly, those who have been in longer banking relationships are more aware than those who are still new to the Islamic bank.

The results show that, statistically, there were significant differences among various groups in the education and relationship duration categories, while in the age group category the results suggest otherwise. This can be seen from the following summary of the results:-

- Age – The Kruskal-Wallis Test results suggest that there is no significant difference in awareness levels across five different age groups. This can be evidenced from the p-value of 0.131, which is higher than critical p-value of 0.05.

- Education- The Kruskal-Wallis Test results suggest that there is a significant difference in awareness level across the education level groups, as the p-value of 0.034 is lower than critical p-value of 0.05. The results also show that those who have better academic qualifications, *i.e.* postgraduate (mean = 370.58) and professional qualifications (mean = 370.56) have better awareness levels compared to other education level.

- Relationship Duration – The observations of the Kruskal-Wallis test reveal that there is a significant difference in awareness levels across four different relationship duration groups, as the p-value of 0.000 is lower than 0.05. Based on the mean-value score, respondents, who have a longer relationship duration, *i.e.* 3-5 years (mean = 356.84) and more than 5 years (mean = 344.01), have better levels of awareness.

Based on the above results, it can be concluded that there are two factors (*i.e.* education and relationship duration) that contribute to better awareness of certain Islamic banking principles. Both categories can be reclassified under the 'exposure' theme. In this context, those with better education levels have more opportunity to be exposed to knowledge related to Islamic banking through formal education in lectures, academic or professional seminars, and also through conversations with friends. As for the relationship duration category, those people who have a longer banking relationship with the Islamic banks will have better exposure in terms of reading materials when they visit the banks, and also through explanation from the banks' employees.

The results for the remaining three categories indicate that there is no significant difference among the various sub-groups. One possible reason for this can be found in effective awareness programmes, which have been conducted by industry players such as regulators, Islamic banks, *Shari'ah* advisors and mass-media. The effectiveness of these programmes can been seen from the fact that the awareness

levels of ordinary depositors and bank employees are almost equal, even though it would be expected that bank employees have better awareness by virtue of better exposure to the subject matter. In addition, this can be also be supported by the fact that there is no significant difference in awareness levels between respondents from stand-alone Islamic banks and Islamic subsidiaries. Initially, it was expected that respondents from stand-alone Islamic banks have better awareness compared to those from Islamic subsidiaries for two reasons: firstly, stand-alone Islamic banks have been in existence much longer than Islamic subsidiaries, and, secondly, the respondents from stand-alone Islamic banks have the advantage of dealing with only Islamic banking products and services whereas Islamic subsidiaries still need to operate side-by-side with their respective conventional counterpart in sharing the same operating platforms and buildings. Nevertheless, the results have indicated otherwise, which may suggest the effectiveness of continuous awareness campaigns by the stakeholders. The same reason can also be applied to the final group that shows insignificant results, *i.e.* the age group. Proper effective awareness campaigns would be able to reach various sections of the age group.

Those respondents, who answered that they were familiar with the *riba'* terminology, were further questioned concerning their knowledge of the concept of *riba'*. Again, similar testing methods, *i.e.* Mann-Whitney U-Test (U-test) and Kruskal-Wallis test (K-W test), were used to see whether there are any significant differences across various groups in the respective category. As mentioned before, the respondents were asked three questions related to a basic level of knowledge of the *riba'* concept, and the results of the U-test and K-W test are depicted in Tables 7.2, 7.3, and 7.4, respectively.

For the present analysis, it is worthwhile to note that the researcher has made changes to the total number of respondents for the following groups: 'Islamic bank type', 'age', 'education', and 'relationship duration'. The reduction of the total number of respondents only affected the 'bank employees' category. This was done due to the outcome of the U-test for 'respondent category', in which the results showed that there was a significant difference in terms of knowledge between ordinary depositors and bank employees. The results of all three questions were in favour of the bank employees group, meaning bank employees have a better understanding of the subject

matter. The findings that bank employees have a better knowledge of *riba'* compared to ordinary depositors is highly expected, due to the fact that bank employees have better exposure to the concept as part of their jobs. If the necessary data exclusion from the bank employees group had not been made, the researcher believes that it would introduce bias to the analysis of the other categories. The summary of the U-test results for all three of the tested questions is as follows:

Question 13(a) *– Bank's 'interest' is not riba'*. The U-test indicates that there is a significant difference in terms of knowledge in favour of the bank employees group (mean = 332.34), compared to the ordinary depositors group (mean = 254.34), with the former correctly stating that bank's 'interest' is *riba'*. This can be seen from the p-value of 0.000, which is significantly lower than the critical value of 0.05.

Question 13(b) *– 'Interest' paid by conventional banks is the same as profit on deposits paid by Islamic banks.* Again, the U-test results suggest that there is a significant difference in terms of knowledge in favour of the bank employees group (mean = 337.03), compared to ordinary depositors (mean = 250.06), with the former correctly stating that they disagree with the statement. This can be proved from the p-value of 0.000, which is significantly lower than critical value of 0.05

Question 13(c) *- It is sinful to take conventional bank deposit 'interest'*. In line with the results from the previous two questions, there is a significant difference in terms of knowledge concerning *riba'* between bank employees (mean = 311.63) and ordinary depositors (mean = 258.65), as evidenced in the p-value of 0.000, which is lower than critical limit p-value of 0.05.

Subsequently, the U-test was used for comparing groups in the Islamic bank type category and K-W test was used for comparing across the groups for age, education, income, and relationship duration. The purpose of these tests was to identify the groups that have a better knowledge of the concept of *riba'*. The presentation for this will be done by category, instead of by question number. This will give consistency, since all the questions asked were related to the theme of eliciting respondents' knowledge of the concept of *riba'*.

As a recapitulation, the following analyses in this section were using data from ordinary depositors only. The analysis for each of the categories is as follows:-

Islamic bank type: Based on the figures in Tables 7.2, 7.3, and 7.4, the U-test results indicate that there is no significant difference in terms of knowledge related to the concept of *riba'* across the relevant groups. These findings can be substantiated, since the p-values for question 13 (a), (b) and (c) of 0.925, 0.703, and 0.698, respectively, are significantly higher than the critical p-value limit of 0.05. This echoes the previous findings from the same category, which show that the high levels of awareness among the respondents from Islamic subsidiaries are also supported by a sound level of understanding of the subject matter. Therefore the findings may be used to further strengthen the reasoning that the effective awareness campaigns carried out by various stakeholders were able to improve the level of understanding among the ordinary depositors on the concept of *riba*'.

Age**:** As for the age category, there seem to be conflicting results from the three questions asked. In the first two questions (question 13 (a) and (b)), the results revealed there is no significant difference in the level of knowledge across the age groups, since both of the p-value of 0.215 and 0.116 are higher than critical p-value of 0.05. On the other hand, for the third question, the results suggest that there is a significant difference in the level of understanding across the age groups, as signified in the p-value of 0.043, which is slightly lower than critical p-value of 0.05. It seems that the contradiction in the results may be explained by how the questions are structured. The first two questions can be categories in terms of differentiating the meaning of *riba'*. In this situation, the results suggest that the various age groups are generally able to differentiate between *riba'*, 'interest', and 'profit'. Nevertheless, it seems that the majority of the younger age groups (age group of below 20 and 21-30) were unable to relate the *riba'* issue to some theological point of view.

Education**:** In the education category, the results presented in Tables 7.2, 7.3, and 7.4 are consistent. Based on the results, it can be stated that, statistically, there are significant differences across the various education background groups in relation to their knowledge of the concept of *riba'*. The K-W tests' p-value outcomes for questions 13 (a), (b) and (c) are 0.000, 0.000 and 0.005, respectively, and thus are

significantly higher than the critical p-value of 0.05. The results also show that the higher level of education groups, *i.e.* the bachelor, professional qualifications, and postgraduate groups have a better mean value compared to the lower level education groups. These results indicate that the level of understanding can be improved if the person gets appropriate exposure to the subject matter, for example through formal education.

***Relationship Duration*:** In terms of relationship duration, the results are in line with the expectation: the longer the duration of relationship, the better the level of understanding of the respondents. Again, for all the three questions (questions 13 (a), (b) and (c)) the K-W test revealed that there are significant differences in the level of understanding across various relationship duration groups, as shown in the p-values of 0.037, 0.012, and 0.024, respectively, which are lower than 0.05. The results can again be related to the campaigns discussed above.

Table 7.2: Mann-Whitney U and Kruskal-Wallis Test: Respondents' understanding on *riba'* – Bank's Interest is not *riba'*

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
QUESTION 13(a): Bank's Interest is not *riba'*	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	398	u_1=254.34	z= -5.496	0.000
	Bank Employees	153	u_2=332.34		
	Total N	551			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	205	u_1=200.00	z= -0.094	0.925
	Islamic Subsidiaries	193	u_2=198.97		
	Total N	398			
	AGE:		**K-W Test:**		
	Below 20	23	k_1= 172.13		
	21-30	177	k_2= 190.19	χ^2= 5.798	0.215
	31-40	112	k_3= 211.38		
	41-50	64	k_4= 204.22		
	Above 50	22	k_5= 228.82		
	Total N	398			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	107	k_1= 170.38		
	College Diploma/Matriculation/A-Level	115	k_2=179.84		
	Bachelor (First Degree)	127	k_3= 235.78	χ^2= 27.029	0.000
	Professional Qualification	11	k_4= 237.32		
	Postgraduate (Master or PhD)	37	k_5= 203.68		
	Total N	397			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	85	k_1= 178.54		
	1 - 3 years	129	k_2= 197.32	χ^2= 8.480	0.037
	3 - 5 years	75	k_3= 187.84		
	More than 5 years	106	k_4= 221.62		
	Total N	395			

Table 7.3: Mann-Whitney U and Kruskal-Wallis Test: Respondents' understanding on *riba'* – Interest is the same as profit

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 13(b): Interest is the same as profit	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	394	u_1=250.06	z= -6.057	0.000
	Bank Employees	154	u_2=337.03		
	Total N	548			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	204	u_1=194.48	z= -0.382	0.703
	Islamic Subsidiaries	190	u_2=199.67		
	Total N	394			
	AGE:		**K-W Test:**		
	Below 20	22	k_1= 141.25		
	21-30	177	k_2= 195.54	χ^2= 7.399	0.116
	31-40	112	k_3= 205.21		
	41-50	61	k_4= 210.63		
	Above 50	22	k_5= 193.86		
	Total N	394			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	106	k_1= 159.64		
	College Diploma/Matriculation/A-Level	113	k_2=177.85		
	Bachelor (First Degree)	126	k_3= 228.04	χ^2= 35.309	0.000
	Professional Qualification	11	k_4= 227.32		
	Postgraduate (Master or PhD)	37	k_5= 247.82		
	Total N	393			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	84	k_1= 174.02		
	1 - 3 years	128	k_2= 187.84	χ^2= 11.027	0.012
	3 - 5 years	73	k_3= 195.79		
	More than 5 years	106	k_4= 223.42		
	Total N	391			

Table 7.4: Mann-Whitney U and Kruskal-Wallis Test: Respondents' understanding on *riba'* – Sinful to take conventional bank deposit interest

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 13(c): Sinful to take conventional bank deposit interest	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	393	u_1=258.65	z= -3.687	0.000
	Bank Employees	153	u_2=311.63		
	Total N	546			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	201	u_1=199.07	z= -0.388	0.698
	Islamic Subsidiaries	192	u_2=194.83		
	Total N	393			
	AGE:		**K-W Test:**		
	Below 20	22	k_1= 183.18		
	21-30	174	k_2= 180.49	χ^2= 9.835	0.043
	31-40	112	k_3= 218.97		
	41-50	63	k_4= 209.21		
	Above 50	22	k_5= 194.61		
	Total N	393			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	105	k_1= 173.00		
	College Diploma/Matriculation/A-Level	114	k_2=183.46		
	Bachelor (First Degree)	127	k_3= 216.83	χ^2= 14.775	0.005
	Professional Qualification	11	k_4= 235.64		
	Postgraduate (Master or PhD)	35	k_5= 223.41		
	Total N	392			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	83	k_1= 165.01		
	1 - 3 years	127	k_2= 198.39	χ^2= 9.399	0.024
	3 - 5 years	75	k_3= 213.33		
	More than 5 years	105	k_4= 203.37		
	Total N	390			

In short, with the exception of the Islamic bank type category, all the other categories showed that there are significant differences in terms of knowledge concerning the concept of *riba'*. Statistically, the significant differences are mainly in favour of groups of respondents who are more exposed to the subject matter, *i.e.* employees, those in higher age groups, with a higher level of education, and with longer relationship duration.

7.2.2 Awareness of Types of Account

After analysing the level of awareness and knowledge of the respondents concerning the very basic principles that differentiate Islamic banking deposits accounts from conventional banking deposits accounts, this section will look into the awareness of the respondents regarding what type of account they are holding. The objectives of this section are twofold, firstly to know whether all the respondents are aware of the type and name of their deposits account, and secondly to study the profiles of the respondents to determine whether a pattern of preference emerges from the

respondents' profiles; in this context, special consideration will be given to the specific risks associated with the underlying *Shari'ah* contracts, and how these impact on the respondents' preference for a specific product.

As is evident in Table 6.3 in the previous chapter, there are about 94 respondents or 14.5%, who stated that they were not sure what type of deposits account they had. In this section, the researcher provides further analysis of the respondents' profiles to investigate the occurrence of this problem across various demographic groups. Table 7.5 provides a summary of the findings.

Table 7.5: Cross-tabulation: Respondents' Unawareness about type of account breakdown to various categories

Variables		%
Respondent Categories	Ordinary	92.6%
	Employees	7.4%
Age	20 and below	13.8%
	21 - 30	43.6%
	31 - 40	20.2%
	41 - 50	18.1%
	Above 50	4.3%
Highest Education Level	Primary/Secondary School	24.5%
	College Diploma/Matriculation/A-Level	37.2%
	Bachelor (First Degree)	31.9%
	Professional Qualification	1.1%
	Postgraduate (Master or PhD)	5.3%
Relationship Duration	Less than 1 year	35.2%
	1 - 3 years	40.7%
	3 – 5 years	13.2%
	More than 5 years	11.0%

According to the results, around 93% of the respondents, who stated they were unsure of what type of account that they had, were from the ordinary depositors group. In terms of age group, they came mainly from the group of those aged 30 and below, which accounted for 57.4%. Meanwhile, for the education level profile, those who were from lower education backgrounds, *i.e.* primary/secondary school and college diploma/ matriculation/ A-level contributed 61.7%; and, lastly, respondents, who had a relationship with the bank of less than 3 years, contributed about 76% of the cases.

Based on the findings above, it can be seen that – among the ordinary depositors – factors such as lower age group, lower education level, and shorter relationship

duration were the main factors that contributed to the problem. This suggests that a lack of exposure to Islamic banking services again was a contributing factor to the depositors' lack of awareness and knowledge. These findings are also in line with the findings of the previous section.

The data regarding the type of deposits account that the respondents are holding will be further analysed according to the respondents' risk preference. The deposits account risk profile analysis can be categorized into two perspectives, *i.e.* product base perspective and the underlying *Shari'ah* contract perspective. The analysis involves two groups, namely ordinary depositors and bank employees. The outcome of the analysis was established by using the cross-tabulation method. The summary of the results are available in Table 7.6. The total numbers of 513 (ordinary depositors) and 292 (employees) in Table 7.6 exceeds the total sample is due to the fact that the respondents were allowed to choose more than one answer from the question.

Firstly, the profile of the respondents can be assessed according to the nature of risk from the product base perspective. Based on the results, about 80% of the ordinary depositors prefer to have savings accounts, compared to about only 68% of the employees. On the other hand, 24% and 7.4%, respectively, of the employees opened current accounts and general investment accounts, compared to 18% (current accounts) and 2.1% (general investment accounts) opened by ordinary depositors. As discussed in detail in chapters 2 and chapter 3, savings accounts carry a lowest risk and will generally give a minimum deposits return, while general investment accounts carry higher risk, but in return give higher deposits return. Based on these statistics, it seems that many of the ordinary depositors prefer to have savings accounts, while the employees prefer current accounts and general investment accounts.

Secondly, when considering the underlying *Shari'ah* contract, it becomes obvious that the ordinary depositors have a higher preference for deposit accounts based on *wadiah* and *qard* than the employees. This can been seen from the statistics: about 70% and 2.6%, respectively, of the ordinary depositors hold deposit accounts based on *wadiah* and *qard* contracts respectively, compared to 67% (*wadiah*) and 2.1% (*qard*) held by the employees. On the other hand, about 31% of the employees hold deposits account based on *mudarabah* contracts, as opposed to 28% of the ordinary depositors. As a

reminder of the detail discussion in chapter 3, from a *Shari'ah* point of view, *wadiah* and *qard* contracts are associated with lower risk than *mudarabah* contracts. From these findings it can be concluded that deposits products based on a higher-risk contract were preferred by employees, while deposits products based on lower-risk contracts were more often chosen by ordinary depositors.

From the discussion above, it can be conclude that, generally speaking, the majority of the ordinary depositors were risk averse, and on the other hand, the employees were more adventurous by engaging in the higher-risk products and contracts. One of the possible reasons that may explain this situation is that the employees were more exposed to the products, and thus more knowledgeable about the nature of risk and return associated with the respective products. This conclusion again echoes the suggestions from the previous sections that those groups with better exposure have a better understanding of the products and services, especially the sophisticated products.

Table 7.6: Cross-tabulation: Respondents' type of account based on respondent categories

Type of Account		Respondent Categories		Total
		Ordinary	Employees	
Wadiah Saving Account	Frequency	301	149	450
	% of Row	66.9%	33.1%	100%
	% of Column	58.7%	51.0%	
Mudarabah Saving Account	Frequency	100	43	143
	% of Row	69.9%	30.1%	100%
	% of Column	19.5%	14.7%	
Qard Saving Account	Frequency	7	6	13
	% of Row	53.8%	46.2%	100%
	% of Column	1.4%	2.1%	
Wadiah Current Account	Frequency	56	47	103
	% of Row	54.4%	45.6%	100%
	% of Column	10.9%	16.1%	
Mudarabah Current Account	Frequency	32	24	56
	% of Row	57.1%	42.9%	100%
	% of Column	6.2%	8.2%	
Qard Current Account	Frequency	6	0	6
	% of Row	100.0%	0.0%	100%
	% of Column	1.2%	0.0%	
Mudarabah General Investment Account	Frequency	11	23	34
	% of Row	32.4%	67.6%	100%
	% of Column	2.1%	7.9%	
Do not know the type of account	Frequency	87	7	94
	% of Row	92.6%	7.4%	100%
TOTAL		**513**	**292**	

7.2.3 Knowledge of the underlying principles to the deposits account

This section discusses whether there are any significant differences in knowledge concerning the underlying contract across various groups of respondents. For this purpose, again Mann Whitney U-test and Kruskal-Wallis test were being utilized. The same approach as in section 7.2.1 will be used in this section: if the outcome of U-test for 'respondent category' showed any significant differences in favour of employees, the subsequent categories of testing will be excluding the employees from the total number of respondents. The same justification for this decision applies as that provided in section 7.2.1. The summary of overall the results are available in Table 7.7.

Table 7.7: Mann-Whitney U and Kruskal-Wallis Test: Respondents' knowledge on the underlying *Shari'ah* principles governing their deposits account

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 16: Knowledge on the underlying contract governing the deposit account	**RESPONDENT CATEGORY**		**U-Test:**		
	Ordinary Depositor	474	u_1=294.16	z= -7.566	0.000
	Bank Employees	171	u_2=402.95		
	Total N	645			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	236	u_1=240.95	z= -0.636	0.525
	Islamic Subsidiaries	238	u_2=234.08		
	Total N	474			
	AGE:		**K-W Test:**		
	Below 20	31	k_1= 165.08		
	21-30	211	k_2= 232.22	χ^2= 23.625	0.000
	31-40	134	k_3= 233.54		
	41-50	76	k_4= 274.83		
	Above 50	22	k_5= 285.32		
	Total N	474			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	131	k_1= 238.71		
	College Diploma/Matriculation/A-Level	142	k_2=212.28		
	Bachelor (First Degree)	145	k_3= 240.02	χ^2= 18.952	0.001
	Professional Qualification	14	k_4= 252.25		
	Postgraduate (Master or PhD)	41	k_5= 301.28		
	Total N	473			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	112	k_1= 195.18		
	1 - 3 years	157	k_2= 217.46	χ^2= 36.376	0.000
	3 - 5 years	82	k_3= 258.06		
	More than 5 years	117	k_4= 278.50		
	Total N	468			

The first category to be analysed is the respondent category. The U-test results suggest that, statistically, there is a significant difference in the level of knowledge between ordinary depositors (mean = 294.16) and employees (mean = 402.95), as can be seen in the p-value of 0.000, which is significantly lower than critical p-value of

0.05. The result is as expected, based on the assumption that employees of the bank are well exposed to the various *Shari'ah* contracts through their daily work. Therefore, in the subsequent analysis for other categories, the number of respondents used will be limited only to the ordinary depositors in order to avoid any bias in the results.

For the analysis of 'Islamic bank type' category, again, the U-test results suggest that there is no significant difference in terms of understanding the contracts between respondents from stand-alone Islamic banks (mean = 240.95) and Islamic subsidiaries (mean = 234.08). The findings can be substantiated with the p-value figure of 0.525, which is higher than critical p-value of 0.05.

In the next three categories namely 'age', 'education level', and 'relationship duration', K-W test results indicate that there are significant differences in the level of understanding concerning the underlying *Shari'ah*-approved contracts across the various groups, as is evident in the p-values of 0.000, 0.001 and 0.000 respectively. For the age group category, the results show that the higher age groups, *i.e.* 'above 50' (mean 285.32) and '41-50' (mean = 274.83) have better knowledge, compared to the lower age groups. For the 'level of educations' analysis, the results indicate that respondents with a higher level of education have better knowledge, compared to those who have a lower level of education. The group that scored the highest mean value is from the postgraduate group (301.28), while the group that has the lowest mean value is college diploma/matriculation/A-level (212.28). Lastly, for the 'relationship duration' category, the outcome of the survey is in favour of respondents, who have a relationship duration of more than 5 years (mean = 278.50), and the lowest mean value is from the group with less than 1 year (195.18).

The overall conclusion that can be derived from the findings again is similar to the conclusions that have been discussed before: those, who have better exposure (age = higher age group; education = higher education level; relationship duration = longer duration of relationship) have a better level of knowledge.

7.2.4 Logistic Regression: Factors that contribute to the knowledge of the underlying *Shari'ah* contract

In continuation to the preceding analysis, the researcher further extended the analysis to see whether the variables discussed above (age, education level, and relationship duration) constitute as good predictors of the factors that contribute to the level of understanding. In achieving the mentioned purpose, the researcher has used logistic regression technique. As laid down in the research methodology chapter (Chapter 5), this method was used, as it is more appropriate for dealing with those dependent variables, which involve categorical data, *i.e.* the respondents had to indicate 'yes' or 'no' to the questions asked (Field, 2005; Pallant, 2007; Tabachnick and Fidell, 2007).

For this analysis, besides age, level of education, and relationship duration, the researcher also included the 'religiosity' factor as an additional independent variable. This factor was selected since it is believed that it may also contribute to the level of understanding concerning the underlying contracts. This is because those who feel that religiosity as an important factor are believed to have better knowledge and more interest in any matters related to *Shari'ah* principles, including Islamic finance.

The logistic regression test was run using the SPSS software, and the outcomes as depicted in Tables 7.8 to 7.11 are following the format presented by the SPSS software. The first main outcome that is important to logistic regression analysis is to see whether the overall regression model is fit for testing. For that purpose, a 'goodness of fit' test needs to be carried out. In SPSS, the output to indicate the overall fitness of model is presented in Omnibus Tests of Model Coefficients, as presented in Table 7.8 (Field, 2005; Pallant, 2007). For this model to be considered as fit, the significant value of the results should be less than 0.05. In the tests carried out for this study, all the significant values are 0.000 which much lower than 0.05. Therefore it can be concluded that the overall model for this regression is good.

Table 7.8: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	112.664	4	.000
	Block	112.664	4	.000
	Model	112.664	4	.000

The other figures, which were generated from the SPSS output, are Hosmer and Lemeshow Test results. These tests also have a similar function of testing 'goodness of fit'. In fact, according to Pallant (2007: 174), the Hosmer and Lemeshow Test is "the most reliable test of model fit available in SPSS." In this test, the output is interpreted differently from the results of Omnibus Tests of Model Coefficients: if the significant value is less than 0.05, this means that the overall model is poor. Therefore, for the model to be considered as fit, it is highly desirable that the significant value of the test must be higher than 0.05 (Pallant, 2007). The significant values from the Hosmer and Lameshow test results, as presented in Table 7.9, is 0.773, which is significantly higher than 0.05. The results, together with those of the Omnibus test, therefore confirmed that the overall regression model is reliable and fit.

Table 7.9: Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	4.856	8	.773

Another piece of information generated by SPSS to give indication about the usefulness of the model is being presented in Table 7.10 under the heading of model summary. The table contains two statistical outputs namely Cox & Snell R-Square and Nagelkerke R-Square. The two statistics values shown in the table give an indication of the amount of variation in the dependent variables explained by the model (Pallant, 2007). The R-square in logistic regression is known as pseudo R-square statistics, which is another version of R-square provided in multiple regressions (Tabachnick and Fidell, 2007). Therefore, theoretically it is highly desirable to have larger R-square for the model. In this analysis the Cox & Snell R-Square and Nagelkerke R-Square are 0.163 and 0.218 respectively. In other words, this means that only between 16.3% and 21.8% of the variability is explained by the independent variables. The results seem to indicate that it is not a good model, since the figures of 16.3% and 21.8% can be deemed as low. Nevertheless, there are some scholars who counter argue the importance of this method of testing. In fact, Pallant (2007) mentioned that the interpretation of pseudo R-square should not be treated to the same as true R-square available in multiple regression; it is highly suggested that the interpretation of the statistics must be done with great caution (Pallant, 2007; UCLA). In addition, Long (1997) and Menard (2000) as quoted in Peng, Lee and Ingersoll's (2002) article stated that there were attempts create an equivalent R-square

concept for the logistic regression model, but none has yielded an explanation for the meaning of variance. Therefore, Gujarati (2003) and Peng *et al.* (2002) suggest that pseudo R-square indices should be treated as supplementary to other more valuable testing as mentioned before such as Hosmer and Lameshow test.

Table 7.10: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	763.531(a)	.163	.218

Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

The final piece of relevant outputs, which is the most important table churned out by SPSS is the 'variables in the equation' table. Table 7.11 provides results on the contributions and importance of each of the predictor variables (independent variables) (Field, 2005; Pallant, 2007). It is also known as Wald Chi-Square statistics, which provides the p-value and the 'odd' ratio for each of the predictors (UCLA). There are a few important statistics specified in the table that are crucial for the analysis as suggested by Pallant (2007). First is the column that indicates whether the dependent variables entered contribute significantly to the predictive ability of the model. The interpretation of the results is similar to concept of interpreting p-value in which it is desirable to obtain the p-value of less than 0.05 for the dependent variable to be considered as significant. In this analysis, the results show that all the predictors recorded significant values of 0.007, 0.009, 0.000 and 0.000, respectively, for education, age, relationship duration, and religiosity. Therefore it can be said that all the predictors used in this model contributing significantly to level of understanding of the underlying contract governing their deposits account.

Table 7.11: The logistic regression results (Variables in the Equation)

							95.0% C.I.for EXP(B)	
		B	S.E.	Wald	Sig.	Exp(B)	Lower	Upper
Step 1(a)	Education	.470	.175	7.182	.007	1.600	1.135	2.256
	Age	.259	.099	6.905	.009	1.296	1.068	1.572
	Relationship Duration	.445	.084	28.089	.000	1.560	1.323	1.839
	Religiosity	.507	.095	28.297	.000	1.660	1.377	2.002
	Constant	-4.065	.487	69.736	.000	.017		

(a) Variable(s) entered on step 1: Education, Age, Relationship Duration, and Religiosity.

The second important statistic available in the table is the B-Value. The B-Value is the coefficient of each independent variable. The important aspect in evaluating the

B-Value is whether the sign for each value is positive or negative (Pallant, 2007). If the coefficient indicates a positive value, it means that the independent variable has a positive relationship with the dependent variable; on the other hand, if the coefficient shows a negative sign, it means that the independent variable has a negative relationship with the dependent variable. In this analysis, all the predictors or independent variables show positive values which suggests that each of the predictors has a positive relationship with the dependent variable. For example, in the age category it can be interpreted that an increase in age would positively increase the level of knowledge of the respondent.

Final valuable information that is contain in the table is the odd ratios as indicated as Exp(B) in the table (Field, 2005; Pallant, 2007). The odd ratios is defined as "the change in odds of being in one of the categories of outcome when the value of a predictor increases by one unit" (Tabachnick and Fidell, 2007: 461). In other words, it can be also be interpreted as the magnitude of changes in independent variables that may be caused by changes in the dependent variable. In this analysis, the interpretations of the odd ratios are as follows (the presentation of the results are based on the presentation suggest by Pallant (2007) :

- Religiosity – the odds of a person answering that he or she understands the underlying contract governing his or her deposit account is 1.66 times higher for someone who feels religiosity as an important factor in choosing Islamic banking, all other factors being equal. The knowledge is gained through the interest (*i.e.* through reading and attending informal lectures) as a result of his or her belief that patronising Islamic banking is part of religious obligations.

- Education – the odds of a person answering that he or she understands the underlying contract governing his or her deposit account is 1.6 times higher for someone who possesses a higher level of education, all other factors being equal.

- Relationship duration – the longer the duration of the relationship a person has with the Islamic bank, the more likely it is that he or she is to answer 'yes' to the question of whether he or she understands the underlying contract. For each additional year in the relationship, the odds that the person increases his or her

level of understanding of the underlying contract increases by a factor of 1.56, all other factors being equal.

- Age – the higher the age of a person, the more likely it is that he or she is to answer 'yes' to the question of whether he or she understands the underlying contract. For each additional year of age, the odds of the person increasing his or her level of understanding increases by a factor of 1.296, all other factors being equal.

In short, based on the logistic regression model above, it can be proved that age, level of education, relationship duration and also religiosity factors are the significant elements that may enhance the level of knowledge among the respondents. These results again seem consistent with the previous findings in this chapter, where all the significant factors in the model may be grouped under the theme of 'exposure', as explained at the beginning of the chapter. Therefore, if the conclusion derived from the model holds, all the stakeholders of the Islamic banking industry, *i.e.* regulators, Islamic banks, government, institutes of higher learning, researchers, *Shari'ah* advisors, and even the religious authorities (including Islamic preachers) should intensify their efforts to create high levels of awareness and learning among the public, as this will improve the standard of knowledge among the users of the Islamic banking industry.

7.3 IDENTIFYING BANKING SELECTION CRITERIA USING FACTOR ANALYSIS

It is argued in Chapter 4 that a good banking relationship between the bank and depositors is not a function of only a simple choice. There are a lot of other factors that may influence the depositors in selecting Islamic banks to open a deposits account. Therefore, in this section, the researcher discusses the main factors that influence depositors in selecting Islamic banks as a place to deposit their money.

There are many factors that may influence a person to decide which bank to open a deposit account and the list of factors is non-exhaustive. As discussed in detail in Chapter 4 of the thesis, there are a lot of similar research studies that have been conducted to illuminate selection criteria from various angles. This study replicates

some of the previous studies that have been done (for example, Dusuki's of 2005) in terms of their methods and also in the adoption of some of the same variables. In this study, the researcher decided to use factor analysis testing. For the variable selection process, the researcher has compiled a long list of possible variables, including those have been tested in previous studies, and also the researcher's own newly created variables. After considering the objective of the study, thirteen basic elements were selected and tested to achieve the objective as follows: religious obligation/ requirement, the account is free from any 'interest'; the brand name of the Islamic bank (Islamic reputation and image); bank pays out higher return on deposits, encouragement from friends and family; attractive product package and services (such as free takaful coverage, attractive competition prize); opportunity to get other financing facilities such as property or car financing; sound financial reputation of the bank, customer service quality (fast and efficient service); number of branches available, convenience (*e.g.* available parking space, interior comfort); location being near home or work; and, lastly, greater coverage of deposit guarantee.

As discussed in chapter 5, factor analysis is considered as the most suitable method, because of its capability to reduce a large number of related variables to a more manageable number (Foster, 1998; Pallant, 2007). StatSoft Inc. (2010) laid down two main applications for factor analysis techniques: (1) to reduce the number of variables, and (2) to detect and classify the variables into structures. In this case, there are thirteen variables which may be grouped into smaller explainable factors, resulting in perhaps three or four main factors.

According to Pallant (2007), there are two main concerns that need to be taken into account in determining whether the data set is suitable for factor analysis. Firstly, the concern is related to sample size and, secondly, to the strength of the relationship among the variables (or items). In fact, the two areas of concern flagged by Pallant are interrelated in that a proper selection of variables and sample size would result in more reliable correlation coefficients.

Most of the relevant literature recommends that the sample size should be large, since it is argued that small sample sizes would lead to correlation coefficients among the variables that are less reliable (Kline, 1994; Pallant, 2007; UCLA). As a guide,

Comrey and Lee (1992) suggested some parameters; they consider "a sample size of 50 as very poor, 100 as poor, 200 as fair, 300 as good, 500 as very good and 1000 as excellent" (taken from Tabachnick and Fidell, 2007: 613). In addition, Tabachnick and Fidell further suggest that a comfortable sample size would be a minimum of 300 cases (2007: 613). Therefore, based on the guide given by Comrey and Lee, the sample size of 649 respondents found in this study is considered as very good, which merits for the data set to be fit for factor analysis.

In order to test the factorability of the data in terms of sampling adequacy, there are two statistical measures available in the SPSS software that can be used: Bartlett's test of Sphericity and also the Kaiser-Meyer-Olkin (KMO) test. As laid down in Pallant (2007), for the factor analysis to be considered as appropriate, the Bartlett's test of Spehericity value should be significant (P<.05) while for the KMO test, the suggested minimum outcome must be at least 0.6 (KMO score ranging from 0 to 1). In addition, Kaiser (1974) suggests a benchmark as guide for factorial simplicity. The KMO test's benchmarks are as follows: KMO measure in the 0.90s the sampling is considered as marvellous. If the outcome is in the 0.80s, then the sampling is considered as meritorious, if it is in 0.70 then the sample is middling, if it is in the 0.60s then the sample is mediocre, if it is in 0.50s then the sample deemed as miserable and lastly if it is below than 0.50 then the sample is unacceptable. The two above mentioned tests are set as a minimum guideline which should be passed before a factor analysis can be proceed (UCLA). Table 7.12 presents the results of KMO and also Bartlett's test for this factor analysis.

Table 7.12: KMO and Bartlett's Test Results for the 13 items combined

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.838
Bartlett's Test of Sphericity	Approx. Chi-Square	2853.259
	df	78
	Sig.	0.000

As evident in Table 7.12, the outcome of the KMO measure for all 13 items combined, related to the banking selection criteria, showed the value of 0.838, which is under the category of 'meritorious' as suggested by Kaiser's benchmark. Therefore, based on the adequacy of the sample, the sample size is considered as appropriate for

the factor analysis to be carried out. In addition, Bartlett's Test of Sphericity[86] outcome is also favourable for the factor analysis to be carried out. The significant p-value as presented in table of 0.000 is significantly lower than critical p-value of 0.05. Therefore, the null hypothesis of the correlation matrix is and identity matrix can be rejected. Based on the very encouraging results from the both testing, factor analysis may be performed.

In factor analysis, there are various methods[87] that can be used to extract the number of underlying factors; the most commonly used approach is principal component analysis (PCA) (Pallant, 2007). In the current research, the researcher will adopt the commonly used extraction method as suggested in Pallant (2007), which is the PCA. There are two other critical aspects that caused the researcher to decide on performing factor analysis: (1) the number of factors to retain and (2) rotation approach. For the number of factors to be retained, there are three commonly used techniques mentioned by most of the literature, *i.e.* Kaiser's criterion, scree test and parallel analysis. Each of the technique has its own advantages and disadvantages[88]. For the benefit of comparison, the researcher will briefly explain these three commonly used approaches:

- Kaiser's criterion – It is the most commonly used technique and it is also known as eigenvalue rule. In this rule, the numbers of factors that will be retained are based on the eigenvalue of 1.0 and above. In fact, most statistical software (including SPSS software) that supports the factor analysis technique have made the eigenvalue of one as default values (Kline, 1994).

- Scree test –In the scree test, the values of eigenvalue for each of the factors are plotted in a graph. In deciding how many factors to be retained, the researcher needs to inspect the graph and identify where the line changes slope. In quoting

[86] Bartlett's Test of Sphericity is a test to examine whether the correlation matrix is an identity matrix. "An identity matrix is a matrix in which all of the diagonal elements are 1 and all off diagonal elements are 0"(UCLA). In other words, each of the variables is perfectly correlates with itself (r=1) but has no correlations with the other variables (r=0). In this testing, the objective is to reject the null hypothesis that the correlation matrix is an identity matrix. For details refer to (UCLA) and (Field, 2005).
[87] For the details of other extraction approaches, refer to Field (2005), Pallant (2007).
[88] For discussion and debate of each of the factor retention techniques, refer to (Knight, 2000; Osborne and Costello, 2005; Kline, 1994; Garson, 2010; and Fabrigar, Wegener, MacCallum, and Strahan, 1999).

Catell (1966), Pallant (2007:182), "recommends to retain all the factors above the elbow, or break in the plot, as these factors contribute the most explanation of the variance in the data set".

- Parallel analysis – This method was developed by Horn in 1965 (taken from Pallant, 2007). In parallel analysis, the number of factors to be retained will be based on the comparison between the eigenvalue randomly generated from a data set of the same size with the eigenvalue generated from the actual data set. The numbers of factors that will be retained are those whose eigenvalue was generated from actual data, which are larger than the eigenvalue randomly generated from a data set with the same size.

The researcher tested all three commonly used techniques in the context of this study, and the results for each of the technique will be presented later in this section.

The second important task in performing the factor analysis is to decide the rotation method. There are two main approaches, namely the orthogonal (uncorrelated) or oblique (correlated) method[89]. In the orthogonal method, the rotation results is easier to interpret and report but at the same time the researcher needs to assume that the underlying constructs are not correlated; by contrast, the oblique method allows for the assumption that the constructs are correlated, but said the results are said to be more difficult to interpret and report (Tabachnick and Fidell, 2007). Nevertheless, either of the rotation methods is acceptable and should produce the same results (Pallant, 2007; Tabachnick and Fidell, 2007). In the present study, the researcher tried both rotation techniques; for the orthogonal method, the Varimax technique was used, and for the oblique method, Direct Oblimin technique was used. Nevertheless, for the purpose of simplicity, the results in this chapter will only present the outcome of orthogonal Varimax rotation method; the oblique direct Oblimin method is presented in Appendix 7.6, since both methods yield the same results.

[89] In SPSS, each of the rotational methods has a number of different rotational techniques. The techniques are as follows; orthogonal- Varimax, Quartimax, Equamax; oblique- Direct Oblimin and Promax. For details for each of the technique, refer to Tabachnick and Fidell (2007: 639).

As discussed before, the researcher needs to ascertain the number of factors to be retained. Table 7.13 presents the output of the number of factors that are retained according to Kaiser's criterion, in which all the eigenvalues are more than 1.0. In this situation, there are three factors that will be retained, since the eigenvalue are 4.636, 1.697 and 1.405 respectively. In Figure 7.1, it can be seen that the plot slopes steeply downwards from factor one to factor three, before it moves closely to horizontal line from factor three onward. Lastly, based on the parallel analysis (Table 7.14), three factors are retained since the first three factors have an eigenvalue which is higher than the random eigenvalue. Therefore it was decided to retain the three factors, based on the outcomes of all three methods.

Table 7.13: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.636	35.662	35.662	4.636	35.662	35.662	3.097	23.822	23.822
2	1.697	13.053	48.715	1.697	13.053	48.715	2.653	20.411	44.233
3	1.405	10.810	59.524	1.405	10.810	59.524	1.988	15.291	59.524
4	.836	6.434	65.958						
5	.743	5.717	71.676						
6	.689	5.300	76.976						
7	.645	4.965	81.941						
8	.495	3.807	85.749						
9	.478	3.676	89.424						
10	.404	3.109	92.533						
11	.341	2.624	95.157						
12	.322	2.479	97.635						
13	.307	2.365	100.000						

Extraction Method: Principal Component Analysis.

Referring back to Table 7.13, based on the suggested outcomes from the three factors extractions method, the researcher decided to retain the three factors. This means that the original thirteen items can be simply reduced to three factors. The three-component solution explained 59.5% of the variance with component 1 contributing 35.6%, component 2 contributing 13.1%, and component 3 contributing 10.8%. According to Vaus (2002), it is highly desirable to get higher variance for each factor, since this will lead to a better solution.

Figure 7.1: Scree Plot

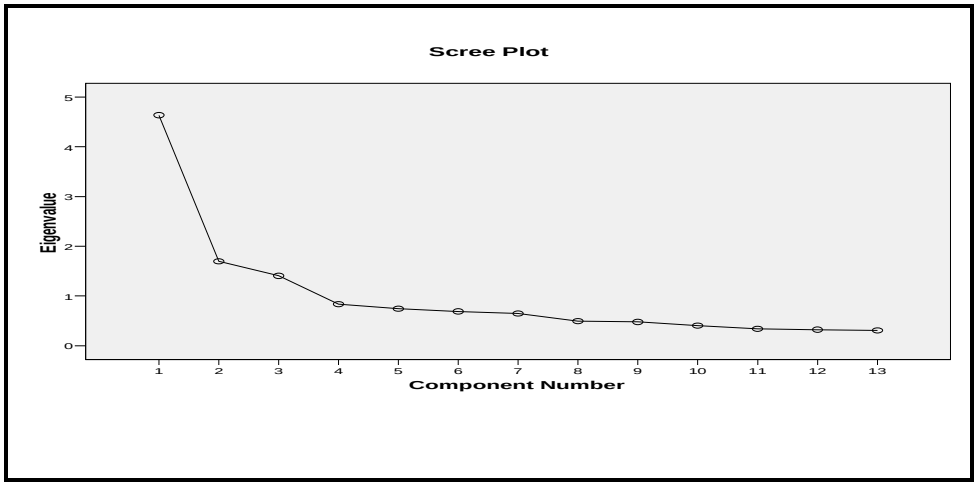


Table 7.14: Parallel Analysis outcome

Monte Carlo PCA for Parallel Analysis			
Number of variables:			13
Number of subjects :			649
Number of replications :			100
Eigenvalue	**Random Eigenvalue**	**Actual Eigenvalue**	**Decision**
1	1.2394	4.636	Retained
2	1.1808	1.697	Retained
3	1.1319	1.405	Retained
4	1.0968	0.836	
5	1.0631	0.743	
6	1.0277	0.689	
7	0.9954	0.645	
8	0.9620	0.495	
9	0.9291	0.478	
10	0.8993	0.404	
11	0.8637	0.341	
12	0.8278	0.322	
13	0.783	0.307	

The three factors retained were rotated using both orthogonal Varimax technique and oblique Direct Oblimin technique. As mentioned before, the presentation and discussion of the results of factor analysis in this chapter will be based on the orthogonal Varimax technique. The results are presented in Table 7.15 below.

Table 7.15: Rotated Component Matrix(a) on factors influencing Islamic Banking Deposits Account Selection Criteria

Variable	Factor			Communality of Each Variable
	1 Physical Services	2 Financial/ Product Services	3 Religiosity/ Islamic Identity	
X_{11}	**.824**			.692
X_{10}	**.782**			.653
X_{12}	**.782**			.619
X_{9}	**.680**			.575
X_{13}	**.563**	.411		.486
X_{6}		**.774**		.651
X_{7}		**.724**		.619
X_{4}		**.673**		.461
X_{5}		**.602**		.406
X_{8}	.500	**.522**		.563
X_{1}			**.868**	.769
X_{2}			**.861**	.755
X_{3}		.391	**.574**	.488
Eigenvalue	3.097	2.653	1.988	
% of variance	23.822	20.411	15.291	
Cumulative %	23.822	44.233	59.524	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
(a) Rotation converged in 5 iterations.

Variables:

X_{1}	Religious obligation/ requirement
X_{2}	The account is free from any 'interest'
X_{3}	The brand name of the Islamic bank (Islamic reputation and image)
X_{4}	Bank pays out higher return on deposits
X_{5}	Encouragement from friends and family
X_{6}	Attractive product package and services (such as free *takaful* coverage, attractive competition prize)
X_{7}	Opportunity to get other financing facilities such as house or car financing
X_{8}	Sound financial reputation of the bank
X_{9}	Customer service quality (fast and efficient service)
X_{10}	Number of branches available
X_{11}	Convenience (*e.g.* available parking space, interior comfort)
X_{12}	Location being near home or work
X_{13}	Greater coverage of deposit guarantee

Table 7.15 shows that all the available variables successfully loaded into three main factors. This was done based on the loading for each of the variables for each factor. A factor loading is a correlation coefficient that represents how much weight is assigned to that factor. The items, which have a higher loading value, indicate that

they strongly belong to that particular factor (Vaus, 2002). In order for each of the item to be considered without doubt as belonging to a particular factor, each of the items must have at least a minimum loading value of 0.32 (Tabachnick and Fidell, 2007; Osborne and Costello, 2005). In a situation where a variable (item) fits into two or more factors (crossloading), the item should be included into the factor that has the highest loading value (Vaus, 2002).

The final results, as indicated in Table 7.15, show that all thirteen items have an acceptable loading value of 0.5 and above, which is higher than the minimal benchmark of 0.32 stated in Tabachnick and Fidell (2007). The results indicate that all the items clearly fit into one of the three factors. The three factors extracted explained a total variance of 59.5%, in which factor one, two and three contribute 23.8%, 20.4%, and 15.3%, respectively.

The first factor from the table consists of five variables (items) with the loading ranging from 0.563 to 0.824. The items that fit into this factor ranked according to the highest loading value are *'X_{11} - convenience'; 'X_{10} – Number of branches available;*, *'X_{12} – Location being near home or work'; 'X_9 – Customer service quality';* and, lastly, *'X_{13} – guarantee coverage'*. All the items that are clustered to the first factor seem related to services. Therefore, the researcher named the factor as 'Physical Services'. The second factor with loading ranging from 0.522 to 0.774 consists another five items namely *'X_6 – Attractive product package'; 'X_7 – Opportunity to get other financing facilities;*, *'X_4 – Bank pays out higher return on deposits'; 'X_5 – 'Encouragement from friends and family';* and *'X_8 – 'Sound financial reputation of the bank'*. These items can be associated with financial product related matters thus the researcher termed the factor 'Financial/Product Services' factor. The final factor is assigned with 'Religiosity/ Islamic Identity' name, since the remaining three items are clustered to the factors can be explained with matters related to *Shari'ah*-compliance and Islamic branding. The items loading value ranging from 0.574 to 0.868 are *'X_1 – Religious obligation/requirement'; 'X_2 – The account is free from any 'interest'; and finally 'X_3 – The brand name of the Islamic bank'*.

Subsequently, the researcher needs to assess which factor is deemed the most important one. Although the factor analysis results ranked the factors according to the

percentage of variance and eigenvalue, it does not indicate that the first factor is the most important factor among the three. The next stage is to calculate the factor score. According to Tabachnick and Fidell (2007), there are various procedures in estimating factor scores, which range from simple-minded to sophisticate. Tabachnick and Fidell further stated that the simple-minded method is adequate to calculate the factor score. Referring to Comrey and Lee (1992) in Tabachnick and Fidell (2007), it can be seen that the simplest way of calculating the score is by calculating the total scores on variables that load on each factor. Therefore, in order to identify which factor is deemed the most important one, the researcher has calculated the average mean from the mean value for each individual item in a particular factor. Referring to Table 7.16, based on the average mean computation, 'Religiosity/ Islamic Identity' factor ranked first with the average mean value of 4.04 followed by 'Physical Services' factor and 'Financial/Product Services' factors which has average mean value of 3.95 and 3.60, respectively.

Table 7.16: Ranking and Average Mean for each Factor

Factor One: Physical Services	**Mean Value**
Convenience (*e.g.* available parking space, interior comfort)	3.93
Number of branches available	4.06
Location being near home or work	3.90
Customer service quality (fast and efficient service)	4.14
Greater coverage of deposit guarantee	3.73
Average Mean	**3.95**
Factor Two: Financial/Product Services	**Mean Value**
Attractive product package and services	3.55
Opportunity to get other financing facilities such as house or car financing	3.75
Bank pays out higher return on deposits	3.44
Encouragement from friends and family	3.30
Sound financial reputation of the bank	3.95
Average Mean	**3.60**
Factor Three: Religiosity/ Islamic Identity	**Mean Value**
Religious obligation/ requirement	4.13
The account is free from any 'interest'.	4.15
The brand name of the Islamic bank	3.83
Average Mean	**4.04**

The fact that the 'Religiosity/ Islamic Identity' factor ranked first indicates that the respondents claimed that religious factors and Islamic identity are an important factor that influence their decision to open an Islamic banking account. Although the results suggest that the religiosity factor is the most important one, the importance of the remaining two factors cannot be discounted. This is evident from the high average

mean registered by both of the factors. In addition, the figures available from cross-tabulation analysis as depicted in Table 7.17 will further strengthen the notion.

The cross-tabulation results in Table 7.17 provide the evidence to support the researchers's claim that the 'Physical Services' and 'Financial/Product Services' factors are equally important as 'Religiosity/ Islamic Identity' factor. The results show that more than 75.0% of the respondents stated that 'Religiosity/ Islamic Identity', 'Physical Services' and also 'Financial/Product Services' as either as an important or very important factor. Only less than 3.0% of the respondents stated that any of these factors were not important. The results therefore clearly indicate that all the factors are equally important regardless of the ranking.

The results from the factor analysis above were further analysed to determine whether there are any significant differences in terms of the perception of each factor by different respondent groups. For this purpose, the researcher again employed Mann-Whitney U-test and Kruskal-Wallis to determine there were any statistical significant difference across the categories of 'respondent type', 'Islamic banking type', 'age', 'education level' and 'relationship duration' groups.

Table 7.18 shows the U-test and K-W test results for the 'Religiosity/ Islamic Identity' factor. The results indicate that there is no significant difference in terms across the 'respondent category' and also 'age' group categories; all groups believe that religiosity is an important factor that influences them in opening an Islamic banking deposits account. This can be seen from the p-values of 0.717 and 0.410 for 'respondent category' and 'age', respectively, which are significantly higher than the critical p-value of 0.05. The results suggest that both ordinary depositors and employees, and also the majority of respondents across the age groups stated that religious factors are an important aspect that influenced them to open an Islamic banking deposits account.

On the other hand, for the 'Islamic banking type', 'education level', and also 'relationship duration' categories, the statistical results indicates that there are significant differences in believing that the 'Religiosity/ Islamic Identity' factor is an important element. In the 'Islamic banking type' category, the p-value of 0.01 is lower

than the critical p-value of 0.05. The statistical figures also suggest that respondents from the full-fledged stand-alone Islamic banks (mean = 345.11) perceived the 'Religiosity/ Islamic Identity' factor to be more important than the respondents from Islamic subsidiaries (mean = 307.39). For the 'education level' category, the p-value of 0.000 is significantly lower than critical p-value of 0.05, which signifies that there are significant differences across the groups. The statistical figures suggest that respondents from the higher education level group, *i.e.* 'postgraduate' (mean = 394.98) and 'professional qualifications' (mean = 364.07) believed the 'Religiosity/ Islamic Identity' to be more important than respondents from lower education level groups. Finally, for the 'relationship duration' category, again the p-value of 0.000 is significantly lower than the critical p-value limit of 0.05. The results also suggest that the significant differences are in favour of respondents from the group which has a longer banking relationship duration, *i.e.* 'more than 5 years' (mean = 381.11) and '3-5 years' (mean = 336.69). The results signify that those respondents, who have a longer relationship duration, stated that 'Religiosity/ Islamic Identity' was an important factor more often than the respondents, who had a shorter banking relationship duration.

For the 'Religiosity/ Islamic Identity' factor, it is believed that respondents from full-fledged stand-alone Islamic banks had a better score than Islamic subsidiary because respondents from stand-alone Islamic banks have more conviction towards Islamic identity, compared to Islamic subsidiaries. This can be explained from the perspective of sceptical perceptions of the customers towards the business operations of Islamic subsidiaries. There is no doubt that stand-alone Islamic banks will have no risk of commingling of funds; on the other hand, there are still some people, who might have a misconception about the operating mechanisms of Islamic subsidiaries in relation to the separation of business between Islamic subsidiaries and their conventional commercial parent banks.

As for the 'education level' and 'relationship duration' categories, the evident differences in terms of respondents' opinions and beliefs concerning the 'Religiosity/ Islamic Identity' factor can be explained again under the 'exposure' theme. Those respondents, who have a better level of education are expected to have better exposure through formal education regarding the ultimate reason for patronising Islamic

banking; for the 'relationship duration' category, those who have a longer banking relationship with Islamic banks are believed to have better knowledge of the underlying religious doctrine, in addition to forming stronger bonds with their banks over time.

The researcher also conducted a similar U-Test and K-W test for the 'Financial/Product Services' and 'Physical Services' to the same groups. Nevertheless, all the results indicate that there are no significant differences across the respondent categories in stating that the 'Financial/Product Services' and 'Physical Services' factors are important. The results of the U-test and K-W test are available in Appendices 7.7 and 7.8. They indicate that the majority of the respondents' groups in the respective categories state that the two factors are important. This can also be seen from the results in Table 7.17, in which respondents, who rank these factors as 'important' and 'very important', combine a high score of 87.5% and 76.9% for 'Physical Services' and 'Financial/Product Services' respectively.

Table 7.17: Frequency and Percentage of Important Factors Bank Selection Criteria

	Religiosity/ Islamic Identity		**Physical Services**		**Financial/Product Services**	
	Frequency	%	Frequency	%	Frequency	%
Not Important At All	3	0.5	3	0.5	2	0.3
Not Important At All	13	2.0	5	0.8	15	2.3
Total Not Important	**16**	**2.5**	**8**	**1.2**	**17**	**2.6**
Neutral	93	14.3	73	11.2	133	20.5
Important	254	39.1	329	50.7	373	57.5
Very Important	286	44.1	239	36.8	126	19.4
Total Important	**540**	**83.2**	**568**	**87.5**	**499**	**76.9**
Total	649	100.0	649	100.0	649	100.0

Table 7.18: Mann-Whitney U and Kruskal-Wallis Test: Respondents' Perceptions on Religiosity aspect of choosing to have Islamic banking account

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
Bank Selection Criteria: Religiosity/ Islamic identity	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=323.42	z= -0.362	0.717
	Bank Employees	172	u_2=329.39		
	Total N	649			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=345.11	z= -2.585	0.010
	Islamic Subsidiaries	346	u_2=307.39		
	Total N	649			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 316.92		
	21-30	273	k_2= 310.73	χ^2= 3.969	0.410
	31-40	204	k_3= 332.54		
	41-50	107	k_4= 337.29		
	Above 50	33	k_5= 364.35		
	Total N	649			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 298.32		
	College Diploma/Matriculation/A-Level	189	k_2=292.36		
	Bachelor (First Degree)	222	k_3= 342.72	χ^2= 20.351	0.000
	Professional Qualification	27	k_4= 364.07		
	Postgraduate (Master or PhD)	56	k_5= 394.98		
	Total N	645			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 256.10		
	1 - 3 years	203	k_2= 300.19	χ^2= 41.247	0.000
	3 - 5 years	109	k_3= 336.69		
	More than 5 years	194	k_4= 381.11		
	Total N	642			

In short, the overall results discussed in this section prove that there are three important main factors namely 'Religiosity/ Islamic Identity', 'Physical Services' and 'Financial/Product Services' that attract existing and potential new depositors to bank with Islamic banks. Towards the end of this section, the results of U-test and K-W test further strengthen the findings provided in previous sections that good 'exposure' (respondents with higher education and longer relationship duration) to matters related to Islamic banking services resulted in a better level of understanding of the ultimate objective of patronising Islamic banking (religiosity). As a result, it is expected that the respondents, who are deemed to have better exposure to knowledge concerning Islamic banking principles (based on the findings in the preceding sections in this chapter), are more loyal to the Islamic banking system. This is because, with a good level of knowledge, the respondents would be able to compare and contrast the differences between Islamic banking and conventional commercial banking, not only from a religious point of view but also from a commercial stand point.

7.4 RELATIONSHIP BETWEEN AWARENESS, KNOWLEDGE AND LOYALTY

Table 7.19: Summary of findings on awareness and knowledge related to Islamic banking deposits

Question No	Variables	Category	Significant results in favour of groups with ……
Question 12	Familiar with the term *riba'*	Awareness	• Higher level of education • Longer relationship durations
Question 13(a)	Bank's Interest is not *riba'*	Knowledge	• Employees • Higher level of education • Longer relationship durations
Question 13(b)	Interest is the same as profit	Knowledge	• Employees • Higher level of education • Longer relationship durations
Question 13(c)	Sinful to take conventional bank deposit interest	Knowledge	• Employees • Higher age group • Higher level of education • Longer relationship durations
Question 14	**Unaware** what type of deposit account	Awareness	• Ordinary depositors • Lower age group • Lower level of education • Short period of relationship durations
Question 14	Nature of deposit product – Higher risk deposits account based on financial product point of view.	Knowledge	• Employees
Question 14	Nature of deposit product – Higher risk deposits account based on *Shari'ah* contract point of view	Knowledge	• Employees
Question 16	Knowledge on the underlying contract governing the deposit account	Knowledge	• Employees • Higher age group • Higher level of education • Longer relationship durations
Question 16	Logistic regression to see which factors are significant in contributing the better level of knowledge	Knowledge	• Higher age group • Higher level of education • Longer relationship duration • Those who concern about religious requirement
Question 19	Religiosity/ Islamic identity factor	Knowledge	• Stand-alone Islamic banks • Higher level of education • Longer relationship durations

Table 7.19 above summarises the findings that show which groups of respondent have a better level of awareness and understanding related to various questions concerning the basic principles of Islamic banking deposits accounts. The objective of this final discussion section is to compare and analyse the respondents' profile concerning their banking relationship with other financial institutions against the findings presented earlier. As a recap, findings in the earlier sections in this chapter show that most of the respondents' group, which were more exposed to matters related to Islamic banking, had a better level of knowledge and understanding of the *Shari'ah* principles related to Islamic deposits account. Referring to Table 7.19, groups such as 'employees',

'higher level of education', and 'longer banking relationship duration' consistently dominated the findings, which indicate that there are statistically significant differences in relation to awareness and knowledge of Islamic banking principles governing Islamic banking deposits account. As mentioned towards the end of the preceding section, it is highly expected that a higher level of awareness and knowledge should be translated into a significant level of loyalty towards the Islamic banking industry. Therefore, a comparative analysis is carried out in this section with the objective of verifying these claims.

Based on the descriptive results presented in Chapter 6, only about 26% of the respondents stated that they are have accounts with Islamic banking institutions only. The current analysis will further break down the descriptive figure to see which categories of respondents are more loyal towards Islamic banking. Table 7.20 shows the cross-tabulation results on the breakdown of various categories of respondents against their existing relationship with other financial institutions. The discussion of the results according to each category will be as follows:

Respondent category – Less than 30% for each group in this category indicated that they have account with Islamic banks only. The figures in the table suggest that ordinary depositors (27.0%) are more committed towards Islamic banking, compared to the employees (24.4%). Nevertheless, there are only 25% of the employees, who indicated that they have accounts with conventional commercial banks only, compared to 38.7% of ordinary depositors of.

Islamic banking type – the comparative figures for this category do not indicate any significant difference across the different banking categories. Nevertheless, it is quite alarming that around 35.0% for each group indicate that, besides having an account with their existing Islamic bank, they also have an account with other conventional banks.

Education level - respondents from higher educational backgrounds generally seem to have a better score for loyalty to the Islamic banking industry, compared to respondents from lower educational backgrounds. This can be seen from the fact that 28.0% of the postgraduate group and 37.0% of the professional qualifications group

have accounts with Islamic banking industry only. It is worth nothing that, with the exception of the professional qualifications group, the remaining groups in this category (on average more than 30.0%) recorded having an account with other conventional commercial banks only.

Age – In general, those respondents, who belong to higher age groups, are more loyal to the Islamic banking industry, with 32.7% of the age group of 41-50, and 31.3% of the age group above 50. Nevertheless, surprisingly these two statistics are lower than the youngest age group of 20 and below, which registered a combined percentage of 40.7%. Again, with the exception of the age group 20 and below, all the remaining groups in the category registered a percentage of above 30.0%, which indicates that are having other deposits accounts with conventional commercial banks.

Relationship durations – the record shows that groups with longer relationship durations are deemed to be more faithful towards the Islamic banking industry. This can be seen from the statistics that 35.1% of respondents, who have a relationship of more than 5 years, state that they only have accounts with Islamic banks, followed by 26.6%, whose relationship has been between 3-5 years. This can be compared to 23.2% and 19.3% for the groups of 1-3 years and less than 1 year, respectively.

With the exception of the 'respondent category', generally most of the groups, which have better awareness and knowledge, seem to be more faithful towards Islamic banking as compared to the other groups within each category. Nevertheless, the fact that only a total average of 28.0% of the respondents stated that they have an account with Islamic banks was not an encouraging result. In other words, the total average percentage of 72.0% indirectly indicated that there are respondents, who still believe in conventional commercial banking as an alternative. The results suggest that there are other probable factors that may induce the respondents to have accounts with the conventional commercial banks. A look at the findings in Section 7.3.1 suggests that one of the possible reasons is the influence of the 'Physical Services' factor, and also the 'Financial/Product Services' factor. As discussed in section 7.3.1, 'Physical Services' such as 'customer service', 'location', and 'financial/ product services' factors such as 'potential of getting other financing facilities' and 'better deposits rate of return' are also considered as important factors in attracting the depositors to open

an account with conventional commercial banks. In addition, it can be argued that it is natural for financially literate persons to diversify their risk by allocating their resources or wealth to other financial institutions.

Therefore, in responding to the above facts and findings, Islamic banks should not comfortably rely on the customers, who patronage Islamic banks solely based on religiosity factors. With the current intense competition in the banking industry environment in Malaysia, especially in Islamic banking industry, all the Islamic banking players should elevate their standards in products and services. Having said that, the role of Islamic banks in educating their customers on matters related to *Shari'ah muamalah* principles should be expanded continuously, in order for the customers to experience the full benefits of the distinct features, which differentiate Islamic banking deposits products and their conventional counterparts.

Table 7.20: Cross-tabulation: Respondents' account with others banking institution

		Bank Categories			
		Conventional banks	**Other Islamic Banks**	**Both conventional banks and other Islamic banks**	**No. Only with this Islamic bank**
Respondent Category	Ordinary	38.7%	17.5%	34.3%	9.5%
	Employees	25.0%	9.9%	50.6%	14.5%
Islamic Banking Type	Stand-Alone	35.4%	15.6%	38.7%	10.3%
	Islamic Subsidiary	34.8%	15.4%	38.6%	11.3%
Highest Education Level	Primary/Secondary School	38.7%	16.0%	30.7%	14.7%
	College Diploma/Matriculation/A-Level	41.3%	15.3%	33.9%	9.5%
	Bachelor (First Degree)	30.3%	14.0%	47.1%	8.6%
	Professional Qualification	18.5%	14.8%	44.4%	22.2%
	Postgraduate (Master or PhD)	33.9%	21.4%	37.5%	7.1%
Age	20 and below	25.0%	18.8%	34.4%	21.9%
	21 – 30	38.6%	14.7%	37.9%	8.8%
	31 – 40	33.8%	14.2%	42.6%	9.3%
	41 – 50	32.7%	19.6%	34.6%	13.1%
	Above 50	31.3%	12.5%	37.5%	18.8%
Duration of Banking Relationship	Less than 1 year	53.3%	12.6%	27.4%	6.7%
	1 - 3 years	38.9%	15.3%	37.9%	7.9%
	3 - 5 years	28.4%	12.8%	45.0%	13.8%
	More than 5 years	21.1%	19.6%	43.8%	15.5%
Average Percentage		33.3%	15.6%	38.7%	12.4%

To conclude, the results suggest that, while high levels of awareness and knowledge on Islamic banking principles stem partly from the religiosity factors, these are not the sole criteria for depositors to open an Islamic banking deposits account. Other factors such as good customer service and competitive product package also play an important role in making Islamic bank as vibrant financial institution.

7.5 CONCLUSION

The objective of this chapter was to gauge the level of awareness and knowledge of the respondents regarding the basic *Shari'ah muamalah* principles governing Islamic banking deposit accounts. The study coverage ranged from very basic *muamalah* principles, *i.e.* the concept of *riba'*, which is the foundation of the formulation of Islamic banking deposit accounts, to the study of patronage factors influencing the depositors to open an Islamic banking account.

The findings from the analysis suggest that groups of respondents, which are well exposed to the Islamic banking operations, *i.e.* employees of Islamic banks, those with higher levels of education, and those with a longer duration of banking relationship, have better awareness and knowledge of *Shari'ah muamalah* matters related to Islamic banking deposits account.

The research was further extended in order to determine the major factors that influence the depositors to open an Islamic banking account. The findings suggest that there are three major factors, *i.e.* Religiosity/Islamic Identity, Physical Services, and Financial/Product Services. Based on the ranking, it turns out that religiosity factors rank first according to the highest mean value. Subsequently, the findings from the two preceding section were compared with data on whether respondents are holding accounts with other financial institutions. Although it is expected that those groups of respondents, which possess a good level of awareness and knowledge, as well as a strong interest in the religiosity factors, will bank exclusively within the Islamic banking system, the overall results show otherwise. Therefore, this chapter further concludes that, besides being religious and having an interest in the *Shari'ah muamalah* principles, the respondents also perceived that good services and a wider deposits product range are also important. Nevertheless, continuous education and

awareness programmes are still the main elements that will determine the success of the Islamic banking system.

Chapter 8

Locating the Awareness, Knowledge and Perceptions of Depositors towards Characteristics of Profit-Sharing Deposits Accounts: An Inferential Analysis

8.1 INTRODUCTION

This chapter presents and discusses the empirical results of the questionnaires which assessed the awareness, knowledge, opinion and behavioural aspects of the respondents towards profit-sharing deposits accounts. The same analysis tools (cross-tabulation, Mann-Whitney U-Test, Kruskal-Wallis test, factor analysis and logistic regression) that were used in the previous chapter are also used in this chapter to achieve the research objectives. As a matter of consistency, the same category of reference groups (respondent category, Islamic banking type, income, level of education, age, and relationship duration) are tested to see whether there are any significant differences in terms of perceptions, opinions, and also knowledge of the matter in question. In addition, the analyses are meant to determine which factors contribute to the respondents' awareness and knowledge concerning profit-sharing deposit account; lastly, important determinant factors are discussed which help to identify the sources of demand for the products in question.

The chapter is divided into three main parts for the analysis. The first part (Section 8.2) focuses on the depositors' general awareness, perceptions and opinions on the profit-sharing deposits accounts. The second part (Section 8.3), concentrates on the depositors' perceptions and opinions concerning the unique characteristics of profit-sharing deposits accounts. In this section, the topic is further divided into sub-sections for each of the characteristics (the concepts of deposits rate of return, deposits guarantee, and financial disclosure as a source of monitoring the performance of deposits). The final analysis part (Section 8.4) considers which significant determinants contribute to creating demand for the products in question.

8.2 DEPOSITORS' FAMILIARITY WITH DEPOSITS ACCOUNTS USING PROFIT-SHARING CONTRACTS

In this section, the researcher intends to gauge the respondents' level of familiarity with deposits accounts that use profit-sharing contracts. As mentioned in Chapter 7, profit-sharing deposits accounts are deemed as one of the higher risk deposits products from the point of view of both *Shari'ah muamalah* and product characteristics. Due to higher risk associated with them, there is a strong possibility that the product is not that popular, especially for those who are not well exposed to it. This argument can be substantiated from the results obtained in the previous chapter (Chapter 7). Therefore, it is beneficial to know whether or not the respondents are familiar with deposits products based on profit-sharing contracts.

8.2.1 Comparative Analysis across Different Respondents' Demographic Profile regarding the Level of Familiarity with Profit-Sharing Contracts in Deposits Accounts

In this sub-section, the objective is to see whether the different groups within each category show any significant differences in their level of familiarity with deposits accounts that use profit-sharing contracts. In addition, the results also indicate which group within each category of respondents has a better level of familiarity. For this purpose, Mann-Whitney U-test (U-test) and Kruskal-Wallis test (K-W test) are used. The results of the U-test and K-W test are available in Table 8.1.

Since this question is related to product knowledge, a similar approach to that taken in Chapter 7 is used here: if it is found that the results for 'respondent category' show that the employee group has better knowledge, this group will be excluded from subsequent categories; otherwise an element of bias might be introduced into the results for the other categories.

The first category (respondent category) in Table 8.1 shows that there is a significant difference in terms of familiarity level between bank employees and ordinary depositors, as indicated in the p-value of 0.000, which is lower than critical p-value of 0.05. The mean-rank column reveals that members of the 'bank employees' category, which has higher mean-rank value of 373.56, are more familiar with the profit-sharing

deposits account. The obtained result is as expected and can be supported by the fact that bank employees gained a higher level of awareness through job-related exposure.

Table 8.1: Mann-Whitney U and Kruskal-Wallis Test: Respondents' level of familiarity on Profit-sharing based deposits account

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
QUESTION 20: Familiarity on Profit-sharing based deposits account.	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=307.49	z= -4.961	0.000
	Bank Employees	172	u_2=373.56		
	Total N	649			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	237	u_1=238.58	z= -0.013	0.990
	Islamic Subsidiaries	239	u_2=238.42		
	Total N	476			
	AGE:		**K-W Test:**		
	Below 20	31	k_1= 158.61		
	21-30	212	k_2= 224.59	χ^2= 21.584	0.000
	31-40	134	k_3= 257.91		
	41-50	76	k_4= 260.26		
	Above 50	23	k_5= 289.33		
	Total N	476			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	131	k_1= 218.60		
	College Diploma/Matriculation/A-Level	144	k_2=229.16		
	Bachelor (First Degree)	145	k_3= 251.97	χ^2= 9.487	0.050
	Professional Qualification	14	k_4= 304.21		
	Postgraduate (Master or PhD)	41	k_5= 259.02		
	Total N	475			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	84	k_1= 179.07		
	RM 1,001 - RM 3,000	216	k_2= 222.60		
	RM 3,001 - RM 5,000	96	k_3= 268.17	χ^2= 33.150	0.000
	RM 5,001 - RM 10,000	49	k_4= 267.27		
	RM 10,001 - RM 20,000	17	k_5= 313.74		
	More than RM 20,000	2	$k6$=291.00		
	Total N	464			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	113	k_1= 185.77		
	1 - 3 years	157	k_2= 214.73	χ^2= 43.066	0.000
	3 - 5 years	83	k_3= 266.53		
	More than 5 years	116	k_4= 287.84		
	Total N	469			

In the subsequent analysis, with the exception of the 'Islamic bank type' category, the remaining categories (age, education level, income, and relationship duration) show significant differences in their level of awareness concerning deposit accounts which are based on profit-sharing contracts. This can be seen from the significant values for each category (Islamic bank type – 0.990, age – 0.000, education 0.050, income level – 0.000 and relationship duration – 0.000), which are lower than critical p-value of 0.05. In addition, the results further reveal which group in each category has a better level of awareness. This can be seen from the mean-rank for each category; for

example, in the age category, respondents from the age group of 'above 50' scored the highest (289.33) mean-rank value. The remaining groups that dominated each category are listed as follows: education level – professional qualification (mean = 304.21), Income category – RM10,001-RM20,000 (mean = 313.74) and relationship duration – more than 5 years of relationship (mean = 287.84).

The results seem in line with the results from the previous chapter (Chapter 7), which indicated that those groups, which are deemed to have better exposure, exhibit a better level of awareness compared to those that are less exposed to the subject. In addition, for the 'age' and 'income' group category, the results can also be interpreted as showing that a higher level of awareness among the higher income and higher age groups is due to their higher level of interest in the product. Therefore, based on the findings, it is suggested that there is a need to intensify awareness and understanding of the products in question among the other groups in the population. One of the most effective mechanisms in creating awareness is through explanation by the employees of the Islamic banks prior to the opening of any deposits account product. In order to trigger an interest from the public in the product, it is suggested that Islamic banks devise the product to make it attractive and appealing to the depositors; this indirectly creates a certain level of awareness of the product.

8.2.2 Factor Analysis: Factors attracting customers to Profit-sharing deposits accounts

To supplement the preceding findings on the level of awareness, it is assumed that there are pertinent factors that might attract the depositors to deposits accounts that are based on profit-sharing contracts. The factors may attract them to learn details about the product, which indirectly may lead them to acquire a better level of awareness concerning the product.

As discussed in Chapter 3, deposits accounts that use the contract of profit-sharing (*mudarabah* contracts) have a lot of advantages compared to other common contracts such as *wadiah* and *qard. Wadiah* and *qard* contracts are prohibited under the *Shari'ah muamalah* requirement of attaching and promoting any reward in any kind or form (such as packaging the product with any gift). However, *Shari'ah muamalah* principles permit deposits accounts that use profit-sharing contracts as the underlying

basis to market the product with any kind of rewards such as gifts. In facts, most *Shari'ah* scholars argue that profit-sharing contracts should be the only contracts that allow the depositors to earn return on the deposits.

Therefore, in this section, the researcher has listed a few relevant variables, which are not prohibited under the *Shari'ah muamalah* requirements, and which are used to promote deposits accounts based on profit-sharing contracts. The variables selected and the justifications are as follows:

Potential of giving higher return compared to other types of account – This is the main unique characteristic among the *Shari'ah muamalah* principles. Fundamentally, the only contract that allows the depositors to enjoy a return on their deposits should be a profit-sharing contract. Nevertheless, in reality, other forms of *Shari'ah muamalah* contracts also reward the deposits with deposits return, which is given as a gift. Having said that, due to the nature of the contract, profit-sharing contracts are still the best contracts that give the depositors from the benefit of higher deposits returns based on the performance of the bank.

Attractive promotion (such as free gifts: mobile phones, competitions) – Another element that is allowable by the *Shari'ah muamalah* principles for deposits products that use profit-sharing contracts is to package them with any kind of gift or promotion. This advantage is not permissible for other contracts such as *wadiah* and *qard*.

Attractive product packaging (link with *takaful* and Islamic unit trust) – This variable is similar to the previous one; the only difference is that the product package offered in this variable is financial in nature.

Profit-sharing contracts are highly encouraged in Islamic banking – This variable is selected because it is in line with many statements in the Islamic finance literature which insist that the profit-sharing characteristic is in line with the objective of promoting socio-economic justice, which highly desired in the Islamic economic system.

Flexibility of deposits withdrawal schemes – This is one of the elements that are important to the depositors for their cash flow flexibility. One of the unique characteristics for profit-sharing contract as specified in *Shari'ah muamalah* requirement is the Terms and Conditions related to the agreement, such as the tenure and profit-sharing ratio. Elements such as these must be reflected in the contract clearly and agreed by both parties in advance. In the banking standard, the most important features, including the terms of withdrawal, are clearly spelled out in the contract; this is highly encouraged in *Shari'ah muamalah* principles, as it will give both parties certainty, and enable both parties to manage their cashflow.

In order to establish which characteristics are deemed by the respondents as important in influencing their decision to open a profit-sharing deposits account, the researcher uses exploratory factor analysis. The current analysis uses a similar factor analysis method as that used above in Chapter 7, which is the orthogonal Varimax rotation technique.

The objectives of this factor analysis study are: (i) to see whether all five variables can be reduced to a smaller number of factors, which can be explained based on the correlation each of the variables that form a factor, and (ii) to ascertain which of the factors are perceived important by the depositors in influencing them to open a profit-sharing deposits account.

As part of the pre-requisites for the factor analysis to be considered as appropriate, KMO and Bartlett's Test of Sphericity must be performed on all five variables. The results for the KMO and Bartlett's test are presented in Table 8.2.

Table 8.2: KMO and Bartlett's Test Results for the 5 items combined

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0. 801
Bartlett's Test of Sphericity	Approx. Chi-Square	933.052
	Df	10
	Sig.	0.000

In Table 8.2, the value for the KMO test results is 0.801, which means that the sampling adequacy for factor analysis is considered as 'meritorious' as defined by Kaiser (1974). The Bartlett's Test of Sphericity, which is used to assess the

factorability of data also confirms that factor analysis is an appropriate tool. This is evident from the table because the Bartlett's Test result is 0.000, which is lower than the critical p-value of 0.05.

Based on the positive results obtained above, the researcher was able to proceed with the factor analysis and decided to use principal component analysis (PCA). In the process of performing the factor analysis, there are two important aspects that need to be specified: the first aspect is the rotation method and the second is the number of factors to be extracted. For the rotation method, the researcher has decided to adopt orthogonal Varimax approach on the basis that it is easy to report and interpret (Tabachnick and Fidell, 2007)[90]. Meanwhile, for the determination of factor numbers, the researcher has deviated from default criterion (Kaiser's) for the eigenvalues of 1.00. This was because the eigenvalues of 1.00 did not produce an optimal result in which only one factor was churned out from the analysis. In addition, Jolliffe (1972, 1986) has criticised Kaiser's demand for eigenvalues of greater than 1.00 in extracting a number of factors for the analysis. He argues that the criterion is too strict (taken from Field, 2005: 633). Jolliffe further suggests a more liberal approach in stating that it is acceptable to retain a number of factors with eigenvalues of more than 0.7 (Field, 2005; Garson, 2010).

The factor analysis results reproduced in Table 8.3 show that all five items can be reduced into two factors. The table further shows that the first factor has the initial eigenvalues of 2.775 and the second factor has the initial eigenvalue of 0.807. The two factors explain a total of 71.6% of the variance in which the first factor explains 55.5% and the second factor explains 16.2%.

Table 8.3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.775	55.498	55.498	2.775	55.498	55.498	1.795	35.891	35.891
2	.807	16.145	71.643	.807	16.145	71.643	1.788	35.752	71.643
3	.548	10.961	82.604						
4	.450	8.991	91.595						
5	.420	8.405	100.000						

Extraction Method: Principal Component Analysis.

[90] The researcher also performed another factor analysis using the oblique Direct Oblimin approach. The results from this analysis are the same as those that were produced using the orthogonal Varimax rotation approach. See appendix 8.2 for the PCA using the oblique Direct Oblimin rotation approach.

The final results of rotated factors are presented in Table 8.4. The table shows that the five items are distributed into two factors. The first factor consists of three items, with the loading ranging from 0.63 to 0.907, while factor two consists of two items, with the loading of the first item being 0.885 and the second item 0.777. The table also indicates that the first factor has the highest eigenvalues of 2.775 and variance of 35.9%, and that the second factor has the eigenvalues of 0.807 and variance of 35.8%.

The three items attached to factor one are X_2 – *Attractive promotion (such as free gifts: mobile phones, competitions)*; X_3 – *Attractive product packaging (link with takaful and Islamic unit trust)* and X_1 – *Potential of giving higher return compared to other types of account.* It seems that all three items that are clustered in this factor are related to the commercial aspects of the product. Therefore, the researcher termed this factor as 'commercial value'. On the other hand, factor two consists of items X_4 – *Profit-sharing contract is highly encouraged in Islamic banking* and X_5 – *Flexibility of deposits withdrawal scheme.* The items in factor two can be seen as related to the 'religiosity' aspect of the product. The unique features of the profit-sharing contract, as laid down in the *Shari'ah muamalah* principles, make these deposits accounts distinct from the other types of deposits account. Therefore, the researcher assigned factor two under the theme 'religiosity features value'. The results proved that the five items are being clustered well to each of the factors. This can be seen as all the items that fit into the respective factors have some communality which can be explained and termed.

The final results indicate that there are two main factors regarding the deposits product that may influence the depositors to open a profit-sharing deposits account, namely the 'commercial value' aspect of the product and the 'religiosity features value'. To determine which of the two factors the depositors perceive to be the most important factor, the researcher needs to conduct further extended analysis. For this purpose, the researcher used average mean value comparison. The factor that has the highest average mean value is deemed to be perceived as more important by the depositors for attracting them to open a profit-sharing deposits account. The results of the average mean value can be seen in Table 8.5.

Table 8.4: Rotated Component Matrix(a) on factors influencing opening profit-sharing deposits account

Variable	Factor		Communality of Each Variable
	1 Commercial Value	2 Religiosity features Value	
X_2	**.907**		.825
X_3	**.671**	.472	.674
X_1	**.636**	.418	.579
X_4		**.885**	.797
X_5	.320	**.777**	.707
Eigenvalue	2.775	0.807	
% of variance	35.891	35.752	
Cumulative %	35.891	71.643	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 3 iterations.

Variables:

X_1	Potential of giving higher return compared to other type of account
X_2	Attractive promotion (such as free gift: mobile phone, competition)
X_3	Attractive product packaging (link with *takaful* and Islamic unit trust)
X_4	Profit-sharing contract is highly encouraged in Islamic banking
X_5	Flexibility of deposits withdrawal scheme

From Table 8.5 below, it seems that the depositors feel that the 'religiosity features value' of the product is the more important factor that may influence them to take up profit-sharing based deposits accounts. This can be substantiated with the higher average mean value of 3.98 recorded for this factor, compared to 'commercial value', which has an average mean value of 3.75. Nevertheless, the average mean value figures also indicate that these two factors do not seem to differ significantly. This means that, although the 'commercial value' aspect of the product ranked lower than 'religiosity features value', the 'commercial value' is also deemed equally important. This can be further substantiated from the descriptive results obtained in Chapter 6, in which on average more than 50.0% of the respondents feel that the variables in the factors are important.

In short, the findings presented in the first part of this section show that the awareness of the depositors can be improved with good exposure to the product, such as through

education and over a period of time. Nevertheless, the findings also show that awareness concerning the product can also be achieved through the interest of the depositors in the product. In order to spark an interest among the depositors, the subsequent findings in the factor analysis suggest that the deposits account based on profit-sharing contracts should not entirely rely on distinct 'religiosity features' to attract the depositors to the product; the 'commercial value' aspect is equally important for the product to be appealing to new depositors. The perceptions and opinions of the depositors towards the unique *Shari'ah*-compliance features and also the inbuilt commercial aspect are discussed in detail in the following sections in this chapter.

Table 8.5: Ranking and Average Mean for each Factor

Factor One: Commercial Value	Mean Value
Attractive promotion (such as free gift: mobile phone, competition)	3.43
Attractive product packaging (link with *takaful* and Islamic unit trust)	3.85
Potential of giving higher return compared to other type of account	3.98
Average Mean	**3.75**
Factor Two: Fundamental Characteristics Value	**Mean Value**
Profit-sharing contract is highly encouraged in Islamic banking	4.01
Flexibility of deposits withdrawal scheme	3.95
Average Mean	**3.98**

8.3 DEPOSITORS' PERCEPTIONS, OPINIONS AND ATTITUDES TOWARDS VARIOUS CHARACTERISTICS OF PROFIT-SHARING DEPOSITS ACCOUNTS

In this section, the researcher intends to elicit the depositors' perceptions, opinions, and also attitudes towards various characteristics or features that are pertinent in the formulation of deposits account products using profit-sharing contracts. As discussed in Chapter 3, there are two main features that differentiate profit-sharing deposits accounts as specified in the *Shari'ah muamalah* principles from normal conventional deposits account. These features are: (i) the variability of the deposits rate of returns; and (ii) that the principal deposits amount is not guaranteed. Therefore, due to the nature of uncertainty that prevails in the product, the depositors are encouraged to monitor their deposits or investments through financial disclosures.

8.3.1 Opinions and Perceptions on Deposits Rate of Return

This sub-section will look in detail at the perceptions, opinions and reactions of depositors towards the first distinct feature of profit-sharing deposits accounts. As mentioned above, in these accounts the deposits' returns are not fixed upfront. The depositors will only know the returns at the end of the deposits period, and returns are according to the performance of the investment. There is the possibility that the depositors might get higher returns and also the risk of getting lower returns. Therefore, in this section, the researcher focuses on the depositors' behaviour in various possible scenarios of the deposits' rate of return, with the goal of determining whether the depositors would be able to accept the concept of variable rates of return as laid down in *Shari'ah muamalah* principles.

8.3.1.1 Rate of return comparison prior to opening of profit-sharing deposits account

As presented in the descriptive analysis chapter (Chapter 6), there are about 70.0% of the respondents, who stated that they will make rate of returns comparisons prior to opening a profit-sharing deposits account. The results suggest that the majority of the respondents deemed the rate of investments returns as important. The objective of this section is to see which groups of respondents across various categories are more active in making comparisons for the deposits rate of return. Mann-Whitney U-test and Kruskal-Wallis test were used to achieve the objective. The results of the test would be able to show whether there is any significant difference in terms of respondents' attitude towards rate of return prior opening profit-sharing base deposits account.

Table 8.6 shows that only two categories, namely 'respondent category' and 'Islamic bank type' have significant p-values of 0.000 and 0.042, respectively. This indicates that there is a significant difference in terms of respondents' attitude towards the rate of return prior to opening profit-sharing deposits account in the 'respondent category' and the 'Islamic bank type'. In the 'respondent category', the mean rank value for the employees groups (438.52) is higher than mean rank value for ordinary depositors (238.30). Meanwhile, for the 'Islamic bank type' category, the stand-alone Islamic bank group recorded a higher mean rank value of 337.75, and Islamic subsidiaries group recorded a mean rank value of 313.83.

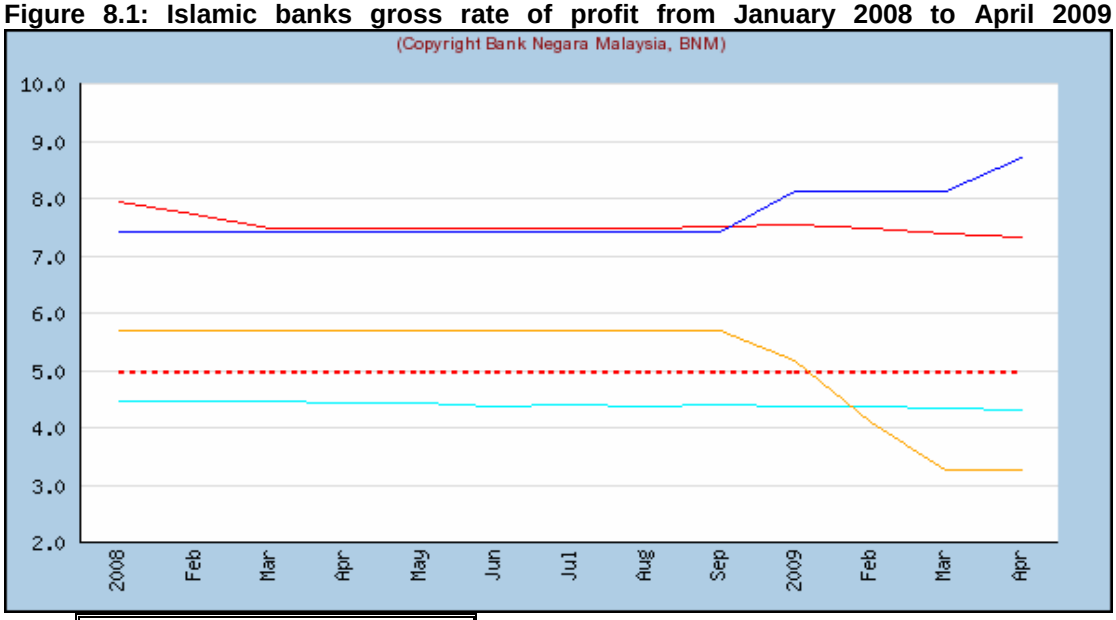
Table 8.6: Mann-Whitney U and Kruskal-Wallis Test: Respondents' reaction to whether rate of return is part of consideration factors prior to opening a profit-sharing base deposits account

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 22: Comparing profit-sharing deposit account return with other financial instruments' return prior opening profit-sharing deposit account.	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	476	u_1=283.30	z= -9.589	0.000
	Bank Employees	172	u_2=438.52		
	Total N	648			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=337.75	z= -2.030	0.042
	Islamic Subsidiaries	345	u_2=313.83		
	Total N	648			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 313.08		
	College Diploma/Matriculation/A-Level	189	k_2= 309.38		
	Bachelor (First Degree)	222	k_3= 333.39	χ^2= 5.097	0.278
	Professional Qualification	27	k_4= 350.33		
	Postgraduate (Master or PhD)	56	k_5= 341.38		
	Total N	645			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 321.06		
	RM 1,001 - RM 3,000	281	k_2= 316.16		
	RM 3,001 - RM 5,000	154	k_3= 317.56	χ^2= 3.811	0.577
	RM 5,001 - RM 10,000	85	k_4= 298.75		
	RM 10,001 - RM 20,000	24	k_5= 348.17		
	More than RM 20,000	3	*k6*=414.00		
	Total N	632			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 316.15		
	1 - 3 years	203	k_2= 315.64	χ^2= 1.055	0.788
	3 – 5 years	109	k_3= 328.71		
	More than 5 years	194	k_4= 327.34		
	Total N	642			

Although, based on the descriptive analysis, the results show that the majority of the respondents would make a deposits rate of return comparison prior opening of profit-sharing deposits account, the U-test results indicate that the bank employees group and respondents from the stand-alone Islamic bank group are more likely to make such comparisons. This can be explained by the fact that they have easier access to information. Bank employees have the privilege of getting the latest updates regarding any changes to various financial instruments offered by other financial institutions. Therefore it is easier for bank employees to make comparisons between institutions and also with other various financial investment instruments prior to opening an account than it is for ordinary depositors. For the 'Islamic bank type' category, the respondents from stand-alone Islamic bank group is more dominant in comparing products offered by different institutions, perhaps due to the fact that the rate of return declared by Islamic stand-alone banks is generally less competitive.

Figure 8.1 depicts the average gross rate of profit for the period of January 2008 to April 2009. The Islamic banks that are included in this chart are Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad (BMMB), Maybank Islamic Bank Berhad (MIBB) and Public Islamic Bank Berhad (PIBB). BIMB and BMMB represent the two largest stand-alone Islamic banks, while MIBB and PIBB represent the largest Islamic subsidiaries. The chart shows that the average gross rate of profit for BIMB and BMMB is consistently lower than that of MIBB and PIBB. The results suggest that the average rate of return for stand-alone Islamic banks was not as competitive as that of major Islamic subsidiaries. As a result, the evidence from the chart can be used to substantiate the findings in this study that respondents from the stand-alone Islamic banks are more tempted to compare deposits rates of return prior to opening a profit-sharing base deposits account.

Figure 8.1: Islamic banks gross rate of profit from January 2008 to April 2009



Source: Islamic Interbank Money Market webpage, issued by Bank Negara Malaysia, accessed on 31 March 2010.

8.3.1.2 Participant Perceptions of the displayed rate of return (Board rate)

When making comparisons between institutions, the depositors will need to refer to the deposits rate of return displayed in the Islamic banks' premises, which is known as 'board rate'. As discussed in Chapter 3, the purpose of the 'board rate' is to inform the depositors of the rate of return that they get based on the bank's performance.

Some *Shari'ah* scholars allow the bank to publish the rate as a benchmark to inform depositors of the potential return they can expect. However, they impose the condition that there must be a clause at the board, which states that the displayed rate of return is only an indicative rate, and that the actual rate of return will only be declared at the end of the deposits period.

As shown in Chapter 6, only 31.6% of the respondents stated correctly that the board rate is an indicative rate. This section further analyses which group of respondents in each category has a better level of understanding of the meaning of the board rate. For this purpose, the researcher used Mann-Whitney U-test and Kruskal-Wallis test to see whether there is any significant difference in the level of understanding across various groups of respondents in the respective categories. Subsequently, the researcher used cross-tabulation analysis to see which answer had the highest score for each group within each category.

Table 8.7: Mann-Whitney U and Kruskal-Wallis Test: Respondents' perception on the displayed rate of return (Board rate)

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
QUESTION 25: Perception on the displayed rate of return	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=297.34	z= -7.434	0.000
	Bank Employees	169	u_2=397.33		
	Total N	646			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	237	u_1=240.36	z= -0.292	0.770
	Islamic Subsidiaries	240	u_2=237.66		
	Total N	477			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	132	k_1= 205.94		
	College Diploma/Matriculation/A-Level	144	k_2=225.47		
	Bachelor (First Degree)	145	k_3= 271.13	χ^2= 35.636	0.000
	Professional Qualification	14	k_4= 284.50		
	Postgraduate (Master or PhD)	41	k_5= 257.96		
	Total N	476			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	84	k_1= 218.52		
	RM 1,001 - RM 3,000	217	k_2= 211.29		
	RM 3,001 - RM 5,000	96	k_3= 256.92	χ^2= 40.619	0.000
	RM 5,001 - RM 10,000	49	k_4= 286.13		
	RM 10,001 - RM 20,000	17	k_5= 272.74		
	More than RM 20,000	2	$k6$=409.50		
	Total N	465			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	113	k_1= 229.91		
	1 - 3 years	157	k_2= 230.89	χ^2= 2.636	0.451
	3 – 5 years	83	k_3= 250.78		
	More than 5 years	117	k_4= 236.24		
	Total N	470			

Table 8.7 shows the U-test and K-W test for the depositors' perceptions of the 'board rate'. The results in the table show that only three categories, namely 'respondent category', 'education level', and 'income group' reached the level of statistical significance, which means that there are significant differences in the level of understanding of the interpretation of the board rate across the groups of respondents for each category. The argument can be substantiated from the p-value of 0.000 for all the categories, which is significantly lower than the critical p-value limit of 0.05.

The results in the table also indicate which group from the respective category has a better level of understanding regarding the matter. Firstly, in the 'respondent category', the bank employees group has a better level of understanding compared to ordinary depositors group. This can be seen from the mean rank value for bank employees, which is 397.33, while ordinary depositors only recorded a mean rank value of 297.34. For the 'education level' category, the figures in Table 8.7 above clearly show that respondents with a higher level of education, *i.e.* bachelor (mean rank = 271.13), professional qualifications (mean rank = 284.50), and postgraduate degrees (mean rank = 257.96), have better levels of understanding compared to those in the lower education level group. Lastly, for the income category, the results show that respondents from the higher level income group have a higher mean rank value, *i.e.* 286.13 (for an income of RM5,001-RM10,000), 272.74 (for an income of RM10,001-RM20,000), and 409.50 (for an income of 'more than RM20,000'), which means they correctly understand the meaning of 'board rate'.

The results presented in the previous paragraphs can again be linked to the 'exposure' theme. Employees of the banks are well exposed to the 'board rate' concept through formal in-house training, and also through their day-to-day work. As for the education level category, the respondents from the higher education level group have been learning the concept through formal education at university. Finally, for the 'income group' category, the higher level of understanding among the higher income group perhaps due to the frequent direct involvement with various deposits products, including profit-sharing deposits accounts. As mentioned in Chapter 3, due to the characteristics of profit-sharing contracts, the deposits accounts type, which that is formulated by using a profit-sharing contract, carries a higher risk and is compensated with higher returns. Therefore, most likely, those who are financially stable are more

comfortable to take higher risk. The researcher defines these groups as having reached the level of financial sophistication.

The findings above further strengthen the findings from previous chapter that, with a certain level of exposure, the level of understanding of the concepts can be improved. In addition, it is worth to note that, unlike to the previous findings, which are related to awareness and knowledge questions, the 'duration of relationship' category does not appear to show any statistically significant difference in the current analysis. The probable reason is that the current question is more technical in nature. Unlike the previous questions, which were considering general aspects of the Islamic banking deposits, the subject matter in the present analysis is more closely related to the operational aspects of the implementation of the principles that underlie profit-sharing contracts.

Next, the researcher further analysed the respondents' perception of the 'board rate' by category. For this purpose the researcher used cross-tabulation analysis, which indicates the percentage for every perception towards 'board rate'. The discussion of the current analysis only considered the perceptions with the highest percentage for each group. The results for the cross-tabulation are depicted in Table 8.8.

Respondent category – The highest percentage of depositors, with 36.7%, in the ordinary depositor group perceived that 'board rate' is the fixed rate of return that they are going to receive from the bank for their deposits. Only 23.5% of the respondents realized that the 'board rate' is an indicative rate. By contrast, the majority of the respondents from the bank employees group knew the subject matter, with 54.4% of them managing to answer correctly. Nevertheless, the percentage recorded by the employees is considered as low since it was expected that the bank employee category should record a much higher percentage.

Islamic bank type – The majority of the respondents from both groups of Islamic bank type perceived that 'board rate' is the fixed rate of return that they are going to receive. The groups from the stand-alone Islamic banks and Islamic subsidiaries recorded, with 35.6% and 34.4%, respectively, that they perceived the 'board rate' as fixed rate of deposits return.

Education level – The majority of the respondents from lower education levels, *i.e.* 'primary/secondary school' (49.0%) and 'college diploma/matriculation/A-level' (36.4%), perceived that the 'board rate' is a fixed rate of deposits return. Meanwhile, the highest percentage of the higher level of education groups can be located in the answer that the 'board rate' is an indicative rate of deposits return. The percentages recorded for the 'bachelor', 'professional qualification', and 'postgraduate' groups are 42.5%, 55.6%, and 46.4%, respectively.

Income level – Similar patterns to those identified in the education level category also prevail in the income level category. A high percentage of respondents from lower income groups, *i.e.* 'RM1,000 and below' (48.2%) and 'RM1,001-RM3,000' (42.1%), perceived the 'board rate' as a fixed rate of deposits return. On the other hand, high percentages of the respondents stating the exact meaning of 'board rate' exist in the higher income groups. The percentages recorded for the income group of 'RM3,001-RM5,000', 'RM5,001-RM10,000', 'RM10, 001-RM20,000', and 'more than RM20,000' are 44.2%, 53.6%, 45.8%, and 66.7%, respectively.

Relationship duration – For this category, with the exception of the 'more than 5 years' group, the remaining groups registered highest percentages in the answer that the respondents perceived the 'board rate' to be a fixed rate of deposits return. For the 'more than 5 years' group, the majority of the respondents managed to answer it correctly by stating that 'board rate' is an indicate rate of return.

Based on the statistics presented, it seems that those groups that do not understand the meaning of 'board rate' will perceive that the 'board rate' is a fixed rate that the Islamic bank will be paying on their deposit return. The perception seems akin to the expectation of the depositors in the conventional banks. A probable reason is that the majority of respondents, who have the 'fixed rate' perception, were more used to the conventional banking system and have not had much exposure to the fundamental aspects of the Islamic banking system. Therefore, it is highly recommended that the promoters of the Islamic banking industry, especially the Islamic banks themselves, should play a more proactive role in educating the depositors, not only regarding the general features of the Islamic banking products, but also regarding the operational aspect of the products and services.

Table 8.8: Cross-tabulation: Respondents' perception on the displayed rate of return

		perception of the rate				
		It is the fixed rate that the Islamic banks are going to pay	It is the minimum rate that the bank is going to pay	It is the indicative rate that the bank is going to pay	Do not realize that there is a declared rate on the board	Do not bother to check the rate
Respondent Categories	Ordinary	36.7%	14.9%	23.5%	11.9%	13.0%
	Employees	30.2%	10.7%	54.4%	0.6%	4.1%
Islamic Bank Type	Stand Alone	35.6%	13.9%	29.7%	8.9%	11.9%
	Islamic Subsidiary	34.4%	13.7%	33.2%	9.0%	9.6%
Highest Education Level	Primary/Secondary School	49.0%	15.9%	14.6%	8.6%	11.9%
	College Diploma/Matriculation/A-Level	36.4%	14.4%	24.1%	12.3%	12.8%
	Bachelor (First Degree)	27.6%	14.0%	42.5%	8.6%	7.2%
	Professional Qualification	29.6%	3.7%	55.6%	3.7%	7.4%
	Postgraduate (Master or PhD)	23.2%	10.7%	46.4%	3.6%	16.1%
	Others	0.0%	0.0%	100.0%	0.0%	0.0%
Monthly Income	RM 1,000 and below	48.2%	10.6%	17.6%	10.6%	12.9%
	RM 1,001 - RM 3,000	42.1%	16.1%	21.4%	11.1%	9.3%
	RM 3,001 - RM 5,001	24.7%	18.2%	44.2%	5.2%	7.8%
	RM 5,001 - RM 10,001	21.4%	4.8%	53.6%	6.0%	14.3%
	RM 10,001 - RM 20,001	20.8%	8.3%	45.8%	8.3%	16.7%
	More than RM 20,001	33.3%	0.0%	66.7%	0.0%	0.0%
Relationship Duration	Less than 1 year	42.2%	12.6%	23.7%	8.1%	13.3%
	2 - 3 years	38.6%	11.9%	29.2%	9.4%	10.9%
	4 - 5 years	33.3%	15.7%	32.4%	10.2%	8.3%
	More than 5 years	27.8%	14.9%	39.7%	7.7%	9.8%

8.3.1.3 Significant factors contributing to the level of understanding the meaning of the board rate

In strengthening the findings from the previous analysis, the researcher used logistic regression analysis to see whether the variables (education, income and relationship duration), together with the variable 'religious obligation', constitute a good predictor to determine the factors that contribute to the level of understanding of the deposits products' operational aspects.

The current logistic regression analysis is similar to the approach that had been chosen in Chapter 7. The first critical output that needs to be assessed is the fitness of the overall regression model. The SPSS output that indicates the overall fitness is presented in Omnibus Tests of Model Coefficients results as depicted in table 8.9. The results in the table indicate that the overall model is fit and good for the regression. This can be seen as all the significant values of 0.000 are significantly lower than

critical p-value of 0.05. The table also shows a high chi-square value of 66.912 with 4 degrees of freedom.

Table 8.9: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	66.912	4	.000
	Block	66.912	4	.000
	Model	66.912	4	.000

To further support the regression model is fit, the researcher also relied on Hosmer and Lameshow test results which are also available in the SPSS package. The hypothesis of the testing is that the overall fitness of the model is poor. The results of Hosmer and Lameshow Test are presented in Table 8.10 which indicates that the significant value is 0.625, which is significantly higher than critical p-value of 0.05. Therefore, the hypothesis of the test that the overall regression model is poor can be rejected and therefore the researcher may proceed to perform the regression.

Table 8.10: Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	6.198	8	.625

The outcomes of the logistic regression are presented in Table 8.11. The results in the table suggest that only two out of four independent variables that were processed, namely ‘education level’ and ‘income’, emerged as significant variables. This can be seen in the ‘Sig.’ column, where ‘education’ and ‘income’ show a statistics value of 0.000, which is significantly lower than critical p-value of 0.05. By contrast, the remaining two independent variables, *i.e.* ‘relationship duration’ and ‘religious obligation’ recorded p-values of 0.392 and 0.222, respectively.

The figures in the ‘B’ column show that ‘education level’ and ‘income’ category have a coefficient value of 0.892 and 0.371, respectively. The coefficient figures for both variables indicate a positive value; this can be interpreted as showing that both variables have a positive relationship with the level of good knowledge of the subject matter.

The final figure in the table that needs to be interpreted is the odd ratio, which is presented in column ‘Exp(B)’. For the ‘education level’ variable, the odd ratio of 2.44

means that the odds of a person answering that he or she knows the meaning of 'board rate' is 2.44 times higher for someone who possesses a higher level of education than for those with a lower level of education, all other factors being equal. For the 'income' variable, the odd ratio is 1.45, which means that for each extra RM1,000 that a person earned, the odds of a person understanding the meaning of 'board rate' increases by a factor of 1.45, all other factors being equal.

Table 8.11: Logistic regression results significant variables determining the level of understanding of board rate (Variables in the Equation)

						95.0% C.I.for EXP(B)	
	B	S.E.	Wald	Sig.	Exp(B)	Lower	Upper
Education	.892	.196	20.749	.000	2.440	1.662	3.581
Income	.371	.097	14.570	.000	1.449	1.198	1.753
Relationship Duration	.077	.090	.733	.392	1.080	.906	1.287
Religious obligation	.121	.099	1.489	.222	1.128	.929	1.370
Constant	-2.886	.470	37.742	.000	.056		

Variable(s) entered on step 1: Education, Income, Duration of relationship, Religious obligation.

The results show that 'education level' and 'income' groups are the significant predictors that may contribute to the level of understanding of the meaning of the board rate. The findings are consistent with the findings presented and discussed in Section 8.3.1.2. The results suggest that the positive coefficient values mean that the level of understanding of the meaning of 'board rate' will gradually increase as the education and income levels increase, at the ratio suggested by the odd ratio figures. Nevertheless, a more meaningful interpretation can be seen from the direct engagement with the product. As discussed in Chapter 3, the uncertainty of the indicative rate is one of the high risk characteristics inherent in profit-sharing deposits accounts. The same argument suggested in Section 8.3.1.2 that those who are most probable to engage in higher risk products are normally coming from groups of people who are financially stable. As a result, the outcomes of the logistic regression may further suggest that higher income groups, which are deemed financially sophisticated, have a higher level of knowledge, which perhaps was acquired through gaining experience in dealing with the product.

8.3.1.4 Opinions and perceptions on Profit Equalization Reserve (PER)

As mentioned, PER is another component that may affect the overall behaviour of the depositors. It has a direct link with the declared rate of return, as has been discussed in the preceding chapters. The more actively the Islamic bank use PER to smoothes the deposits return, the higher the possibility that the depositors perceive that the 'board rate' is not an indicative rate of return. The objectives of this section are, firstly, to see which category of respondents is more familiar with the concept of PER, and, secondly, to gauge the respondents' opinion regarding a few characteristics that build up the concept of PER. The opinions gathered will be used to draw an overall conclusion of whether the PER concept is acceptable to the respondents.

8.3.1.4.1 Familiarity with the concept of PER

As has been discussed in Section 6.10, about 63.8% of the respondents do not familiar with the concept of PER. Therefore, in this section, the objectives of the analysis are to determine whether there are any significant differences across the groups of respondents from the respective categories in the level of familiarity with the concept of PER, and, secondly, which of the groups have a better level of familiarity.

Table 8.12 shows the results of U-test and K-W test. There are only two categories that show there is significant difference in the level of familiarity across the respondent group. Firstly, in the 'respondent category', the significant value recorded is 0.000, which is significantly lower than critical p-value of 0.05. This signifies that there is a significant difference in familiarity with the concept of PER between 'ordinary depositor' and 'bank employees'. The higher mean rank value of 385.05 for the 'bank employees' group indicates that bank employees are more familiar with the concept. The second category that shows a significant difference in the level of familiarity with the concept of PER across the groups of respondents is the 'income' category. This is because the significant value of 0.013 is lower than critical p-value of 0.05. The groups that indicate a higher level of familiarity are those from the higher income bracket. Leading the mean value score is the group from 'more than RM20,000' followed by 'RM10,001-RM20,000', with the mean rank value of 366.50 and 304.18, respectively.

The PER concept is considered as quite technical, and it only pertains to profit-sharing deposits accounts. Therefore, the bank employees and those from higher income groups, who have financial sophistication, have a better level of familiarity because they have more experience in dealing with the product. Bank employees have a better level of familiarity because of the experience in handling the product, while the 'higher income' group acquired knowledge from holding the product; these results are in line with the findings in Sections 8.3.1.2 and 8.3.1.3.

Table 8.12: Mann-Whitney U and Kruskal-Wallis Test: Respondents' familiarity with profit equalization reserve (PER)

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 26: Familiarity with profit equalization reserve (PER)	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=302.24	*z*= -5.268	0.000
	Bank Employees	170	u_2=385.05		
	Total N	647			
	Excluding Employees as respondents				
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	237	u_1=237.58	*z*= -0.242	0.809
	Islamic Subsidiaries	240	u_2=240.40		
	Total N	477			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	132	k_1= 246.47		
	College Diploma/Matriculation/A-Level	144	k_2=224.10		
	Bachelor (First Degree)	145	k_3= 239.65	χ^2= 4.369	0.358
	Professional Qualification	14	k_4= 285.64		
	Postgraduate (Master or PhD)	41	k_5= 243.26		
	Total N	476			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	84	k_1= 209.64		
	RM 1,001 - RM 3,000	217	k_2= 235.09		
	RM 3,001 - RM 5,000	96	k_3= 247.19	χ^2= 14.496	0.013
	RM 5,001 - RM 10,000	49	k_4= 205.82		
	RM 10,001 - RM 20,000	17	k_5= 304.18		
	More than RM 20,000	2	*k6*=366.50		
	Total N	465			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	113	k_1= 224.84		
	1 - 3 years	157	k_2= 226.40	χ^2= 4.164	0.242
	3 - 5 years	83	k_3= 254.70		
	More than 5 years	117	k_4= 244.38		
	Total N	470			

8.3.1.4.2 Opinions on the characteristics of PER

The analysis in this section is the extension of the findings presented in Section 6.10, with the objective of determining whether there are any differences of opinion across the groups of respondents with regard to the acceptability of the overall concept of PER. Therefore, to meet the objective, the researcher used cross-tabulation analysis, since Mann Whitney U-test and Kruskal-Wallis Test results were not efficient to give a meaningful interpretation.

This analysis focuses on four main elements that builds up the understanding of the PER concept. Firstly, it will look into the perceptions on the expected deposits return, followed by three characteristics related to PER, namely: (i) building up the PER account; (ii) utilizing the PER account; and (iii) consent and transparency to the depositors. The findings of the cross-tabulation for each element are depicted in Tables 8.13 to 8.16.

Table 8.13: Cross-tabulation: Islamic banks have to give same return regardless of performance

		expect my bank to give same return				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Respondent Categories	Ordinary	3.4%	22.4%	25.4%	41.7%	6.3%
	Employees	5.2%	15.7%	26.7%	39.0%	12.8%
Islamic Banking Type	Stand Alone	3.3%	21.1%	28.1%	39.6%	7.3%
	Islamic Subsidiary	4.3%	20.2%	23.7%	42.2%	8.7%
Highest Education Level	Primary/Secondary School	4.0%	21.2%	23.2%	42.4%	9.3%
	College Diploma/Matriculation/A-Level	3.2%	17.5%	28.6%	41.8%	7.9%
	Bachelor (First Degree)	5.4%	20.7%	24.8%	40.1%	7.7%
	Professional Qualification	3.7%	18.5%	29.6%	44.4%	3.7%
	Postgraduate (Master or PhD)	0.0%	32.1%	26.8%	35.7%	5.4%
Monthly Income	RM 1,000 and below	5.9%	16.5%	30.6%	38.8%	8.2%
	RM 1,001 - RM 3,001	4.6%	17.1%	26.0%	44.5%	6.8%
	RM 3,001 - RM 5,000	2.6%	21.4%	24.0%	43.5%	8.4%
	RM 5,001 - RM 10,000	1.2%	34.1%	23.5%	30.6%	9.4%
	RM 10,001 - RM 20,000	4.2%	33.3%	20.8%	29.2%	12.5%
	More than RM 20,000	0.0%	0.0%	33.3%	66.7%	0.0%
Relationship Duration	Less than 1 year	2.9%	12.5%	33.1%	44.9%	5.1%
	1 - 3 years	3.0%	20.7%	29.1%	36.5%	9.9%
	3 - 5 years	7.3%	21.1%	22.0%	44.0%	5.5%
	More than 5 years	3.6%	25.3%	18.6%	42.3%	9.8%

Table 8.13 shows the results from the respondents' expectations regarding their deposits returns. As a recap, the respondents were asked to indicate their opinion as to whether they were expecting the same rate of deposit return, regardless of the bank's performance. This question is the key question to the overall concept of PER; if the results prove that a majority of the respondents wants their deposits return to be stable throughout the deposit period, then the bank needs to manage the expectation, and one of the methods for doing so is through PER.

The results in general indicate that there are no significant differences in terms of respondents' expectation regarding the deposits rate of returns. The majority of the

respondents, with more than 50.0% across the various groups within the categories, state that they either they 'agree' or 'strongly agree' with the notion that their bank should give the same rate of return throughout their deposits period, regardless of whether or not bank is performing well. The analysis according to the category levels is as follows:

Respondent category – Almost 52.0% of the employees stated that they 'agree' or 'strongly agree' that the bank should pay the same of return, which is higher than the rate found among the ordinary depositors, which constitutes 48.0%. The statistics also show that close to 26.0% of ordinary depositors disagree with the notion, while only close to 21.0% from the employees group stated the same.

Islamic bank type – A high percentage of about 51.0% of the respondents from the Islamic subsidiaries group supported the statement that banks should give the same rate of deposits return, compared to about 47.0% from the stand-alone Islamic banks.

Education level – Groups from the lower level of education recorded a much higher percentage compared to the groups from higher levels of education in supporting that their respective Islamic banks should give them the same rate of return, regardless of performance. The highest percentage that agrees with the notion is from the 'primary/secondary school' group (51.7%), while the lowest is from the postgraduate group with 41.1%.

Monthly income – The table shows that the highest percentage that agrees with the statements is coming from the lower income group, *i.e.* RM1,001-RM3,000 (51.3%) and RM3,001-RM5,000 (51.9%) compared to the higher income level group, *i.e.* RM5,001-RM10,000 (40.0%) and RM10,001-RM20,000 (41.7%). On the other hand, groups from higher income levels have better a percentage of opposing the notion compared to the groups that represent lower income groups.

Relationship duration – The highest percentage, who agrees that the bank should give the same rate of return, is from the 'more than 5 years' group with 52.1%, and the lowest with the same answer is from the '1-3 years' group with 46.4%.

It is interesting to note that, despite the fact that the majority of the respondents have the desire towards a stable rate of deposits return, the groups that show better understanding of the technical aspects of the profit-sharing deposits account (the interpretation of 'board rate' and familiarity with PER concept) recorded a lower percentage of supporting the notion. This can be seen from the statistics that the 'higher education level' group and the 'higher income' group emerged to have a lower percentage compared to the other groups within the same category.

The overall conclusion that can be derived from the findings can be grouped into two major points. Firstly, the majority of the respondents, who state that they want their bank to give the same rate of deposits return, seem akin to the behaviour and expectation shown by depositors in conventional commercial banks, who expect a fixed return as promised upfront by their bank. The findings seem to contradict the findings presented in Table 8.5, in which the majority would open a profit-sharing deposits account because of their belief that profit-sharing accounts are in line with the *Shari'ah muamalah* principles. These findings further strengthen the pervious findings that religiosity factors are not the sole factor, but that commercial aspects also play a significant role in attracting depositors.

Secondly, the findings also further strengthen the conclusion that a higher level of understanding of the technical aspects of the profit-sharing deposits accounts would help to improve the overall attitude towards the spirit of the profit-sharing characteristics. This can be seen from those groups (higher level of education and higher income group) which consistently have a significant level of understanding of the technical aspect (board rate and PER) of profit-sharing deposits account: they have a lower percentage of respondents, who stated that the depositors should receive the same level of rate of return if their respective bank performed badly.

Since, however, the Islamic banks are facing depositors who have the expectation of receiving the same level of return, regardless of the bank's performance, the banks are expected to manage this expectation. As mentioned, one of the techniques is though profit equalization reserve (PER) which has been discussed extensively in Chapter 3.

The first aspect of the PER is to build up the reserve. The purpose of building the PER reserve is to allocate the extra profit generated during certain periods of time to a PER account; in doing so, the rate of return will be lowered to the expectation of the depositors. The following table (Table 8.14) shows the results of the respondents' opinion on the first element of PER. The respondents were asked to state their opinion on the aspect of transferring extra profit generated into a PER account. The overall general results indicate that about 40.0% of the respondents 'agree' or 'strongly agree' that the extra profit generated by the bank during certain periods is to be allocated to profit equalization reserve. The details of the analysis according to the categories are as follows:

Table 8.14: Cross-tabulation: If Islamic bank keeps some portion of extra profit to a special account

		if your bank keep some portion of the extra profit to a 'special reserve' account				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Respondent Categories	Ordinary	4.6%	26.0%	28.5%	36.3%	4.6%
	Employees	7.6%	30.8%	24.4%	33.1%	3.5%
Islamic Banking Type	Stand Alone	4.6%	26.1%	30.0%	35.6%	3.6%
	Islamic Subsidiary	6.1%	28.3%	25.1%	35.3%	4.9%
Highest Education Level	Primary/Secondary School	4.6%	25.2%	29.8%	34.4%	6.0%
	College Diploma/Matriculation/A-Level	5.8%	31.2%	29.1%	30.7%	3.2%
	Bachelor (First Degree)	5.0%	26.1%	25.2%	38.7%	4.5%
	Professional Qualification	3.7%	33.3%	29.6%	29.6%	3.7%
	Postgraduate (Master or PhD)	8.9%	23.2%	23.2%	42.9%	1.8%
Monthly Income	RM 1,000 and below	5.9%	17.6%	37.6%	35.3%	3.5%
	RM 1,001 - RM 3,001	5.0%	28.1%	28.5%	33.5%	4.6%
	RM 3,001 - RM 5,000	3.9%	27.9%	26.6%	36.4%	5.2%
	RM 5,001 - RM 10,000	9.4%	31.8%	18.8%	36.5%	3.5%
	RM 10,001 - RM 20,000	4.2%	33.3%	12.5%	45.8%	4.2%
	More than RM 20,000	0.0%	33.3%	66.7%	0.0%	0.0%
Relationship Duration	Less than 1 year	3.7%	28.7%	33.1%	31.6%	2.9%
	1 - 3 years	4.4%	22.7%	32.5%	35.0%	4.9%
	3 - 5 years	4.6%	30.3%	27.5%	34.9%	2.8%
	More than 5 years	8.2%	29.9%	17.5%	39.2%	5.2%

Respondent category – A high combined percentage of 40.9% was recorded among the ordinary depositors group, compared to the employees group with 36.6%. Meanwhile, almost 39.0% of the respondents from the employees group stated that they 'disagree' or 'disagree strongly' if the bank transfers the extra profit to the profit equalization reserve.

Islamic bank type – A combined percentage of 40.2% of the respondents from the Islamic subsidiaries stated that they agree to build up the PER reserve from the extra profit generated. Meanwhile the statistics from the stand-alone Islamic bank is slightly lower by 1.0%. This shows that the majority of the respondents from both groups more or less support the idea of building a PER reserve.

Education level – In general, the figures show that those from the higher level of education groups (postgraduate – 44.7%, Bachelor – 43.2%) support the idea of building PER reserve from the extra profit generated compared to groups from a lower level of education (primary/secondary school – 40.4%, college diploma/matriculation – 33.9%).

Monthly income – Generally, the groups from the higher income group (RM10,001-RM20,000 – 50.0%, RM5,001-RM10,000 – 40.0%) recorded a higher combined percentage in supporting the idea of transferring extra profit to the profit equalization reserve compared to respondents from the lower income group (RM1,000 and below – 38.8%, RM1,001-RM3,001 – 38.1%).

Relationship duration – The highest percentage that agrees with the idea of building a PER reserve is from the 'more than 5 years' group with 44.4%, while the lowest percentage is from the 'less than 1 year' group with a combined percentage of 34.5%.

From the findings presented above, three important points can be extracted. Firstly, in general the percentage of those who indicate that they 'agree' and 'strongly agree' with the idea of building PER reserve is slightly reduced from the findings in Table 8.13, which further suggests that profit maximization is a strong aspects of depositing with Islamic banks. Secondly, based on the comparison between findings in Tables 8.13 and 8.14, the comparative trend from the both tables suggests that in general the groups which show a strong desire for a stable rate of deposits return, as evident in table 8.13, recorded a much lower percentage regarding the idea of building a PER reserve; for example, 47.0% of the respondents from the income group of 'RM1,000 and below' stated that they want the same rate of return, regardless of the banks' performance, but only 38.8% of the same respondent group stated that they agree with building the PER reserve.

Finally, the findings also identified that groups of respondents, which have better knowledge about the technical aspect of the profit-sharing products are more supportive of building a PER reserve compared to the groups that have little or less exposure; for example, a higher percentage can be seen in the groups with a higher level of education and higher income compared to the lower level of education and lower income brackets, respectively.

The second characteristic with regard to the PER reserve is the utilization of PER reserves during periods of bad performance. The Islamic bank is not exempt from the risk of bad business performance, which in turn may affect the overall return to the depositors. Therefore the PER reserves that are built during good financial periods will be used to make good any deficits in the rate of return during the bad financial period. With this regard, the objective of this analysis is to see the respondents' views on the utilization aspect of the PER reserve. The cross-tabulation analysis results which show the comparative analyses are presented in Table 8.15.

Table 8.15: Cross-tabulation: Islamic banks' use of the special account for the benefit of future depositors

		if this 'special reserve' account to be used for the benefit of future depositors				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Respondent Categories	Ordinary	3.4%	17.2%	25.6%	45.7%	8.2%
	Employees	7.6%	29.7%	25.0%	32.0%	5.2%
Islamic Banking Type	Stand Alone	3.6%	16.5%	27.7%	44.9%	7.3%
	Islamic Subsidiary	5.2%	24.0%	23.4%	39.6%	7.5%
Highest Education Level	Primary/Secondary School	5.3%	12.6%	26.5%	46.4%	9.3%
	College Diploma/Matriculation/A-Level	2.6%	23.8%	28.0%	39.2%	6.3%
	Bachelor (First Degree)	4.5%	21.2%	26.1%	41.0%	6.8%
	Professional Qualification	7.4%	40.7%	14.8%	33.3%	3.7%
	Postgraduate (Master or PhD)	7.1%	19.6%	17.9%	46.4%	8.9%
Monthly Income	RM 1,000 and below	4.7%	11.8%	34.1%	42.4%	7.1%
	RM 1,001 - RM 3,001	3.2%	17.8%	26.0%	44.5%	8.2%
	RM 3,001 - RM 5,000	3.9%	22.7%	24.7%	40.3%	8.4%
	RM 5,001 - RM 10,000	9.4%	34.1%	17.6%	32.9%	5.9%
	RM 10,001 - RM 20,000	4.2%	33.3%	8.3%	50.0%	4.2%
	More than RM 20,000	33.3%	0.0%	33.3%	33.3%	0.0%
Relationship Duration	Less than 1 year	2.2%	17.6%	30.9%	41.9%	7.4%
	1 - 3 years	3.4%	18.7%	29.1%	40.4%	7.9%
	3 - 5 years	3.7%	22.0%	21.1%	47.7%	5.5%
	More than 5 years	7.7%	23.7%	21.1%	40.7%	6.7%

In general, about 50.0% across the groups of the respondents stated that they 'agree' or 'strongly agree' if the Islamic banks utilized the PER reserve to ensure the stability of the rate of deposits return. The analyses for each of the categories are as follows:

Respondent category – A combined percentage of almost 54.0% of the respondents from the ordinary depositors group stated that they 'agree' or 'strongly agree' with the purpose of PER reserves to stabilize the rate of return. The percentage is higher than that for the employees groups, where only 37.2% stated that their agreement.

Islamic bank type – A higher combined percentage of 52.2% of the respondents from the stand-alone Islamic banks agree with the purpose of utilization of PER reserves to ensure stability, compared to 47.1% from the Islamic subsidiaries group.

Education level – The highest combined percentage that stated they agree with the purpose of the PER reserve is from the 'primary/secondary school' group, with 55.7%, followed by 'postgraduate' and 'bachelor degree', with 55.3% and 47.8%, respectively.

Monthly income – The highest combined percentage group that stated they agree with the utilization of PER reserves is from the income bracket of 'RM10,001-RM20,000, with 54.2%. This followed by the income brackets of 'RM1,001-RM3,001', as well as 'RM1,000, and below', with 52.7% and 49.5%, respectively.

Relationship duration – The highest combined percentage of respondents for this category, who stated that agree of the utilization of PER reserve for the stability of rate of return, is from group that have been with bank for 3 to 5 years, with 53.2%. The second highest percentage recorded in this category is from the group of 'less than 1 year', with 49.3%, followed by '1-3 years', with 48.3%.

Overall, the results of the individual categories do not seem to show any significant differences across the groups. This suggest that the majority of the respondents agree with the purpose of the PER reserve to stabilize the rate of deposits return.

The researcher notes there are two seeming discrepancies in the answers from the previous discussion on the building of PER reserve. Firstly, the combined percentage of the respondents, who state that they 'agree' or 'strongly agree' with the purpose of the utilization of PER reserve, are across the board higher than the scores in the previous discussion with regard to the building of PER reserve. Nevertheless, the researcher noted that the rate of incremental increase from the group which experienced lower levels of exposure (*i.e.* the lower income group and lower education groups) is much higher than the incremental rate of increase from the group that experienced better exposure to the product (*i.e.* those in the higher level of education and higher income groups).

Secondly, the researcher also identified a discrepancy among certain groups of respondents in their opinion on the purpose of the utilization. The identified discrepancy is the group of respondents, who initially have the tendency to disagree with the idea of building up the PER reserve (as discussed above): they tend to state that they agree with the purpose of the utilization of the PER reserve. For example, in the 'monthly income' category, the two lowest percentages among respondents who agree on the idea of building PER reserve from the extra profit generated are from the income bracket of 'RM1,001-RM3,000' and 'RM1,000 and below', but the opposite happens in the situation of utilizing PER for better return, in which the two groups ranked second and third in terms of highest percentage.

In short, the two inconsistencies ultimately provide further support for the findings of the discussion earlier in this section that the majority of the depositors have a strong desire towards obtaining a higher rate of return, regardless of the situation.

The final component regards the element of consent and transparency of the PER mechanisms to the depositors. The PER mechanisms contradict the spirit of the profit-sharing contracts as laid down in the *Shari'ah muamalah* principles, although they have been approved by many renowned *Shari'ah* scholars worldwide on the basis of public interest and financial stability. Nevertheless, it is highly desirable for the bank to seek consent in writing from the depositors, as the PER concept in a way deprived the depositors of their rights towards the actual profit.

In Chapter 6, the corresponding results for this section show that a high percentage of 83.0% of the respondents stated they 'agree' and 'strongly agree' that the bank should inform them in writing about the PER. With this in mind, the researcher intends to further analyse whether there is any significant difference across the groups of respondents in the respective categories. The results of the cross-tabulation analysis for this matter are presented in Table 8.16 below.

The general observation from the table is that, with the exception of three groups of respondents (*i.e.* education level from the 'college diploma/matriculation/A-level', income group of 'RM1,000 and below', and relationship duration group of '1-3 years'), the remaining groups recorded a combined percentage of more than 80.0%, stating that they 'agree' or 'strongly agree' with the suggestion that the Islamic banks should inform them and seek their approval regarding the concept of PER in writing. The presentation of the results according to the category as follows:

Table 8.16: Cross-tabulation: Islamic banks should inform the depositors in writing about the special reserve account

		Should be informed in writing about special reserve account				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Respondent Categories	Ordinary	0.6%	1.7%	14.7%	57.4%	25.4%
	Employees	0.6%	1.7%	13.4%	55.8%	27.9%
Islamic Banking Type	Stand Alone	0.7%	2.3%	14.9%	57.8%	24.4%
	Islamic Subsidiary	0.6%	1.2%	13.9%	56.4%	27.5%
Highest Education Level	Primary/Secondary School	1.3%	2.6%	12.6%	61.6%	21.9%
	College Diploma Matriculation/A-Level	0.0%	2.1%	20.6%	55.6%	21.2%
	Bachelor (First Degree)	0.5%	1.4%	10.8%	54.5%	32.4%
	Professional Qualification	0.0%	0.0%	14.8%	66.7%	18.5%
	Postgraduate (Master or PhD)	1.8%	0.0%	12.5%	53.6%	32.1%
Monthly Income	RM 1,000 and below	0.0%	2.4%	18.8%	54.1%	24.7%
	RM 1,001 - RM 3,001	0.4%	2.8%	13.5%	56.9%	25.6%
	RM 3,001 - RM 5,000	0.6%	0.6%	16.2%	59.7%	22.7%
	RM 5,001 - RM 10,000	2.4%	0.0%	14.1%	49.4%	34.1%
	RM 10,001 - RM 20,000	0.0%	0.0%	4.2%	75.0%	20.8%
	More than RM 20,000	0.0%	0.0%	0.0%	66.7%	33.3%
Relationship Duration	Less than 1 year	0.0%	2.2%	14.7%	55.9%	27.2%
	1 - 3 years	1.5%	3.0%	15.3%	51.7%	28.1%
	3 - 5 years	0.0%	0.9%	14.7%	65.1%	19.3%
	More than 5 years	0.5%	0.5%	13.4%	57.7%	27.3%

Respondent category – The results for this category show there is no significant difference with regard to the opinion on the consent and transparency issue on the

PER concept. Nevertheless, the bank employees group recorded a slightly higher combined percentage of 83.7%, while ordinary depositors group has a combined percentage of 82.8%.

Islamic bank type – A similar pattern of results also can be seen in this category. A higher combined percentage of 83.9% can be found in the 'Islamic subsidiaries' group, while 'stand-alone' Islamic banks group recorded slightly lower percentage of 82.2%.

Education level – The results shows that groups from the higher level of education (bachelor – 86.9%, postgraduate – 85.7%, and professional qualification – 85.2%) have higher percentages which are in favour of the matter, compared to the lower level education groups (primary/secondary school – 83.5%, and college diploma/matriculation/A-Level – 76.8%).

Monthly income – The results for this category have a similar pattern to that of the 'education level' category. The groups from the higher income brackets (more than RM20,000 – 100%, RM10,001-RM20,000 – 95.8%, RM5,001-RM10,000 – 83.5%) record better percentage results compare to the lower income bracket groups (RM3,001-RM5,000 – 82.4%, RM1,001-RM3,000 – 82.5%, and RM1,000 and below – 78.8%).

Relationship duration – The highest combined percentage recorded in this category that states either they 'agree' or 'strong agree' is from the group of having more than 5 years relationship with the bank followed by group of '3-5 years', with 84.4%.

Although in general majority are of the opinion that the bank should inform them and seek their consent in writing regarding the PER concept, it is important to highlight the findings in two categories, namely 'education level' and 'income level'. In these two categories, the results suggest that those respondents who have better exposure or knowledge of the technical mechanisms of profit-sharing contracts and also of PER mechanisms (higher level of education group and higher income bracket group) are more concerned that the bank should inform them and seek their consent, as opposed

to the groups that are less exposed and have less understanding of the technical aspects of the profit-sharing mechanisms.

In conclusion, the findings derived from the four aspects of PER can be summarized as follows: (1) High desire for same rate of return regardless of bank performance (2) Preference of having PER reserve account from the extra profit generated (3) Approval for utilizing the PER account to stabilize the rate of return and (4) High demand for having prior consent and transparency from the depositors. The findings suggest that profit equalization reserve concept is highly needed by the Islamic banking industry, as the findings clearly indicate a profit maximization motive; therefore a need for PER exists, even though the concept is controversial from the *Shari'ah muamalah* point of view. In addition, the respondents also generally agree that extra profit generated during the good financial period and allocated into profit equalization account should be utilised during bad financial periods to stabilize the rate of return. Nevertheless, the risk of *Shari'ah muamalah* compliancy may be mitigated with the depositors' written consent. In addition, the consent and transparency of the PER would indirectly improve the standard of good governance and enhance financial stability.

8.3.1.5 Comparative analysis across different respondents groups' reaction on the various situations of lower deposits' rate of return

This is the last section under the subject of deposits rate of return which is the continuation of the discussion in previous chapters and sections. The previous sections basically dealt with the awareness, knowledge, and opinions of the respondents regarding various elements and characteristics related to the rate of return connected with profit-sharing deposits accounts. The awareness, knowledge, and opinions may be viewed as inspirational in nature. In other words, it is not necessary that the opinions, perceptions, and knowledge are applied and translated into probable behaviour. The overall objective of this analysis is to determine the attitude of the respondents towards aspects of religiosity and financial benefits. . The respondents' motivation will be tested by questioning them about four possible scenarios. The first three scenarios are related to a lower rate of return declared by the Islamic banks, and the last scenario is related to *Shari'ah* compliance.

The following four scenarios have been created: (1) if their Islamic bank declares a lower rate of return compared to other Islamic banks (2) if their Islamic bank declares a lower rate of return compared to other conventional banks (3) if their Islamic bank announces a lower rate of return than other Islamic and conventional banks, but at the same time charging lower financing rates and (4) if their Islamic bank is found to be conducting business not in line with the *Shari'ah muamalah* principles. The respondents were asked to indicate what their most probable reaction would be for each scenario, by selecting from the five options provided: (1) Shift all their deposits to conventional banks (2) Shift only a portion of their deposits to conventional banks (3) Still retain their deposits and remain with their existing Islamic bank (4) Shift all of their deposits to other Islamic banks and (5) Shift a portion of their deposits to other Islamic banks. For most of the banks, it is highly desirable to have their depositors remain with them or retain their deposits in the same banks, regardless of the situation. This indirectly indicates that the depositors are not rated as rational customers and have certain degree of loyalty to the bank. Therefore, in this analysis, most of the descriptive aspects would indicate 'retain with existing Islamic banks' as the positive option. Any shifting of deposits to other financial institutions is generally deemed to be less favourable from the existing bank's point of view. Cross-tabulation analysis was used to achieve the objective of the analysis, since results from the Mann-Whitney U-test and Kruskal-Wallis test were unable to provide optimal results and also the tell the actual reaction for each situation.

Scenario 1: If their Islamic bank declares a lower rate of return as compared to other Islamic banks. In the first scenario, the respondents were asked to indicate what their probable reaction would be if their respective Islamic bank declared a lower rate of return as compared to other Islamic banks. As mentioned in the descriptive analysis chapter (Chapter 6), an average percentage of 40.0% of the respondents stated that they would remain or retain their deposits with the existing Islamic banks. Table 8.17 below shows the cross-tabulation results of the reaction of respondents for each category.

Table 8.17: Cross-tabulation: Respondents' reaction if the bank declares lower return compared to other Islamic banks

		Announces lower return than other Islamic banks				
		Shift all to conventional banks	Shift portion to conventional banks	Retain with existing Islamic banks	Shift all to other Islamic banks	Shift portion to other Islamic banks
Respondent Categories	Ordinary	4.6%	8.2%	43.9%	23.4%	19.8%
	Employees	1.2%	4.1%	29.7%	27.9%	37.2%
Islamic Banking Type	Stand Alone	2.6%	7.6%	40.7%	29.1%	19.9%
	Islamic Subsidiary	4.7%	6.7%	39.5%	20.6%	28.5%
Highest Education Level	Primary/Secondary School	8.7%	10.7%	42.7%	22.0%	16.0%
	College Diploma/Matriculation/A-Level	3.2%	8.5%	43.1%	28.7%	16.5%
	Bachelor (First Degree)	1.4%	5.0%	39.4%	19.5%	34.8%
	Professional Qualification	3.7%	0.0%	25.9%	40.7%	29.6%
	Postgraduate (Master or PhD)	1.8%	5.4%	33.9%	32.1%	26.8%
Monthly Income	RM 1,000 and below	4.7%	8.2%	44.7%	23.5%	18.8%
	RM 1,001 - RM 3,000	5.4%	7.6%	43.2%	21.6%	22.3%
	RM 3,001 - RM 5,000	1.9%	7.1%	37.7%	26.6%	26.6%
	RM 5,001 - RM 10,000	2.4%	2.4%	30.6%	30.6%	34.1%
	RM 10,001 - RM 20,000	0.0%	4.2%	37.5%	33.3%	25.0%
	More than RM 20,000	0.0%	33.3%	0.0%	33.3%	33.3%
Relationship Duration	Less than 1 year	6.7%	11.9%	46.7%	21.5%	13.3%
	1 - 3 years	2.5%	8.4%	40.6%	21.3%	27.2%
	3 - 5 years	1.8%	2.8%	42.2%	27.5%	25.7%
	More than 5 years	3.6%	4.7%	33.2%	29.0%	29.5%

Respondent category – The majority of the respondents from the ordinary depositors group, with 43.9%, indicate that they would still remain or retain their deposits with the existing Islamic bank. The second highest percentage can be seen at the fourth column, which is 'shift all to other Islamic banks', with 23.4%. About 13.0% of the respondents in this group stated that they would move at least a portion of their deposits to conventional commercial banks. By contrast, about 37.0% of the employees group stated that they would shift a portion of their money to other Islamic bank, and only about 30.0% would still remain with their existing Islamic banks. In addition, a lower combined percentage of 5.3% indicated that they would shift at least a portion of their deposits to conventional commercial banks. The results suggest that the majority of the employees are concerned about the rate of return as compared to the respondents from the ordinary depositors groups. However, the results also suggest that the reaction of the depositors from the employee group is deemed to be

within the *Shari'ah* boundaries, as the highest percentage opted for moving their deposits within the Islamic banking sector. In addition, the employee categories recorded a lower percentage as compared to the ordinary depositors when indicating they were going to shift at least a portion of their deposits to conventional commercial banks. The strong reaction towards the rate of return by the bank employee groups can be explained by the fact that the bank employees are having better knowledge about financial instruments, which translates into more complex financial behaviour. In addition, the bank employees have the advantage of getting the most up to date information on any rate changes, which would reduce the transaction cost.

Islamic bank type – The majority of respondents from both groups indicate that they would retain their deposits with the existing Islamic banks. This can be seen as 40.7% and 39.5% of the respondents from the 'stand-alone' Islamic banks and Islamic subsidiaries, respectively, indicate 'retain with existing Islamic banks' as their option. The second highest choice for the respondents in 'stand-alone' Islamic banks is 'shift all to other Islamic banks' with 29.1% while for the respondents from the 'Islamic subsidiary' is 'shift portion to other Islamic banks' with 28.5%. Although the results show that both groups have roughly the same percentage of respondents who are deemed as non-rate sensitive depositors, the 'stand-alone' Islamic banks are deemed to face higher withdrawal risks, since a higher percentage of the respondents stated that they would shift all of their deposits to other Islamic banks in order to seek higher returns. The reaction of the respondents from the 'stand-alone' Islamic bank can be explained with the same reason found in Section 8.3.1.1 that perhaps Islamic banks in the 'stand-alone' category persistently pay a lower deposits return as compared to the Islamic banks in the subsidiaries category.

Education level – A higher percentage of respondents from the lower level of education groups (primary/secondary school - 42.7% and college diploma/matriculation/A-level - 43.1%) state that they would retain their deposits with the exiting Islamic banks as compared to the groups from the higher level of education (bachelor - 39.4%, professional qualification - 25.9% and postgraduate - 33.9%). The second most popular reactions for the each groups are as follows; 'primary/secondary school' – shift all to the other Islamic banks (22.0%), 'college diploma/matriculation/A-level'- shift all to the other Islamic banks (28.7%), 'bachelor

degree'- shift portion to other Islamic banks (34.8%), 'professional qualification'- shift all to other Islamic banks (40.7%), and 'postgraduate'- shift all to the other Islamic banks (32.1%).

Income level – The same pattern identified in the 'education level' category can also be seen in the in this category. The groups from the lower income brackets are considered as more non-rate sensitive, compared to the higher income bracket groups. This can been seen as lower income bracket groups recorded a higher percentage (RM1,000 and below (44.7%), RM1,001 – RM3,000(43.2%), RM3,001 – RM5,000 (37.7%)) compared to the higher income bracket groups (RM5,001-RM10,000 (30.6%), RM10,001-RM20,000- (37.5%)). The second most popular reaction among the groups is as follows; 'RM1,000 and below' – shift all to other Islamic banks(23.5%), 'RM1,001-RM3,000'- shift portion to the other Islamic banks (22.3%), 'RM3,001-RM5,000'- equally ranks with 26.6% for both shift portion and shift all to other Islamic banks, 'RM5,001-RM10,000'- shift portion to other Islamic banks and 'RM10,001-RM20,000' – shift all to other Islamic banks.

Relationship duration – In this category, generally, those respondents with a shorter relationship with the Islamic banks indicate a more often that they are retaining their deposits with their existing banks, compared to the respondents who have a longer banking relationship. For example, the 'less than 1 year' group recorded the percentage of 46.7%, while the group of 'more than 5 years' recorded a percentage of 33.2%, which is the lowest for this question.

In this section, the researcher would like to highlight that the groups from the higher level of education level and higher income brackets are more sensitive to changes in the rate of return. The findings can be linked to findings in the previous sections, in which these groups are categorised as the groups that have better knowledge of the product specification; they also have a higher level of financial sophistication. Due to their more complex financial needs, these groups are construed of having a higher risk appetite. As a consequence, these groups feel that the risks they are taking must be commensurate with the higher return, thus making them more concerned about changes to the rate of return. In short, it is argued that the majority of the depositors show that they are reacting to the changes to the rate of returns. Nevertheless, the

depositors' desire for higher return is confined within the boundaries of *Shari'ah* compliance; this can be seen from the results, which show that only around 10% of the depositors would shift their deposits to the conventional commercial banks. Therefore, the researcher would term these groups of respondent as '*Shari'ah*-compliant profit motive depositors'.

Scenario 2: If their Islamic bank declares a lower rate of return as compared to other conventional banks. In this scenario, the respondents were asked to indicate their probable reaction if their Islamic bank declares a lower rate of return as compared to other conventional commercial bank but comparable with other Islamic banks. The results in descriptive analysis (Chapter 6) shows, there are about 75% of the respondents, who indicated that they would still retain their deposits with their existing Islamic bank. Table 8.18 shows the cross-tabulation analysis results for this scenario.

Respondent category – There are about 78% of the respondents from the 'employees' group, who stated that they will retain their deposits with their existing Islamic bank if the scenario happens. The percentage is higher than that for the 'ordinary depositors' groups, which recorded the percentage of 73.5%. For both groups, less than 20% and 10% indicated that they might shift at least a portion of their deposits to other Islamic banks and other conventional commercial banks, respectively.

Islamic bank type – In this category, the 'Islamic subsidiary' group registered a higher percentage of 77.7% of respondents, who stated that they would retain their money with the existing Islamic bank as compared to the 'stand-alone' Islamic bank group with 71.5%. The percentage of depositors stating that they will shift at least a portion of their deposits to the conventional commercial banks is considered low, since both groups only registered a percentage of less than 9.0%.

Education level – A higher percentage can be seen for the answer 'retain with existing Islamic banks' in the groups that have a higher level of education as compared to groups that are coming from a lower level of education. The percentages for the higher level of education groups are 78.3% ('bachelor degree'), 81.5%

('professional qualification'), and 82.1% ('postgraduate degree'). While the percentage for the groups that represent lower level of education are the 'primary/secondary school' group with 72.2%, and 'college diploma/matriculation/A-level' with 69.1%. Similar to the previous categories, the percentage of respondents across the groups, who would shift at least a portion of their deposits to conventional commercial banks, is less than 10.0%, with the highest percentage recorded from the 'college diploma/matriculation/A-level' with 9.6%, and the lowest percentage from the 'bachelor' degree group with 5.4%.

Income level – The respondents from the high income groups registered a higher percentage as compared to the respondents representing lower income brackets, that they would retain their money with the existing Islamic bank. The percentages for the groups representing the higher income bracket are 'RM10,001-RM20,000' with 79.2%, and 'RM5,001-RM10,000' with 83.5%. On the other hand, the percentages of groups that are categorised under the lower income bracket are 'RM1,000 and below' with 64.7%, 'RM1,001-RM3,000' with 73.9% and 'RM3,001-RM5,000 with 77.1%. The respondents, who state that they are going to shift at least a portion of their deposits to conventional commercial banks is still low, with a maximum of 9.6% across the groups. In addition, the results show that the respondents from the higher income groups have a lower percentage as compared to the respondents from the lower income bracket groups in stating that they were going to shift at least a portion of their deposits to conventional commercial banks.

Relationship duration –The highest percentage of those willing to retain their deposits can be seen in the group which has a banking relationship of 3 to 5 years (82.6%), followed by the groups with more than 5 years (78.1%). The lowest percentage can be seen in the group of those who have less than a year of banking relationship (66.9%). On the other hand, the group with less than a year relationship has the highest percentage (12.5%) of the respondents stating they might shift at least a portion of their deposits to other conventional commercial banks.

Table 8.18: Cross-tabulation: Respondents' reaction if the bank declares lower return compared to other conventional banks

		Announces lower return than other conventional banks				
		Shift all to conventional banks	Shift portion to conventional banks	Retain with existing Islamic banks	Shift all to other Islamic banks	Shift portion to other Islamic banks
Respondent Categories	Ordinary	3.6%	5.5%	73.5%	12.0%	5.5%
	Employees	2.3%	2.3%	78.4%	11.7%	5.3%
Islamic Banking Type	Stand Alone	3.0%	4.6%	71.5%	15.9%	5.0%
	Islamic Subsidiary	3.5%	4.6%	77.7%	8.4%	5.8%
Highest Education Level	Primary/Secondary School	2.6%	7.3%	72.2%	9.9%	7.9%
	College Diploma/Matriculation/A-Level	4.3%	5.3%	69.1%	15.4%	5.9%
	Bachelor (First Degree)	2.7%	2.7%	78.3%	12.7%	3.6%
	Professional Qualification	3.7%	3.7%	81.5%	3.7%	7.4%
	Postgraduate (Master or PhD)	3.6%	3.6%	82.1%	7.1%	3.6%
Monthly Income	RM 1,000 and below	1.2%	5.9%	64.7%	21.2%	7.1%
	RM 1,001 - RM 3,001	4.6%	5.0%	73.9%	11.8%	4.6%
	RM 3,001 - RM 5,000	1.3%	5.2%	77.1%	10.5%	5.9%
	RM 5,001 - RM 10,000	4.7%	0.0%	83.5%	7.1%	4.7%
	RM 10,001 - RM 20,000	0.0%	0.0%	79.2%	8.3%	12.5%
	More than RM 20,000	0.0%	33.3%	33.3%	33.3%	0.0%
Relationship Duration	Less than 1 year	5.1%	7.4%	66.9%	16.2%	4.4%
	1 - 3 years	3.0%	5.9%	72.4%	12.8%	5.9%
	3 - 5 years	0.0%	2.8%	82.6%	8.3%	6.4%
	More than 5 years	4.2%	2.6%	78.1%	9.9%	5.2%

There are three important points can be derived from the present scenario analysis. Firstly, the findings further reinforce the argument that the majority of groups, which are reactive to the scenario of lower rate of return, are still concerned about the *Shari'ah* compliancy aspect of the returns. This can be seen by comparing the results from Tables 8.17 and 8.18. The comparative results show that, for the same groups of respondents, higher percentages can be seen for the reaction of 'retain with existing Islamic banks' in the present scenario as compared to the previous scenario. This means that the groups of respondents, who indicate that they would shift at least portion of their deposits to other Islamic banks if the existing banks declares lower returns, indicated otherwise in the present scenario by stating that they will retain their deposits with their existing Islamic bank if the rate of return is comparable with other Islamic banks although lower than conventional commercial banks.

Secondly, it is noted that the groups, which have better knowledge of the product specification (higher level of education), and also the groups with higher financial

sophistication needs (higher income bracket) have a higher percentage of the respondents stating that they would retain their deposits with the existing Islamic bank. Therefore, in line with the finding in the preceding analysis, these results further confirm that these groups belong to the '*Shari'ah* compliant profit motive depositors'.

Finally, the results also show that respondents from lower income groups and lower education groups have the highest tendency to shift at least a portion of their deposits to the conventional commercial banks, although the percentage very minimal. The finding suggests that the minority of respondents in low income level and lower education groups are more concerned for higher return regardless of the *Shari'ah* compliancy aspect. For the lower income bracket groups' perspective, one possible reason that can explain the reaction is the wealth maximization motive. Perhaps a minority of the respondents within the lower income bracket groups are facing financial distress, which indirectly might entice them to maximize their wealth, regardless of the source. As for the minority respondents from the lower education level groups, the desire to shift their deposits to the conventional banks might be due to the lack of awareness and knowledge about *riba'*, as substantiated in the findings from Section 7.2.1 in Chapter 7.

Scenario 3: If their Islamic bank announces a lower rate of return than other Islamic and conventional banks but at the same time charges lower financing rates. This scenario is the extension of the previous two scenarios with the objective of determining the reaction of the respondents towards financial incentives. In the present scenario, the respondents were asked to indicate their most probable reaction if their existing Islamic bank declares lower deposits rate of return as compared to other Islamic banks and also conventional commercial banks, but at the same time gives the opportunity of having financing facilities with a lower pricing rate. In the descriptive analysis chapter (Chapter 6), the overall results indicated that 67.0% of the respondents preferred to retain their deposits with their existing Islamic banks. The percentage is slightly lower than the percentage in scenario 2 (74.8%), but significantly higher than scenario 1 (40.0%). The current analysis further breaks down the figures by category. The preliminary assessment is that the majority of the respondents across the various groups indicated that they would retain their deposits

with their existing Islamic banks. The descriptive and discussion for each category will be elaborated immediately after the table 8.19 below.

Table 8.19: Cross-tabulation: Respondents' reaction if the bank announces lower return than other Islamic and conventional banks but gives lower financing rates

		Announces lower return than other Islamic and conventional banks but giving lower financing rates				
		Shift all to conventional banks	Shift portion to conventional banks	Retain with existing Islamic banks	Shift all to other Islamic banks	Shift portion to other Islamic banks
Respondent Categories	Ordinary	1.9%	5.3%	64.6%	18.6%	9.7%
	Employees	0.0%	2.3%	72.5%	8.8%	16.4%
Islamic Banking Type	Stand Alone	1.0%	3.0%	64.9%	20.9%	10.3%
	Islamic Subsidiary	1.7%	5.8%	68.2%	11.7%	12.5%
Highest Education Level	Primary/Secondary School	2.6%	8.6%	62.3%	19.2%	7.3%
	College Diploma/Matriculation/A-Level	0.5%	6.4%	65.8%	19.3%	8.0%
	Bachelor (First Degree)	0.9%	1.8%	68.2%	13.2%	15.9%
	Professional Qualification	0.0%	0.0%	77.8%	11.1%	11.1%
	Postgraduate (Master or PhD)	3.6%	0.0%	71.4%	8.9%	16.1%
Monthly Income	RM 1,000 and below	3.5%	8.2%	62.4%	15.3%	10.6%
	RM 1,001 - RM 3,001	1.8%	5.7%	64.9%	15.8%	11.8%
	RM 3,001 - RM 5,000	0.0%	2.6%	66.2%	17.5%	13.6%
	RM 5,001 - RM 10,000	1.2%	0.0%	77.6%	14.1%	7.1%
	RM 10,001 - RM 20,000	0.0%	4.2%	54.2%	25.0%	16.7%
	More than RM 20,000	0.0%	0.0%	100.0%	0.0%	0.0%
Relationship Duration	Less than 1 year	3.7%	8.2%	68.7%	14.9%	4.5%
	1 - 3 years	0.5%	4.0%	66.8%	13.9%	14.9%
	3 - 5 years	0.9%	3.7%	67.9%	15.6%	11.9%
	More than 5 years	1.0%	2.6%	65.3%	18.1%	13.0%

Respondent category – There are about 73% of the respondents from the 'employees' group, who stated that they will retain their deposits with their existing Islamic bank if the scenario happens. The percentage is higher than that for the 'ordinary depositors' groups, which recorded the percentage of 64.6%. The second highest percentage for the 'employees' groups can be seen at 'shift portion to other Islamic banks' column with 16.4%, while for the 'ordinary depositor' group, the second most popular reaction is 'shift all to other Islamic banks' with 18.6%. It is noted as well that the 'ordinary depositors' group has a higher percentage of respondents (7.2%), who indicate that they would shift at least a portion of their deposits to the conventional commercial banks as compared to 'employees' group (2.3%).

Islamic bank type – The 'Islamic subsidiary' group has a slightly higher percentage of respondents stating that they are retaining their deposits with the existing Islamic bank, with 68.2% as compared to 'stand-alone' Islamic bank group (64.9). The second highest probable reaction for the 'stand-alone' Islamic bank can be seen at 'shift all to other Islamic banks' column with 20.9%, while 12.5% of the respondents in 'Islamic subsidiaries' group prefer to shift portion to the other Islamic banks. With regard to the option 'transfer at least a portion to the conventional commercial banks', the 'Islamic subsidiary' category has a higher percentage with 7.5% as compared to 'stand-alone' Islamic banks with 4.0%.

Education level – The results in the table show that a higher percentage of respondents from the higher education level groups stated that they are retaining their deposits with the existing Islamic banks as compared to the groups from the lower level of education. The percentages for the groups representing higher education level groups are as follows: postgraduate (71.4%), professional qualification (77.8%), and bachelor degree (68.2%). By contrast, the percentages for the groups that are categorised under the 'lower level of education' are 'primary/secondary school' with 62.3% and 'college diploma/matriculation/A-level' with 65.8%. The table also shows that the second popular reaction for the 'lower level of education' group is 'shift all to other Islamic banks', with an average percentage of 19.0%, while for the 'higher level of education' group, the reaction is 'shift portion to other Islamic banks', with an average percentage of 15.0%. In addition, although the percentage is low at about 11.2% maximum, it is also notable that the 'lower level of education' group has a higher percentage of respondents stating that they are shifting at least a portion to the conventional commercial banks as compared to respondents from the 'higher level of education' group.

Income level – In general, the respondents from the higher income bracket groups registered a higher percentage as compared to the respondents representing lower income bracket groups that stated they would retain their money with the existing Islamic bank. For example, the highest percentage for the groups representing the higher income bracket are 100% ('more than RM20,000') and 77.6% ('RM5,001-RM10,000'). On the other hand, the highest percentage representing the lower income bracket is 62.4% ('RM1,000 and below').The second popular reaction across the

groups is 'shift all to the other Islamic banks' with the highest percentage of 25.0% from the 'RM10,001-RM20,000' group, and the lowest of 14.1% from the 'RM5,001-RM10,000' group. Similar patterns were found in previous scenario (scenario 2); the groups from the lower income bracket have a higher percentage as compared to the higher income bracket groups, who indicate that they are shifting at least some of their deposits to the conventional commercial banks, although the percentage considered is insignificant, with a maximum of 11.7% from the 'RM1,000 and below' group.

Relationship duration – On average there are about 67.0% of the respondents across the groups, who indicate that they are retaining their deposits with the existing Islamic bank. The second most popular reaction among the various groups is 'shift all to other Islamic banks' with an average of 15.6%. Nevertheless, it is also noted in this category that respondents, who have a shorter banking relationship with the existing Islamic bank have a stronger inclination to shift at least some of their deposits to the conventional commercial banks. The highest percentage for the reaction is 11.9% which came from the group of 'less than 1 year'.

The findings above seem consistent with the findings in scenarios 1 2, and the following three conclusions can be derived: firstly, as mentioned earlier in the analysis, in general the percentages across the groups in the present scenario are slightly lower than the percentages in scenario 2 for the reaction 'retain with existing Islamic banks'. The depositors, who indicated that they would shift their deposits, opt for the 'shift all to other Islamic banks' as their best preference. This indicates that some of the depositors are more concerned with the immediate financial returns. Nevertheless, the findings further strengthen the findings in the previous analysis that the concern about immediate financial return is still confined within the boundaries of *Shari'ah* compliance.

Secondly, in line with the findings in scenarios 1 and 2, the groups that are considered as having better knowledge of the product specification (higher level of education), and also the groups ,which have higher financial sophistication needs (higher income bracket), show a higher percentage of the respondents stating that they would retain their deposits with the existing Islamic bank. This indicates that these groups are more

mature in assessing their financial needs, *i.e.* they are looking at the financial returns from a holistic point of view, and therefore understand that the lower rate of deposits return is being compensated with lower financing rates.

Finally, in relation to the findings discussed in the previous paragraph, most of the depositors from the lower level of education qualification and lower income groups show a higher tendency to shift their money to other financial institutions, including the conventional commercial banks. A higher percentage of respondents from these groups indicate that they would shift at least some of their money to the conventional commercial banks, which can be interpreted as a search for higher deposits returns. One possible explanation for these findings is that the depositors from these groups might be considered as not having any urgent need to apply for any financing facilities. In addition, some of the depositors from these groups may perceive that the chances of getting financing facilities from the existing banks are slimmer due to limitations in their financial and background profile. In turn, the best immediate solution is to seek a higher potential deposits return from other financial institutions.

Scenario 4: If their Islamic bank found of conducting business not according to the *Shari'ah muamalah* principles. This is the last scenario for in this section. The scenario is meant to establish the most probable respondents' reaction if their existing Islamic bank is found to be conducting business not according to the *Shari'ah muamalah* principles. *Shari'ah* compliance is paramount in Islamic banking and finance, as it determines the legitimacy of the rate of deposits returns, although the bank is paying the highest returns among the competitors. Therefore, it is highly expected that the respondents would shift all their deposits to the other Islamic banks if such a situation occurred. For that matter, in this analysis, the positive base for the analysis would be 'shift all to other Islamic banks'. The preliminary results as described in the descriptive analysis chapter show that about 62.3% of the respondents indicated that they would be shifting all their money to other Islamic banks. The detailed analysis of the scenario by category is depicted in Table 8.20.

Respondent category – The results show that a higher percentage of 76.2% can be seen for the 'employees' group as compared to the 'ordinary depositors', with 57.3% stating that they would shift all of their money to other Islamic banks if they found out

that their existing Islamic bank was conducting business that was not in accordance with the *Shari'ah muamalah* principles. The second highest percentage for the 'employees' groups can be seen at 'shift a portion to other Islamic banks' column with 10.5%%, while about 22.2% of respondents from the 'ordinary depositors' group state that they would still retain their deposits with the existing Islamic bank. It is noted as well that 'ordinary depositor' group has a higher percentage of respondents (12.3%), who indicate that they would shift at least some of their deposits to the conventional commercial banks as compared to 'employees' group (4.6%).

Table 8.20: Cross-tabulation: Respondents' reaction if the bank conducting business not according to the *Shari'ah* principles

		Announces business not according to the *Shari'ah* principles				
		Shift all to conventional banks	Shift portion to conventional banks	Retain with existing Islamic banks	Shift all to other Islamic banks	Shift portion to other Islamic banks
Respondent Categories	Ordinary	6.8%	5.5%	22.2%	57.3%	8.2%
	Employees	2.3%	2.3%	8.7%	76.2%	10.5%
Islamic Banking Type	Stand Alone	6.0%	4.0%	19.6%	60.5%	10.0%
	Islamic Subsidiary	5.2%	5.2%	17.7%	64.0%	7.8%
Highest Education Level	Primary/Secondary School	9.3%	8.0%	18.7%	54.0%	10.0%
	College Diploma/Matriculation/A-Level	4.8%	4.3%	25.5%	57.4%	8.0%
	Bachelor (First Degree)	5.0%	2.7%	15.8%	68.3%	8.1%
	Professional Qualification	0.0%	7.7%	3.8%	73.1%	15.4%
	Postgraduate (Master or PhD)	3.6%	3.6%	14.3%	73.2%	5.4%
Monthly Income	RM 1,000 and below	7.1%	7.1%	26.2%	53.6%	6.0%
	RM 1,001 - RM 3,001	7.5%	5.0%	16.8%	62.1%	8.6%
	RM 3,001 - RM 5,000	4.6%	3.3%	17.8%	63.2%	11.2%
	RM 5,001 - RM 10,000	1.2%	3.5%	14.1%	72.9%	8.2%
	RM 10,001 - RM 20,000	0.0%	8.3%	8.3%	79.2%	4.2%
	More than RM 20,000	33.3%	0.0%	33.3%	33.3%	0.0%
Relationship Duration	Less than 1 year	10.4%	8.9%	28.1%	41.5%	11.1%
	1 - 3 years	4.0%	5.0%	17.8%	63.9%	9.4%
	3 - 5 years	2.8%	1.8%	17.4%	72.5%	5.5%
	More than 5 years	5.2%	3.1%	13.5%	69.8%	8.3%

Islamic bank type – In this category, a higher percentage of respondents from the 'Islamic subsidiary' group indicate that they would shift all of their deposits to other Islamic banks as compared to the 'stand-alone' Islamic bank group with 60.5%. The second highest probable reaction for both groups is retaining their deposits with the existing Islamic bank, with the 'stand-alone' Islamic banks and 'Islamic subsidiaries'

recording a percentage of 19.6% and 17.7%, respectively. With regard to transferring at least a portion to the conventional commercial banks, the 'Islamic subsidiary' category recorded a slightly higher percentage with 10.4% as compared to 'stand-alone' Islamic bank with 10.0%.

Education level – Based on the results in the table, a higher percentage can be seen from the respondents who are holding a higher level of education qualification as compared to the respondents from the lower level of education qualification groups in stating that they would shift all of their deposits to the other Islamic banks. The percentages for the groups representing higher education level qualification groups are as follows: 73.2% (postgraduate), 73.1% (professional qualification), and 68.3% (bachelor degree). The percentages for the groups, which are categorised under the 'lower level of education qualification', are 54.0% for 'primary/secondary school' and 57.4% for 'college diploma/ matriculation/A-level'. The table also shows that the second popular reaction across the education level groups, with the exception of the group from the 'professional qualification, is 'retain with the existing Islamic banks'. Nevertheless, groups that represent a 'lower level of education qualification' have a higher average percentage of 22.1% as compared to the average percentage of 11.3% for groups from the 'higher level of education qualification'. In addition, it is also notable that the 'lower level of education qualification' group has a higher percentage of respondents stating that they are shifting at least a portion to the conventional commercial banks as compared to respondents from the 'higher level of education' group with an average percentage of 13.2% and 7.5%, respectively.

Income level – The groups representing higher income brackets have a higher percentage of respondents, who state they would shift their deposits to other Islamic banks as compared to the groups representing the lower income brackets. The table shows that the income brackets of 'RM10,001-RM20,000' and 'RM5,001-RM10,000' recorded percentages of 79.2% and 72.9%, respectively, as compared to the highest percentage recorded for the 'lower income bracket' groups which is 62.1% from the 'RM3,001-RM5,000'. The table also shows that the second highest percentage recorded across the groups is for the option of retaining their money with the existing Islamic banks; the highest percentage is recorded for the group from the income bracket of 'RM1,000 and below' with 26.2%. It is also noted that the groups from the

lower income brackets on average record higher percentages in stating that they would transfer at least a portion of their money to the conventional commercial banks.

Relationship duration – A higher percentage of respondents who have a longer banking relationship duration with their Islamic bank state that they would shift all their money to the other Islamic banks as compared to the respondents who have a shorter period of banking relationship with the Islamic banks. On the other hand, a higher percentage can be seen for the respondents with a shorter banking relationship period; they state that they would remain with their existing Islamic banks. In addition, the respondents who have a shorter period of banking relationship have a higher tendency to shift at least a portion of their deposits to conventional commercial banks as compared to the respondents that having longer banking relationship period with Islamic banks.

As indicated at the beginning of the introductory paragraph for this analysis, the respondents are expected to shift all of their money to other Islamic banks in order to ensure that their financial returns are in compliance with the *Shari'ah muamalah* principles. In line with the findings from Chapter 7 on the awareness and knowledge on basic principles of Islamic banking deposits, the current findings also show that the majority of depositors with more exposure and familiarity with the Islamic banking system (*i.e.* employees, higher level of education qualification, higher income brackets and longer period of banking relationship) would react positively by indicating that they would shift all of their deposits to other Islamic banks in order to ensure that the deposits returns that will received are *Shari'ah*-compliant.

In short, based on the findings gathered from all the scenarios above (scenario 1 to 4), the researcher can conclude the following:

- In general, the majority of respondents are concerned about the financial returns that they will get from the deposits; this can be seen consistently across scenario 1, 2 and 3. Nevertheless, the depositors also indicate that the financial return that they are expecting must be *Shari'ah*–compliant, which can be seen in the findings across the all scenarios.

- The depositors from the 'employee, higher level of education qualification and higher income bracket' groups demonstrate better understanding in fulfilling the financial aims within the ambit of the *Shari'ah* principles. The conclusion can be derived from the consistent findings discussed in scenarios 1 to 4.

- The findings also suggest that the Islamic banks should be managed professionally to ensure that they are performing well both financially as well as with regard to *Shari'ah* compliancy if they want to avoid getting punished by the depositors through withdrawal risks.

8.3.2 Opinions and attitudes towards Deposits Guarantee

This is the second unique characteristic that differentiates profit-sharing deposits account from other Islamic banking deposits account based on other types of contract, and also from conventional commercial banks' deposits accounts. As discussed in Chapter 3, according to the principles laid down in *Shari'ah muamalah*, the money deposited in profit-sharing deposits accounts should not be guaranteed. Nevertheless, some of the *Shari'ah* opinions and jurisdictions allow the account to be guaranteed, usually by the government or any government-related entity; this is not only to ensure stability of Islamic banking system but also to ensure the competitiveness of Islamic banking institutions. Therefore, in this section, the researcher investigates the opinions and behaviour of the respondents towards the deposits guarantee scheme.

8.3.2.1 Opinions on the deposits account guarantee scheme

In this section, the respondents were asked to indicate whether they are agree, are neutral towards, or disagree with the notion that profit-sharing deposits account are deemed riskier products compared to the conventional commercial banks' counterparts if the amount deposited in the profit-sharing base deposits account is not being guaranteed by the government. As presented in the descriptive analysis chapter (Chapter 6), about 55.0% of the respondents agree with the statement, while 20.0% are neutral, and the remaining 25.0% disagree with it. This section further analyse the figures by conducting a cross-tabulation analysis with the objective of investigating in detail the differences in opinion from the respondents across various groups in the respective categories. The results of the cross-tabulation analysis are presented in Table 8.21 below and subsequently discussed according to the categories immediately

following the table. For reasons of simplicity and to provide a more focused discussion, the responses for 'strong agree' and 'agree' are combined into 'agree', and those for 'strongly disagree' and 'disagree' are grouped into 'disagree'.

Table 8.21: Cross-tabulation: Opinion on the deposits account guarantee scheme

		Profit-sharing base deposits account are riskier if it is not guaranteed by government				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Respondent Categories	Ordinary	7.5%	15.1%	21.4%	43.4%	12.4%
	Employees	7.0%	22.7%	18.6%	36.0%	15.7%
Islamic Banking Type	Stand Alone	9.2%	19.1%	20.1%	38.9%	12.5%
	Islamic Subsidiary	5.8%	15.3%	21.1%	43.6%	13.9%
Highest Education Level	Primary/Secondary School	11.9%	19.9%	15.2%	39.7%	12.6%
	College Diploma /Matriculation/A-Level	5.3%	15.3%	23.8%	45.0%	10.6%
	Bachelor (First Degree)	5.0%	16.7%	23.0%	39.2%	16.2%
	Professional Qualification	11.1%	14.8%	25.9%	37.0%	11.1%
	Postgraduate (Master or PhD)	10.7%	17.9%	14.3%	46.4%	10.7%
Monthly Income	RM 1,000 and below	10.6%	15.3%	23.5%	36.5%	14.1%
	RM 1,001 – RM 3,001	7.5%	15.3%	19.9%	43.4%	13.5%
	RM 3,001 – RM 5,000	5.8%	18.8%	20.1%	40.3%	14.9%
	RM 5,001 – RM 10,000	7.1%	16.5%	24.7%	37.6%	14.1%
	RM 10,001 - RM 20,000	12.5%	20.8%	16.7%	45.8%	4.2%
	More than RM 20,000	0.0%	33.3%	0.0%	66.7%	0.0%
Relationship Duration	Less than 1 year	7.4%	11.8%	19.9%	46.3%	14.7%
	1 - 3 years	6.4%	17.2%	24.6%	36.0%	15.8%
	3 - 5 years	5.5%	20.2%	20.2%	45.0%	9.2%
	More than 5 years	9.8%	18.6%	17.0%	41.8%	12.4%

Respondent category – The results show that the 'ordinary depositor' group recorded a higher percentage of respondents stating that they agree that profit-sharing deposits accounts are deemed to be riskier if the principal amount deposited is not being guaranteed; 55.8% of the ordinary depositors agreed with this statement, as compared to 51.7% from the 'employees' group. On the other hand, 'employees' has a higher percentage of respondents who disagree with the statement (29.7%) as compared to the 'ordinary depositors' category with 22.6%. Meanwhile, about 21.4% and 18.6% of the respondents from the 'ordinary depositors' and 'employees' groups, respectively, have a neutral view on the matter.

Islamic bank type – The respondents from the 'Islamic subsidiaries' group recorded a higher percentage as compared to the 'stand-alone' Islamic banks group in stating that they are agree with the notion that profit-sharing deposits accounts are much riskier if it is not guaranteed by the government (57.5% and 51.4%, respectively). On

the other hand, the 'stand-alone' group has a higher percentage of respondents who are disagreeing with the statement; both groups have about the same percentage of respondents stating that they are neutral towards it, with 'ordinary depositors' and 'employees' groups registering a percentage of 20.1% and 21.1, respectively.

Education level – In this category, the results generally show that there are mixed opinion across the groups, which is not consistent with the trend of findings presented in the previous sections. The respondents from the 'postgraduate' group has the highest percentage who agree that the profit-sharing deposit account is riskier if it is not guaranteed (57.1%), followed by 'college diploma/matriculation/A-level' group with 55.6%, 'bachelor degree' with 55.4%, 'primary/secondary school' with 52.3%, and, lastly, 'professional qualification' with 48.1%. By contrast, a higher percentage of 31.8% can be seen from the 'primary/secondary school' group who disagree with the conception, followed by 'postgraduate' group with 28.6%. On average about 20.4% across the groups are neutral towards the issue.

Income level – In general, with the exception of the 'RM1,000 and below' group, the respondents from the lower income groups recorded a higher percentage of respondents who agreed that profit-sharing deposits account are riskier if they are not guaranteed in a similar way as the conventional commercial banks' deposits products. This can be seen from the table, where the income groups of 'RM1,001-RM3,000' and 'RM3,001-RM5,000' show a percentage of 56.9% and 55.2%, respectively, as compared to the 'RM5,001-RM10,000' and 'RM10,001-RM20,000' groups, which recorded a percentage of 51.7% and 50.0%, respectively. On the other hand, groups from the higher income brackets have a higher percentage who disagree with the view, with both 'more than RM20,000' and 'RM10,001-RM20,000' recording a percentage of 33.3%. On average, about 17.0% of the respondents across the groups are neutral on the issue.

Relationship duration – The highest percentage can be seen from the 'less than 1 year' group with 61.0% jointly, followed by the '3-5 years' and 'more than 5 years' groups with 54.2%, and, lastly, the group of '1-3 years' with 51.8%, who agreed that profit-sharing deposits accounts are riskier than conventional banks deposits products if they are not guaranteed by the government. Alternatively, the highest percentage is

recorded by the 'more than 5 years' group, who disagree with the view that profit-sharing base deposits accounts are riskier than the conventional counterpart. On average, about 20.4% of the respondents across the groups have a neutral view on the matter.

Based on the analysis of the figures from the table, the results suggest that there are mixed opinions across the groups of respondents. The results do not have a similar trend as the findings from the previous sections; this indicates that there is no significant difference of opinion across the groups on the subject matter. The opinions from the groups, which have a better level of exposure and knowledge of the basic principles of Islamic banking deposits, and also of the product specific characteristic of profit-sharing deposits account (employees, higher level of education qualification, higher income bracket and longer period of banking relationship) do not seem to be consistent in this matter in relation to the fundamental views of *Shari'ah muamalah* principles.

As mentioned at the beginning of the section, on average, the results show that slightly above 50.0% of the respondents across the groups in various categories opined that they agree with the statement. The findings further suggest that the Islamic banks depositors' behaviour is akin to the behaviour of conventional commercial banks depositors, who treat profit-sharing deposits account similar to the normal deposits accounts. Although the findings of the analysis suggest that a majority of the respondents, regardless of their knowledge background, show their unwillingness to lose their deposited money if anything happened to their Islamic banks, a significant notable average percentage of 20.0% across the groups of various categories, who have a neutral view, also need to be taken into consideration. One of the reasons that might explain the significant percentage for the neutral opinion is perhaps that the respondents were unsure of the subject matter. Therefore, further analyses are needed with the objective of assessing the desire of the depositors for a deposits guarantee; these will help to determine the probable reaction of the respondents on various scenarios of deposits guarantee, which will be discussed in the following sub-section.

8.3.2.2 Comparative Analysis across different respondents groups' reactions to various situations of deposits guarantee

The objective of this section is to further reinforce the findings from the preceding analysis on deposits guarantee. As the preceding section analysis attempted to gauge the opinion of the respondents on the deposits guarantee, this section intends to focus on the behavioural aspects of the respondents. To achieve the objective, the respondents were asked to indicate their most probable reaction on three scenarios 1) all deposits (conventional commercial banks and Islamic banks) are not guaranteed by the government 2) only Islamic banking deposits are not guaranteed by the government 3) the existing Islamic bank is the only bank that is not guaranteeing your deposits because of restrictions imposed by their *Shari'ah* Advisory Committee. The results of the findings on the above scenarios are presented from Tables 8.22 to 8.24.

Scenario 1: if all deposits (conventional commercial banks and Islamic banks) are not guaranteed by the government. In this analysis, it is expected that the respondents would retain their deposits with their existing Islamic banks, since moving to other institutions would not make a difference in terms of deposits guarantee. Therefore, any movement indicated by the respondents to other financial institutions is most probably due to other considerations such as customer service and the reputation of other financial institution. As mentioned in descriptive analysis chapter (Chapter 6), only about 55.0% of the respondents stated that they would be retaining their deposits with their existing banks. The results for the analysis are presented in Table 8.22, and the narrative analyses of the figures according to the category are presented immediately after the table.

Table 8.22: Cross-tabulation: Respondents' probable reaction if all deposits are not guaranteed by the government

		If all deposits - conventional banks and Islamic banks are not guaranteed by government		
		Shift to conventional banks	Retain with existing Islamic banks	Shift to other Islamic banks
Respondent Categories	Ordinary	8.6%	52.0%	39.4%
	Employees	5.9%	65.3%	28.8%
Islamic Banking Type	Stand Alone	7.3%	55.3%	37.4%
	Islamic Subsidiary	8.4%	55.7%	35.9%
Highest Education Level	Primary/Secondary School	10.6%	48.3%	41.1%
	College Diploma /Matriculation/A-Level	9.5%	54.0%	36.5%
	Bachelor (First Degree)	5.4%	58.6%	36.0%
	Professional Qualification	7.4%	63.0%	29.6%
	Postgraduate (Master or PhD)	5.6%	64.8%	29.6%
Monthly Income	RM 1,000 and below	11.8%	48.2%	40.0%
	RM 1,001 - RM 3,001	8.5%	50.9%	40.6%
	RM 3,001 - RM 5,000	6.5%	61.0%	32.5%
	RM 5,001 - RM 10,000	4.8%	65.5%	29.8%
	RM 10,001 - RM 20,000	4.3%	56.5%	39.1%
	More than RM 20,000	0.0%	33.3%	66.7%
Relationship Duration	Less than 1 year	18.4%	46.3%	35.3%
	1 - 3 years	5.9%	54.7%	39.4%
	3 - 5 years	2.8%	58.9%	38.3%
	More than 5 years	4.6%	62.4%	33.0%

Respondent category – In general, the majority of the respondents from both groups stated that they would retain their deposits with the existing Islamic bank. However, it can be seen that respondents from the 'employees' group have a higher percentage (65.3%) as compared to the 'ordinary depositors' group with 52.0%. On the other hand, a higher percentage can be seen from the 'ordinary depositors' group who indicated that they would shift their deposits to other Islamic banks and other conventional commercial banks, with 39.4% and 8.6%, respectively.

Islamic bank type – As for this category, the results in the table show that there are no significant differences between the two groups in terms of reaction to the scenario. The analysis suggests that the majority of the respondents from both groups indicate that they would retain their deposits with the existing Islamic bank, with 'stand-alone' Islamic banks and 'Islamic subsidiaries' recording a percentage of 55.3% and 55.7%, respectively.

Education level – Generally, the results show that the majority of the respondents across the groups would remain with their existing Islamic banks. The figures show that those from the higher level of education groups (postgraduate – 64.8%, professional qualification – 63.0% and bachelor degree – 58.6%) registered a higher percentage of respondents stating that they would retain their money with their current Islamic banks. By contrast, respondents with a lower level of education recorded a higher percentage stating they would shift their deposits to conventional commercial banks.

Income level – Respondents from the higher income bracket groups (RM5,001-RM10,000 – 65.5%, RM10,001-RM20,000 – 56.5%) recorded a higher percentage as compared to the respondents from the lower income bracket groups (RM1,000 and below – 48.3%, RM1,001-RM3,000 – 50.9%). On the other hand, groups from the lower income bracket recorded a higher percentage of respondents who stated they would shift their deposits to other Islamic banks and conventional commercial banks. For example, the highest percentage recorded for the reactions 'shift to conventional banks' and 'shift to other Islamic banks' is held by the 'primary/secondary school' groups with 11.8% and 41.1%, respectively.

Relationship duration – A Higher percentage can be seen from the respondents who have a longer period of banking relationship; they stated that they would retain their deposits with the existing Islamic banks. The percentages for 'more than 5 years' and '3-5 years' were 62.4% and 58.9%, respectively, which are higher than the percentages of 54.7% and 46.3% recorded for the '1-3 years' and 'less than 1 year' groups, respectively. Again, the results in the table show that the respondents from the groups who have a shorter period of banking relationship with their existing Islamic banks have a higher percentage of respondents indicating that they would shift to conventional commercial banks.

The findings from the analysis suggest two main conclusions: firstly, the results in general suggest that the majority of the depositors would still remain with their Islamic banks, even if both conventional and Islamic banking deposits were not guaranteed by the government. However, it is also noted that a significant percentage of depositors across the groups would still shift their deposits to other Islamic banks.

This situation may be due to other reasons such as higher profit offered by other Islamic banks, since there would not be a difference in terms of the deposits guarantee situation.

Secondly, the results suggest that groups with better exposure or knowledge of the Islamic banking operations (employees, higher level of education qualification, higher income bracket, and longer period of banking relationship) have a higher percentage of respondents stating that they would still remain with their existing Islamic banks. This findings echo the trends, which have been established in the previous sections, that the reaction of remaining with their existing banks is due to better judgement based on the level of experience and knowledge that they have gained. In contrast, the opposite behaviour can be seen from the groups which have less exposure or knowledge (ordinary depositors, lower level of education qualifications, lower income bracket, shorter period of banking relationship); their results show that these groups have a higher percentage of respondents who would shift to conventional commercial banks.

Scenario 2: if only Islamic banking deposits are not guaranteed by the government. In the current scenario, the respondent were asked to indicate their most probable reaction if they knew that only Islamic banking deposits were not being guaranteed by the government. If a person indicated that they would shift their money to conventional commercial banks, the reaction would suggest that the person was looking for financial security regardless of the *Shari'ah* compliancy aspect of their deposits. Meanwhile if a respondent opted for shifting to other Islamic banks, the reaction would suggest that financial protection was not a primary consideration for banking with Islamic banks, but was perhaps due to other considerations such as higher deposits returns or better customer service as long as the operation is within the ambit of *Shari'ah* compliance. The results for the cross-tabulation analysis are presented in Table 8.23 and are followed by the descriptive analysis by category immediately after the table.

Table 8.23: Cross-tabulation: Respondents' probable reaction if only Islamic banking deposits is not guaranteed by the government

		If only Islamic banking deposits is not guaranteed by the government		
		Shift to conventional banks	Retain with existing Islamic banks	Shift to other Islamic banks
Respondent Categories	Ordinary	27.3%	44.4%	28.3%
	Employees	27.6%	47.6%	24.7%
Islamic Banking Type	Stand Alone	22.7%	50.2%	27.1%
	Islamic Subsidiary	31.4%	41.0%	27.6%
Highest Education Level	Primary/Secondary School	30.0%	39.3%	30.7%
	College Diploma /Matriculation/A-Level	31.7%	41.4%	26.9%
	Bachelor (First Degree)	21.6%	52.7%	25.7%
	Professional Qualification	44.4%	33.3%	22.2%
	Postgraduate (Master or PhD)	18.5%	50.0%	31.5%
Monthly Income	RM 1,000 and below	23.5%	49.4%	27.1%
	RM 1,001 – RM 3,001	26.3%	43.9%	29.9%
	RM 3,001 – RM 5,000	32.9%	42.1%	25.0%
	RM 5,001 – RM 10,000	24.7%	51.8%	23.5%
	RM 10,001 - RM 20,000	26.1%	39.1%	34.8%
	More than RM 20,000	33.3%	33.3%	33.3%
Relationship Duration	Less than 1 year	36.3%	40.7%	23.0%
	1 - 3 years	30.7%	39.1%	30.2%
	3 - 5 years	21.5%	52.3%	26.2%
	More than 5 years	20.3%	51.6%	28.1%

Respondent category – The highest percentage for both groups can be seen for the reaction of 'retain with existing Islamic banks' with 47.5% and 44.4% for 'employees' and 'ordinary depositors', respectively, which indicates that the majority of the respondents would still remain with their existing Islamic banks, even though they knew that their deposits were not guaranteed. On the other hand, the response rate for the reaction 'shift to conventional banks' increased substantially from the previous scenario (scenario 1) for both groups. For example, for the 'employees' group, the percentage increased from 5.9% in scenario 1 to 27.6% in scenario 2. The same trend also can be see for the 'ordinary depositors' group. It is also noted that a substantial percentage of respondents indicate that they would shift their deposits to other Islamic banks, with 'ordinary depositors' and 'employees' recording percentages of 28.3% and 24.7% respectively.

Islamic bank type – Respondents from the 'stand-alone' Islamic banks recorded a higher percentage of 50.2%, compared to 41.0% from the 'Islamic subsidiary' group,

who stated that they would still remain with their existing Islamic banks. Most of the respondents in the 'Islamic subsidiary' group, who indicate shifting their deposits, would prefer conventional commercial banks as their target bank. This can be proved as 31.4% of the respondents stated that they would shift their deposits to conventional commercial banks, which is a higher percentage than the 22.7% recorded from the 'stand-alone' Islamic banks group. In addition, the percentage of 31.4% is also higher than the percentage for the same groups who indicate that they would shift to other Islamic banks (27.6%).

Education level – With the exception of the 'professional qualification' group, in general, the majority of the respondents across the groups stated that they would still remain with their existing Islamic banks, regardless of the status of their deposits protection. Nevertheless, a higher percentage can be seen across the board, with many respondents indicating that they would shift their deposits to conventional commercial banks. The results in the table show that the highest percentage for this reaction is 44.4%, recorded by 'professional qualification' group, followed by the 'college diploma/matriculation/A-level' with 31.7%, 'primary/secondary school' with 30.0%, 'bachelor degree' with 21.6%, and 'postgraduate' with 18.5%. By contrast, an average of 27.4% of the respondents across the groups in the category stated that they would shift their deposits to other Islamic banks.

Income level – In general, an average of 43.3% of the respondents across the income level groups indicated that they would still remain with their existing Islamic banks. The highest score is from income bracket of 'RM5,001-RM10,000' with 51.8%. By contrast, for the scores for the two other reactions 'shift to conventional banks' and 'shift to other Islamic banks', the average percentages are 27.8% and 28.9%, respectively. The income bracket groups of 'RM3,001-RM5,000' and 'RM10,001-RM20,000' recorded the highest percentage for the reaction of 'shift to conventional banks' and 'shift to other Islamic banks', respectively.

Relationship duration – The results in the table show that groups with a longer period of banking relationship have a higher percentage of respondents stating that they would still remain with their existing Islamic banks, regardless of the guarantee status on their deposits. This can be seen as groups with '3-5 years' and 'more than 5

years' recorded the highest percentages of 52.3% and 51.6%, respectively. On average, 45.9%, 27.2% and 26.9% of the respondents from this category indicated the reaction of 'retain with existing Islamic banks', 'shift to conventional banks', and 'shift to other Islamic banks' respectively. For the reaction of 'shift to conventional banks', the highest two percentage groups came from relationship duration of 'less than 1 year' and '1-3 years', with 36.3% and 30.7%, respectively.

There are three major observations that can be made based on the above findings: firstly, there is a significant increase in the percentage of respondents across the category who state that they would shift their deposits to the conventional commercial banks compared to the previous scenario (scenario 1). The increase shows that there are substantial numbers of depositors, who seek for financial security although they know that the option they selected is not compatible with *Shari'ah* requirements.

Secondly, there are also substantial numbers of respondents across the category, who indicate they would shift to other Islamic banks, although they are aware that their reaction would make no difference from the point of view of deposits protection. Nevertheless, the reaction is most probably driven by other factors, such as higher return and customer service.

Finally, with the exception of a few groups within certain categories (such as 'professional qualification' for education level category and income bracket of 'RM1,000 and below' for income level category), in general the respondents who have less exposure or knowledge of Islamic banking operations (lower level of education qualification, lower income bracket and shorter period of banking relationship) are recording higher percentages who state that they would shift to conventional commercial banks. This indirectly indicates that these groups of peoples are seeking financial protection, even though their selection violates *Shari'ah* regulations.

Scenario 3: if the existing Islamic bank is the only bank that is not guaranteeing your deposits because of restriction imposed by their *Shari'ah* Advisory Committee. As mentioned in descriptive analysis chapter (chapter 6), on average only about 33.6% of the respondents indicating that they would still remain with the

existing Islamic banks while 55.8% and 10.6% would shift to other Islamic banks and conventional commercial banks respectively. In this section, the analyses would further breakdown the figure according to the categories to see the reaction of individual groups. The results of the cross-tabulation for the analysis are depicted in table 8.24 and subsequently the narrative descriptive analysis for each category.

Table 8.24: Cross-tabulation: Respondents' probable reaction if their Islamic bank is the only bank not guaranteeing the deposits due to restriction imposed by respective *Shari'ah* Advisory Council

		Islamic bank is the only not guaranteeing your deposits because of restriction by SAC		
		Shift to conventional banks	Retain with existing Islamic banks	Shift to other Islamic banks
Respondent Categories	Ordinary	12.1%	32.8%	55.2%
	Employees	6.5%	35.9%	57.6%
Islamic Banking Type	Stand Alone	11.4%	34.8%	53.8%
	Islamic Subsidiary	9.9%	32.6%	57.6%
Highest Education Level	Primary/Secondary School	16.0%	31.3%	52.7%
	College Diploma /Matriculation/A-Level	9.6%	34.8%	55.6%
	Bachelor (First Degree)	9.1%	38.2%	52.7%
	Professional Qualification	7.4%	29.6%	63.0%
	Postgraduate (Master or PhD)	7.3%	20.0%	72.7%
Monthly Income	RM 1,000 and below	15.3%	31.8%	52.9%
	RM 1,001 - RM 3,000	10.5%	32.6%	56.9%
	RM 3,001 - RM 5,000	9.8%	38.6%	51.6%
	RM 5,001 - RM 10,000	7.1%	25.9%	67.1%
	RM 10,001 – RM 20,000	8.3%	41.7%	50.0%
	More than RM 20,000	0.0%	33.3%	66.7%
Relationship Duration	Less than 1 year	19.9%	37.5%	42.6%
	1 - 3 years	9.4%	32.7%	57.9%
	3 - 5 years	4.6%	36.1%	59.3%
	More than 5 years	7.9%	31.6%	60.5%

Respondent category – The results in the table show that the 'employees' group has a higher percentage (57.6%) of respondents who indicate that they would shift their deposits to other Islamic banks as compared to the 'ordinary depositors' group (55.2%). On the other hand, a percentage of 12.1% of the respondents from the 'ordinary depositors' group state that they would shift their deposits to conventional commercial banks, which is higher than the percentage for the 'employees' group (6.5%). Meanwhile, about 36.0% and 32.8% of the respondents from the 'employees' and 'ordinary depositors' groups indicated that they would still remain with their

existing bank although they are aware that they might face the risk of losing their deposited money.

Islamic bank type – In this category, the results show that respondents from the 'Islamic subsidiary' group recorded a percentage of 57.6% in stating that they would shift their money to other Islamic banks. The percentage is higher than the 'stand alone' Islamic bank group, which recorded a percentage of 53.8%. By contrast, a higher percentage of respondents from the 'stand-alone' Islamic banks group stated that they would retain their deposits with their existing banks (34.8%) compared to the 'Islamic subsidiary' group (32.6%). The astonishing figure appear from the current analysis is that a higher percentage of 11.4% of the respondents from the 'stand-alone' Islamic banks stated that they would shift their deposits to the conventional commercial banks in order to seek financial protection.

Education level – The results in the table show that close to 70.0% of the respondent for this category would shift their money to other financial institutions in order to seek financial protection for their deposits. On average, close to 10.0% and 60.0% of the respondents indicate that they would shift their money to conventional commercial banks and other Islamic banks, respectively. In addition, the table also indicates that more respondents who have a higher level of education (postgraduate- 72.7%, professional qualification – 67.1%) prefer to shift their money to other Islamic banks compared to respondents who have a lower level of education (primary/secondary school – 52.7% and college diploma/matriculation/A-level – 55.6%). On the other hand, higher percentages of respondents who have a lower level of education qualification (primary/secondary school – 16.0%, college diploma/ matriculation/A-level – 9.6%) can be found stating that they would transfer to conventional banks compared to respondents who have a higher level of education (postgraduate – 7.3%, professional qualification – 7.4%).

Income level – For this category, on average 57.5% and 10.2%, respectively, of the respondents indicate that they would shift their deposits to other Islamic banks and conventional commercial, while an average of 32.3% would still retain their deposits with their existing Islamic banks. It addition, it is also noted that a higher percentage is recorded from the higher income bracket groups ('more than 5 years' – 66.7%, and

'RM5,001-RM10,000' – 67.1%), who state that they would shift their money to other Islamic banks; by contrast, 52.9% and 56.9% from the lower income groups ('RM1,000 and below', and 'RM1,001-RM3,000') indicate this choice. While the respondents from the lower income bracket groups ('RM1,000 and below'- 15.3% and 'RM1,001-RM3,000' – 10.5%) recorded a higher percentage who stated that they would shift their money to conventional commercial banks as compared to respondents from the higher income bracket groups ('RM5,001-RM10,000' – 7.1%, and 'RM10,001-RM20,000' – 8.3%).

Relationship duration – In this category, the respondents who have a longer banking relationship have a higher tendency of shifting to the other Islamic banks as compared to those respondents who have a shorter relationship. It can seen from the table that groups which have a relationship of '3-5 years' and 'more than 5 years' recorded a percentage of 59.3% and 60.5%, respectively, while groups which have a period of 'less than 1 year' and '1-3 years' recorded percentages of 42.6% and 57.9%, respectively. By contrast, the respondents who have a shorter banking relationship have a higher preference for shifting their money to conventional commercial banks; this is evident from the table because these groups have a higher percentage of respondents as compared to respondents who have a longer period of banking relationship.

Two main observations can be made in the above findings: firstly, the results in general show that the majority of the respondents across the categories would shift their money to other financial institutions, even though this is not a *Shari'ah*-compliant choice, if they found out that their Islamic banks are the only banks that does not have any deposits protection scheme. The finding suggests that financial security is a primary area of concern for most of the depositors. Nevertheless, the results also suggest that most of the depositors will still patronage other Islamic banking institutions as the primary alternative, which indicates that they are still concerned about the religious obligations imposed on them.

Secondly, it is also noted that those respondents who have better exposure and knowledge (employees, higher level of education qualification, higher income bracket and longer period of banking relationship) of Islamic banking operations have a

higher inclination of shifting to the other Islamic banks as compared to those respondents who have less knowledge and exposure. The findings further strengthen the conclusions of the pervious chapters that depositors with better knowledge and awareness are concerned with financial security, but at the same time (precisely because of the knowledge and understanding they possess) they are also mindful of the limitations imposed by the *Shari'ah* requirements.

As a conclusion to this section, the overall majority of the depositors have a strong desire for a deposits protection scheme. This can be seen from the fact that more than 50.0% of the respondents in the survey opined that Islamic banks are riskier places to deposits their money if it is not guaranteed. In addition, the findings from following the three scenario analyses further support the argument that deposits protection is one of the primary concerns to the depositors. This can be seen especially in the final scenario, where only about 30.0% of the respondents stated that they would remain with their existing Islamic banks, even though they were aware that they would be in a disadvantaged position from the point of view of financial security. Nevertheless, the Islamic banking industry should have some level of comfort, based on the survey results that majority of the respondents would still retain their relationship with Islamic banks, even though their deposits are not guaranteed. This can be substantiated from the finding in scenario 2 where only about 27.0% of the respondents would shift to conventional commercial banks.

8.3.3 Opinions on Financial Disclosure

As mentioned in chapter 3, due to the unique characteristics of profit-sharing deposits accounts, *i.e.* variability of deposits return and non-guaranteed deposits, one of the best options to protect the depositors' interest is through a robust monitoring system with adequate financial disclosure. For this reason, both parties, *i.e.* the Islamic bankers and depositors should play their role in ensuring the successful running of the monitoring system. On the one hand, the Islamic bankers should supply and disclose adequate information to enable the depositors to make sound judgements; on the other hand, the depositors should fully utilise the information provided to monitor their banks' performance. In this section, the researcher intends to determine whether the depositors are interested in and make full use of the existing financial disclosure, and also whether they would be interested in the proposed additional financial disclosure

by the banks. The results are based on the Mann-Whitney U-test, Kruskal-Wallis test, as well as also cross-tabulation analyses.

8.3.3.1 Opinions on the existing means of financial disclosure

The objective of the first analysis is to determine the depositors' interest in referring to the available financial statements prior to the opening of any particular account. One of the reasons for referring to these resources is to get some ideas about the previous period financial achievements, which in one way or another reflect sound investment decisions and good funds management. In order to achieve the objective, the researcher utilized the Mann-Whitney U-test and Kruskal-Wallis test to see whether there is a significant difference of opinions towards financial disclosure prior to opening deposits accounts.

Table 8.25: Mann-Whitney U and Kruskal-Wallis Test: Respondents' interest in financial statements prior to opening a deposits account

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
QUESTION 31(b): Look at financial performance before opening an account with a bank	**RESPONDENT CATEGORY:**				
	Ordinary Depositor	477	u_1=350.52	z= -6.596	0.000
	Bank Employees	172	u_2=254.24		
	Total N	649			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=346.33	z= -3.099	0.002
	Islamic Subsidiaries	346	u_2=306.32		
	Total N	649			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 345.54		
	College Diploma/Matriculation/A-Level	189	k_2=309.89		
	Bachelor (First Degree)	222	k_3= 328.15	χ^2= 15.685	0.003
	Professional Qualification	27	k_4= 219.13		
	Postgraduate (Master or PhD)	56	k_5= 336.16		
	Total N	645			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 359.13		
	RM 1,001 - RM 3,000	281	k_2= 319.44		
	RM 3,001 - RM 5,000	154	k_3= 306.55	χ^2= 10.040	0.074
	RM 5,001 - RM 10,000	85	k_4= 290.99		
	RM 10,001 - RM 20,000	24	k_5= 295.50		
	More than RM 20,000	3	$k6$=235.33		
	Total N	632			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 329.72		
	1 - 3 years	203	k_2= 332.34	χ^2= 7.065	0.070
	3 - 5 years	109	k_3= 336.74		
	More than 5 years	194	k_4= 295.84		
	Total N	642			

As mentioned in the descriptive analysis chapter (Chapter 6), about 82.0% of the respondents stated that they are likely to refer to the available financial statements

before making a judgement to open any deposits account with any particular Islamic banks. The results of Mann-Whitney U-test and Kruskal-Wallis test presented in Table 8.25 indicate whether there is any significant difference across various groups of respondents in terms of interest in financial information prior to opening deposits accounts.

The results show that three categories, namely 'respondent category', 'Islamic bank type', and 'education level' achieved statistically significant results with p-values of 0.000, 0.002 and 0.003, respectively. All the p-values are significantly lower than the critical p-value of 0.05. The results indicate that there are significant differences in the likelihood of the respondents referring to the financial statements prior to the opening of Islamic banking deposits accounts.

In the 'respondent category', the results in the table also suggest that respondents from the 'ordinary depositors' group indicate having a higher likelihood of referring to the Islamic bank's financial statements prior to the opening deposits account. This can be seen as the 'ordinary depositors' group has a higher mean rank value of 350.52 as compared to the 'bank employees' group (mean rank - 254.24). One possible reason for why the 'bank employees' group has a lower interest in the financial statement is due to a higher level of familiarity with the bank's performance through their day-to-day work. It is argued that bank employees have the privilege of having up-to-date information about the financial position of the bank.

For the 'Islamic bank type' category, the results show that the respondents from the 'stand-alone' Islamic banks are more likely to make reference to the financial statements as compared to respondents from the 'Islamic subsidiary' banks. This can be seen as the mean rank value of 346.33 for the 'stand-alone' Islamic bank category is higher than that for the 'Islamic subsidiary' group (mean rank – 306.32). Higher mean rank scores for the 'stand-alone' Islamic banks groups are perhaps due to the severe adverse financial performance experienced by all three 'stand-alone' Islamic banks in the current sampling frame. For example, Bank Muamalat Malaysia Berhad suffered losses of RM26.3 million in the financial year that ended in 2004, and similarly Bank Islam Malaysia Berhad suffered huge losses of RM1.3 billion and RM507.8 million in financial the years that ended in 2006 and 2005, respectively;

finally, Al-Rajhi Bank suffered losses between the incorporation date in December 2005 even until the financial year ended June 2009. The experience of poor financial performance in the past may have contributed to the higher desire of the depositors to have make reference to the financial statements prior to the opening of profit-sharing accounts.

The final category that recorded significant p-value results is 'education level'. In this category, in general, most of the respondents have a higher likelihood to make reference to the financial statements prior to the opening of profit-sharing deposits account. The assertion can be supported by the results of the mean rank value recorded by each groups. For example, 'primary/secondary school' group has the highest mean rank value of 345.54, followed by the 'postgraduate' group with 336.16. The lowest mean rank value can be found in the 'professional qualification' group with 219.13. One of the reasons which may explain these findings is that those who have a higher level of education have a higher level of familiarity with the financial performance of their banks. Based on the previous findings, the respondents with higher education qualification are more conversant about their banking needs, and thus they are argued to have better awareness about the financial health of their Islamic bank. As a result, their level of interest to make reference to the financial statement prior to the opening of profit-sharing base deposits account is lower due to the facts that they are already equipped with latest up-to-date financial information.

On the other hand, the results for the 'income level' and 'relationship duration' categories show that there are no significant differences in terms of the respondents' interest in making reference to financial performance prior to opening a profit-sharing deposits account. The researcher resorted to the cross-tabulation analysis (see Appendix 8.5) to determine which groups of respondents have a higher interest in referring to the financial statement prior to opening an account. For the 'income level' category, the results in Appendix 8.5 show that respondents, who are in lower income bracket groups, recorded higher percentages in stating that they are likely to make reference to the financial statement. In addition, the same pattern can be seen for the 'relationship duration' category, where, in general, the respondents, who have a shorter relationship with the Islamic banks, are more likely to make reference to the financial statement prior to opening a deposits account.

All the findings above can be summarised as follows: firstly, those respondents, who are less familiar with their Islamic banks (ordinary depositors, lower level of education qualification, lower income bracket, shorter period of banking relationship), have a higher interest in making reference to the financial statement prior to opening profit-sharing deposits accounts. On the other hand, the respondents from the 'stand-alone' Islamic banks have a higher interest due to the discouraging track record of financial performance of these banks. The groups which have a higher interest in the financial statements can be classified as respondents who are cautious due to less familiar with the Islamic banks.

Secondly, the existing financial disclosure is used to consistently monitor the performance of the Islamic banks. Consistent monitoring by the depositors will benefit the depositors in that their Islamic banks will be more cautious in investing their deposits; any wrong decisions made by the banks will be punished by the depositors through the withdrawal of their deposits. Therefore, in continuation of the previous analysis on financial disclosure, the objective of the current analysis is to determine the respondents' interest in using the existing financial statements as a monitoring tool for their investment's performance.

The overall results presented in the descriptive analysis chapter (Chapter 6) show that a combined percentage of 79.6% of the respondents stated that they are 'likely' or 'most likely' to use the available financial statements as a monitoring tool for their deposits' performance. The current analysis will further determine which groups of respondents have a higher interest in the usage of financial statements. Table 8.26 below presents the results of the Mann-Whitney U-test and Kruskal-Wallis test, which show whether there are any significant differences in terms of the level of interest in the usage of financial statements for monitoring performance purposes among the groups in each of the categories.

The results in Table 8.26 show that only two categories, namely 'respondent category' and 'income level' reach the statistically significant level. The Mann-Whitney U-test result for 'respondent category' and Kruskal-Wallis results for 'income level' show p-values of 0.000 and 0.002, respectively, which are significantly lower than the critical p-value of 0.05. The results show that there are significant differences in the level of

interest in using the periodic financial statements as a monitoring tool for their deposits' performance among the groups in the two categories.

Table 8.26: Mann-Whitney U and Kruskal-Wallis Test: Respondents' interest in using periodic financial statement as a monitoring tool for their investment performance

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 31(c): Use the financial statement reported by the bank to monitor the deposits performance	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	476	u_1=339.65	*z*= -3.991	0.000
	Bank Employees	172	u_2=282.58		
	Total N	648			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	302	u_1=334.69	*z*= -1.508	0.132
	Islamic Subsidiaries	346	u_2=315.61		
	Total N	648			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	150	k_1= 335.21		
	College Diploma/Matriculation/A-Level	189	k_2=317.40		
	Bachelor (First Degree)	222	k_3= 330.24	χ^2= 7.647	0.105
	Professional Qualification	27	k_4= 249.48		
	Postgraduate (Master or PhD)	56	k_5= 310.20		
	Total N	644			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 361.75		
	RM 1,001 - RM 3,000	281	k_2= 317.66		
	RM 3,001 - RM 5,000	153	k_3= 320.77	χ^2= 18.502	0.002
	RM 5,001 - RM 10,000	85	k_4= 260.77		
	RM 10,001 - RM 20,000	24	k_5= 299.46		
	More than RM 20,000	3	*k6*=327.50		
	Total N	631			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	135	k_1= 324.82		
	1 - 3 years	203	k_2= 317.88	χ^2= 1.833	0.608
	3 - 5 years	109	k_3= 337.19		
	More than 5 years	194	k_4= 312.51		
	Total N	641			

In the 'respondent category', the results indicate that respondents from the 'ordinary depositors' group have a higher level of interest in using the financial statements for monitoring their deposits' performance. The statement is substantiated with the mean rank value of 339.65, which is higher than the 282.58 recorded by the 'bank employees' group. The same argument mentioned in the preceding section is also applicable in the current results analysis: a lower level of interest is recorded by the 'bank employees' concerning their usage of financial statements for monitoring purposes because bank employees generally are more aware of the general financial conditions of the Islamic banks, without having to make use of the financial statements. This is due to fact that bank employees will normally receive information much faster, *i.e.* prior to the issuance of the financial statements.

The results for the 'income level' category in general suggest that respondents from the lower income bracket demonstrate a higher interest in the usage of financial statements for monitoring the performance of their deposits. This can be seen as most of the groups, which are categorised as lower income brackets, recorded a higher mean rank value; the highest can be seen from 'RM1,000 and below', with 361.75. The higher level of interest in the usage of financial statements as a monitoring tool among the lower income bracket groups is perhaps due to the lack of familiarity with the financial institutions. The higher income bracket groups, which normally have more sophisticated financial products, perhaps are more comfortable with their existing Islamic banks and generally have a better idea about the performance of their Islamic banks, even without looking at the financial statements.

For the remaining categories, namely 'Islamic bank type', 'education level' and 'relationship duration', the researcher used the cross-tabulation analysis to determine which particular groups have a higher interest in using the financial statements as tools for monitoring their deposits' performance. The results of the cross-tabulation are available at Appendix 8.6.

The cross-tabulation results suggest that respondents from the 'stand-alone' Islamic banks have a higher interest in using the periodic financial statements to monitor their deposits' performance. Respondents who have a lower level of education qualification indicate a higher interest in the usage of financial statements for monitoring purposes. Finally, for the 'relationship duration' category, the respondents, who have a shorter period of banking relationship with the Islamic banks, expressed their interest in monitoring their banks performance via financial statements.

The findings in the current analysis are consistent with the findings in the preceding analysis on referring to the financial statements prior to opening a deposits account. The findings from both analyses show that respondents from the 'ordinary depositors', 'stand-alone Islamic banks', 'lower level of education qualification', 'lower income bracket', and 'shorter period of banking relationship' groups recorded a higher interest in using the financial statements prior to and post opening of the deposits account.

In short, it can be concluded that these groups of respondents have more interest in the financial disclosure due to the lack of bonding with the Islamic banks. The weaker relationship has led to a need for frequent monitoring of the banks' performance in order to ensure the soundness of their deposits with the banks. On the other hand, the respondents from the opposite groups for each category ('bank employees', 'higher level of education qualification', 'higher income bracket' and 'longer period of banking relationship') have less concern for the usage of financial statements, perhaps because of the high level of comfort that they have with the Islamic banks. The respondents from these groups, as mentioned in the previous analysis, are deemed to have a better level of understanding and awareness concerning Islamic banking principles, as well as the specifications of profit-sharing deposits accounts. The superior level of awareness and knowledge that they have may contribute to the higher level of comfort and confidence that they have towards the financial institutions, which indirectly reduces their interest in financial statements as a frame of reference and as a monitoring tool.

8.3.3.2 Opinions on the recommended additional means of financial disclosure

Another important element of financial disclosure, which directly affects the depositors, is the mechanism of calculating the rate of deposits returns. As mentioned several times in throughout this thesis, the rate of deposits returns declared by the banks fluctuates according to the bank's performance. In addition, the element of profit equalization reserve further complicates the way in which the deposits returns are derived. Therefore, it is highly desirable for the Islamic banks to disclose the mechanism of how the deposits rate of returns is derived. At the moment, in Malaysia, the mechanism of deriving the rate of returns is not being disclosed to the depositors. Therefore, the current analysis in this section aims to gauge the level of interest among the respondents to a scenario in which the Islamic banks would be required to disclose it. For this analysis, the researcher utilized the cross-tabulation analysis, as the Mann-Whitney U-test and Kruskal-Wallis analysis yielded inefficient results. The results of the cross-tabulation are presented in Table 8.27.

Table 8.27: Cross-tabulation: Respondents' interest mechanism of deriving and calculating declared rate of return on their deposits

		mechanism of deriving and calculating declared rate of return on deposits				
		Not Interested at all	Not Interested	Neutral	Interested	Highly Interested
Respondent Categories	Ordinary	1.5%	6.3%	25.4%	49.3%	17.6%
	Employees	1.2%	8.1%	34.3%	45.3%	11.0%
Islamic Banking Type	Stand Alone	2.0%	5.3%	30.0%	49.5%	13.2%
	Islamic Subsidiary	0.9%	8.1%	25.7%	47.1%	18.2%
Highest Education Level	Primary/Secondary School	2.0%	6.6%	27.8%	50.3%	13.2%
	College Diploma /Matriculation/A-Level	1.1%	7.4%	31.7%	46.0%	13.8%
	Bachelor (First Degree)	1.8%	6.3%	26.6%	45.9%	19.4%
	Professional Qualification	0.0%	11.1%	33.3%	44.4%	11.1%
	Postgraduate (Master or PhD)	0.0%	3.6%	16.1%	62.5%	17.9%
Monthly Income	RM 1,000 and below	4.7%	5.9%	29.4%	48.2%	11.8%
	RM 1,001 - RM 3,001	0.4%	7.5%	27.4%	46.6%	18.1%
	RM 3,001 - RM 5,000	0.6%	5.2%	29.9%	48.7%	15.6%
	RM 5,001 - RM 10,000	1.2%	9.4%	23.5%	48.2%	17.6%
	RM 10,001 - RM 20,000	8.3%	4.2%	25.0%	54.2%	8.3%
	More than RM 20,000	0.0%	0.0%	33.3%	33.3%	33.3%
Relationship Duration	Less than 1 year	1.5%	7.4%	36.0%	37.5%	17.6%
	1 - 3 years	1.0%	7.4%	28.6%	48.3%	14.8%
	3 - 5 years	0.0%	7.3%	26.6%	48.6%	17.4%
	More than 5 years	2.6%	5.2%	22.7%	55.2%	14.4%

As a recap, the results presented in the descriptive analysis chapter (Chapter 6) show that a combined percentage of about 64.0% of the total respondents stated that they are 'interested' and 'highly interested' in the disclosure of mechanisms used for deriving the deposit rate of return. The expansion of the descriptive analysis according to the various categories is presented in this section. For the purpose of simplicity and clarity, the analyses in this section will be based on three responses, namely: 'not interested', 'neutral' and 'interested'. This is the outcome of grouping together the responses of 'not interested at all' to 'not interested', and 'highly interested' to 'interested'.

Respondent category – In this category, the results show that respondents from the 'ordinary depositors' have a higher interest (66.9%) compared to the 'bank employees' group (56.3%). The 'bank employees' group ranked highest for the 'neutral' and 'not interested' responses with 34.3% and 9.3%, respectively. Lower interest among the 'bank employees' groups in the mechanisms for calculating

deposits rate of returns can be explained by the fact that the bank employees have the privilege of easy access to the information. As mentioned before, the mechanisms for calculating the rate of returns are still not made available to the public as a whole, but on the other hand, the employees are – at least to an extent – aware of the mechanisms used for deriving the rate of returns. The advantage of having access to up-to-date information that the employees have over the ordinary depositors has perhaps contributed to the lower response rate in indicating that they are interested in the disclosure.

Islamic bank type – In general, the results suggest that there is no significant difference in terms of interest level between the two groups within the category. Nevertheless, there is slight difference, as the percentage recorded by the 'Islamic subsidiary' group is 65.3%, which is slightly higher than 'stand-alone' Islamic banks with 62.7%. About 30.0% of the respondents from the 'stand-alone' Islamic banks group state that they are neutral, which is higher than the percentage recorded by the 'Islamic subsidiary' group with 25.7%.

Education level – In this category, in general the results suggest that respondents, who have a higher level of education qualification (with the exception of 'professional qualification' group), have more interest in knowing the mechanisms of calculating deposits rate of returns. The statement can be supported by the fact that the 'postgraduate' and 'bachelor degree' groups ranked among the top two, with percentages of 80.4% and 65.3%, respectively. On the other hand, respondents with a lower level of education qualification (with the exception of 'professional qualification' group) can be seen as having a higher percentage who state that they are not interested and neutral towards the disclosure.

Income level – As for the income level category, generally the results suggest that there is no significant difference in level of interest across the groups. Nevertheless, the pattern of the results indicates that respondents from the higher income bracket (with the exception of 'RM10,001-RM20,000' group) have a somewhat higher percentage compared to the lower income bracket groups. This can be substantiated from the table in that respondents from the income bracket of 'more than RM20,000' and 'RM5,001-RM10,000' recorded the highest percentages of 66.6% and 65.8%, in

stating that they are interested in the mechanisms of calculating the rate of returns. On the other hand, the respondents from the lower income groups recorded a higher percentage of respondents, who stated that they are neutral or not interested with the disclosure.

Relationship duration – The respondents, who have a longer period of banking relationship, are more interested in the disclosure of mechanisms used for deriving deposits rate of returns. This can be seen in the table as respondents from the groups of 'more than 5 years' and '3-5 years' ranked among the top two in terms of percentage with 69.6% and 66.0%, respectively. Meanwhile, a higher percentage can be seen from the groups of 'less than 1 year' and '1-3 years' for the 'neutral' and 'not interested' responses.

From the findings above, it can be concluded that, generally, the respondents, who have a better level of knowledge of Islamic banking operations (higher level of education qualification), and also respondents, who have more experience in dealing with the Islamic banks (higher income bracket and longer period of banking relationship) have a higher interest in the disclosure of mechanisms used in deriving the rate of deposits returns. Based on the findings in the preceding sections, these groups are deemed to have a better understanding about the operational details of profit-sharing deposits accounts, and, perhaps to the certain extent, are most likely to be the potential active users of the deposits product. Therefore, this suggests that they are more interested in the mechanisms of calculating the rate of returns because the disclosure will assist them in making better decisions.

In short, based on the results gathered from the three analyses above (the usage of financial statement prior to opening an account, the usage of financial statements for monitoring tool, and the voluntary disclosure of the mechanisms used for deriving the rate of returns), it can be concluded that the respondents, who have more knowledge and experience of the Islamic banking products, have less interest in the usage of financial statements but are more interested in the mechanism of calculating the deposits returns. This is because the level of understanding of the product and the experience that they have in dealing with the banks indirectly has increased their level of confidence and comfort towards their Islamic bank. In turn, this indirectly has

reduced their need to look at the financial statements. Nevertheless, they show a higher level of interest in the mechanism of calculating the rate of deposits returns, which is currently not disclosed; the disclosure of the mechanism would have a direct impact on them as potential users of the deposits accounts.

8.4 SUMMARY OF FINDINGS ON AWARENESS, KNOWLEDGE, OPINIONS AND PERCEPTIONS TOWARDS THE CHARACTERISTICS OF PROFIT-SHARING DEPOSITS ACCOUNTS

This section summarises the findings of all preceding sections in this chapter. The purpose of the summary is to give a snapshot overview of the overall behavioural aspects by category, and ultimately to draw a general conclusion from it. The summary is presented in Table 8.28 which lists the findings that are related to the specific characteristics of profit-sharing deposits accounts.

Based on the summary of the findings in the table, there are three main observations that can be highlighted. Firstly, similar to the findings in Chapter 7 on the general principles of Islamic banking deposits accounts, the findings in this chapter further strengthen the argument that those groups of respondents, who are well exposed to the Islamic banking principle knowledge, are more familiar with the profit-sharing deposits account products. This can be seen in the summary of the findings for question 20, in which all the groups, which are deemed to have better exposure, show positive results in stating that they are familiar with the profit-sharing base deposits account.

Secondly, the overall results in the table further suggest that a high level of familiarity with the profit-sharing deposits account can automatically be translated into better understanding of the products. This claim can be substantiated in the subsequent findings, which are related to the technical aspects of the unique characteristics of the product. The overall results demonstrate a consistent pattern, in which those groups of respondents, who are have more knowledge and experience in dealing with the products (employees, higher level of education qualification, higher income bracket), managed to provide correct answers concerning most of the unique characteristics of profit-sharing deposits accounts. These findings indicate that the respondents, who are more exposed to the product, and in turn have improved their level of understanding,

have demonstrated the right attitude and reaction in dealing with profit-sharing deposits accounts. This suggest that the Islamic banks would be able to achieve higher level of depositors, who understand and behave according to the spirit of profit-sharing contacts as laid down in the *Shari'ah muamalah* principles, if more programs were undertaken to educate depositors about the real characteristics of the profit-sharing deposits accounts.

Finally, although the profit-sharing deposits account is a unique deposits product offered by Islamic banks, which is purely designed according to the underlying *Shari'ah muamalah* principles, the Islamic banks should not ignore the commercial aspects in promoting the product to potential customers; this is permissible from a *Shari'ah* compliance perspective. This conclusion is based on the finding for question 21, which clearly indicates that the respondents have ranked commercial value as being as important as religiosity factors in attracting them to open a profit-sharing deposits account.

Table 8.28: Summary of findings on awareness, knowledge, opinions and perceptions towards characteristics of profit-sharing deposits accounts

Questionnaire Question No	Variables	Category	Significant results in favour of groups with ……
Question 20	Familiar with profit-sharing base deposits account	Awareness	• Employees • Higher age groups • Higher level of education • Higher income bracket • Longer relationship durations
Question 21	Potential determinants for profit-sharing base deposits account demand	Factor Analysis	• Commercial values features • Religiosity values features
Question 22	Rate of return comparison with other financial instruments prior opening	Perceptions/ Knowledge	• Employees • Stand-alone Islamic banks
Question 25	The correct perception on the displayed rate of return (Board rate)	Perceptions/ Knowledge	• Employees • Higher level of education • Higher income bracket
Question 25	Logistic regression to see which factors are significant in contributing the better level of understanding about board rate	Knowledge	• Higher level of education • Higher income bracket
Question 26	Familiar with the concept of profit equalization reserve (PER)	Awareness/ Knowledge	• Employees • Higher income bracket
Question 27(c)	Agree with the statement that Islamic banks have to give same return regardless of performance	Opinions (cross-tabulation analysis)	• Employees • Lower level of education • Lower income bracket
Question 27(e)	If Islamic bank keeps some portion of extra income to PER	Opinions (cross-tabulation analysis)	• Ordinary depositors • Higher level of education • Higher income bracket

Question 27(f)	If the PER to be used for the benefit of future depositors to ensure stability of the return	Opinions (cross-tabulation analysis)	• Ordinary depositors • Lower level of education • Lower income bracket
Question 27(g)	The Islamic banks should inform in writing about PER	Opinions (cross-tabulation analysis)	• Higher level of education • Higher income bracket
Question 28	Positive reactions of depositors towards various scenarios of lower rate of return declared by Islamic banks	Attitude (cross-tabulation analysis)	• Employees • Higher level of education • Higher income bracket
Question 29(b)	Agree with the statement that profit-sharing base deposits account should be cover under deposits guarantee scheme	Opinion (cross-tabulation analysis)	• Ordinary depositors • All level of educations • Lower income bracket • Shorter relationship durations
Question 30	Positive reactions of depositors towards various scenarios if profit-sharing base deposits account is not guaranteed by the Islamic banks	Attitude (cross-tabulation analysis)	• Employees • Higher level of education • Higher income bracket • Longer relationship durations
Question 31(b)	Respondents' interest in financial statement prior opening a deposits account	Attitude (Mann Whitney and Kruskal-Wallis)	• Ordinary depositors • Stand-alone Islamic banks • Lower level of educations • Lower income bracket • Shorter relationship durations
Question 31(c)	Respondents' interest in financial statement as tool of monitoring deposits performance	Attitude (Mann Whitney and Kruskal-Wallis)	• Ordinary depositors • Stand-alone Islamic banks • Lower level of educations • Lower income bracket • Shorter relationship durations
Question 32(b)	Respondents' interest in disclosure of mechanism in calculating deposits rate of returns	Attitude (cross-tabulation analysis)	• Higher level of education • Higher income bracket • Longer relationship durations

8.5 THE DETERMINANTS OF DEMAND FOR PROFIT-SHARING DEPOSITS ACCOUNTS

As presented in the earlier sections, respondents from the higher education qualification, higher income level, and longer period of banking relationship groups consistently have better understanding and awareness of the characteristics of profit-sharing deposits account. Therefore, in continuation of the previous analysis, this section intends to further reinforce the findings by identifying what the significant predictors are, which contribute towards the level of familiarity and which help to create demand for the profit-sharing deposits accounts. In order to achieve the objective, again logistic regression analysis was used, since it is a suitable tool to deal with dependent variables that are categorical in nature, as in this analysis the dependent variable are 'yes' or 'no' (Field, 2005; Pallant, 2007; Tabachnick and Fidell, 2007).

8.5.1 Logistic regression: Significant determining factors contributing to the familiarity with profit-sharing base deposits account

In this analysis, demographic variables such as education level, age, income level, and relationship duration were selected; these are believed to contribute to the respondents' level of familiarity with profit-sharing deposit account. In addition, the 'religiosity' variable, which is taken from the factor analysis results in Chapter 5, was also included in the regression, since it was believed that the variable may also influence the interest of the respondents and in turn contribute significantly to the level of familiarity towards the product.

As mentioned in the previous logistic regression analysis section, the assessment of the overall fitness of the regression model or 'goodness of fit' testing needs to be carried out as a pre-requisite. In the SPSS statistical software package, the model fitness of test is performed using the Omnibus Test of Model Coefficients. The results of the test are presented in Table 8.29. The results of the testing show that all the variables in the table have the significant value of 0.000, which is significantly lower than critical value of 0.05.

Table 8.29: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	77.179	5	.000
	Block	77.179	5	.000
	Model	77.179	5	.000

The second testing feature that is available in SPSS, which is used to justify the fitness of the model, is the Hosmer and Lameshow Test. The result of the test is presented in Table 8.30. The significant value 0.424 generated in the test indicates that the overall model is good, as it is significantly higher than the critical significant value of 0.05. The positive results in both 'goodness of fit' tests on the overall model permit the researcher to proceed with the actual regression.

Table 8.30: Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	8.099	8	.424

The final results of the regression are presented in Table 8.31. The regression results shown in the table suggest that three independent variables seem to be good predictors

for the overall level of familiarity with profit-sharing deposits account. The variables that emerged as good predictors are 'income level', 'relationship duration', and 'religiosity'; these elements have the significant values of 0.001, 0.000 and 0.043, respectively. These significant values are lower than critical p-value of 0.05.

Next, the coefficient of the predictors was assessed. In this analysis, all three significant predictors ('income level', 'relationship duration', and 'religiosity) have a positive value, which means that all the predictors are positively correlated to the dependent variables. Therefore, it can be interpreted that as the income level increases, the level of familiarity of the depositors will increase due to their interest in the product. Similarly, the longer the relationship period between the depositors and the Islamic bank, the more likely the level of familiarity towards the product increases. Finally, the more the depositors feel that the religiosity factor is the motivating factor in choosing Islamic banks, the higher the probability that the level of familiarity of the depositors with the product increases.

Table 8.31: Logistic regression results for determinant for demand for Profit-sharing deposits account (Variables in the Equation)

						95.0% C.I.for EXP(B)	
	B	S.E.	Wald	Sig.	Exp(B)	Lower	Upper
Education(1)	.298	.219	1.857	.173	1.347	.878	2.068
Age	.021	.127	.028	.867	1.022	.796	1.311
Income	**.479**	**.141**	**11.516**	**.001**	**1.615**	**1.224**	**2.129**
Relationship Duration	**.440**	**.100**	**19.218**	**.000**	**1.553**	**1.275**	**1.890**
Religiosity - Combined	**.253**	**.125**	**4.108**	**.043**	**1.288**	**1.008**	**1.646**
Constant	-2.251	.585	14.814	.000	.105		

Variable(s) entered on step 1: Education, Age, Income, Relationship Duration , Religiosity - Combined

Finally, the other important analyses that are available in the table are the odds ratios (OR) as indicated in the column Exp(B). The interpretation of the odds ratios as follows:

(i) Income level – the higher the income level of a person, the more likely that he or she will be familiar with the profit-sharing deposits account. The level of familiarity is perhaps gained through their interest as they are the most likely customers for the product. For each RM1,000 increase in the income level, the odds of the person increasing his or her level of familiarity with the product increases by a factor of 1.62, all other factors being equal.

(ii) Relationship duration – the longer the relationship a person has with the Islamic bank, the more likely he or she is to answer that he or she is familiar with the profit-sharing base deposits account. For each year of additional duration, the odds of the person increasing his or her level of familiarity with the product increases by a factor of 1.55, all other factors being equal.

(iii) Religiosity – the odds of a person answering that he or she is familiar with the profit-sharing base deposit account is 1.29 times higher for someone, who feels religiosity as an important factor in patronising Islamic banking, all other factors being equal. The knowledge is gained through the interest (*i.e.* through reading and attending informal lectures) as a result of the person's belief that patronising Islamic banking is part of religious obligations.

8.5.2 Logistic regression: Significant determining factors influencing respondents to hold profit-sharing deposits accounts

In continuation from the previous analysis, the present logistic regression analysis intended to identify the independent variables that constitute as good predictors for influencing the depositors to demand or hold profit-sharing deposits account. In the current analysis, the dependent variable is the categorical data of whether or not the depositors hold a profit-sharing base deposits account; the same independent variables (education level, age, income, relationship duration and religiosity) that were used in the previous analysis are also adopted here.

The Omnibus Tests of Model Coefficients and Hosmer and Lameshow Test were carried out to determine the overall fitness of the regression model. The results of the Omnibus tests and Hosmer and Lemeshow test are presented in Tables 8.32 and 8.33, respectively. All significant values from the Omnibus test show values of 0.000, which are significantly lower than 0.05. Meanwhile, the Hosmer and Lemeshow test results show a value of 0.470, which is significantly higher than 0.05. The results from the both testing fulfil the requirements and thus suggest that the overall regression model is good. Therefore, the actual regression may be carried out and the results of the regression are presented in Table 8.34.

Table 8.32: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	27.504	5	.000
	Block	27.504	5	.000
	Model	27.504	5	.000

Table 8.33: Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	7.638	8	.470

In Table 8.34, the regression results show that 'income level' is the only independent variable that constitutes as a good predictor for a demand for the profit-sharing base deposits account. The variable's coefficient shows a positive value, indicating that the income level has a positive relationship with the dependent variable. In other words, the higher the income level, the more likely a person would demand a profit-sharing base deposits account. The odds ratio, as indicated in column 'Exp(B)', shows that, for each RM1,000 increase in the income level, the odds of the person increasing his or her level of familiarity with the product increases by a factor of 1.39, all other factors being equal.

Table 8.34: Logistic regression results for determinant for demand for Profit-sharing deposits account (Variables in the Equation)

						95.0% C.I.for EXP(B)	
	B	S.E.	Wald	Sig.	Exp(B)	Lower	Upper
Education(1)	.061	.199	.096	.757	1.063	.720	1.570
Age	.076	.114	.447	.504	1.079	.863	1.349
Income	**.327**	**.111**	**8.622**	**.003**	**1.387**	**1.115**	**1.726**
Relationship Duration	.104	.089	1.352	.245	1.109	.931	1.321
Religiosity - Combined	.076	.118	.411	.521	1.079	.856	1.360
Constant	-2.481	.531	21.835	.000	.084		

Variable(s) entered on step 1: Education, Age, Income, Relationship Duration , Religiosity - Combined

Subsequently, the regression model is further expanded in order to identify other potential factors that may constitute as good predictors beside the 'income level' variables. For this purpose, additional independent variables were included in the model, namely 'physical services' and 'financial/product services'. These two variables were included, since they also emerged as two main factors from the factor analysis presented in Chapter 7, which motivate the depositors to open Islamic banking deposits accounts.

The results for the fitness of the model test are presented in Tables 8.35 and 8.36, which represent the results of Omnibus tests of model coefficients and Hosmer and Lemershow test, respectively. The significant value of 0.000 in Omnibus test, which is significantly lower than critical value of 0.05, and the significant value of 0.141 for the Hosmer and Lemershow test, which is higher than critical value of 0.05, suggest that the overall regression model is fit and good; therefore, the actual regression may be carried out. The results of the overall regression results based on the seven independent variables are presented in Table 8.37.

Table 8.35: Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	32.694	7	.000
	Block	32.694	7	.000
	Model	32.694	7	.000

Table 8.36: Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	12.242	8	.141

The regression results in the table show only two independent variables, namely 'income level' and 'financial/product services', which appear to be good predictors for the demand for the profit-sharing deposits account. This can be seen as they show significant values of 0.002 and 0.025, which are lower than critical value of 0.05. Both of the predictors also show positive coefficient values, which indicate that they are positively correlated with the dependent variables. The odds ratios of the predictors can be interpreted as follows:

(i) Income level – the higher the income level of a person, the more likely that he or she will demand a profit-sharing deposits account. For each RM1,000 increase in the income level, the odds of the person demanding a profit-sharing deposits account increases by a factor of 1.41, all other factors being equal.

(ii) Financial/product services – the odds of a person demanding for the profit-sharing base deposit account is 1.47 times higher for someone, who feels that the financial services factor (attractive product package and services, opportunity to get other financing facilities, banks paying out higher return on

deposits, sound financial reputation of the bank) is an important factor in patronising Islamic banking, all other factors being equal.

Table 8.37: Logistic regression results for determinant for demand for Profit-sharing deposits account – with additional independent variables i) Physical Services, ii) Financial Services (Variables in the Equation)

						95.0% C.I.for EXP(B)	
	B	S.E.	Wald	Sig.	Exp(B)	Lower	Upper
Education(1)	.071	.201	.125	.723	1.074	.724	1.591
Age	.077	.114	.458	.499	1.080	.864	1.351
Income	**.345**	**.113**	**9.366**	**.002**	**1.411**	**1.132**	**1.760**
Relationship Duration	.112	.090	1.560	.212	1.118	.938	1.333
Religiosity – Combined	.007	.129	.003	.959	1.007	.782	1.296
Physical Services - Combined	-.206	.157	1.720	.190	.814	.598	1.107
Financial Services – Combined	**.387**	**.172**	**5.034**	**.025**	**1.472**	**1.050**	**2.063**
Constant	-2.857	.703	16.538	.000	.057		

Variable(s) entered on step 1: Education, Age, Income, Relationship Duration , Religiosity – Combined, Physical Services – Combined, Financial Services - Combined

In the first analysis, it seems that other independent variables do not represent as good predictors; this suggests that demand for the profit-sharing deposits account is significantly influenced by the level of income. In the subsequent analysis, only one additional independent variable, *i.e.* 'financial/product services', which is added to the 'income level' variable, is a good predictor. These results further strengthen the findings from the previous section analysis that those who earn a higher income are more attracted to the profit-sharing deposits accounts, since the nature of the product is riskier and gives potentially higher return, which suits the sophisticated financial needs of the higher income earners. In addition, the 'financial/product services' variable further confirms the findings from the previous analysis sections that financial aspects of the products motivate the depositors to demand a profit-sharing deposits account. The findings also further reinforce the fact that higher income earners demand a profit-sharing deposits account due to the financial return of the products.

On the other hand, it is also interesting to note that the 'education level' variable is not one of the predictors, although the findings in the previous section's analysis consistently show that those, who have a higher level of education have a better level of familiarity with the products. This indicates that other factors also play a significant role in the increase of depositors' familiarity with the product. These might include,

for example, knowledge acquired through channels other than formal education, or experience gained through using the product for a period of time.

On an overall basis, it can be concluded that the respondents' awareness of the profit-sharing deposits accounts can be increased or influenced by higher income level, longer period of banking relationship duration, and religious motivation for patronising Islamic banking deposits accounts. However, the only monetary value aspect, *i.e.* 'income level' and 'financial/product services' factors, are significant in that they may influence the depositors to take up profit-sharing deposits account as product choice. Therefore, it may argued that profit-sharing deposits accounts products are more suitable for those customers, who seek a higher deposits return, which is most likely demanded by those depositors who are earning a relatively high and stable income.

8.6 THE SUMMARY OF THE RESPONDENTS' ATTITUDE/ ACCEPTABILITY TOWARDS PROFIT-SHARING DEPOSITS ACCOUNTS

The purpose of this last section is to provide a conclusion as to whether the respondents or depositors for this study accept and behave according to the specific profit-sharing contract rules as specified in the *Shari'ah muamalah* principles. Cross-tabulation analysis was used in order to achieve the objective. The categories, which were selected for this analysis, are (1) those who are familiar with profit-sharing deposits accounts and (2) those who are holding profit-sharing base deposits accounts. These two variables are cross-tabulated with the pertinent unique characteristics of profit-sharing deposits accounts, for example the concept of profit equalization reserve, deposits guarantee, and financial disclosure. The outcomes of the two analyses would be able to give an indication and offer conclusions as to whether or not the two groups of respondents are accepting and behaving according to the principles of profit-sharing contracts. If the outcomes are in contradiction with the underlying principles, the behaviour of the depositors could be construed as resembling the behaviour of normal depositors in conventional commercial banks. The results of the cross-tabulation for both analyses are presented in Tables 8.38 and 8.39.

Table 8.38: Cross-tabulation: Summary of Respondents who are familiar with Profit-sharing characteristics of the account

	Those who are familiar with Profit-sharing Deposit Accounts	
	Yes	No
Expect to give same rate of return regardless of situation?	64.3%	35.7%
Agree Extra Profit Generated transferred to PER?	54.5%	45.5%
Agree PER being used for future return stability?	64.4%	35.6%
Prefer your deposits to be guaranteed by the Government?	67.9%	32.1%
Do you will use financial statement for monitoring your deposits performance?	77.5%	22.5%

In the Table 8.41, the overall interpretation of the results indicates that the majority of the respondents, who are familiar with profit-sharing deposits accounts, seem not to be accepting or behaving according to the fundamental principles of profit-sharing contracts in the deposits products. In other words, the behaviour of the depositors seems to resemble the behaviour of conventional banking depositors. This can be clearly substantiated from the results in that four out of five characteristics related to profit-sharing base deposits account are inclining towards the behaviour of conventional banking depositors. For example, 64.3% of the depositors stated that they are concerned with financial returns, and more than half of the depositors agree with the concept of profit equalization reserve as a tool to stabilize their returns. In addition, about 68.0% of the depositors stated that they want their deposited money to be guaranteed by the government.

In continuation to the preceding analysis, similar cross-tabulation analysis with the same variables was applied to the respondents who are the existing account holders of profit-sharing base deposits account. The objective of the analysis is still the same, *i.e.* to see whether or not the behaviour of the account holders resembles the behaviour of normal depositors in the conventional banking context. The relevance of the current analysis is that the group of account holders may behave differently from the group of those who are only familiar with the accounts due to the knowledge and understanding that they posses. The results of the cross-tabulation are depicted in Table 8.39 below.

Table 8.39: Cross-tabulation: Summary of opinion of those respondents, who have deposits accounts based on profit-sharing contracts, regarding the characteristics of Profit-sharing deposits accounts

	Those who are holding Profit-sharing Deposit base Accounts	
	Yes	No
Expect to give same rate of return regardless of situation?	67.3%	32.7%
Agree Extra Profit Generated transferred to PER?	52.5%	47.5%
Agree PER being used for future return stability?	63.3%	36.7%
Prefer your deposits to be guaranteed by the Government?	68.8%	31.2%
Do you will use financial statement for monitoring your deposits performance?	74.6%	25.4%

Table 8.39 shows that there is no significant difference between the results from the current analysis and the preceding analysis. The results in the current analysis indicate that the majority of the account holders are not accepting and behaving according to the actual principles of profit-sharing contacts as laid down in the *Shari'ah muamalah* guidelines. For example, close to 68.0% of the account holders still expect that their Islamic banks pays same rate of return, regardless of the banks' performance, and for that reason, the majority of them support the idea of using profit equalization reserve to ensure stability of return. Moreover, a high percentage of almost 69.0% still wants their deposits to be guaranteed by the government.

In conclusion, the results from the two analyses suggest that majority of respondents from the two groups ('those who are familiar with the profit-sharing base deposits account' and 'the profit-sharing base deposit account holders') do not fully understand and in turn accept the fundamental concepts and characteristics of profit-sharing contracts, although they to the very minimum claimed that they are familiar with the product. In other words, the majority of the depositors still has the perception that profit-sharing deposits account are similar to other deposits accounts, especially the conventional banking deposits accounts, which promise contractual return and the principal deposited amounts are guaranteed. These incorrect perceptions about profit-sharing deposits accounts are mainly due to a lack of understanding and can partly be attributed to the lack of explanation from the Islamic bankers. This is evident in the descriptive analysis chapter (Chapter 6), in which only 39.0% of the respondents claimed that the employees of the Islamic banks have explained the nature of the underlying *Shari'ah* contract when they opened an account with the respective Islamic bank.

8.7 CONCLUSION

As mentioned at the beginning of this chapter, this chapter is the continuation of previous chapter (Chapter 7) which further expanded the analysis on the awareness and knowledge on Islamic banking deposits accounts to a more specific deposits product, *i.e.* profit-sharing deposits accounts. The analysis in this chapter used various statistical tools ranging from the cross-tabulation, factor analysis, Mann-Whitney U-test, Kruskal-Wallis test, and, lastly, logistics regressions.

The analyses in this chapter have yielded very successful results and findings regarding the respondents' awareness, knowledge, attitude, and behaviour towards the profit-sharing deposits account. The respondents, who have more exposure tend to the more familiar and understand the true meaning and spirit of the profit-sharing nature of deposits accounts. Nevertheless, the level of understanding that is exhibited by some of the respondents is still considered as very minimal, since the overall results show that the concept of profit-sharing in deposits accounts is still not fully accepted by the majority of the respondents; the majority of them are considered to behave similarly to the normal conventional banking depositors, who emphasised fixed rate returns and deposits guarantee.

In addition, the logistic regressions results show that monetary and rewards aspects are the main determining factors, which may influence the depositors' demand for the product. These findings were further supported by the results of the factor analysis that the commercial value aspect of the product is also considered as important by the respondents. With this in mind, although the findings of the research show that the commercial aspect is the main driver behind the success of the products, the Islamic bankers nevertheless should also play a more proactive role in promoting and educating the existing and potential customers on the true spirit of profit-sharing contracts.

Chapter 9

Contextualising the Findings: An Interpretative Discussion

9.1 INTRODUCTION

To recapitulate, it is claimed that Islamic banking deposits accounts are entirely free of *riba'*, which is the outcome of the different structuring mechanisms that are in accordance with the *Shari'ah muamalah* principles. In addition, the Islamic banks also claimed that profit-sharing deposits accounts are the most distinct deposits products; they are based on a concept of investment, according to which the return is based on the concept of profit-sharing, and the principal deposited amount is not guaranteed. Due to the uniqueness of the profit-sharing contract, some renowned *Shari'ah* scholars and also Islamic banking standard-setting body of regulatory and supervisory agencies such as AAOIFI and Islamic Financial Services Board proposed that the regulatory treatment of the product should be differently from the treatment of conventional banking deposits. The proposed standards suggest that portion of the deposits should qualify for capital relief, since theoretically any business losses incurred will be borne by the depositors.

The product has been in the Islamic banking market in Malaysia since the inception of the first Islamic bank that is Bank Islam Malaysia Berhad in 1983. The product usage was further expanded, when all the financial institutions, which are engaged in the Islamic banking business, also adopted similar products among their deposits instruments. Therefore, after the product has been available for more than 25 years, in the market, it is quite interesting to study the behaviour and perceptions of the depositors towards the product. Based on the review of the relevant literature, to the best of the researcher's knowledge, no other piece of academic research has attempted to study this topic in detail. The available studies on similar subject matter, which are mostly empirical in nature (primary and secondary data research), only consider the depositors' motivation to bank with Islamic banks. The results of the current study will therefore fill a significant gap in current scholarship by providing vital information as to whether the depositors fully understand and accept the profit-sharing concept for their deposits account.

Therefore, as laid down the introduction chapter (Chapter 1), the main objective of this research was to investigate the awareness, knowledge, attitude and behaviour of the depositors of Islamic banks towards the fundamental nature of Islamic banking deposits accounts in general, and also to study the specific unique characteristics of profit-sharing deposits account in particular. For that purpose, the researcher employed primary data research using questionnaire surveys as the research method. The analysis and findings out of the data collections have been presented in detail in Chapter 6 (Searching for the Nature and Characteristics of Islamic Deposit Accounts and Depositors: Perception Analysis of the Account Holders); Chapter 7 (Exploring the Awareness and Knowledge of Deposits Account Holders on the Foundational Aspects of Islamic Deposit Accounts: Inferential Statistical Analysis); and, finally, Chapter 8 (Locating the Awareness, Knowledge and Perceptions of Depositors towards Characteristics of Profit-Sharing Deposits Accounts: An Inferential Analysis).

The current chapter is intended to combine, integrate and discuss the main results and findings from all the three empirical chapters, and to provide a basis of overall conclusion. For the purpose of clarity and to provide a more clearly structured approach to discussion, the flow of this chapter corresponds to the hypotheses that were developed and presented earlier in the research methodology chapter (Chapter 5). Thus, the main discussion of the chapter (according to the flow of hypothesis) is divided into four main sections: Section 9.2: Knowledge and awareness of *riba'* and existing account features; Section 9.3: Patronage factors that influence depositors to open deposits accounts; Section 9.4: Perceptions, opinions, and behaviour towards various features of profit-sharing deposits accounts; and, finally, Section 9.5: Customers' opinion and experience of Islamic banks' customer service during the process of opening an account.

9.2 KNOWLEDGE AND AWARENESS OF *RIBA'* AND EXISTING ACCOUNT FEATURES

Riba' prohibition is the fundamental basis of any Islamic banking deposits products, including profit-sharing deposits accounts. Therefore it is expected that the majority of the respondents are familiar with and understand the *riba'* terminology. In addition, it is also believed that the majority of the depositors (especially those, who have been

with the bank for a number of years) should know what the underlying contract for their deposits account is. In this respect the variables are selected to fulfill the following objectives:

- To gauge the depositors' level of awareness of *riba'*;
- To gauge the depositors' level of understanding of certain basic statements about *riba'*;
- To gauge the depositors' level of understanding of the underlying *Shari'ah* principles of the deposits account.

Therefore, the following hypothesis are formulated:

Hypothesis 1: The majority of the Malaysian Islamic banking depositors do have a fair level of awareness of riba' terminology.

The frequency analysis results as depicted in Table 6.4 in Chapter 6, which indicate that 85.5% of the respondents are familiar with the terms, suggest that the null hypothesis that the majority of the Malaysian Islamic banking depositors do have a fair level of awareness about *riba'* terminology can be accepted.

The result is as per the expectation of the researcher and further confirms the findings from the research conducted by Kader (1993) and (Samad, 2007). Kader, in 1993, posed a similar question to the Muslim respondents, and the findings show that 99.2% of the respondents stated that they were familiar with the terminology. Samad, in 2007, gauged the awareness level regarding *riba'*. The results of the study show that about 92.0% of the Muslim respondents were aware of the fact that *riba'* is prohibited in Islamic law. In this present research, the results show a lower percentage of 85.5%; this is mainly due to the unfamiliarity with the concept found in respondents from other religions. This can be substantiated in the cross-tabulation results in Table 9.1 below: about 90.0% of the Muslim respondents are familiar with the terminology.

Table 9.1: Cross-tabulation: Respondents' Familiarity with the term *riba'*

			familiar with the term riba'?		
			Familiar	Not sure	Not familiar
Religion	Muslim	%	90.1%	5.8%	4.2%
	Christian	%	36.4%	27.3%	36.4%
	Buddhist	%	10.0%	35.0%	55.0%
	Hindu	%	41.6%	33.3%	25.0%
	Others	%	33.3%	33.3%	33.3%

Aside from the religious factors, the high percentage of the respondents, who stated that they are familiar with *riba'* terminology, also can be explained by the aggressive efforts and initiatives taken by the Malaysian government and its agencies, such as Bank Negara Malaysia, the Security Commission, and other interested parties, in promoting Islamic banking and finance in Malaysia.

Subsequently, the researcher further formulated sub-hypotheses in order to further investigate which group of respondents had better levels of awareness. This was done with the objective of exploring if there are connections among the results of the hypothesis testing. All results of the hypothesis testing are available in Table 7.1 in Chapter 7. The hypotheses are as follows:

$H_{1\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology between ordinary depositors and bank employees.

At $\alpha = 0.05$, the null hypothesis is accepted and the alternative hypothesis is rejected, since the tested p-value is higher than the critical p-value. Therefore, the results suggest that there is no statistically significant difference regarding the level of familiarity of *riba*' terminology between the two groups.

$H_{1\text{-}2}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

At $\alpha = 0.05$, the null hypothesis is accepted and the alternative hypothesis is rejected, since the recorded p-value is higher than the critical p-value. In other words, statistically the levels of familiarity with the *riba'* terminology are about the same between the two groups.

$H_{1\text{-}3}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various age groups.

At α = 0.05, the null hypothesis is accepted and the alternative hypothesis is rejected, since the tested p-value is higher than the critical p-value. In other words, the results mean that there is no statistically significant difference in the level of familiarity with the *riba'* terminology across various age groups.

$H_{1\text{-}4}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various educational backgrounds and qualification profile groups.

At α = 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted, since the tested p-value is lower than the critical p-value. Therefore, the results suggest that statistically there are differences in the level of familiarity with the *riba'* terminology across groups from various educational backgrounds.

$H_{1\text{-}5}$: There is no statistically significant difference regarding the level of familiarity with the riba' terminology across various groups with differing durations of banking relationships.

At α = 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted, since the tested p-value is lower than the critical p-value. Therefore, the results suggest that statistically there are differences in the level of familiarity with the *riba'* terminology across groups with different banking relationship durations.

In short, as discussed in Section 7.2.1 (Chapter 7), only two categories, namely 'educational background' and 'relationship duration' achieved the level of statistical significance, which suggests that there are significant mean differences in terms of awareness concerning *riba'* across various groups in each category. The results in each category identified that respondents from a higher level of education background, and those with a longer period of banking relationship, have better awareness. On the other hand, the results for the three remaining categories, namely 'respondent category', 'Islamic bank type', and 'age', suggest that there are no statistically significant differences in terms of awareness among the groups in the respective categories. In that section, the researcher concluded that those depositors or customers of Islamic banks, who are presumed to have better exposure to the Islamic

banking matters, have better awareness levels. In this situation, the researcher has classified groups from a higher level of education background and with longer periods of banking relationship as groups that have better exposure to the Islamic banking principles.

Subsequently, the researcher conducted extended analyses in order to respond to Hypothesis 2, which considers the level of knowledge of the respondents who claimed they are aware of and familiar with the *riba'* terminology. The response for the main hypothesis is based on the results presented in the Table 6.4 (Chapter 6) and Tables 7.2, 7.3 and 7.4 in Chapter 7. The main hypothesis and sub-hypotheses are as follows:

Hypothesis 2: The majority of the Malaysian Islamic banking depositors who are familiar with riba' terminology do have a fair level of knowledge about the subject matter.

The descriptive analysis results in Table 6.4 show that the majority of the respondents, who are familiar with the *riba'* terminology, is considered to have a fair level of knowledge regarding the subject matter. This can be proved as on average more than 65.0% of the respondents are able to give opinions which matched with the consensus of the *Shari'ah muamalah* ruling on the meaning of *riba'*. In this present study, the results show that a higher percentage of the respondents have better knowledge of the *riba'* matter as compared to the similar study conducted by Kader (1993), who found that only 58.4% of the respondents were able to answer that bank interest is the same as *riba'*; by contrast, close to 77.0% of the respondents in the present study managed to answer the same question correctly.

The following sub-hypotheses were developed to see if there is any significant difference in the level of knowledge across the groups of respondents for each category. The statistical tests for all the relevant questions in relation to the hypotheses are presented in Tables 7.2, 7.3 and 7.4 (Chapter 7).

$H_{2\text{-}1}$: There is no statistically significant difference in the level of understanding of riba' between ordinary depositors and bank employees.

At α = 0.05, the null hypothesis is rejected, since the Mann-Whitney U-test results for all three related questions recorded a lower significant value than the critical p-value. Therefore, the alternative hypothesis suggests that, statistically, there is a significant difference in the level of understanding concerning *riba'* between ordinary depositors and bank employees. The result also indicates that bank employees have a better level of understanding than ordinary depositors.

$H_{2\text{-}2}$: There is no statistically significant difference in the level of understanding of riba' between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

For this hypothesis, the results from all three related questions conclusively accept the null hypothesis and reject the alternative hypothesis, since all three questions registered a significant p-value of more than the critical p-value of 0.05. Therefore, it can be concluded that, statistically, there is no significant difference in the level of understanding of *riba'* matters between the depositors of stand-alone Islamic banks and Islamic subsidiaries.

$H_{2\text{-}3}$: There is no statistically significant difference in the level of understanding of riba' across various age groups.

At α = 0.05, the null hypothesis is accepted and the alternative hypothesis is being rejected, since all three significant p-values are more than the 0.05 alpha value. Therefore, it is concluded that, statistically, there are no significant mean score differences across various age groups.

$H_{2\text{-}4}$: There is no statistically significant difference in the level of understanding of riba' across various educational backgrounds and qualification profile groups.

At α = 0.05, the Kruskal-Wallis test results for all three related questions suggest that the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, it can be concluded that, statistically, there are significant differences in the level of understanding *riba'* across groups from various educational backgrounds.

$H_{2\text{-}5}$: There is no statistically significant difference in the level of understanding of riba' across various groups with differing durations of banking relationships.

At $\alpha = 0.05$, the Kruskal-Wallis test results for all three related questions suggest that the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, it can be concluded that, statistically, there are significant differences in the level of understanding of *riba'* across various groups with differing durations of banking relationships.

Based on the above sub-hypotheses testing, two out of five null hypotheses are accepted and the remaining three are rejected. The three rejected hypotheses categories are 'respondent category', 'education background', and 'relationship duration', whilst the accepted null hypotheses are related to 'Islamic bank type', and 'age group' categories. As discussed in Chapter 7, the significant level of knowledge can be seen in favour of 'bank employees', 'higher level of education background', and 'longer period of banking relationship'. The researcher has categorized these groups of respondents as the depositors who are more exposed to the Islamic banking environment, which may explain the better level of knowledge.

Hypothesis 3 was formulated with the intention of gauging the overall knowledge and understanding of the Malaysian depositors on the underlying *Shari'ah* principles of their deposits account. As mentioned, it is highly expected that the majority of the depositors should understand it. The main hypothesis and sub-hypotheses for testing are as follows:

Hypothesis 3: The majority of Malaysian Islamic banking depositors do understand the Shari'ah principles underlying their existing deposits account.

In responding to this hypothesis, the results in Table 6.3 and 6.5 (Chapter 6) are used. The results in Table 6.3 suggest that about 86.0% of the respondents know and are aware of the principles underlying their deposits accounts; nevertheless, close to half of the respondents were still lacking in understanding the underlying *Shari'ah* principles. This can be seen in the results presented in Table 6.5, where only 52.0% of the respondents claimed that they understand the underlying *Shari'ah* principles governing their deposits account. The findings in this study seem to mirror the

outcomes of studies in Malaysia conducted by Haron *et al.* (1994), Hamid and Nordin (2001), Ahmad and Haron (2002). In all of these studies, in general the findings show that there were high levels of awareness of the Islamic banking product, but respondents still fell short in terms of their level of understanding the technical aspects of the product. In addition, similar patterns of findings can also be seen in studies conducted in other Muslim-majority countries, such as studies conducted by Metawa and Almossawi (1998), Bley and Kuehn (2004) and Okumus (2005).

Although the Islamic banking industry has been in operation for more than 25 years in Malaysia, it is quite alarming to note that the level of understanding among the depositors is still deemed as low. This shows that there is still a lot of work that needs to be done in the education process; it is not sufficient simply to introduce and market Islamic banking products as an alternative financial product, which has religious endorsement by the *Shari'ah* scholars. It is highly crucial for the Islamic bankers to take additional efforts in explaining to the prospective customers the meaning and nature of the underlying principles of the Islamic banking product that the customers hold. This suggestion is in line with Kahf (2002, taken from Bley and Kuehn, 2004), who stressed the importance of the bank managers' role in educating the bank customers concerning the Islamic banking product and services.

Subsequently, the following sub-hypotheses were tested to identify whether there is any statistically significant difference in the level of understanding across various groups of respondents based on the selected demographic profile. The results of the testing for each individual hypothesis are available in Table 7.7 in Chapter 7.

$H_{3\text{-}1}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts between ordinary depositors and bank employees.

At $\alpha = 0.05$, the null hypothesis is being rejected and the alternative hypothesis is being accepted, since the test significant p-value is much lower than the critical p-value. Therefore, it is concluded that, statistically, there is a significant difference in the level of understanding of the *Shari'ah* principles governing the deposits account between ordinary depositors and bank employees.

$H_{3\text{-}2}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts between depositors of stand-alone Islamic banks and of Islamic subsidiaries.

At $\alpha = 0.05$, the null hypothesis is accepted, since the significant p-value is not sufficient to reject the null hypothesis. Therefore, it can be stated that, statistically, there is no significant difference in the level of understanding of the underlying *Shari'ah* principles governing the deposits accounts between the depositors from the stand-alone Islamic banks and Islamic subsidiaries.

$H_{3\text{-}3}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various age groups.

At $\alpha = 0.05$, the null hypothesis is rejected in favour of the alternative hypothesis, since the p-value recorded in the testing is significantly lower than the critical p-value limit. It can be concluded that for the age group, statistically, there is a significant difference in the level of understanding of the underlying *Shari'ah* principles governing the deposits account.

$H_{3\text{-}4}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various educational backgrounds and qualification profile groups.

Similarly, for the education qualification background profile, the null hypothesis is rejected in favour of the alternative hypothesis, since the p-value recorded in the testing is significantly lower than the critical p-value limit. Therefore it can be concluded that, statistically, there is a significant difference in the level of understanding of the underlying *Shari'ah* principles governing the deposits account across the various education qualification background profile groups.

$H_{3\text{-}5}$: There is no statistically significant difference in the level of understanding of the underlying Shari'ah principles governing the deposits accounts across various groups with differing durations of banking relationships.

Similar results also can be found for the period of banking relationship category. At $\alpha = 0.05$, the null hypothesis is rejected and suggest that alternative hypothesis is accepted since the p-value recorded in the testing is significantly lower than the

critical p-value limit. Therefore it can be concluded that, statistically, there is a significant difference in the level of understanding of the underlying *Shari'ah* principles governing the deposits account across the various groups with differing durations of banking relationships.

The findings from the above hypotheses echo the findings on the sub-hypotheses test analysis that are related to the level of knowledge of the depositors concerning the *riba'* matter. As discussed in detail in Section 7.2.3 (Chapter 7), a higher level of understanding and knowledge concerning the subject matter can be seen for groups, which have more exposure to the Islamic banking environment. In this analysis, the results proved that the groups, which are deemed to have more exposure, *i.e.* the respondents from the 'bank employees', 'higher age groups', 'higher level of education qualification', and 'longer period of banking relationship', scored higher mean rank values, which indicates that they have a better level of understanding as compared to the other groups within each categories. In addition, the logistic regression analysis results as depicted in Table 7.11 (Chapter 7) further strengthens the findings that an appropriate level of exposure to the subject matter, such as better education and longer relationship period, is among the significant factors that contribute towards the level of understanding. Therefore the findings suggest that the knowledge gaps that exist between the groups should be improved; the most effective immediate action that can be carried out is an education process stemming directly from the Islamic banker themselves.

9.3 PATRONAGE FACTORS INFLUENCING DEPOSITORS TO OPEN DEPOSIT ACCOUNTS

Based on the previous literature as discussed in Chapter 4, there are various factors that may influence the decision of the customers to select Islamic banking as part of their banking choice. Previous research has discovered several major factors that may influence the customers' decisions: among others are religiosity factors, financial factors, and service oriented factors. The current study adopted a similar approach to that undertaken by previous studies. Nevertheless, in this study, the researcher has included a larger sample size by including new Islamic banks, which have been granted an Islamic banking license. One of the main factors, which contributed to the

establishment of Islamic banking, was to provide an alternative banking to Muslims based on religious doctrine; therefore it is believed that depositors of Islamic banks consider religious belief as an equally important factor when opening an Islamic banking account. The variables are expected to meet the following main objective and thus subsequently the hypotheses:

- To explore the reasons for selecting Islamic banks when opening Islamic banking deposits accounts.

Hypothesis 4: Malaysian depositors apply equal importance to the religiosity/Islamic identity factor along with other banking selection criteria when deciding to open a deposit account with Islamic banks

Factor analysis was used in responding to Hypothesis 4 above. The final outcomes and a detailed discussion of the factor analysis are available in Table 7.15 (Chapter 7). The factor analysis results suggest that all thirteen items of patronage factors are reduced to three factors, namely 'physical services', 'financial/product services', and, finally, 'religiosity/ Islamic identity'. In order to respond to the hypothesis, further analysis was carried out to see whether there is any significant difference in terms of the mean score for all the factors. For this purpose, a simple comparative mean analysis was conducted and the results can be seen in Table 7.16 in Chapter 7. It is interesting to note that, based on the mean comparative analysis, the 'religiosity/Islamic identity' factor ranked first, followed by 'physical services', and, finally, 'financial/product services'. In addition, the average mean score for each of the factors indicates that there is no significant difference in the respondents' perceptions in ranking the importance of religiosity/Islamic identity factor equally important as the other patronage factors. Therefore, based on the premise, the hypothesis is accepted. The findings, which suggest that religiosity/ Islamic identity factor is an important factor, are consistent with many other earlier Islamic banking patronage studies conducted by Omer (1993), Kader (1993; 1995), Metawa and Almossawi (1998), Naser, Jamal and Al-Khatib (1999), Al-Sultan (1999), Bley and Kuehn (2004) and Dusuki (2005; 2007).

Since the factor analysis results suggest that the religiosity/Islamic identity factor is the most important factor rated by the respondents, it is interesting to investigate the findings further to determine whether there is any statistically significant difference in terms of perceiving this factor as influencing them to open an Islamic banking deposits account. Therefore, in order to meet the objective, the following sub-hypotheses were formulated. In responding to these hypotheses, the Mann-Whitney U-test and Kruskal-Wallis test were employed and the results of the testing and details of the findings discussion can be found in Table 7.18 in Section 7.3.1 (Chapter 7).

$H_{4\text{-}1}$: There is no statistically significant difference in terms of preference between ordinary depositors and bank employees when considering the religious factor as an important patronage criterion for deciding to open an Islamic banking deposits account.

At $\alpha = 0.05$, the result of Mann-Whitney U-test failed to reject the null hypothesis. Therefore, the result confirms the null hypothesis that, statistically, there is no significant difference in terms of preference of ordinary depositors and bank employees in considering religious factors as important patronage criteria when deciding to open an Islamic banking deposits account.

$H_{4\text{-}2}$: There is no statistically significant difference in terms of preference between depositors of stand-alone Islamic banks and Islamic subsidiaries when considering the religiosity factor as an important patronage criterion for deciding to open an Islamic banking deposits account.

At $\alpha = 0.05$, the result of Mann-Whitney U-test suggests that the null hypothesis is to be rejected in favour of alternative hypothesis. Therefore, it can be concluded that, statistically, there is a significant difference in terms of preference of depositors from the stand-alone Islamic banks and Islamic subsidiaries in considering religious factors as important patronage criteria when deciding to open an Islamic banking deposits account.

$H_{4\text{-}3}$: There are no statistically significant differences across various age groups' preferences when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

The result of Kruskal Wallis test failed to reject the null hypothesis. Therefore, the result confirms the null hypothesis that, statistically, there are no significant differences across various age groups' preferences when considering the religiosity factor as an important patronage criterion in opening an Islamic banking deposits account.

$H_{4\text{-}4}$: There are no statistically significant differences across various educational backgrounds and qualification profile groups when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

The results of Kruskal-Wallis test suggest that the null hypothesis is to be rejected in favour of alternative hypothesis. Therefore, it can be concluded that, statistically, there are significant differences across groups from various educational backgrounds when considering the religiosity factor as an important patronage criterion in opening an Islamic banking deposits account.

$H_{4\text{-}5}$: There are no statistically significant differences across various groups with differing durations of banking relationships when considering the religiosity factor as an important patronage criterion for opening Islamic banking deposits account.

The results of Kruskal-Wallis test suggest that the null hypothesis is to be rejected in favour of alternative hypothesis. Therefore, it can be concluded that, statistically, there are significant differences across various groups with differing durations of banking relationships when considering religiosity factor as an important patronage criterion in opening an Islamic banking deposits account.

As the results indicate, the religiosity factor is perceived as one of the main factors that may attract the customers to bank with Islamic banks. The findings in this study further add value to previous similar studies by confirming that the Malaysian depositors considered religiosity factor is an important criterion in selecting Islamic banks as their first choice. One of the facts which may support these findings is that the Muslim community in Malaysia seems more concerned with their religious identity as a result of the continuous efforts by various Islamic non-governmental organization and Islamic political parties in creating awareness concerning the importance of Islamic values as a way of life (Kader, 1993: 388), especially since the

year 1983 when the first Islamic university and Islamic banks were established. Since then the concern for religious identity has gained more footing, as more Islamic institutions were established and recognized. Such developments indirectly contribute to the growth of the Islamic banking industry, in which the demand for Islamic banking products increased. This also led to the establishment of Islamic banking windows in 1993; since 2005, these have gradually been upgraded into Islamic banking subsidiaries. Having said this, although religiosity/ Islamic identity factors seem to be at the top of the patronage list, the Islamic banks should not ignore other patronage aspect either, such as the physical services and product services, which are also rated as important by the depositors.

As for the sub-hypotheses, the results show that three out of the five null hypotheses related to the 'Islamic bank type', 'education background', and 'relationship duration' category are rejected. The results from the testing (Table 7.18) show that a significant difference can be seen in favour of respondents from the 'stand-alone Islamic bank', 'higher level of education qualification background', and 'longer period of banking relationship' groups. As for the 'Islamic bank type' category, the findings supplement the main findings from the factor analysis that Islamic identity is the primary concern in patronising Islamic banks. Customers of stand-alone Islamic banks may perceive that stand-alone Islamic banks are more appealing in terms of Islamic identity, since the banks stand on their own – unlike the Islamic subsidiaries, which are still associated with the conventional banks as shareholders. As for the 'education background' and 'relationship duration' categories, it can be rationalised that the respondents from the 'higher level of education qualification background' and 'longer period of banking relationship' are acquiring more knowledge of the importance and benefits of Islamic banking from a religious point of view throughout the education process and period of relationship respectively.

9.4 PERCEPTIONS, OPINIONS, AND BEHAVIOUR TOWARDS VARIOUS FEATURES OF PROFIT-SHARING DEPOSITS ACCOUNTS

Deposits accounts products based on the concept of profit-sharing, in which the return on deposits is not fixed but based on the profit generated by the bank, are the main difference between Islamic banking deposits accounts and their conventional

counterpart. In addition, the profit-sharing deposits account is also distinct from the other Islamic banking deposits account which uses other contacts such as *wadiah* and *qard*. In this sense, profit-sharing deposits products seem to be superior in terms of marketing advantage, since the *Shari'ah* allows banks to market the return aspect and attach with various gifts and promotions, which is not permitted for deposits products using *wadiah* and *qard* contracts. On top of that, all of the sampled banks also offer various deposits accounts products which use profit-sharing as the underlying contract. Therefore the following subheading will consider the various aspects of awareness, knowledge, perceptions, and attitudes of the respondents towards profit-sharing deposits accounts and some of their distinct features.

9.4.1 Depositors' awareness of profit-sharing deposits accounts

All of the sampled Islamic banks offer deposits products based on the contract of profit-sharing. In addition, all of the sampled Islamic banks (with exception to Al-Rajhi Bank) have been in the Islamic banking business in Malaysia for more than 15 years. Therefore, it is expected that the depositors of the banks at the very minimum are familiar with profit-sharing deposits accounts. The objective of this variable is to gauge the respondents' level of familiarity with profit-sharing deposits accounts. In fulfilling the objective, the following hypothesis was formulated:

Hypothesis 5: The majority of Islamic banking depositors are familiar with deposits accounts based on profit-sharing contracts.

The frequency analysis results, as presented in Table 6.7 (Chapter 6), suggest that the hypothesis is to be rejected, since only less than half of the respondents stated that they were at least familiar with it. The result is quite significantly below the level of the researcher's expectation, since it is argued in the most of academic literature that profit-sharing contracts are main distinct feature that differentiate Islamic banking from conventional banking. In addition, it is also argued widely in the literature that extensive use of profit-sharing contracts is highly desirable in developing the banking product. In addition, the high expectation is because the product has been in the market since the inception of Islamic banks in Malaysia, *i.e.* since the establishment of Bank Islam Malaysia Berhad in 1983. Therefore, the low percentage of the

respondents, who are familiar with the product, is rather upsetting in view of the product's intended goal of realizing the objective of achieving social justice and economic stability.

The following sub-hypotheses were formulated in order identify whether there is any significant differences across various groups in the respective demographic categories. The results of the hypotheses testing can be referred to the Table 8.1 in Chapter 8.

$H_{5\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts between ordinary depositors and bank employees.

The results suggest that the alternative hypothesis is to be accepted, which implies that there is a significant difference in the level of familiarity between the two groups: as expected, the bank employees group is more familiar with the product.

$H_{5\text{-}2}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts between the depositors of stand-alone Islamic banks and of Islamic subsidiaries.

For this hypothesis, the testing results were unable to reject the null hypothesis, meaning that there is no significant difference in the level of familiarity with the profit-sharing deposits account between the two groups.

$H_{5\text{-}3}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various age groups.

The results suggest that the null hypothesis is rejected in favour of the alternative hypothesis, indicating that there are significant differences in the level of familiarity across various age groups; the results further suggest that respondents from the higher age groups are more familiar with the products.

$H_{5\text{-}4}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various educational backgrounds and qualification profile groups.

The results suggest that the null hypothesis is rejected and the alternative hypothesis is to be accepted. Therefore, the results suggest that there are significant differences in the level of familiarity across groups from different educational backgrounds. The results are in favour of groups with higher level qualifications.

$H_{5\text{-}5}$: There is no statistically significant difference regarding the level of familiarity with profit-sharing deposits accounts across various income groups.

The results indicate that the alternative hypothesis is accepted, which suggest that there are significant differences in the level of familiarity across various income groups. Those respondents from higher income brackets are more familiar with the product.

$H_{5\text{-}6}$: There is no statistically significant difference on the level of familiarity with profit-sharing base deposits accounts across various groups with differing durations of banking relationships.

The results suggest that the alternative hypothesis is accepted, and hence it can be concluded that there are significant differences in the level of familiarity across various groups in this category. The group which has longer period of banking relationship seems more familiar with the products.

As discussed in Section 8.2.1 (Chapter 8), it can be seen that groups of respondents which seem to be more familiar with the products are coming from groups that are deemed to have more exposure to the Islamic banking industry. In other words, the high levels of familiarity among these groups are mainly the result of demand from the users themselves. For example, in the case of respondents from the 'high income bracket', 'higher age groups', and 'longer period of banking relationship' groups, they are more familiar with the product because they are most likely the main users of the product. This is because in Malaysia normally those people who are at in the higher age groups are more financially stable because of job security; this indirectly contributes to the longer banking relationship in order to fulfil their financial service needs. In addition, the logistic regression analysis results which can be seen in Table 8.31 (Chapter 8) further confirmed the argument in which income and education variables emerged as strong predictors that contribute to the depositors' level of familiarity with the product. Therefore, in order to close the awareness gaps among

these groups and directly improve the rate of awareness among all customers of the banks, it is highly encouraged that the Islamic bank employees should play proactive roles in educating the customers, especially new customers, by explaining the wide range of deposits instruments that they offer, even if that particular product is not needed at that juncture. In the long term, the proposed initiatives would create a society which is more aware about the nature of Islamic banking products and services.

The preceding findings suggest that high levels of awareness may be achieved by the using the products or services. Therefore, in the following section, the researcher intends to determine what the important features are that may attract potential customers to use or open a profit-sharing deposits account.

9.4.2 Attitude towards the *Shari'ah*-approved patronage features attached to profit-sharing deposit account

The unique *Shari'ah*-approved features of profit-sharing deposits accounts as compared to other types of deposits accounts that are using other *Shari'ah*-approved contracts, *i.e. qard* (loan) and *wadiah* (safe-custody), are that the former are permitted to market the product with various promoting tools, such as rates of return and any other promotion packages or gifts. Therefore, it is believed that some of the depositors are patronizing the product because of the promotion. However, it also expected that the depositors, who select profit-sharing base deposits accounts, should not only rely on the tangible and financial returns but also be conscious of the spirit of the contract that promotes the principles of justice, which is highly desirable in Islamic banking. For that matter, the following hypothesis was formulated to see whether the Malaysian depositors apply equal importance to the religiosity features, along with the other attracting features, when they decide to open a profit-sharing base deposits account.

Hypothesis 6: Malaysian depositors apply equal importance to the religiosity factor along with other product attracting features when making the decision to open a profit-sharing deposits account.

The factor analysis results, as presented in Table 8.4 (Chapter 8), show that there are two major factors that are deemed important in attracting the depositors to profit-sharing deposits accounts. These are the commercial value aspect and the religiosity aspect. In order to identify which of these is more prominent in attracting the potential customers, the researcher computed the simple average mean value for each factor. Then the computed mean values were compared to determine which factor has the higher value. The results show that the religiosity features aspect has the higher average mean value, which suggests that the depositors opined that the religiosity features of the product still are the stronger aspect that may influence them to open a profit-sharing deposits account. This is in consistence with the findings in the banking patronage study presented earlier at the beginning of this chapter. Nevertheless, as discussed in detail in Chapter 8, the suggestion of promoting the product solely from a religious point of view is not sufficient. The analysis results also suggest that the commercial value aspect is equally significant, as can be seen from the logistic regression results depicted in Tables 8.34 and 8.37 (Chapter 8). In this analysis, the results show that income level and financial services aspect[91] emerged as two main determinants that predict the depositors to express demand for profit-sharing deposits accounts. As mentioned before, those who are earning a higher income normally have a higher tolerance of risk taking; this makes them the most likely persons to express demand for the product. Furthermore, in order to attract the depositors to hold the account, the financial services aspects are also significantly important elements that may influence their decisions. Therefore, in the findings and discussion above, the null hypothesis is accepted, which means that the Malaysian depositors apply equal importance to the religiosity features along with other product features when making the decision to open a profit-sharing deposits account.

The following sections will discuss the hypotheses that are formulated to gauge the knowledge, perception, and attitude of the respondents towards various elements that are related to the deposits rate of return concept in profit-sharing deposits accounts.

[91] Financial services aspect is based on the results of the factor analysis for the patronage study as presented in Section 7.3.1 (Chapter 7). The detailed variables that make up the financial services factor can be seen in Table 7.16.

9.4.3 Knowledge, perception and attitude towards the rate of return concept in profit-sharing deposits accounts

Return on deposits is argued in the literature to be one of the main factors that influence the behavioural reaction of all depositors, including Islamic banking depositors. It is stated that the depositors will behave rationally by withdrawing their money from their existing banks if their bank announces a lower deposits return as compared to their competitors.

According to the *Shari'ah* principles, there is no restriction for a person to behave rationally by placing rate of return as criterion for selecting a particular bank. However, as the results of patronage studies suggest, it is expected that the depositors set the religiosity aspect as a primary consideration, which in turn educates the depositors to be loyal to their present Islamic bank. If the depositors were to switch to conventional banks that are paying higher fixed return, the depositors would be considered as compromising their religious belief from the financial point of view. On the other hand, if the depositors were to switch to another Islamic bank solely on the basis of hunting for higher return, the customer would be deemed as lacking in understanding the spirit of profit-sharing, since the declared rate of return by other Islamic banks are also only indicative rates, which means the new depositors will not necessarily get the same return in the future.

As mentioned earlier, unlike other deposits product offered by the conventional banking industry, Islamic banking deposit products are based on profit-sharing contracts are rather unique in that the return on deposits varies from time to time according to the bank's profit. As a result, the depositors may face a situation of receiving a lower rate of return compared to their competitors. In order to mitigate the risk of depositors' withdrawal, the banks may introduce risk-mitigating techniques such as profit equalization reserve (PER). It is argued by the bank practitioners, PER would be able to reduce the bank's withdrawal risk as the customer is satisfied with the rate of return that the bank pays. However, it is yet to be proved whether the concept of PER is highly acceptable from the depositors' point of view. This is due to the fact that in the current practice the concept of PER was not explained to the depositors or even stated anywhere in the documents signed upon opening an account. If customers fully understood the fundamental nature of profit-sharing contract, the

concept of PER would not acceptable to them because it would be seen as deceiving the depositors, since the actual return received is not according to the agreed profit-sharing ratio. However, some of depositors might agree with the concept of PER because the depositors will receive a stable flow of return, regardless of the bank's performance. Based on this premise, the following hypotheses were formulated in order to meet the following objectives:

- To know whether the depositors will consider the indicative rate of return published by the bank as a factor in opening a profit-sharing deposits account;
- To gauge the perception of the published rate of return on the board;
- To reveal the level of familiarity with the concept of profit-equalisation reserve;
- To understand the level of acceptance of the concept of PER;
- To see the behaviour and reaction of depositors towards various scenarios of changes in the declared rate of return on their deposits.

Firstly, before going into detail regarding the other micro aspects that are related to the rate of return, the primary question that needs to be clarified is whether the Islamic banking depositors in Malaysia are really concerned about financial return when making the decision to participate in any of the financial instruments. Therefore, in order to gauge the response to this question, hypothesis 7 was formulated to meet the objective.

Hypothesis 7: The majority of Malaysian depositors do express concern about their financial return when deciding upon which instruments to invest in.

The results in Table 6.8 (Chapter 6) indicate that the majority of the Malaysian depositors are concerned about the financial return aspect when deciding upon which of the financial instruments they wish to invest in. In other words, the results suggest that majority of Malaysian depositors behave rationally by emphasizing the needs of maximizing financial return when making decision about which type of financial instruments to invest in. This finding confirms previous studies conducted by Erol and El-Bdour (1989; 1990), Haron *et al.* (1994), Edris and Almahmeed (1997), Gerrad and Cunningham (1997), Rammal and Zurbruegg (2007), Hamdan (2007) in other

countries; they conclude that the customers of the bank in one way or another still regard the profit maximization motive as an important criterion when dealing with Islamic banks. In fact, the findings confirmed the notion formulated by Chapra and Ahmed (2002: 2) that, in any financial systems, the provider of the funds enters into the system with the expectation that not only their funds are protected but also with an expectation of satisfactory returns. Although the conclusion for this hypothesis suggests that the depositors of Islamic banks deposit their money with the expectation of maximizing the returns, which does not contradict any of the *Shari'ah* principles, but it is also expected that the depositors must be aware that the profit they gained should be in line with the spirit of *Shari'ah* principles, as discussed by Rosly (2005). In his book, Rosly highlighted that profit can only be obtained if there are elements of liability (*daman*), risk (*ghorm*) and work or effort (*kasb*). Therefore, based on Rosly's statement, it is desirable that the depositors of Islamic banks are willing to take liability and risk in order to justify the profit motive, which will be explored further in the subsequent analysis.

Since the overall results of the primary hypothesis suggest that the Malaysian depositors are concerned with the financial returns, the following hypotheses were formulated with the objective of investigating whether there is any statistically significant difference in opinion across the groups in each of the demographic categories as to whether they would refer to the published board rate prior to the opening of profit-sharing deposits account. In order to respond to the hypotheses, again the Mann-Whitney U-test and Kruskal-Wallis test were used. The results of the analysis are presented in Table 8.6 (Chapter 8).

$H_{7\text{-}1}$: There is no statistically significant difference between the opinion of ordinary depositors and bank employees in relation to the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

The results show that, statistically, there is a significant difference in the opinion of the ordinary depositors and bank employees. The result indicates that the bank employees are more concerned with deposits returns in that they are more likely to refer to the published board rate prior to opening a profit-sharing deposits account. Therefore, the null hypothesis is rejected.

$H_{7\text{-}2}$: There is no statistically significant difference between the opinion of depositors of stand-alone Islamic banks and of Islamic subsidiaries in relation to the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

The Mann-Whitney U-test suggests that the null hypothesis is rejected; it can be concluded that, statistically, there is significant difference in opinion between the two groups. In this category, the result indicates that the respondents from the stand-alone Islamic banks have a higher tendency to refer to the published board rate prior to opening an account.

$H_{7\text{-}3}$: There are no statistically significant differences across groups from various educational backgrounds and their opinions on the published board rate, which will be part of their consideration prior to opening a profit-sharing deposits account.

For this category, the statistical analysis outcome is not sufficient to reject the hypothesis, which suggests that all level of education groups have similar opinions.

$H_{7\text{-}4}$: There are no statistically significant differences across various groups of different income levels and their opinions on the published board rate, which will be part of their consideration prior to opening profit-sharing deposits account.

Similar conclusions can be derived from this category analysis, where the statistical result does not support the alternative hypothesis. It is concluded that there are no significant differences across various income level groups' opinion with regard to referring to the published board rate as part of their consideration.

$H_{7\text{-}5}$: There are no statistically significant differences across the various groups with differing durations of banking relationships and their opinion on the published board rate, as part of their consideration prior to opening profit-sharing deposits account.

As for relationship duration category, the statistical results again failed to reject the null hypothesis, which suggests that, statistically, there is no significant difference in terms of the respondents' opinion across the groups in stating that they would refer to the published board rate as part of the considerations prior to opening an account.

The results of sub-hypothesis testing above show that only two hypotheses ('respondent category' and 'Islamic bank type') achieved the results of statistical significance and are able to reject the null hypothesis. In this regard, the results further show that 'bank employees' and respondents from 'stand-alone Islamic bank' are more concerned with expected deposits returns. As discussed in Section 8.3.1.1 (Chapter 8), bank employees have the advantage of sourcing financial information on a timely basis; thus the act of making rate of return comparison is more convenient to them. As for the depositors from the stand-alone Islamic banks, Figure 8.1 (Chapter 8) proved that the historical financial performance of the sampled Islamic banks was not that encouraging, and that, therefore, the depositors are more likely to be more concerned and cautious about the financial returns.

As discussed in Chapter 3, the board rate is only an indicative rate of return for future depositors. Since the two preceding hypotheses indicated that the majority of Malaysian depositors are not familiar with profit-sharing deposits accounts, coupled with the opinion that they are very concerned with financial returns, Hypothesis 8 was formulated to further prove that the depositors do not understand the real message of the board rate by perceiving that its conveys a different meaning than that of an indicative deposits rate of return.

Hypothesis 8: The majority of Malaysian depositors deemed that the published board rate is not indicative of the rate of return for deposits.

The results in Table 6.8 (Chapter 6) validate the hypothesis that the majority of Malaysian depositors believed that the published board rate is not an indicative deposits rate of return, but rather a fixed deposits rate of return that their Islamic banks are going to pay. Therefore, it can be concluded that, in general, the depositors of Islamic banks do not really understand the underlying nature of the Islamic banking deposits concept. This misconception is entirely against the fundamental spirit of Islamic banking deposits as highlighted in many of the relevant pieces of Islamic banking operations literature, such as, for example INCEIF (2006a), Khir *et al*. (2008), Wilson (2000), in which deposits returns are declared on either on the basis of *hibah* (gift), which is solely on the bank's discretion, or agreed on a profit-sharing ratio.

The lack of understanding concerning the meaning of the published 'board rate' among the depositors is a major concern for the regulator and the industry practitioner that needs to be given immediate attention. It seems that the findings proved that there is a misconception among the depositors regarding the real intention of the published 'board rate'. In fact, this is the main concern raised by some of the *Shari'ah* scholars, for example in the Al-Rajhi Bank, as the bank's *Shari'ah* committee disallowed the practice of publishing the indicative rate of return to the public on the basis that it might lead to a misconception among the depositors. Nevertheless, the national *Shari'ah* advisory council still allows the practice base on the argument that the depositors needs to have a certain point of reference to make comparisons and decisions. The researcher is of the opinion that the current practice of allowing the Islamic banks to publish the 'board rate' has created a massive misconception among the depositors, as is evident from the survey's findings. Therefore, it can be suggested that the practice should be allowed as an interim measure, and at the same time long term measures in educating the depositors should be taken by the Islamic bankers.

To further investigate which groups of depositors have better understanding of the subject matter, the following sub-hypotheses were formulated. Again, for this analysis Mann-Whitney U-test and Kruskal-Wallis test results proved to be efficient in explaining the variables. The results of the tests are presented in Table 8.7 (Chapter 8), which relates to all of the following hypothesis testing.

$H_{8\text{-}1}$: There is no statistically significant difference between ordinary depositors and bank employees in terms of their perception of the published board rate as indicative of the rate of return.

The result proves that the null hypothesis is rejected, which suggests that, statistically, there is a significant difference between the two groups in terms of correct perceptions and understanding of the published board rate as an indicative rate of return. The results show that the bank employees group has better understanding.

$H_{8\text{-}2}$: There is no statistically significant difference between depositors of stand-alone Islamic banks and of Islamic subsidiaries in terms of their perception of the published board rate as indicative of the rate of return.

For this category, the null hypothesis is accepted, since the statistical result is not significant to reject the hypothesis. It is concluded that, statistically, there is no significant difference between the two groups in terms of correct perceptions and understanding of the published board rate.

$H_{8\text{-}3}$: There are no significant differences across groups from various educational backgrounds in terms of their perception of the published board rate as indicative of the rate of return.

The statistical test results suggest that the null hypothesis is rejected in favour of the alternative hypothesis, which states that there are statistically significant differences across various education backgrounds in understanding the correct meaning of the board rate.

$H_{8\text{-}4}$: There are no significant differences across various income level groups in terms of their perceptions of published board rate as indicative rate of return.

Similarly for this category, the results also suggest that the null hypothesis to be rejected. It can be concluded that there are significant differences across various income level groups in terms of correct understanding and perception of published board rate as an indicative rate of return.

$H_{8\text{-}5}$: There are no significant differences across various groups with differing durations of banking relationships in terms of their perception of the published board rate as indicative of the rate of return.

For this final category, the testing results confirmed the null hypothesis, which means that, statistically, there are no significant differences across various period of banking relationship groups in terms of correct understanding and perceptions of the interpretation of published board rate.

Unlike the results in the previous hypothesis cluster, in this situation the results, which achieved the statistically significant value which is sufficient to reject the null hypothesis, can only be seen in three of the categories, namely ‘respondent category’, ‘education background’, and ‘income level’. As discussed in detail in Chapter 8, the groups which show a higher level of understanding can be seen to be those groups which are mostly likely frequent users of the product. Their experience in dealing

with the product indirectly contributes significantly towards their understanding of the true interpretation of the board rate. To enhance the analysis, the researcher conducted logistics regression to determine the significant variables that may contribute towards better understanding of the subject matter. The results of the logistic regression as presented in Table 8.11 further conclude that persons with higher education qualification and higher income show a higher probability of having a higher level of understanding of the subject matter.

In continuation, as the previous findings suggest that the majority of the Malaysian depositors are highly concerned with the rate of return, the subsequent hypotheses 9 - 12 were formulated with the intention to test the depositors' opinions and perceptions towards risk-mitigating tools, *i.e.* the profit equalization reserve which is approved by many of the *Shari'ah* scholars. To begin, hypothesis 9 was created to test the Malaysian depositors' level of familiarity with the concept.

Hypothesis 9: The majority of Malaysian depositors are not familiar with the concept of Profit Equalization Reserve.

The hypothesis was formulated based on the fact that the profit equalization reserve concept was not well disseminated among the depositors. Therefore, it is expected that the majority of the Malaysian depositors are not familiar with the concept. The frequency analysis results, as presented in Table 6.9 (Chapter 6), confirmed the null hypothesis that the majority of Malaysian depositors are not familiar with it.

The awareness and understanding of the concept of profit equalization reserve among the depositors is very critical, since the concept was created and approved by the *Shari'ah* scholars with the intention of protecting the banks from withdrawal risk. Since use of profit equalization reserve has been in practice by the banks for quite some times, it is, therefore, unacceptable to find out that the level of familiarity and understanding regarding the concept is still deemed low among the depositors. It can be argued that the main reason that contributes to the lack of awareness is that the Islamic banks' employees did not play an appropriate role in explaining the concept to the depositors. In fact, it can be argued that, if the concept is not well explained to the depositors, the banks may be seen as misleading the depositors, as the banks are not

fulfilling the agreement as specified in the contract. Therefore, necessary remedial actions need to be taken in order to improve the level of familiarity and understanding among the depositors.

To further drill down on the findings, the following hypotheses were developed in order to identify which groups have better level of familiarity. The hypotheses testing results would be able to highlight what the other factors are that may contribute towards better understanding of the concept. The results of the following hypotheses, which were the outcomes of the Mann-Whitney U-test and Kruskal-Wallis test, are presented in Table 8.12 (Chapter 8).

$H_{9\text{-}1}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept between ordinary depositors and bank employees.

The results indicate that the null hypothesis is rejected, which means that, statistically, there is a significant difference in the level of familiarity with the profit equalization reserve concept between the two groups. The results further show that bank employees are more familiar with the concept.

$H_{9\text{-}2}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept between the depositors of the stand-alone Islamic banks and of Islamic subsidiaries.

As for this category, the results did not achieve the statistical significance needed in order to reject the null hypothesis. Therefore, it can be concluded that there is no statistically significant difference in the level of familiarity with the concept between the two groups.

$H_{9\text{-}3}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across groups from various educational backgrounds.

Similar results can also be seen in this category, where the inferential testing results suggest that the null hypothesis is accepted; this means that, statistically, there is no significant difference in the level of familiarity with the concept across the groups with this category.

$H_{9\text{-}4}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across various income groups.

Unlike the previous two categories, in this category, the results reached the statistically significant level, which suggests that the null hypothesis is rejected in favour of the alternative hypothesis. This means that, statistically, there is a significant difference in the level of familiarity with the profit equalization concept across the various income groups. This indicates that those, who are in higher income bracket, are more familiar with the concept.

$H_{9\text{-}5}$: There is no statistically significant difference regarding the level of familiarity with the profit equalization reserve concept across various groups with differing durations of banking relationships.

As for this category, the results suggest that the null hypothesis is to be rejected. It can be concluded that, statistically, there is no significant difference in the level of familiarity with the concept across the groups.

Based on the hypotheses above, the results indicate that only two categories, *i.e.* 'respondent category' and 'income level', achieved the statistical significance that enables the null hypothesis to be rejected. As discussed in Chapter 8, the bank employees and higher income bracket groups are more familiar with the concept due to better exposure to the subject matter. As for the bank employees groups, the better level of familiarity can be explained by the fact that they are trained through formal in-house training and also have experience in dealing with the product. Meanwhile, the higher income bracket groups have a better level of familiarity because they are the groups that are more likely to hold the profit-sharing deposits account, which indirectly has exposed them to the profit equalization concept. Based on the overall hypotheses' results, besides the explanation from the bank employees themselves, it can be concluded that the level of familiarity and understanding of the concept is also improved as and when the depositors are more exposed to the profit-sharing base deposits account.

Since the level of familiarity of the depositors with the concept is deemed low, Hypothesis 10 was formulated in order to test whether the depositors accept the

overall spirit and concept of profit equalization reserve to smooth their future return on deposits.

Hypothesis 10: The majority of the depositors accept the overall spirit and concept of profit equalization reserve (PER) to smooth their future return on deposits.

In order to respond to this hypothesis, the results from two questions (question 27(e) and (f)) should be assessed together. The results of the frequency analysis in Table 6.10 (Chapter 6) show that the majority of depositors accept the overall spirit and concept of profit equalization reserve as a tool to smooth their future rate of deposits return. This finding further confirmed that the Malaysian depositors are concerned about the rate of return as discussed in Hypotheses 7 and 8.

The behaviour of the depositors again confirms the argument that depositors behave rationally and are more comfortable with receiving a stable level of return instead of fluctuating returns. This is because by accepting the concept, arguably the depositors need not to put extra effort into monitoring their respective bank's performance on a periodic basis. In addition, it may also be argued that the Malaysian depositors are familiar with the conventional banking deposits account, which pays fixed stable returns, and that therefore the new concept of getting variable deposits' return is still foreign to them. This is proven from the conclusion in Hypothesis 8, where most of the depositors perceived the board rate as fixed or minimum rate that they are going to receive.

In continuation, the following sub-hypotheses were formulated in order to investigate whether, statistically, there is any significant difference in opinions across the groups in the respective categories in accepting the concept of profit equalization reserve. The hypotheses and conclusions are as follows:

$H_{10\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to transferring a portion of extra profit to profit equalization reserve accounts.

The Mann-Whitney U-test and Kruskal-Wallis test results for all the categories (respondent category, Islamic banking type, education level, income bracket, and

relationship duration) show insignificant results; thus, the null hypotheses for the respective category are accepted. Therefore, it is concluded that, statistically, there are no significant differences in opinions across the various groups of respondents in the respective categories. In other words, the depositors across the groups unanimously agree with the act of building a profit equalization reserve account by setting aside a portion of the extra profit for this purpose.

$H_{10\text{-}2}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to the practice of clawing-back the funds in profit equalization reserve accounts for smoothing the future deposits rate of return.

Similarly, the inferential statistical results failed to achieve the level of significance across the categories for this hypothesis testing. Therefore, the null hypothesis for the respective categories is accepted, which mean that, statistically, there is no significant difference in opinion across the various groups of respondents in relation to utilizing the profit equalization reserve account for smoothing future deposits rate of return.

Both conclusions further support the main hypothesis that the majority of Malaysian depositors accept the overall spirit and concept of the profit equalization reserve (PER) to smooth their future return on deposits.

In completing the discussion of the acceptability of profit equalization reserve, it is essential to gauge the depositors' opinions on whether prior explanation should be offered and their consent should be sought regarding the profit equalization reserve before opening an account. Since the current practice is one of not disclosing the meaning and mechanism of profit equalization reserve to the depositors[92], it is expected that the depositors do not agree with the existing practice. Therefore, Hypothesis 11 was formulated.

[92] The researcher viewed all the application forms and contracts that related to profit-sharing deposits accounts from all the sampled Islamic banks in this research. None of the banks explicitly mentioned the mechanism of profit equalization reserve in their documents.

Hypothesis 11: The majority of the depositors do not agree with the current practice of not disclosing the meanings and mechanisms of profit equalization reserve prior to opening an account.

The frequency analysis results in Table 6.10 (Chapter 6) suggest that the null hypothesis is accepted, which means that the depositors do not agree with the Islamic banks' current practice of not disclosing and explaining to the depositors the meaning and mechanism of profit equalization reserve prior to opening an account. Furthermore, in the subsequent question (question 27(h)) the respondents confirmed that they were dissatisfied with the current practice by indicating that they felt they were being misled by the banks if their prior consent was not obtained. In fact, these findings are in line with the recommendation from prominent *Shari'ah* scholars[93] that the Islamic banks should explain and obtain prior consent from the depositors regarding profit equalization reserve. In addition, the proposed practice is also in line with the Islamic Financial Services Board standard on transparency and market discipline (IFSB, 2007a), in which, among others, the Islamic banks are required to disclose the mechanism of deriving the rate of return including profit equalization reserve.

In consistence with previous hypotheses testing, similar sub-hypotheses tests were conducted in order to determine if there is any statistically significant difference in opinions regarding the subject matters across the various groups in the respective categories. The hypothesis is as follows:

$H_{11\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in relation to non-disclosure of the meanings and mechanisms of profit equalization reserve.

All Mann-Whitney U-test and Kruskal-Wallis test results for the respective categories (respondent category, Islamic bank type, education background, income bracket, and relationship duration) were insignificant; thus the null hypotheses are unable to be rejected. Therefore, it can be concluded that, statistically, there are no

[93] The researcher conducted an informal interview with Associate Professor Dr. Engku Rabiah Adawiah. She is among the academic staff at the International Islamic University Malaysia and is also a member of the national *Shari'ah* Advisory Council of Bank Negara Malaysia.

significant differences in opinion across the groups of respondents in relation to the non-disclosure of the meaning and mechanism of profit equalization reserve. The cross-tabulation analysis further proved that, in general, the majority of the respondents across the various categories are of the opinion that they should be informed and that their consent should be obtained on the profit equalization reserve prior to opening an account. Nevertheless, the results also show that depositors from the higher education qualification background and higher income bracket groups are more concerned and demanded more frequently that the Islamic banks should be more transparent in disclosing the meaning and mechanism of profit equalization reserve. These findings are consistent with the conclusion in Hypothesis 8, where the most likely frequent user groups have better risk awareness and understanding concerning the profit-sharing deposits account operational mechanism.

Based on the conclusions to Hypotheses 7-11 regarding the results and findings concerning the depositors' awareness, knowledge, and opinions towards the deposits' rate of return concept, it can be deduced that the Malaysian depositors still perceive the Islamic banking deposits as similar to the conventional banking deposits in that they are more comfortable to receive stable return throughout the deposits period. Based on the conclusion from the previous hypotheses, therefore, it is expected that the depositors most likely would shift their deposits to other financial institutions if they realized that their existing Islamic bank declares lower returns as compared to the competitors. In order to validate the opinions of the depositors, Hypothesis 12 was formulated, which considers the reaction of the depositors towards various scenarios if their existing Islamic bank declares lower returns.

Hypothesis 12: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank when their bank announces a lower return in comparison with other financial institutions (including other Islamic banks) based on the various scenarios of lower deposits rate of returns.

The response for the above hypothesis is based on four scenarios as laid down in the questionnaire. The results of the analysis are presented in Table 6.11 (Chapter 6). Based on the results, the researcher is of the opinion that the depositors in Malaysia are reactive to financial gain but still within the ambit of *Shari'ah* compliance. This

can be seen from the results of the first scenario, where more than half of the depositors would shift their deposits to other Islamic banks if their existing banks were paying lower returns as compared to other financial institutions. On the other hands, the majority of the depositors indicated that they would retain their deposits with their existing banks for the scenario 2 (lower return than other conventional banks but comparable with other Islamic banks) and scenario 3 (lower return than other Islamic and conventional banks but at the same time giving financing products, which have a lower financing rate as compared to other competitors). To further strengthen the conclusion that the depositors regard *Shari'ah* compliance as an important aspect, the results in scenario 4 (found of conducting business not according to the *Shari'ah* principles) show that more than 70.0% of the depositors would shift their money to other Islamic banks.

Therefore, based on the results of the four scenarios, the null hypothesis is accepted only for scenarios 1 and 4 but rejected for scenarios 2 and 3. The findings further reinforce the conclusion from Hypotheses 4, 6, and 7, from which it could be concluded that the Malaysian depositors behave rationally on the financial returns aspect but without sacrificing the Islamic identity, in which the *Shari'ah* compliance aspect is paramount when making decisions. These findings seem in line with a study conducted by Ahmed (2003) based on the survey conducted on three countries, namely Bahrain, Bangladesh, and Sudan. In his study, in the imagined worst case scenarios where the Islamic bank were unable to pay higher returns for several years, only around 60.0% indicated that they would shift to other banks, but in the other scenarios which related to *Shari'ah* compliance matters, more than 70.0% of the respondents indicated that they would shift to other Islamic banks. Other studies yielded similar patterns of results, for example those conducted by Kader (1993), Hegazy (1995) and Dusuki (2007b), in which the results of their studies show that rate of return factors were rated as the lowest priority among Islamic banking selection criteria.

Another interesting conclusion, which can be derived from the analysis, is that there is a very low response rate from depositors, who state that they would shift to conventional banks, although the conventional counterparts are paying higher returns as compared to their existing Islamic banks and other Islamic banks as indicated in

scenario 2. These findings seem to contradict other time series empirical analysis results, for example research conducted by Ramlee (2000), Haron and Ahmad (2000), Kaleem and Isa (2003), Bacha (2004), Haron and Azmi (2005b), Haron and Azmi (2005a), Sukmana and Yusof (2005), Omar and Rohmah (2007), Chong and Liu (2009). Having said that, the researcher takes notice that there are discrepancies in terms of results between the studies conducted using primary data and those using secondary data. The results show that most of the research that used primary data indicated that the depositors are not that reactive towards changes in the interest rate from the conventional banking market; on the other hand, the results from research that used secondary data seems to suggest otherwise. One of the reasons, which may explain the discrepancies in the results, is that the studies that use primary sources are normally based on hypothetical scenarios, in which the respondents may provide cautious replies, which may not reflect what their actual behaviour would be like. Nevertheless, the primary research has the advantage of getting the direct responses from the target group; in the present study this meant directly interacting with retail depositors. On the other hand, for secondary research, it will only focus on the overall deposits data; the largest portion of these data came from corporate and business entities, which exhibit behaviour that is different from that of the retail depositors.

The next section assesses whether there is a significant difference in terms of reaction to each scenario across various groups of respondents within the demographic categories. Therefore, the following sub-hypotheses were formulated. In responding to the hypotheses, cross-tabulation analysis was used, since the other inferential statistical analyses were unable to give meaningful results in interpreting the reaction of the groups within respective categories. In addition, in responding to the hypothesis, the interpretation of results for all the scenarios (with the exception to scenario 4) used ‘retain with the existing Islamic banks’ reaction as the most desirable behaviour. For scenario 4 (if their Islamic bank found of conducting business not accordance to the *Shari’ah muamalah* principles) the best expected reaction which was used as a basis for the analysis was ‘shift all deposits to other Islamic banks’. The detailed analysis and discussion of the results can be referred in Section 8.3.1.5 in Chapter 8. The discussion in this section only indicates whether the null hypothesis is either rejected or accepted, coupled with a brief interpretation of the results.

$H_{12\text{-}1}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces a lower return than other Islamic banks.

In this scenario, the cross-tabulation results in Table 8.17 (Chapter 8) suggest the null hypothesis is rejected for 'respondent category', 'education level', and 'income level', while for 'Islamic bank type' and 'relationship duration', the null hypothesis is accepted. The results further show that most of the depositors from the bank employees group, higher level of education groups, and higher income groups have a higher tendency to shift their deposits to other financial institutions if their Islamic bank announces a lower return than other Islamic banks. In this scenario, they indicated that they will shift their money to other Islamic banks.

$H_{12\text{-}2}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces lower return than other conventional banks but comparable with other Islamic banks.

For this scenario, the cross-tabulation results in Table 8.18 (Chapter 8) suggest that the null hypothesis is rejected for the 'respondent category', 'Islamic bank type' 'education level', and 'income level' categories but accepted for the 'relationship duration' category. In this scenario, the depositors from the 'bank employees', 'Islamic subsidiary', 'higher level of education qualification', and 'higher income bracket' groups recorded a higher percentage, who indicated that they would still retain their deposits with the existing Islamic banks.

$H_{12\text{-}3}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank announces a lower return than other Islamic and conventional banks but at the same time giving financing products which have a lower financing rate as compared to other competitors.

The cross-tabulation results in Table 8.19 (Chapter 8) suggest that the null hypothesis is rejected for the 'respondent category', 'Islamic bank type', 'education level', and 'income level' but accepted for the 'relationship duration' categories. The results are in line with the results in scenario 2, where the depositors from the 'bank employees', 'Islamic subsidiary', 'higher level of education qualification',

and 'higher income bracket' indicated that they are more likely to retain their deposits with their existing Islamic bank.

$H_{12\text{-}4}$: There are no statistically significant differences across various respondent groups' reactions in terms of taking their deposits away from their bank when their bank is found to conduct business not in line with the Shari'ah principles.

Nearly similar results can be seen in this scenario, where the results in Table 8.20 (Chapter 8) suggest that the null hypothesis is rejected for the 'respondent category', 'education level', and 'income level' groups, but accepted for the 'relationship duration' category. The same groups, namely 'bank employees', 'higher education level qualification', and 'higher income bracket' show a maturity in their level of understanding of Islamic banking principles; this is evident from the statistics in that the groups recoded a higher percentage of depositor, who indicated that they would shift all of their deposits to other Islamic banks if they found out that their Islamic bank conducting business not according to the *Shari'ah* principles.

In short, as mentioned in the concluding remarks to Section 8.3.1.5(Chapter 8), the results from all four scenarios consistently show that the groups that are more familiar with Islamic banking operations (bank employees, higher education background qualification and higher income bracket) have a better understanding, which can be seen from the positive reaction for each scenario. Therefore, it can be concluded that a sound level of Islamic banking knowledge would create a customer base that behaves rationally but within the scope of *Shari'ah* requirements. In addition, the behaviour indicated in the scenarios above would give additional advantage to the financial industry from the perspective of 'market discipline'. The banks would be very cautious in venturing into investment activities, which are very high risk and speculative in nature, and which may affect the overall return to the depositors and therefore lead to massive withdrawal risks.

9.4.4 Perceptions and attitudes towards deposit protection schemes in profit-sharing deposits accounts

Another element that distinguishes profit-sharing base deposits account from other types of deposits accounts is that the money deposited should not be guaranteed. As

explained previously, profit-sharing deposits accounts are developed using the concept of *mudarabah,* which is an investment contract. In the investment contract, theoretically, any losses incurred by the fund manager will be borne directly by the fund provider. The same concept also applies to the profit-sharing base deposits accounts, in which the depositors are expected to bear any losses incurred. However, it is expected from the study that the depositors are risk averse. In other words, the depositors are not willing to lose their deposits even though the bank suffers from losses, as suggested by Chapra and Ahmed (2002: 2). Thus, Hypothesis 13 was formulated with the purpose of determining whether the Malaysian depositors share the views of the ideal theory or the views stated by Chapra and Ahmed.

Hypothesis 13: The majority of Malaysian Islamic banking depositors have a strong desire that the money they deposited in Islamic banks must be guaranteed and protected.

The frequency analysis results in Table 6.12 (Chapter 6) show that more than half of the depositors feel Islamic banking is much riskier than conventional banking if the bank deposits in the Islamic banks are not guaranteed like the conventional counterpart. In other words, it can also be interpreted that the depositors want their deposited money in the Islamic banks to have similar deposits protection coverage as conventional banks. Thus, based on the results, the null hypothesis is accepted. The hypothesis's conclusion confirmed Chapra and Ahmed's view (2002) that the depositors expect their money to be safe, even though this is in contrast to the fundamental theory of profit-sharing contracts as laid down in *Shari'ah* principles, which state that the deposit should not be guaranteed. In addition, the reaction of the depositors, who are concerned with the safety of their deposits can also been supported by the notion of Rosly and Zaini (2008) that the profit-sharing deposits account holders should not carry additional risk as compared to the conventional banking depositors, since the rate of return declared to the profit-sharing based deposits account is not commensurate to the level of risk that they should bear.

As mentioned in Chapter 2, banking industry stability is very critical in any country's economy. One of the factors that could jeopardise the stability of the banking system is bank run. The effect of bank run is very costly and detrimental to the economy, as

the incident may systemically trigger the same in other banks due to a loss of confidence from the depositors in the banking system as a whole. Therefore, in order to manage the risk of bank run, it is highly recommended by the proponent of the idea of deposits protection (*e.g.* in Alter *et. al*. (1994) and, Peria and Schmukler (2001)) that protection is essential to ensure confidence among the depositors. This can be seen in practice in most countries, where the government has stepped in to guarantee the deposits. As indicated in this present study's results, the depositors are very concerned about the safety of their deposits; thus it is justified for government to give similar protection to the Islamic banking deposits. Moreover, in the case of Malaysia, the Islamic banks such as Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, and Al-Rajhi Bank Malaysia Berhad have the experience of recording poor financial performance, which may create panic and bank run if it the deposits were not guaranteed.

On the other hand, as discussed in Chapter 3, in the UK, the Islamic Bank of Britain (IBB) has taken a different approach to addressing the issue. There, the depositors are given the freedom to opt out of the deposits guarantee scheme if they wish their deposits to be in line with the *Shari'ah* requirement (Plews, 2005). By doing so, the IBB is seen as putting forward their best effort to address both the regulatory compliance as well as the *Shari'ah* requirements. Therefore, the researcher is of the opinion that the similar approach can be applied in the Malaysian case, as the survey results shows that the majority of Malaysian depositors are not only concerned about financial gain (including financial protection) but also about the *Shari'ah* compliance aspect of the product. Moreover, the practice can be seen as a starting point to educate the depositors about the fundamental difference between Islamic banking deposits and conventional banking deposits as suggested by Ali (2010). In addition, if the principle of non-guarantee is fully understood by the majority of depositors, the depositors are able to play more of a role in monitoring the banks' performance by limiting the risk-taking activities; this is the suggestion of those who are discontent with the idea of deposits protection, such as Karels and McClatchey (1999), (Kane (1989), McKenzie *et. al.* (1992), Cole (1993) (taken from Karels and McClatchey, 1999: 106) and Wheelock and Kumbhakar (1994). In fact, Ahmed (2003) also suggests that the withdrawal risk faced by the Islamic banks may overcome the moral hazard problem

by limiting the bank's excessive risk-taking activities, which, in turn, will promote banking stability.

Subsequently, further analysis was conducted to see which groups of depositors are more concerned about the deposits' protection. The analysis was conducted in order to support the following sub-hypothesis.

$H_{13\text{-}1}$: There are no statistically significant differences in opinion across the various groups of respondents in stating their desire for a deposits protection scheme.

In responding to the hypothesis, again Mann-Whitney U-test and Krukal-Wallis test were used, but unfortunately the results suggest that, statistically, there are no significant differences in opinion across the various groups in the respective categories (respondent category, Islamic bank type, education level, income level and relationship duration); the majority of the respondents in the respective groups are of the opinion that their deposits should be protected. Thus, the null hypothesis for all categories is accepted. As discussed in Section 8.3.2.1 (Chapter 8), the cross-tabulation analysis also shows a mixed opinion across the groups of respondents in the respective categories, which suggests that the desire for deposits protection is not only the concern of the depositors with less exposure to the Islamic banking operation but also applies to those who are deemed to have better exposure (bank employees and depositors, who have a longer period of banking relationship).

In continuation, the scenario analyses were conducted to confirm the conclusions derived from the Hypothesis 13, which conclude that the majority of the Malaysian depositors are concerned about deposits protection. Based on the conclusion to Hypothesis 13, it is expected that the depositors of Islamic banks in Malaysia would shift their deposits in favour of other financial institutions if they know that their deposits in the existing Islamic bank were no longer guaranteed. Therefore, the following Hypothesis 14 was formulated in order to validate the conclusions drawn from Hypothesis 13.

Hypothesis 14: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank if their money in the Islamic bank is not protected and guaranteed.

The response to Hypothesis 14 was based on the analysis results for the three scenarios mentioned in Section 6.12 (Chapter 6) and Section 8.3.2.2 (Chapter 8). The results from the three scenarios presented in Table 6.12 (Chapter 6) have similar conclusions as Hypothesis 12, namely that the majority of the depositors are concerned with financial gain and, in this case, deposits protection but that their opinions are still situated within the boundaries of *Shari'ah* compliance. The results also validate the conclusions derived from Hypothesis 13. This can be seen from the results from the first scenario (if all deposits – conventional and Islamic banks are not guaranteed by government), as the majority of the depositors indicated that they would still remain with their existing Islamic bank. In addition, the results from scenario three (if your Islamic bank is the only bank not guaranteeing your deposits because of restriction imposed by their *Shari'ah* Advisory Committee) further confirmed the conclusion that *Shari'ah*-compliant financial protection is important, as the majority of the depositors indicated that they would shift to other Islamic banks. Meanwhile, in scenario two (if only Islamic banking deposits is not guaranteed by the government), the results show that a substantial percentage of depositors (27.4%) indicated that they would shift to conventional banks, but the percentage is still lower than the percentage, who indicated that they would retain their deposits within Islamic banking system. Therefore, the null hypothesis is rejected for the scenario one but accepted for the scenarios two and three.

The conclusion for the hypothesis further confirmed the statement by Chapra and Ahmed (2002: 2) that the safety of the deposits is paramount to most of the depositors. On the other hand, the positive preposition that can be derived from the conclusion to Hypotheses 13 and 14 is that the behaviour of the depositors could contribute towards disciplining the excessive risk-taking behaviour, as the depositors would shift their deposits to institutions which they perceived as running a lower and more manageable business risk, as the risk appetite of the depositors decreases.

The next step is to investigate which groups of respondents are more reactive to the scenario with the intention to see whether certain elements from the demographic profile (such as education level, income level, and period of banking relationship) would have significantly influence on the behaviour of the depositors. For this purpose, the following sub-hypotheses 14-1 to 14-3 were formulated. In order to

respond to the hypotheses, cross-tabulation analysis again was used, since it managed to explain the reaction of the depositors towards the scenario. As the fundamental theory suggests that profit-sharing deposits accounts should not be guaranteed, the response 'retain with the existing Islamic banks' is used as the positive basis for assessment. The response for the respective hypothesis will only present the conclusion of whether the hypothesis is rejected or accepted. The detailed presentation of the results and discussions are available in Section 8.3.2.2 in Chapter 8.

$H_{14\text{-}1}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if both conventional banks and Islamic banks are not guaranteed by the government.

In the results presented in Table 8.22 (Chapter 8), the null hypothesis is rejected for the 'respondent category', 'education level', 'income level', and 'relationship duration' category, but accepted for the 'Islamic banking type' category. Generally, the results further show that respondents from the 'employees', 'higher level of education qualification', ' higher income bracket', and 'longer period of banking relationship' groups recorded a higher percentage, who stated that they would still retained their deposits for this scenario.

$H_{14\text{-}2}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if only Islamic banking deposits are not guaranteed by the government.

In this scenario, the results in Table 8.23 (Chapter 8) suggest that the null hypothesis for the 'respondent category', 'Islamic bank type', 'education level', and 'relationship duration' category are rejected, while it is accepted for the 'income level' category. The results in general also suggest that respondents from the 'employees', 'higher level of education qualification', and 'longer period banking relationship' groups indicated their loyalty to the existing Islamic bank.

$H_{14\text{-}3}$: There are no statistically significant differences across various respondent groups' reactions in terms of shifting their deposits to other banks if their Islamic bank is the only one not guaranteeing their deposits because of the restriction imposed by their Shari'ah Advisory Committee.

The results in Table 8.24 (Chapter 8) suggest that the null hypothesis is accepted for all the categories, meaning that, statistically, about the same percentage across the groups in the respective categories stated that they would still retained the deposits with their existing Islamic bank, but the percentages were low across the groups. The cross-tabulation results show that majority of the respondents from the 'employees', 'higher level of education qualification', 'higher income bracket', and 'longer period of banking relationship' groups indicated that they would shift to other Islamic banks that provide a guarantee, while respondents from the 'ordinary depositors', 'lower level of education qualification', 'lower income bracket', and 'shorter period banking relationship' prefer to shift their deposits to the conventional banks.

In summary, the conclusions from the hypotheses above show that, regardless of the background, the security aspect of their deposits is paramount to the majority of the depositors. Nevertheless, the results from the hypotheses also show that the depositors from those groups, which are deemed to have better knowledge and exposure to Islamic banking operations (employees, higher level of education qualification, higher income bracket, and longer period banking relationship) are still more likely to look for *Shari'ah*-compliant institutions, which provide the guarantee as indicated from the results from scenario one and three. These results further enhance the argument that better knowledge and exposure on Islamic banking would increase the level of loyalty among the depositors towards the Islamic banking system.

As the conclusions from the Section 9.4.3 and 9.4.4 show, the depositors have concern for the financial gain aspect and to a certain extent would punish their banks by shifting their deposits to other financial institutions; however, the depositors need to be in possession of certain information to do so. The best source of information, which is deemed accurate and reliable, is the financial disclosure. Therefore, the following section will discuss the hypotheses related to the financial disclosure aspect, which is very critical for the depositors in order to make decisions.

9.4.5 Perceptions and attitudes towards financial disclosure for better transparency and timely performance monitoring purposes

In any investment product, the investors are expected to monitor their deposit on a timely basis in order to monitor its performance. As profit-sharing deposits accounts are akin to any other investment product, it is expected that the depositors are highly interested to know their deposits' performance via financial disclosure. In fact, almost all banking-related literature encourages the depositors to monitor the bank's performance in order to protect their deposits. On the other hand, the depositors perhaps may not be concerned to monitor the bank's performance if the financial system is devised as such that the deposits are guaranteed, and if, in addition, they can safely predict to get stable rate of deposits returns. Therefore, in accordance with the recommendations of best practice that the depositors monitor the bank's performance, it is expected that the Malaysian Islamic banking depositors have some interest towards financial disclosure. Thus the following hypotheses are formulated in order to gauge the depositors' level of interest towards financial disclosure.

Hypothesis 15: The majority of Malaysian Islamic banking depositors regard financial disclosure as an important instrument through which they can observe the performance of their deposits.

The response for Hypothesis 15 was based on the analysis results presented in Tables 6.14 and 6.15 (Chapter 6). All the results for the relevant questions, as is evident from the tables, suggest that the null hypothesis is accepted. This means that the majority of Malaysian depositors regard financial disclosure as an important instrument to monitor the performance of their deposits' performance. The results in the tables show that more than 75.0% of the depositors have indicated that they would refer to the financial statement disclosure prior to opening an account and would also use it as a tool to monitor the deposits' performance. On top of that, the depositors also indicated a positive interest towards additional voluntary disclosure, which is currently not being implemented in Malaysia; these measures might include *e.g.* financial disclosure on a monthly basis, and also disclosure of the mechanisms used for deriving and calculating the declared deposits rate of return.

The high percentage of more than 75.0% for this survey is considered as high as compared to the findings of similar surveys conducted by Chapra and Ahmed (2002) for the studies in Bahrain, Bangladesh, and Sudan, which recorded a percentage of 16.4%, 33.9% and 33.8% respectively. In this regard, the results may suggest that Malaysian depositors are more concerned as compared to depositors from Bahrain, Bangladesh, and Sudan. Nevertheless, Chapra and Ahmed's study was conducted almost ten years ago, and the results might well be different now. The positive results in this study could perhaps be a consequence of bad experience of two major Islamic banks in Malaysia, which recorded huge losses in 2004 and 2005; this, in turn, increased the level of interest among the depositors. The findings in this study are also in contrast to findings from the study conducted by Arifin *et al*. (2006), which found that the bank practitioners perceived only the supervisors, shareholders, external credit rating agencies, and Islamic banks' counterparties to be perceived as the most important users of the financial information published by the Islamic banks. The current study proves that the perception of ignoring depositors as one of the main users by the bank practitioners is inappropriate. In fact the current findings are in line with the recommendations made by most of the literature on deposits guarantee, suggesting that depositors are expected to be the main users of the financial information to discipline the risk-taking activities of the banks.

Subsequently, the following sub-hypotheses were formulated in order to analyse whether any significant difference in terms of interest in using financial disclosure as a monitoring tool exist across the groups of depositors within the respective categories. In this analysis, the Mann-Whitney U-test and Kruskal-Wallis test are able to give meaningful results. The results for each tested category for the respective hypothesis are presented in Table 8.26 in Chapter 8.

$H_{15\text{-}1}$: There is no statistically significant difference between the interest of ordinary depositors and bank employees in relation to the importance of financial disclosure for deposits performance monitoring tools.

The results suggest that the null hypothesis is rejected in favour of the alternative hypothesis, which suggests that, statistically, there is a significant difference between the two groups. In this situation, the result shows that 'ordinary depositors'

are more likely to use the financial disclosure to monitor the performance of their Islamic bank.

$H_{15\text{-}2}$: There is no statistically significant difference between the interest of depositors of stand-alone Islamic banks and of Islamic subsidiaries in relation to the importance of financial disclosure for deposits performance monitoring tools.

In this category, the null hypothesis is accepted, as the results did not reach the level of statistical significance; thus it can be concluded that, statistically, there is no significant difference between the two groups.

$H_{15\text{-}3}$: There are no statistically significant differences across groups from various educational backgrounds and their interest in the importance of financial disclosure for deposits performance monitoring tools.

Similar results can also be seen in this category, where the null hypothesis is accepted due to Kruskal-Wallis test results yielding insignificant results. Therefore, it can be concluded that, statistically, there are no significant differences across the various groups in this category.

$H_{15\text{-}4}$: There are no statistically significant differences across the various income level groups and their interest in the importance of financial disclosure for deposits performance monitoring tools.

Meanwhile, in this category, the results suggest that the null hypothesis is rejected, as is evident from the alpha value, which is significantly lower than the critical p-value of 0.05. The results further show that the respondents from the 'lower income bracket' groups have a higher tendency to use financial disclosure instruments to monitor their banks' performance.

$H_{15\text{-}5}$: There are no statistically significant differences across various groups with differing durations of banking relationships and their interest in the importance of financial disclosure for deposits performance monitoring tools.

The Kruskal-Wallis testing for this category yielding insignificant results; thus the null hypothesis cannot be rejected. Therefore, it can be concluded that, statistically, there are no significant differences across the groups, who are all likely to use financial disclosure to monitor their bank's performance.

As discussed in Section 8.3.3.1 (Chapter 8), the two groups from the 'respondent category' and 'income level', namely 'ordinary depositors' and 'lower income bracket', respectively, showed a higher interest in using the financial disclosure instruments as a tool for monitoring the bank's financial performance. This can be explained because these groups are less familiar with their respective Islamic banks. Ordinary depositors are less familiar with the performance of the Islamic banks as compared to the bank employees, who have the privilege of getting timely financial information. Meanwhile, the lower income bracket groups are deemed less familiar with their Islamic banks as compared to higher income bracket groups, which are expected to have various other financial facilities with the banks.

As evident from the overall results from the previous sections' findings and conclusions, it is proven that the level of knowledge and exposure to the Islamic banking products and services are essential factors for better understanding the nature of risk of the profit-sharing base deposits account. Moreover, the results in Table 6.5 (Chapter 6) further confirmed that explanation from the banks' employees is one of the main contributing factors that could improve the level of awareness and understanding among the depositors. Therefore, the analysis in the following section would access the depositors' experience and opinions towards the banks' customer service in terms of explaining the unique underlying *Shari'ah*-compliant contracts that govern their deposits account.

9.5 CUSTOMERS' OPINION AND EXPERIENCE OF BANK'S CUSTOMER SERVICE DURING THE OPENING OF AN ACCOUNT

The ability of the bank's officer to explain the underlying contracts, with which are expected to be highly familiar, is crucial in disseminating the correct understanding to the depositors. In absence of the mentioned competency, the bank's officer is unable to convey proper information about the unique nature of the product. On the other hand, the competencies that are possessed by the bank officers should also be coupled with appropriate attitude towards customer service. In this regard, the bank's officers should be willing and carry their responsibilities in explaining the product features as well as the underlying *Shari'ah* principles of the product.

In this research, the customer service variable is selected with the objective of supporting the findings on the reasons for the inadequacies in depositors' understanding of the unique nature of profit-sharing investment deposits accounts. It is highly expected that the depositors have a strong desire to learn and know about the nature and characteristics of the product that they have or are going to acquire. Therefore, the following Hypotheses 16 and 17 were formulated.

Hypothesis 16: Most of the Malaysian Islamic banking depositors were not informed or given any explanation of the characteristics of the Shari'ah contract when they first opened an Islamic banking deposits account.

The results in Table 6.16 (Chapter 6) show that less than half of the depositors claimed that they were informed about or given an explanation of the characteristics of the *Shari'ah* contract when they first opened an Islamic banking deposits account. Based on the results, therefore the null hypothesis is accepted; in other words, it is suggested that the Islamic banks' employees have not fully discharged their adequate role in educating the depositors on the unique nature of *Shari'ah*-compliant contract that governs their deposits products. The survey further show the results of what were the best reasons that may explain the inadequacies in terms of bank employees' roles in explaining the underlying contract. The top two reasons given by the depositors are 1) the bank employees assume that the depositors already know the information and 2) the perception that lack of knowledge on Islamic banking principles among the employees themselves. The first reason can simply be understood as the bank staff may perceive that all the information about the underlying contract is available in marketing documents such as pamphlets. As for the second reason, the claim made by the depositors is alarming, as it involves the direct entity that the users are dealing with. Nevertheless, the findings in this study can be justified by the findings from the research conducted by Abdullah and Rahman (2007) that sound knowledge on Islamic banking *Shari'ah* compliance contracts among the bank managers involved in Islamic banking industry is only limited to the more commonly used contracts such as *murabahah/bai bithaman ajil*, *qard*, and *ijarah*, rather than to less popular contracts such as *mudarabah* and *musyarakah.*

On the other hand, in order to be fair to the banks' employees by not holding them entirely responsible for the customers' lack of understanding and knowledge of Islamic banking products and services, the following hypothesis analysis was formulated with the intension to gauge the depositors' interest in learning about the subject matter; this is because lack of interest among the depositors may also contribute towards the inadequate level of service by the bank employees. The conclusion from the hypothesis testing would add value in making the commentaries of the issues on the holistic basis.

Hypothesis 17: The majority of Malaysian Islamic banking depositors are interested to understand and learn about the Shari'ah principles underlying the deposits product that they have acquired or are going to acquire.

The results in Table 6.17 (Chapter 6) show that more than 80.0% of the depositors indicated that they are interested to learn about the nature and underlying *Shari'ah* principles of their deposits product; this suggests that the null hypothesis is accepted. The results support the argument that the awareness among the Malaysian depositors is acceptably high. This proved that the awareness campaign by the Islamic banking industry promoter has yield positive results, which have translated into higher interest among the depositors to learn about the concept instead of merely accepting the *Shari'ah*-compliant product as it is.

The results of the two hypotheses conclude that there is a wide gap between the demand for and supply of knowledge from the depositors and bank employees respectively. The depositors are highly expecting that the bank employees of Islamic banks give more service by explaining the nature and characteristics of the underlying *Shari'ah* contract that governs their deposits account, and which they claimed is insufficiently discharged at the moment. The current practice of not sufficiently educating the users of Islamic banking products and services may raise negative consequences in the long run if there are no immediate remedial actions to correct it. This is because the unique nature that underlies the *Shari'ah*-compliant product is the main element that differentiates Islamic banking products from the conventional counterpart. Moreover, the strong presence of the conventional banking system, which has been in existence much longer than Islamic banking system, may influence

the belief of the depositors that the Islamic banking system is not any different from the conventional counterpart. Therefore, it is high time that the Islamic bankers improved the level of service by educating the customers about the distinct features of Islamic banking products and services. The suggestion is also in line with recommendation made by Howcroft *et al.* (2007:488), which emphasized the need of the financial service providers to increase the level of involvement with the customers in the product education and explanation process. Furthermore, Durkin *et al.* (2003) and Beckett *et al.* (2000:23) also emphasised the importance of having face-to-face interaction between the bankers and customers, especially when dealing with complicated financial products. For that purpose, the Islamic banks should enhance the capabilities of their staff in order to make them well equipped with the required knowledge on the Islamic banking and finance. In fact, the governor of the Central Bank of Malaysia also stressed the importance of the Islamic banking industry investing in human capital development in order for them to be able to address the unique nature and risks of *Shari'ah* contracts, which, in turn, promote the *Maqasid al-Shari'ah* (objective of *Shari'ah*) (Aziz, 2009). Moreover, the recommendation also is part of the Malaysian strategic directions for enhancing the Islamic banking sectors, as laid down in the *Malaysian Financial Sector Masterplan* issued by the Central Bank of Malaysia in 2001. Based on the suggestion, it is highly critical for the Islamic banks to enhance their human resource capabilities, which could promote a sound customer base, who not only views Islamic banking as another financial institution but Islamic banking as a special financial system, which is founded on the doctrine of justice stability.

9.6 SUMMARY AND CONCLUSION

This chapter provided a comprehensive discussion of the results based on the analysis conducted in Chapters 6 to 8. The results were used to respond to the hypotheses that were developed earlier, which were stated in the research methodology chapter. Table 9.2 summarises all the main hypotheses together with the decisions for a snapshot reference of the hypothesis testing outcomes. Based on the decisions of the hypotheses in the table, the following main findings and conclusions were derived:

(i) The majority of the Malaysian depositors have a good level of awareness about the fundamental principles founding the Islamic banking deposits account, which includes the *riba'* prohibitions. In addition, those depositors, who are familiar with the *riba'* prohibition have shown an acceptable level of understanding the reasons for the prohibition.

(ii) The Malaysian depositors also show that they are aware of the underlying contract that is attached to their deposits account, but the level of understanding about the true meaning (including the nature of risk and return) is still lacking.

(iii) The factor analysis on the banking patronage reveals that the depositors are perceived to be more concerned about the Islamic identity when patronising the Islamic banks, although the other factors, *i.e.* physical services factors and financial product factors, are deemed important to them.

(iv) Profit-sharing deposit accounts are not that popular among the depositors, as indicated by the survey. In addition, the product is more popular among the more experienced depositors and those, who have been more exposed to Islamic banking products and services, such as bank employees. Furthermore, the survey also shows that the demand for the product can be enhanced by improving the commercial value attractions, such as a higher percentage of profit-sharing rate, which may translate into higher rate of returns.

(v) As for the unique profit-sharing characteristic that are attached to the profit-sharing deposits accounts, the majority of Malaysian depositors indicated that they are concerned about the financial returns. In addition, in fact the majority of them prefer to receive a stable financial return throughout the deposits period; they indicate a preference for using profit equalization reserve as a tool for smoothing the rates of returns. Nevertheless, they also indicated a strong discontent with the current practice by the Islamic banks that did not seek their consent and explain the profit equalization reserve concept prior to the opening of the account. Furthermore, to strengthen the conclusions that the depositors are highly motivated by profit maximization, the scenario analysis indicated that the

depositors behave rationally by shifting their deposits to other Islamic banks if the returns fell short from the competitors.

(vi) As for the deposits guarantee aspect, the majority of Malaysian depositors are still risk averse depositors, who are unwilling to accept the fact that their deposits are not protected. In fact, the scenario analysis results further confirmed that the depositors are really concerned about deposits protection.

(vii) Although the perceptions, opinions, and attitudes of Malaysian Islamic banking depositors are not in line with fundamental *Shari'ah* principles of profit-sharing contracts, the level of financial literacy among the Malaysian depositors is considered at to be a satisfactory level, as the majority of the depositors have indicated their interest to use financial disclosure as a main point for performance measurement prior and after the opening of the account.

(viii) The demand for the value added service quality among the Malaysian Islamic banking depositors is also high, as the majority of them demanded that the employees of the Islamic banks should discharge additional functions of explaining the unique meaning and characteristic (including risks and rewards) of the underlying *Shari'ah* contract governing their deposits account.

(ix) The findings from the overall analyses results show that those depositors, who are more exposed to Islamic banking operations, such as bank employees, depositors with a higher level of education, and depositors with longer a period of banking relationship consistently indicated better levels of understanding, which translated into better acceptance of the fundamental *Shari'ah* principles (risks and rewards) of the profit-sharing base deposits account.

Table 9.2: Summary of the hypothesis testing decisions

Hypothesis	Decision
Hypothesis 1: The majority of the Malaysian Islamic banking depositors do have a fair level of awareness about riba' terminology	Accept H_0
Hypothesis 2: The majority of the Malaysian Islamic banking depositors who are familiar with riba' terminology do have a fair level of knowledge about the subject matter	Accept H_0
Hypothesis 3: The majority of Malaysian Islamic banking depositors do understand the Shari'ah principles underlying their existing deposits account	Reject H_0
Hypothesis 4: Malaysian depositors apply equal importance to the religiosity/Islamic identity factor alongside other banking selection criteria when deciding to open a deposit account with Islamic banks	Accept H_0
Hypothesis 5: The majority of Islamic banking depositors are familiar with deposits accounts based on profit-sharing contracts	Reject H_0
Hypothesis 6: Malaysian depositors apply equal importance to the religiosity factor along with other product attracting features when making the decision to open a profit-sharing deposits account.	Accept H_0
Hypothesis 7: The majority of Malaysian depositors do express concern about their financial return when deciding upon which instruments to invest in	Accept H_0
Hypothesis 8: The majority of Malaysian depositors deemed that the published board rate is not indicative of the rate of return for deposits	Accept H_0
Hypothesis 9: The majority of Malaysian depositors are not familiar with the concept of Profit Equalization Reserve	Accept H_0
Hypothesis 10: The majority of the depositors accept the overall spirit and concept of profit equalization reserve (PER) to smooth their future return on deposits	Accept H_0
Hypothesis 11: The majority of the depositors do not agree with the current practice of not disclosing the meanings and mechanisms of profit equalization reserve prior to opening an account	Accept H_0
Hypothesis 12: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank when their bank announces a lower return in comparison with other financial institutions (including other Islamic banks) based on the various scenarios of lower deposits rate of returns	Accept H_0 for scenario 1 and 4 Reject H_0 for scenario 2 and 3
Hypothesis 13: The majority of Malaysian Islamic banking depositors have a strong desire that the money they deposited in Islamic banks must be guaranteed and protected	Accept H_0

Hypothesis	Decision
Hypothesis 14: The majority of the Malaysian depositors will take a certain level of action by taking their deposits away from their bank if their money in the Islamic bank is not protected and guaranteed	Reject H_0 for scenario 1 Accept H_0 for scenario 2 and 3
Hypothesis 15: The majority of Malaysian Islamic banking depositors regard financial disclosure as an important instrument through which they can observe the performance of their deposits	Accept H_0
Hypothesis 16: Most of the Malaysian Islamic banking depositors were not informed or given any explanation of the characteristics of the Shari'ah contract when they first opened an Islamic banking deposits account	Accept H_0
Hypothesis 17: The majority of Malaysian Islamic banking depositors are interested to understand and learn about the Shari'ah principles underlying the deposits product that they have acquired or are going to acquire	Accept H_0

Chapter 10

Conclusion and Research Recommendations

10.1 INTRODUCTION

This study was undertaken with the objective of evaluating the acceptance of the fundamental *Shari'ah* principles of profit-sharing contract characteristics in deposits account product by Malaysian Islamic banking depositors. In meeting this broad objective, the views and opinions from the sampled Islamic banks' depositors were obtained by distributing the survey questionnaires; the results of the survey were analysed and compared with the fundamental theories and related literature. This chapter briefly recapitulates the salient conclusions derived from the thesis findings. In addition, the researcher also presents the main policy and practical recommendations for enhancing the level of acceptance of the fundamental aspects of profit-sharing contract in light of the spirit of *Shari'ah* requirements. This chapter also highlights the research limitations and recommendations for the future research.

10.2 REFLECTING ON THE FINDINGS OF THE RESEARCH

As discussed in Chapter 2, banking deposits are one of the main contributing sources of funds a for country's economic growth. Thus, the stability of banking deposits by avoiding massive deposits withdrawal is of primary concern for both regulators and industry players. In overcoming the potential problem, many relevant studies recommended that banking deposits should be guaranteed by the government to give comfort to the depositors. Nevertheless, there are also many other studies, which oppose the idea in order to curb the moral hazard problem. An example of the excessive risk-taking by banks at the expense of the tax payer's money can be seen as having happened during the recent global financial crisis, where huge amounts of governments' revenue (mainly from taxation) was used to bail out the ailing banks. Thus, the opposition for the deposits protections is of the view that banking stability could also be achieved via market discipline, in which the depositors should play more active roles in limiting the risk-taking activities of their banks. The fact that the deposits are not protected indirectly indicates that the return on deposits should not be guaranteed either.

On the other hand, the *Shari'ah muamalah* principles have outlined numerous *Shari'ah*-compliant contracts that can be used in devising Islamic banking deposits products, which, arguably, are able to promote stability in the banking industry and also social justice in light of the *Shari'ah* perspectives. Theoretically, the products are devised according to the risk and return concept: products, which bear no risk should not get any return, while products, which are riskier should be rewarded accordingly. As elaborated in Chapter 3, the Islamic banking deposits products are devised in line with the requirement laid down by the *Shari'ah* principles, according to the purpose of depositing, such as precautionary motives or investment motives. In this study, the researcher only focuses on the investment motive. The most suitable contract that meets the investment motive is the profit-sharing contract (*mudarabah* contract). As laid down in most of the Islamic banking-related literature, profit-sharing contracts are argued to be highly desired from a *Shari'ah* perspective. Moreover, the literature further argues that the contracts must be at the core of the Islamic banking business, as they promote financial stability and social justice. In fact, the characteristics of profit-sharing contracts in deposits accounts are akin to the recommendations made by the groups that opposed the deposits protection scheme. Based on the unanimous recommendation by most *Shari'ah* scholars, all Islamic banks in Malaysia offer deposits products which are based on profit-sharing contract. In addition, the product has been in existence since the inception of Bank Islam Malaysia Berhad in 1983.

Nonetheless, it is doubtful that the spirit of profit-sharing contracts is fully understood and accepted by the depositors in Malaysia. Thus, this research attempted to fill the gap by further investigating the level of understanding, perceptions and attitudes of the depositors towards the unique characteristics of profit-sharing contracts. The study provides empirical evidence based on the survey conducted among the depositors sampled from eight Islamic banks in Malaysia. The initial part of the empirical results revealed that the Malaysian depositors have a high level of awareness concerning the need to have an Islamic banking deposits account. In fact, the empirical findings further show that the religiosity aspect is a dominant factor that has induced them to hold Islamic banking deposits accounts; by extension, the depositors' interest in religious aspects partly contributes to the positive high level of awareness of the unique features of the *Shari'ah*-compliant contracts. The religiosity factor may

therefore also explain the good awareness and understanding of the basic principles that prohibit the depositors from banking with conventional banks.

Despite the high level of awareness, the research also revealed that the level of knowledge and understanding of the underlying meaning of the *Shari'ah* principles governing the deposits account is still limited, especially for the profit-sharing deposits product. The limited awareness and knowledge has resulted in low levels of acceptance among the depositors expressed towards the fundamental *Shari'ah* compliance aspect that governs profit-sharing deposits accounts. This can be substantiated from the findings that the majority of the depositors prefer a high and stable rate of returns, accept the concept of profit equalization reserve, and have a strong desire for a deposits protection scheme. The negative attitude towards the fundamental *Shari'ah* aspects of profit-sharing deposits accounts implicitly gives the indication that the attitude of Islamic banks' depositors resembles the attitude of depositors of conventional banks, which is risk-averse. Thus, it can be concluded that, at the moment, the depositors of Islamic banks are only concerned about the Islamic identity, which motivates them to patronage Islamic banking; they are, however, still unable to comprehend and accept the objectives and spirit of the *Shari'ah* requirements that underpin the formation of Islamic banking system.

The research also shows that one of the main reasons that impede the level of understanding is lack of exposure and explanation given by the Islamic bank staff. Since Islamic banking industry is still considered as relatively new, the lack of education by the industry practitioners arguably contributes to the problem. This can be seen from the empirical findings that there is high interest among the depositors to learn about the *Shari'ah* aspects of their product, but at the same time the depositors claimed that they did not receive that much information from the Islamic bankers. This indirectly indicates that the depositors' interest in the Islamic banking system is improving. Therefore, the perception that the depositors merely rely on the *Shari'ah* compliance endorsement by the *Shari'ah* Advisory Committee is no longer relevant. In fact, a strong level of understanding of the product characteristics would be able to enhance the rate of acceptability among the depositors concerning the spirit of profit-sharing contracts, as has become evident from the research findings. The findings show that the depositors, who are more exposed to the product (*i.e.* employees, higher

level of education, higher income bracket, and longer period of banking relationship) were more responsive to the risk aspect attached to the product. If the level of acceptance of the product among the depositors can be improved, the product arguably would be able to facilitate banking stability via market discipline mechanisms as mentioned earlier in this section.

10.3 RESEARCH IMPLICATIONS AND RECOMMENDATIONS

As mentioned in the introduction chapter (Chapter 1), the present study was motivated by a belief that there is a gap between the theoretical aspects of profit-sharing deposits accounts and the practical behaviour of the users of these accounts. Therefore, the results and findings of this study provide positive implications and recommendations for various stakeholders in pursuing the desired ultimate objectives of the Islamic banking system. In addition, this research also contributes to the existing academic research in terms of opening up new areas of study; it also renders valuable input to industry practitioners for improving current regulations and practice related to the operational and practical aspect of the product. The findings in this study may also prove very useful to promote business growth from the perspective of marketing strategy. This section briefly examines the implications of this study towards the following aspect:

10.3.1 Implications for Knowledge Generation and Development

This study adds further value to the existing scarce literature in the area of Islamic banking deposits. In fact, as far as the researcher is aware, so far no research has been conducted that studies the awareness, perceptions, and attitudes of the depositors towards the unique *Shari'ah* principles used in formulating profit-sharing deposits accounts, especially in the context of Malaysia. This study is important in order to give empirical evidence that draws attention to the misconception between the theoretical perspectives of profit-sharing deposit accounts and the actual implementation in the industry. As mentioned in Chapter 3, almost all of the Islamic banking-related literature shows the distinct features of profit-sharing contracts in applying them to the deposits accounts. This gives a tremendous benefit to both parties (Islamic banks and depositors), and also leads to formulating the regulatory framework, which recognizes the special characteristics of profit-sharing deposits

accounts (for example in the capital adequacy standard issued by Islamic Financial Services Board). Nevertheless, this study provides evidence that the current implementations and practice of promoting the product by the Islamic banks has impeded the acceptability of the product according to what has been laid down in the *Shari'ah* requirements. Secondly, as mentioned in the research methodology chapter (Chapter 5) this study intended to get the response from the depositors of several Islamic banking institutions in Malaysia. It should also be mentioned that the current research differs from previous related studies in that the previous studies had the limitation of only focusing on two Islamic banks as part of the samples. The current study, therefore, provides a much broader sampling frame. In addition, this study also made use of various statistical analyses for determining significant results that might explain the research objectives.

10.3.2 Implications for Customers/Depositors of Islamic Banks

The theoretical perspectives always highlight that the depositors of the profit-sharing deposits accounts will get the utmost benefit by enjoying higher returns as compared to other types of deposits if their banks perform better. The empirical results show a positive indication that the level of acceptance among the depositors regarding the correct implementations of profit-sharing deposits account will increase as the level of understanding improves. Thus, if the product practice is put in the correct perspective, coupled with sufficient education by the Islamic bankers, the depositors would enjoy not only the higher deposits' return, but would also become well equipped with financial awareness and knowledge.

10.3.3 Implications for Professional Islamic Bankers and Financiers

The results in this study highlight two important aspects that need to be addressed by the Islamic banks practitioners: firstly, the findings in this study revealed a high level of interest among the depositors to access financial and also non-financial information. Thus, the Islamic banks are highly desired to improve their standard of financial reporting by increasing the amount of financial information, and to produce it on a more frequent basis instead of quarterly, which is the current practice. In addition, the Islamic banks are needed to be more transparent in matters affecting the depositors – for example regarding the treatment of profit equalization reserve. The

practice of being more transparent in fulfilling the recommendations of best practices by the regulators is also in line with the spirit of *Shari'ah* principles to avoid any uncertainty (*gharar*) in financial practices.

Secondly, the findings in this study also revealed the weaknesses in the current customer service practice by the Islamic banks; they need to play a more active role in educating the customers on the distinct features of *Shari'ah* compliance contract. Drawing from this negative feedback from the depositors, the Islamic banks should take necessary remedial action to improve the level of customer service by discharging their role in the education process as well, as has also been suggested by Howcroft *et al.* (2007). Furthermore, this recommendation is in line with the strategic goals of Bank Negara Malaysia, which wants Malaysian depositors to be well equipped with awareness and knowledge on the financial services.

In turn, the improvement in the reporting standard, coupled with good customer service, will give benefit to the banks in the long run. The depositors will benefit by having more awareness and knowledge on the financial products; this may develop into social norms, where the depositors select a particular product with full awareness of the product's nature, which helps them fulfil their financial needs and religious obligations. For example, in Saudi Arabia, the social norms of avoiding the *riba'* element was firmly embedded in individual religious concern even prior to the development of Islamic banking services. This can be seen as the majority of the depositors are very used to deposit their money in current account instruments, even though it is not yielding any returns due to the awareness that interest paid on their deposits is prohibited because it is *riba'*. The practice of depositing in the current account instrument has still been eminent in recent years, even though most of the banking institutions in Saudi Arabia have provided Islamic banking products as alternatives, which is evident from the statistical report that more than 50.0% of total deposits in Saudi Arabia's banking system exist in the form of current account products (Abdullah, 2007; SAMA, 2010). Moreover, the mutual funds industry is also prominent in Saudi Arabia, as it is well supported by the investors, who enter the financial market to seek financial returns. Thus, if the same social norms, *i.e.* the fact that the selection of deposits product is based on the individual concerns, can be developed in Malaysia, the Islamic banks would have a better prospect of enforcing

the fundamental aspect of profit-sharing contracts. This, in return, would enable the banks to allocate less regulatory capital as specified in the regulatory framework issued by Bank Negara Malaysia.

10.3.4 Implications for Regulators and Policy Makers

As the financial landscape of the world is getting more complex and challenging and the financial market more volatile and uncertain, the regulators should broaden the horizon in considering other tools to supplement the current regulatory mechanisms in order not only to protect the direct stakeholders of the banking institutions, but also the other indirect stakeholder (such as the tax payers). Research has shown that profit-sharing deposits accounts could be used as one of the stabilizing regulatory tools if they are implemented properly.

Nevertheless, the findings in this study, in relation to regulators, also indicate that the depositors are still not prepared to accept and behave according to the expectation of the fundamental perspective of profit-sharing contracts due to their limited understanding, which means that the correct implementations of profit-sharing mechanisms is yet to crystallize. Therefore, the regulators – including the *Shari'ah* scholars – should take necessary initiatives in promoting the enforcement of the right practice and treatment of the product within the scope of prudential regulations. The regulators may enforce it on a gradual basis, such as suggesting new dimensions for managing sources of funds according to the underlying contracts, instead of pooling them in one big fund. For example, *wadiah* and *qard* funds should be managed separately from the profit-sharing deposits funds, in which the funds are invested to lower risks and higher risks, respectively. In addition, the management of profit-sharing funds can be further segregated into smaller funds to be invested in products ranging from lower risk to higher risk profiles. By doing this, the depositors are clearer as to which funds they are willing to invest in, according to their risks appetite. In addition, the regulators also need to draw proper regulations that require the employees of the Islamic banks to be well equipped with the necessary knowledge and skills concerning Islamic banking and finance, coupled with regulations concerning the market conduct in order to protect the interest of the depositors. Another method that the regulators may want to consider is the idea of narrow banking, as proposed by many academics and practitioners (for example Iqbal Khan

(2007)). The proposed idea is that the business of retail banking, which is deemed to be carrying a lower risks profile, is entirely segregated from the investment banking business, which is deemed as carrying a higher risk, and most of the time is considered as speculative – as is evident in the recent global financial crisis. With this regard, the regulators in a way could protect the retail depositors from unknown excessive risk-taking activities by the investment bankers, and, at the same time, the regulators can allocate more resources to monitor the business of the institutions according to risk profile. In fact, the idea of segregating the retail banking and investment banking business is highly considered by many governments, including the UK, in order to minimise (if not entirely avoid) the problem that they faced in the recent financial crisis.

The initiatives of promoting the correct implementation of profit-sharing deposits accounts can be seen as costly, as the Islamic banks need to make quite a substantial investment in order to improve the management information system, and also the development of human resources. It is therefore recommended that the government should play a role in facilitating the process. The government could give other incentives – for example tax exemption for the capital expenditure incurred by the banks.

By promoting the correct implementation of profit-sharing values in the practice, the regulators and policy maker would be seen as serious in implementing the proper way of practicing Islamic banking in light of the objectives and spirit of the *Shari'ah.* The current regulations can be criticised as being idealistic on paper but yet to be translated into practice. For example, the capital adequacy standard issued by the Islamic Financial Services Board, which gives due recognition to the different characteristics of profit-sharing deposits accounts, can be criticised as having only part of its regulations based on the *Shari'ah* requirements. As of to date, however, it has never been put in practice by the Islamic banks due to various limitations.

10.4 LIMITATIONS OF THE STUDY

Although this research should be considered as a success based on the number of the respondents, who were obtained, which led to numerous meaningful results, the researcher has to admit that there were some limitations and challenges that restricted

the researcher to get more robust outcomes. Since this study involved mass market surveys, most of the limitations that will be highlighted are related to the sampling limitations which, in turn, created other limitations.

First and foremost, this research faced the limitation of targeting the most appropriate respondents, *i.e.* the profit-sharing deposits account holders. In the ideal situation, all respondents for this study should be profit-sharing deposits account holders themselves in order to provide more accurate opinions, perceptions, and attitudes towards the product. However, due to the regulatory restrictions on banking secrecy imposed on banking institutions, the researcher could only sample the general depositors without knowing the type of deposits account that they are holding.

Secondly, due to time and costs constraints, this research is limited to the sample from the retail depositors within the Klang Valley area. The study results would be more rigorous if more time was allocated to increase the sample size from the other parts of the country. In addition, the study would be more representative if the sample had also included respondents from other Islamic banks as well, as recently a number of new Islamic banks came into existence.

Thirdly, the sample in this study is limited to individual retail depositors; their opinions, perceptions, and behaviour can be said to be homogeneous, regardless of the economic conditions. For example, the current position on deposits protection taken by the government causes the retail depositors to be more complacent in their behaviour, even in this period of economic uncertainty. It would be interesting to also include other types of depositors as part of the samples, *i.e.* the business entities, which faced more challenging circumstances in the current volatile financial market situations.

Finally, due to the sampling technique limitations, which have been highlighted, this study is unable to use more robust statistical tools in analysing the data, such as parametric statistical tools, which arguably are more powerful.

10.5 SUGGESTIONS FOR FUTURE RESEARCH

Having mentioned the limitations that were identified and discovered throughout the research process, the researcher would like to make suggestions and recommendations which may be taken from this study for future research either to enhance the study or as a basis for new, similar studies of other products or services as follows:

(i) Future studies may expand the scope of the sample by including more Islamic banks and enlarge the coverage by covering other regions and states in Malaysia.

(ii) Future research may also want to consider possible collaboration with the industry practitioners, *i.e.* the regulators and Islamic banking players, in order to support the objectives of the research. In this study or other similar studies, the support from regulators is essential in encouraging the Islamic banks to assist in distributing the mailing questionnaire to the depositors who hold the profit-sharing deposits accounts. The cooperation would enable the researcher to use probability sampling techniques. The outcome of random sampling may enable the researcher to obtain data that are more representative and would assist the researcher to make more conclusive analyses by using robust statistical tools such as parametric statistical tools. The conclusions from such studies may be used by the regulators and Islamic banking players to improve the industry as whole.

(iii) Besides retail depositors, future research may also want to consider the sample to cover other types of depositors, *i.e.* government sectors and business entities. (Studies may refer to the classification given in the official reports, such as, for example, the Islamic banks' annual report or Bank Negara Malaysia's reports). The outcomes of the research may provide comparative results, as the behaviour of the other types of depositors may differ significantly from that of retail depositors, especially in view of their organizational objectives.

(iv) Future research may also want to consider undertaking concurrent time-series data analysis in addition to the survey questionnaire in order to look at the actual behaviour of the depositors towards certain financial variables, *e.g.* rates of

returns. The time-series data analysis may be trimmed down to be in line with the survey target respondents; for example, in this research, the time-series data should be from the *mudarabah* general investment deposits for the retail depositors.

(v) Finally, a similar area of research can be very beneficial if a proper semi-structured interview with an industry expert can be carried out simultaneously in order to get some practical insight and suggestions of the subject matter.

10.6 EPILOGUE

This research set out to explore and analyse the perceptions and attitudes of Malaysian depositors towards profit-sharing base deposits account. The efforts and dedications put into this research especially during the data collection and analysis duration have yielded highly significant and meaningful results, which is a critical success factor. As the foundational and empirical chapters indicate, this study is considered as having fulfilled its research aims and objectives. It is hoped and expected that at least some, if not all parts of this research, being applied by any of the stakeholders of Islamic banking in Malaysia.

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Appendices

Appendix 2.1

MAYBANK BERHAD DEPOSIT PRODUCT FEATURES AND INTEREST RATE

Fixed Deposits Accounts

Features & Benefits

- Pays higher interest than savings account.
- Protected from interest rate fluctuations.

Interest Rates (w.e.f. 30 March 2007)

TENURE	RATE (% p.a.)	TENURE	RATE (% p.a.)
1 month	3.00	11 months	3.50
2 months	3.00	12 months	3.70
3 months	3.20	13 months	3.70
4 months	3.20	14 months	3.70
5 months	3.20	15 months	3.70
6 months	3.40	18 months	3.70
7 months	3.40	24 months	3.70
8 months	3.40	36 months	3.75
9 months	3.50	48 months	3.75
10 months	3.50	60 months	3.80

Maybank2u.Premier (Interest Baring Current Account)

- An interest bearing Current Account that offers the convenience of a checking facility with a combination of online features and Personal Accident Insurance Coverage.

Interest Rate (w.e.f. 14 April 2007)

CREDIT BALANCE	NOMINAL RATE(% p.a.)	EFFECTIVE RATE(% p.a.)
Up to RM2,000	0.30	0.30
Up to RM10,000	0.40	0.40
Up to RM50,000	0.90	0.90
Up to RM100,000	1.20	1.20
Up to RM200,000	1.30	1.30
Up to RM500,000	1.40	1.41
Above RM500,000	1.50	1.51

Savings Accounts (Basic Savings Account and Normal Savings Account)

Interest Rate (w.e.f. 28 May 2007)

CREDIT BALANCE	NOMINAL RATE(% p.a.)	EFFECTIVE RATE(% p.a.)
Up to RM2,000	0.20	0.20
Up to RM10,000	0.30	0.30
Up to RM50,000	0.80	0.80
Up to RM100,000	1.10	1.10
Up to RM200,000	1.20	1.20
Up to RM500,000	1.30	1.30
Above RM500,000	1.50	1.51

Premier 1

- High interest Savings Account with the flexibility of a Personal Checking Account.

Interest Rate (w.e.f. 14 April 2007)

CREDIT BALANCE	NOMINAL RATE(% p.a.)	EFFECTIVE RATE(% p.a.)
Up to RM5,000	–	–
Up to RM50,000	1.00	1.00
Up to RM100,000	1.50	1.51
Up to RM200,000	1.70	1.71
Up to RM500,000	1.90	1.91
Above RM500,000	2.10	2.11

YIPPIE CLUB Savings Account (Children's Account for those below 18 years old, together with parent/guardian)

Interest Rate (w.e.f. 14 April 2007)

CREDIT BALANCE	NOMINAL RATE(% p.a.)	EFFECTIVE RATE(% p.a.)
Up to RM50,000	3.00	3.02
Above RM50,000	1.50	1.51

Imteen Saving Account

Features & Benefits

- Multi-tiered Interest Rate - allows to earn a one-month Fixed Deposit (FD) rate from your Savings Account with a multi-tiered rate.

- The special FD rate is however subject to only ONE withdrawal per month for 6 consecutive months, i.e. from 1 January to 30 June and from 1 July to 31 December. Otherwise Kawanku Savings rate shall apply.

Interest Rate (w.e.f. 14 April 2007)

CREDIT BALANCE	NOMINAL RATE(% p.a.)	EFFECTIVE RATE(% p.a.)
Up to RM50,000	3.00	3.02
Above RM50,000	1.50	1.51

Appendix 5.1

		Ownership	Date Incorporated	Latest Financial Report Date	RM'000									
					Asset	%	Deposit	%	Mudarabah GIA	%	Total Mudarabah	%	individual	%
1	Affin Islamic Bank Berhad	Local	01-Apr-06	30-Jun-08	6,155,566	3.8%	4,318,980	3.6%	2,427,631	4.7%	2,433,992	3.8%	261,715	1.3%
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign	Oct-06	30-Jun-08	3,432,652	2.1%	2,994,010	2.5%	1,531,474	3.0%	1,546,324	2.4%	184,645	0.9%
3	Alliance Islamic Bank Berhad	Local	07-Apr-08	30-Jun-08	3,020,774	1.8%	2,412,950	2.0%	1,334,892	2.6%	1,334,892	2.1%	390,774	1.9%
4	AmIslamic Bank Berhad	Local	01-May-06	30-Jun-08	11,777,097	7.2%	6,502,706	5.4%	5,118,466	9.9%	5,118,466	8.0%	1,668,649	8.0%
5	Asian Finance Bank Berhad	Foreign	28-Nov-05	30-Jun-08	1,582,788	1.0%	816,876	0.7%	801,545	1.5%	802,656	1.3%	13,346	0.1%
6	Bank Islam Malaysia Berhad	Local	Jul-83	31-Mar-08	21,274,622	13.0%	18,585,524	15.3%	2,171,235	4.2%	6,304,978	9.8%	4,551,916	21.8%
7	Bank Muamalat Malaysia Berhad	Local	01-Oct-99	30-Jun-08	13,383,825	8.2%	11,894,772	9.8%	5,444,515	10.5%	6,877,481	10.7%	897,128	4.3%
8	CIMB Islamic Bank Berhad	Local		30-Sep-08	16,700,640	10.2%	12,000,652	9.9%	6,126,284	11.8%	8,190,337	12.8%	2,294,411	11.0%
9	EONCAP Islamic Bank Berhad	Local	01-Apr-06	30-Sep-08	6,735,380	4.1%	4,028,050	3.3%	2,658,023	5.1%	2,861,955	4.5%	573,117	2.7%
10	Hong Leong Islamic Bank Berhad	Local	28-Mar-05	30-Sep-08	8,036,747	4.9%	6,971,789	5.7%	4,567,188	8.8%	5,077,160	7.9%	1,361,557	6.5%
11	HSBC Amanah Malaysia Berhad	Foreign	Aug-08	30-Sep-08	6,541,169	4.0%	4,620,288	3.8%	3,369,951	6.5%	4,090,883	6.4%	1,410,083	6.8%
12	Kuwait Finance House (Malaysia) Berhad	Foreign	17-Feb-06	30-Jun-08	7,824,801	4.8%	3,070,336	2.5%	179,791	0.3%	185,180	0.3%	28,709	0.1%
13	Maybank Islamic Berhad	Local	01-Jan-08	30-Jun-08	26,924,720	16.4%	18,710,572	15.4%	5,221,906	10.1%	7,510,304	11.7%	6,428,066	30.8%
14	Public Islamic Bank Berhad	Local	01-Nov-08	30-Sep-08	14,555,228	8.9%	11,918,591	9.8%	3,366,124	6.5%	3,439,014	5.4%	-	0.0%
15	RHB Islamic Bank Berhad	Local	16-Mar-05	30-Jun-08	8,282,128	5.0%	6,685,123	5.5%	3,739,883	7.2%	4,073,857	6.4%	817,983	3.9%
16	OCBC Al-Amin Bank Berhad	Foreign	01-Dec-08	30-Sep-08	3,231,514	2.0%	2,284,166	1.9%	740,595	1.4%	1,296,361	2.0%	-	0.0%
17	Standard Chartered Saadiq Berhad	Foreign	12-Nov-08	30-Jun-08	4,592,304	2.8%	3,711,617	3.1%	2,980,258	5.8%	2,980,258	4.6%	-	0.0%
					164,051,955		**121,527,002**		**51,779,761**		**64,124,098**		**20,882,099**	

Appendix 5.2

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Survey on Opinion of Islamic Banking Retail/Individual Depositors on Profit-sharing Based Deposits Account

Profit-sharing contract (Mudarabah) is widely used by Islamic banks in Malaysia in most of their deposits account products (Mudarabah saving account, Mudarabah current account and Mudarabah general investment account). This research survey is to gauge the understanding and opinion of retail/individual depositors on the Islamic banking deposits-based product with the characteristics of Profit-sharing contract. Therefore, being a customer of Islamic banks, we would like to seek your cooperation to give your valuable opinion which would certainly contribute towards the success of this research.

Most of the questions merely require you to tick the appropriate box. All the information given will be treated in the strictest confidence.

Your participation in this research is greatly appreciated.

General Instructions and Information

1. **All individual responses to this questionnaire will be kept STRICTLY CONFIDENTIAL and for academic research purpose only.**

2. Please do not worry about questions that seemingly look alike. If you do not have the exact answer to a question, please provide your best judgement by ticking the appropriate boxes in the questions. **Your answers are very important to the accuracy of the study**.

3. If you wish to make any comment, please feel free to use the space at the end of the questionnaire.

For Office Use Only:

Date of Interview/Questionnaire Returned: ___/___/2009
Time of Interview: _____ A.M. /P.M.

Bank's Branch Code: □□□□
Respondent Number: □□□□□

SECTION 1: Personal Information

(Please tick (√) in an *appropriate box)*

1. Gender:

☐ Male ☐ Female

2. Age:

☐ 20 and below
☐ 21 – 30
☐ 31 – 40
☐ 41 – 50
☐ Above 50

3. Marital Status:

☐ Single ☐ Married

4. Ethnicity:

☐ Malay
☐ Chinese
☐ Indian
☐ Others – *(Please specify)*
_____

5. Religion:

☐ Muslim
☐ Christian
☐ Buddhist
☐ Hindu
☐ Others – *(Please specify)*
_____

6. Highest Education Level:

☐ Primary/Secondary School
☐ College Diploma/Matriculation/A-Level
☐ Bachelor (First Degree)
☐ Professional Qualification
☐ Postgraduate (Master or PhD)
☐ Others (*Please Specify*):
_____

7. Monthly Income:

☐ RM 1,000 and below
☐ RM 1,001 - RM 3,000
☐ RM 3,001 - RM 5,000
☐ RM 5,001 - RM 10,000
☐ RM 10,001 – RM 20,000
☐ More than RM 20,000

8. Occupation:

☐ Manager/Executive
☐ Professional (lawyer, engineer, accountant, doctor etc.)
☐ Academicians/ Education
☐ Housewife
☐ Student
☐ Merchants/Businessman
☐ Farmer
☐ Unemployed
☐ Retired
☐ Others – *(Please specify)*
_____

9. How long have you been a customer of this Islamic bank?

☐ Less than 1 year
☐ 1 - 3 years
☐ 3 - 5 years
☐ More than 5 years

10. Do you have any account with other banks?

☐ Conventional banks
☐ Other Islamic Banks
☐ Both conventional banks and other Islamic banks
☐ No. Only with this Islamic bank

11. What kind of banking facilities have you used with the Islamic bank?

(you may select more than one)

☐ Current account
☐ Saving account
☐ General investment account
☐ Specific investment account
☐ Home financing
☐ Vehicle financing
☐ Education financing
☐ Personal financing
☐ Credit card/charge card
☐ Others (Please specify)
_____

SECTION 2: Knowledge and Awareness about Principles of Islamic Banking

(Please tick (√) in an appropriate box)

12. Are you familiar with the term *riba'*?

- ☐ Very familiar
- ☐ Familiar
- ☐ Not sure (please proceed to question 14)
- ☐ Not familiar (please proceed to question 14)
- ☐ Not familiar at all (please proceed to question 14)

13. If you answer either 'very familiar' or 'familiar' in Question 12, what are your opinions on the following statements about *riba*'?

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) Bank's 'interest' is not *Riba'*	☐	☐	☐	☐	☐
b) 'Interest' on deposit paid by conventional bank is the same to the profit on deposit paid by Islamic bank	☐	☐	☐	☐	☐
c) It is sinful to take conventional bank deposit 'interest'.	☐	☐	☐	☐	☐

SECTION 3: General Information on Islamic Banking Deposits

(Please tick (√) in an appropriate box)

14. What are the types of deposit accounts that you have in Islamic bank?

(You may select more than one)

- ☐ *Wadiah* Saving Account
- ☐ *Mudarabah* Saving Account
- ☐ *Qard* Saving Account
- ☐ *Wadiah* Current Account
- ☐ *Mudarabah* Current Account
- ☐ *Qard* Current Account
- ☐ *Mudarabah* General Investment Account
- ☐ I am not sure of the type of my bank account

15. How long have you been a depositor of this Islamic bank?

- ☐ less than 1 year
- ☐ 1 - 5 years
- ☐ 5 - 10 years
- ☐ more than 10 years

16. Do you know what are the underlying *Shari'ah* principle/ contract of your deposits account?

- ☐ Yes
- ☐ No (Please proceed to question 18)

17. If your answer is 'yes' in question 16, how did you get to know about the underlying *Shari'ah* principle/ contract?

(You may select more than one)

- ☐ Prior knowledge from reading (newspaper, internet, banks' brochure)
- ☐ Education (Learn in University or college)
- ☐ Explanation by the banks' staff during the opening of the account
- ☐ Explanation from friends and family
- ☐ Others (please specify) _____

18. If your answer is 'no' in question 16, why do you not knowing the underlying *Shari'ah* principle/ contract?

(Please select (√) one statement only)

- ☐ Difficult to understand
- ☐ Banks' staff does not explain it
- ☐ Do not know where to get the information about the underlying contract
- ☐ Not interested
- ☐ Assume it is the same as conventional deposits products
- ☐ Others (please specify) _____

19. How far the following factors influence your decision when opening a deposit account at Islamic banks?

(Please select (√) one from each statement)

	Not Important At All	Not Important	Neutral	Important	Very Important
a) Religious obligation/ requirement	☐	☐	☐	☐	☐
b) The account is free from any 'interest'.	☐	☐	☐	☐	☐
c) The brand name of the Islamic bank (Islamic reputation and image)	☐	☐	☐	☐	☐
d) Bank pays out higher return on deposits	☐	☐	☐	☐	☐
e) Encouragement from friends and family	☐	☐	☐	☐	☐
f) Attractive product package and services (such as free *takaful* coverage, attractive competition prize)	☐	☐	☐	☐	☐
g) Opportunity to get other financing facilities such as house or car financing	☐	☐	☐	☐	☐
h) Sound financial reputation of the bank	☐	☐	☐	☐	☐
i) Customer service quality (fast and efficient service)	☐	☐	☐	☐	☐
j) Number of branches available	☐	☐	☐	☐	☐
k) Convenience (e.g. available parking space, interior comfort)	☐	☐	☐	☐	☐
l) Location being near home or work	☐	☐	☐	☐	☐
m) Greater coverage of deposit guarantee (for example, Islamic banking will cover up to RM60,000 and conventional banking will also cover another RM60,000. Therefore the total coverage is RM120,000)	☐	☐	☐	☐	☐
n) Others (*Please specify):* _____					

SECTION 4: Profit-Sharing Deposits Account

(Please tick (√) in an *appropriate box)*

20. Are you familiar with deposit accounts using profit-sharing contract?

- ☐ I am very familiar with it.
- ☐ I am quite familiar with it.
- ☐ I know only a little about it.
- ☐ I have heard of it but know nothing about it.
- ☐ I have never heard of it.

21. If you want to open profit-sharing deposits account, how far are the following factors may influence your decision?

(Please select (√) one from each statement)

		Not Important At All	Not Important	Neutral	Important	Very Important
a)	Potential of giving higher return compared to other type of accounts	☐	☐	☐	☐	☐
b)	Attractive promotion (such as free gift: mobile phone, entry to competition)	☐	☐	☐	☐	☐
c)	Attractive product packaging (offer package with other financial product such as *takaful*, Islamic unit trust)	☐	☐	☐	☐	☐
d)	Believe that Profit-sharing contract is highly encouraged in Islamic banking	☐	☐	☐	☐	☐
e)	Flexibility of deposits withdrawal scheme	☐	☐	☐	☐	☐
f)	Others (*Please specify):* _____					

Section 5: Return Concept in Profit-sharing Deposits Account

(Please tick (√) in an appropriate box)

For question 22 to 25, please read the following definition of 'board rate'.

Definition of 'Board Rate':

- It is the deposit return you earn on your existing deposit.
  For example:
  - **Profit-sharing saving account = 1.50%,**
  - **Profit-sharing General Investment Account (1 month) = 2.14%.**
- The rate can be seen at the bank's branches or in bank's webpage.

22. If you want to open a profit-sharing deposits account, is the 'board rate' will be part of your consideration factor for comparing with other financial instrument or other financial institution?

☐ Yes (Please proceed to question 23)
☐ No (Please proceed to question 24)

23. What are the other financial instruments' returns that you may compare with before opening a profit-sharing deposits account?

(You may select more than one)

☐ Other Islamic banks profit-sharing deposit account rates of return
☐ Other conventional banks deposits account interest rate
☐ Islamic unit trust return
☐ Conventional unit trust return
☐ Stock market performance
☐ Other (please specify) _____

24. Why do you not consider 'board rate' as part of the consideration factors?

(Please select (√) one statement only)

☐ Do not care how much the return is as long as it is Shari'ah compliant.
☐ Board rate is only an indicative rate; the actual rate might be lower or higher depending on the bank's performance.
☐ Have other deposit account or facilities with the banks, so a higher return is not part of consideration.
☐ Do not realise that there is a declared rate on the board.
☐ Do not bother to check the rate.
☐ Other (please specify) _____

25. What is your perception of the rate of return displayed on the bank branches if you want to open a profit-sharing deposits account?

(Please select (√) one statement only)

☐ It is the fixed rate that the Islamic banks are going to pay.
☐ It is the minimum rate that the bank is going to pay.
☐ It is the indicative rate that the bank is going to pay.
☐ Do not realize that there is a declared rate on the board.
☐ Do not bother to check the rate.

26. Are you familiar with the Profit Equalization Reserve (PER) concept?

- ☐ I am very familiar with it.
- ☐ I am quite familiar with it.
- ☐ I know only a little about it.
- ☐ I have heard of it but know nothing about it.
- ☐ I have never heard of it.

For question 27, please read the following statement as if you have a deposit account with an Islamic bank under the profit-sharing contract.

- ❖ *You have a Profit-sharing deposit account with an Islamic Bank. The profit generated by the bank will be shared according to the agreed profit sharing ratio.*
- ❖ *However, at the end of the contract term, the profits generated were not shared as per agreement but some portions were transferred out to 'special reserve' account.*
- ❖ *This 'special reserve' account will be used in the future if the bank is facing poor financial performance. The purpose is to stabilize the deposits rate of return in the future.*
- ❖ *Therefore, future depositors will enjoy the benefit of getting competitive deposits return.*

27. What are your opinions on the following statements?

(Please select (√) one from each statement)

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) I should receive more return if my bank perform well	☐	☐	☐	☐	☐
b) I agree to accept lower return if my bank perform badly	☐	☐	☐	☐	☐
c) I expect my bank to give same return throughout my deposit period regardless of my bank's performance	☐	☐	☐	☐	☐
d) I agree if my bank does not share any extra profit generated with me as agreed.	☐	☐	☐	☐	☐
e) Do you agree if your bank keep some portion of the extra profit to a 'special reserve' account?	☐	☐	☐	☐	☐
f) Do you agree if this 'special reserve' account to be used for the benefit of future depositors to ensure stability of the return?	☐	☐	☐	☐	☐
g) I should be informed in writing about this 'special reserve' account	☐	☐	☐	☐	☐
h) I feel mislead by the bank if my consent is not obtained with regard to this 'special reserve' account	☐	☐	☐	☐	☐

28. What will be your most probable action on all of following situations for your Profit-sharing Deposits Account, if your Islamic bank ……. (see statement from (a) to (e) below),:

(Please select (√) one from each statement)

	Shift **all** to **conventional banks** (1)	Shift **portion** to **conventional banks** (2)	**Retain** with **existing Islamic banks** (3)	Shift **all** to **other Islamic banks** (4)	Shift **portion** to **other Islamic banks** (5)
a) Announces **lower return** than **other Islamic banks**.	☐	☐	☐	☐	☐
b) Announces **lower return** than other **conventional banks** but **comparable with other Islamic banks**.	☐	☐	☐	☐	☐
c) **Found** of conducting business **not** according to the ***Shari'ah* principles**	☐	☐	☐	☐	☐
d) Announces **lower return** than **other Islamic and commercial banks** but at the same time **giving financing products which have lower financing rate** as compared to other competitors.	☐	☐	☐	☐	☐
e) Announces **lower return** than **previous financial year return**	☐	☐	☐	☐	☐

Section 6: Risk and Deposits Guarantee for Profit-sharing Deposits Account

(Please tick (√) in an appropriate box)

29. Please give your opinion on the following statements regarding deposit guarantee scheme?

(Please select (√) one from each statement)

	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
a) If Islamic banking deposits are not guaranteed by government, they are deemed riskier than conventional banking deposits.	☐	☐	☐	☐	☐
b) I will **not** monitor my bank's performance if I know that my deposits are being guaranteed by the government.	☐	☐	☐	☐	☐

30. Please indicate what will be your most probable action on all of the following scenarios if you have a Profit-sharing Deposits Account in your existing Islamic bank:

(Please select (√) one from each statement)

	Shift to conventional banks	Retain with existing Islamic banks	Shift to other Islamic banks
a) If all deposits - conventional banks and Islamic banks are not guaranteed by government.	☐	☐	☐
b) If only Islamic banking deposits is not guaranteed by the government.	☐	☐	☐
c) If your Islamic bank is the only not guaranteeing your deposits because of restriction imposed by their *Shari'ah* Advisory Committee.	☐	☐	☐

Section 7: Financial Disclosure to the depositors

(Please tick (√) in an appropriate box)

31. Please choose what would be your opinion on the following statements on financial information disclosure related to your deposit account?

(Please select (√) one from each statement)

	Very Unlikely	Unlikely	Likely	Most Likely
a) I will seek out more financial information from Islamic banks on the usage of my deposits.	☐	☐	☐	☐
b) I will look at the bank's financial performance before opening an account with a bank.	☐	☐	☐	☐
c) I will use the financial statement reported by the bank to monitor my investment deposit performance.	☐	☐	☐	☐

32. What is your preference on <u>additional voluntary financial information disclosure</u> for each of the following statements?

(Please select (√) one from each statement)

	Not Interested at all	Not Interested	Neutral	Interested	Highly Interested
a) If the bank voluntarily discloses monthly financial statement	☐	☐	☐	☐	☐
b) The mechanism of deriving and calculating declared rate of return on deposits	☐	☐	☐	☐	☐

33. If your answer is either <u>'neutral', 'not interested'</u> or <u>'not interested at all'</u> in one of the above questions (question 32 (a) <u>or</u> (b)) please select the following reasons:

☐ Do not bother to read financial statement
☐ Do not understand the financial statement
☐ Only read when necessary
☐ Difficult to get financial statement
☐ Other (please specify) _____

Section 8: Customer Services

(Please tick (√) in an appropriate box)

34. When you first open an Islamic banking deposit account with this bank, what was your experience on the following situations?

(Please select (√) one from each statement)

	Yes	No	Not Sure
a) The bank's staff explained the features of the account before I opened my account.	☐	☐	☐
b) The bank's staff explained the characteristics of the *Shari'ah* contract used (including risk and return mechanism).	☐	☐	☐

35. If at least one of the answers is 'no' from the above question (Question 34 (a) or (b)), what do you think is the main reason on the side of bank staff?

- ☐ Time constrain due to many customers
- ☐ Lack of knowledge on Islamic banking principles among the staff
- ☐ Assume customer already knows
- ☐ Lack of professional attitude
- ☐ Others (please specify) _____

36. Are you interested in understanding the *Shari'ah* aspect of your product if the bank's staffs are willing to explain it?

- ☐ Yes
- ☐ No (please answer question 37)
- ☐ Indifferent

37. If no, what is your reason?

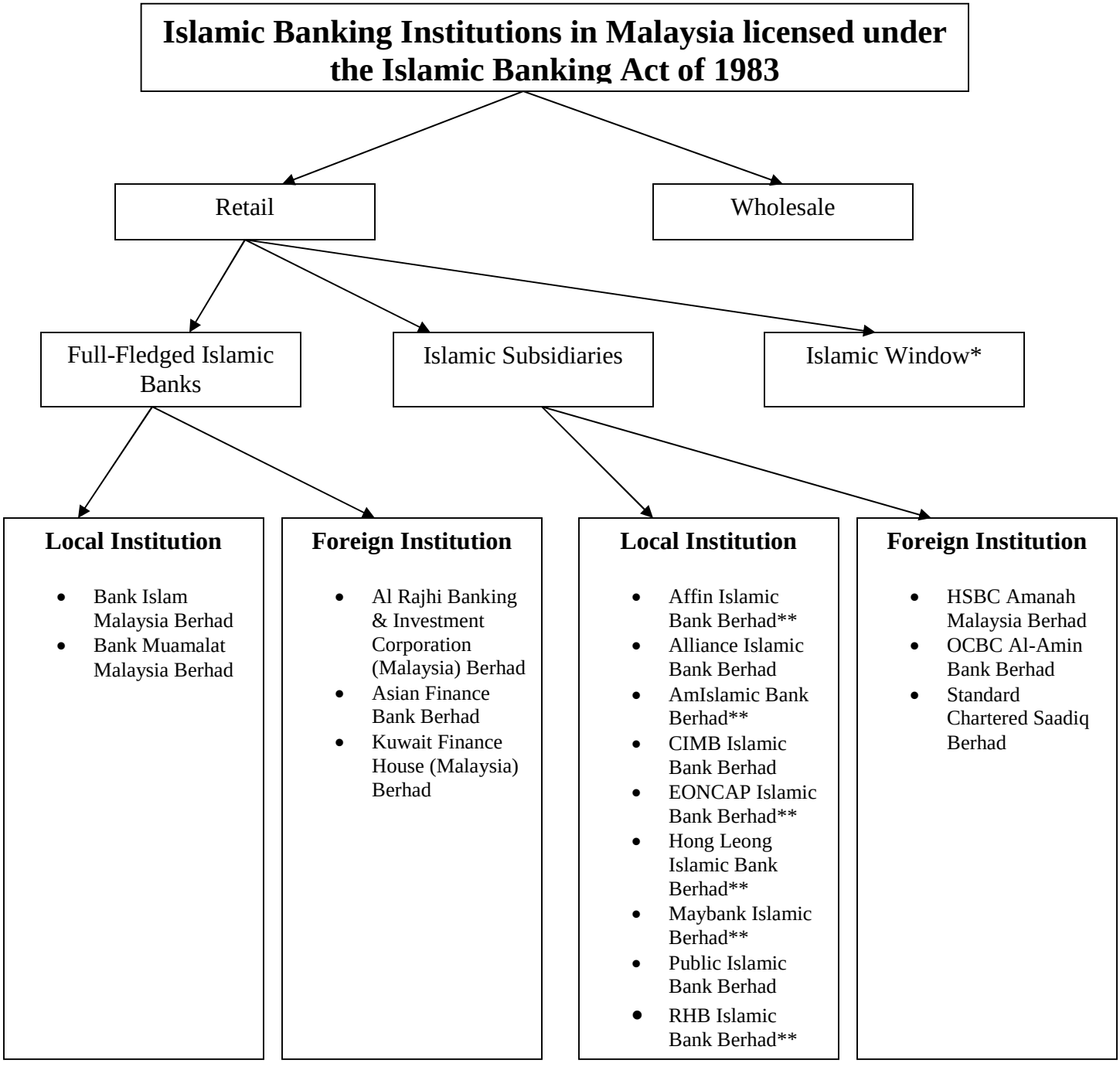
- ☐ Time constraint
- ☐ Not important at all
- ☐ Very difficult to understand
- ☐ Similar to conventional products
- ☐ Others (please specify) _____

Thank you for taking the time to complete this questionnaire.
Your assistance in providing this information is very much appreciated.

If there is anything else you would like to tell us about this survey or other comments you wish to make that you think may help us to understand the Profit-sharing Deposit Account of Islamic Banks and issues arising thereof, please do so in the space (box) provided below.

Appendix 5.3

Overview of Categories of Islamic banks licensed under the Malaysian Islamic Banking Act

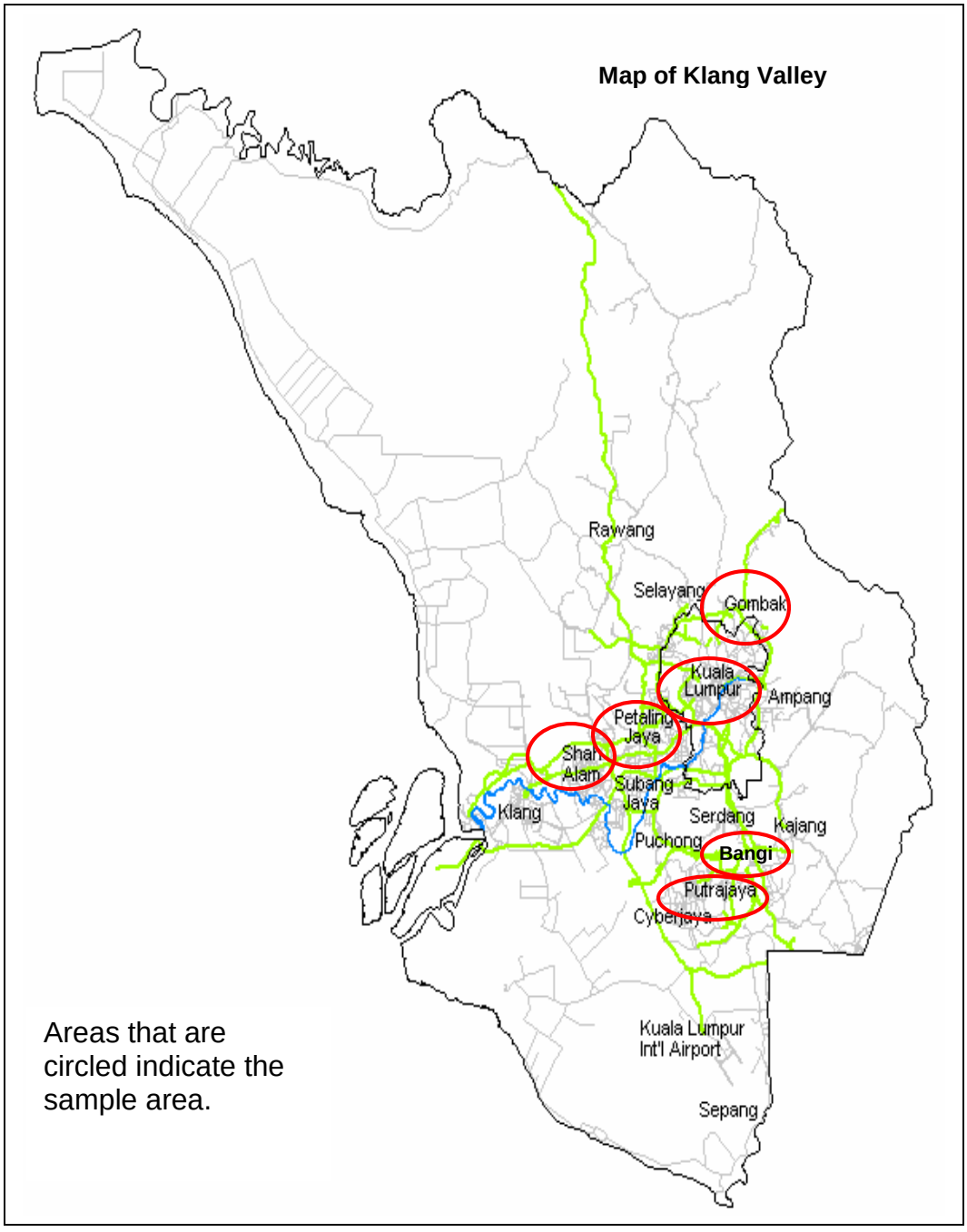


* Only consist of Citibank Malaysia Berhad.

** Islamic banks that have full-fledge Islamic banking branches as of the start date of fieldwork from January to April 2009

Source: Summarised from Bank Negara Malaysia Website (2008)

Appendix 5.4


Map of Klang Valley
Rawang
Selayang
Gombak
Kuala Lumpur
Ampang
Petaling Jaya
Shah Alam
Subang Jaya
Klang
Serdang
Kajang
Puchong
Bangi
Putrajaya
Cyberjaya
Kuala Lumpur Int'l Airport
Sepang
Areas that are circled indicate the sample area.

Appendix 5.5

Justification for the Sampled Branches

	Islamic Bank	Background and Rationale	Branch	Rationale
1	Bank Islam Malaysia Berhad	It was the first Islamic bank to be incorporated in Malaysia, in 1983. Being a pioneer in Islamic banking, the bank enjoys the benefit of a large customer base. Therefore it is the largest stand-alone Islamic bank. The bank was selected to represent the full-fledged local Islamic bank group. **<u>As at 31 December 2008:</u>** **Asset:**RM25.2billion **Liabilities:**RM23.4billion **Deposits:**RM20.1billion **Paid-up capital:**RM1.7billion **RWCR:**12.93%	Medan Mara Branch **(Kuala Lumpur)**	The branch is located in the Mara Building, where Malay-owned stalls and business are located. The branch also is surrounded by a few government-related agencies. This branch is targeting samples from the following respondent profile: **Ethnicity:** Malay and Indian **Education:** Mixture from lowest level to highest level of education **Occupation:** Various from self-employed (business owners) to highest level of executives in the public and private sectors.
			Bandar Baru Bangi Branch **(Bangi)**	The branch is located in the heart of Bandar Baru Bangi (BBB) which is a Malay-majority housing area. The area is surrounded by a few higher education institutions. Most of the people living in Bangi are deemed as middle class, who are working in various public and private sectors. This branch is targeting samples from the following respondent profile: **Ethnicity:** Malay **Education:** Mixture from lowest level to highest level of education. **Occupation:** Various from self-employed (business owners) to the middle class executive salary earner.

	Islamic Bank	Background and Rationale	Branch	Rationale
2	Bank Muamalat Malaysia Berhad	It is the second Islamic bank in Malaysia. It was incorporated in October 1999 as a result of a merger of the Islamic banking assets of Bank Bumiputra Malaysia Berhad and Bank of Commerce. **<u>As at 31 December 2008:</u>** **Asset:**RM15.0billion **Liabilities:**RM14.3billion **Deposits:**RM12.0billion **Paid-up capital:**RM397million **RWCR:**12.83%	Jalan Tuanku Abdul Rahman Branch **(Kuala Lumpur)**	The branch is located near the old business area of Kuala Lumpur. The branch is surrounded mainly by shop-houses and a few private companies. It is also located near to the budget shopping area, where people can get cheap goods. This branch is targeting samples from the following respondents profile: **Ethnicity:** Malay, Chinese and Indian **Education:** Mixture from lowest level to bachelor degree holder. **Occupation:** Most are self-employed and low-income salary earners from the private sectors.
			Taman Melawati Branch **(Gombak)**	The branch is located in a mid- to high Malay-majority area. Most of the people in the area are well educated and are either running their own business or employed with private sectors. This branch is targeting samples from the following respondents profile: **Ethnicity:** Malay **Education:** Mixture from lowest level to highest level of education. **Occupation:** Various from self-employed (business owners) to highest level of salary earners in private sectors.

	Islamic Bank	Background and Rationale	Branch	Rationale
3	Al Rajhi Bank	Al Rajhi Bank is one of the three foreign Islamic banks which were granted license in the initial initiatives by Malaysian government to liberalise Islamic banking sectors. The bank was incorporated in October 2006. The bank's strategic direction of targeting retail customers at the initial stage means that the bank currently has the most number of branches in Malaysia among the foreign Islamic banks. Therefore, Al Rajhi is deemed the most appropriate bank to be included as part of research samples. **As at 31 December 2008:** **Asset:**RM5.0billion **Liabilities:**RM4.6billion **Deposits:**RM4.5billion **Paid-up capital:**RM600million **RWCR:**13.19%	Main Branch **(Kuala Lumpur)**	The branch is located in the heart of the most developed area of Kuala Lumpur. It is situated near the Kuala Lumpur City Centre. Most of the businesses surrounding the branch are multinational companies, public listed companies and also high street shops. This branch is targeting samples from the following respondents profile: **Ethnicity:** Various ethnicity **Education:** Educated people **Occupation:** Employed with the private sectors
4	Affin Islamic Bank Berhad	Affin Islamic Bank was incorporated on April 2006 as an Islamic banking subsidiary. Currently, Affin Islamic Bank has five full-fledged branches throughout Malaysia. **As at 31 December 2008:** **Asset:**RM5.9billion **Liabilities:**RM5.6billion **Deposits:**RM5.3billion **Paid-up capital:**RM160million **RWCR:**10.33%	SS2 Branch **(Petaling Jaya)**	The branch is located in the business area where most of the business is involved in retail, which operates in shop lots. There are also some small offices surrounding the branch. This branch is targeting samples from the following respondents profile: **Ethnicity:** Mainly Chinese **Education:** Mixture from low level to highest level. **Occupation:** Employed with the private sectors.

	Islamic Bank	Background and Rationale	Branch	Rationale
5	AmIslamic Bank Berhad	AmIslamic Bank was incorporated on 1st May 2006 as an Islamic banking subsidiary. Currently the bank has two full-fledged branches. **As at 31 December 2008:** **Asset:**RM13.7billion **Liabilities:**RM12.5billion **Deposits:**RM10.9billion **Paid-up capital:**RM403million **RWCR:**14.90%	Alamanda Branch **(Putrajaya)**	The branch is located in the famous shopping mall in Putrajaya known as Alamanda. Putrajaya is the administrative centre for the Malaysian government. Local residents of the area are mostly government servants. This branch is targeting samples from the following respondents profile: **Ethnicity:** Mixture of Malay, Chinese and Indian **Education:** Mixture from low level to highest level. **Occupation:** Employed with the public sector and also owner of shop retailers in Alamanda and their employees.
6	EONCAP Islamic Bank Berhad	EONCAP Islamic Bank was incorporated on 1st April 2006 as an Islamic banking subsidiary. Currently the bank has five full-fledged branches. **As at 31 December 2008:** **Asset:**RM7.2billion **Liabilities:**RM6.8billion **Deposits:**RM5.9billion **Paid-up capital:**RM398million **RWCR:**11.55%	Main Branch **(Kuala Lumpur)**	The branch is located in an old township of Kuala Lumpur. The surrounding area of the branch mainly features small retailers and also hawkers. Besides that, there are also few public listed companies that have their head office close the branch. This branch is targeting samples from the following respondents profile: **Ethnicity:** Mixture Malay, Chinese and Indian **Education:** Mixture from low to high level education. **Occupation:** Employed with the private sector and also owner of small business and hawkers.

	Islamic Bank	Background and Rationale	Branch	Rationale
7	Maybank Islamic Berhad	Maybank Islamic Berhad was among the latest Islamic banking windows which were converted to Islamic banking subsidiaries. The bank was incorporated on 1st January 2008. The advantage of leveraging on the large number of their conventional parent bank's premises to market their product has made the bank the largest Islamic bank in Malaysia in terms of assets and deposits. **<u>As at 31 December 2008:</u>** **Asset:**RM32.3billion **Liabilities:**RM30.2billion **Deposits:**RM23.7billion **Paid-up capital:**RM104million **RWCR:**10.07%	Shah Alam Branch **(Shah Alam)**	Shah Alam branch is located in the heart of Shah Alam city centre. It is close to local business and also to the state government office. It is also surrounded by many small retailers and a few institutes of higher learning. It is also located close to a few housing areas. This branch is targeting samples from the following respondents profile: **Ethnicity:** Mainly Malays **Education:** Mixture from low to high level education. **Occupation:** Employed with the public and private sector, students, owner of small business and housewives.
8	RHB Islamic Bank Berhad	RHB Islamic bank is the earliest bank which was granted with Islamic banking subsidiary license by Bank Negara Malaysia. The bank was incorporated on 16th March 2005. Currently the bank has five full-fledged branches nationwide. **<u>As at 31 December 2008:</u>** **Asset:**RM9.5billion **Liabilities:**RM6.8billion **Deposits:**RM8.2billion **Paid-up capital:**RM523million **RWCR:**13.91%	Main Branch **(Kuala Lumpur)**	RHB Islamic Bank main branch is located in the 'golden triangle' of Kuala Lumpur, where most of multi-national companies and also public listed companies have their head office. It is also located next to Petronas Twin Towers, which house most of the high-end retailers' shops. This branch is targeting samples from the following respondents profile: **Ethnicity:** Mixture of various races, such as Malay, Chinese, Indian and others. **Education:** Mixture from low to highest level of education. **Occupation:** Employed mainly with the private sector, and also the residents of nearby luxurious condominiums.

Appendix 7.1

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on question "Bank's interest is not r*iba'?*" – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 13(a): Bank's Interest is not *riba'*	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	398	u_1=254.34	*z*= -5.496	0.000
	Bank Employees	153	u_2=332.34		
	Total N	551			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	261	u_1=266.82	*z*= -1.370	0.171
	Islamic Subsidiaries	290	u_2=284.26		
	Total N	551			
	AGE:		**K-W Test:**		
	Below 20	24	k_1= 216.81		
	21-30	234	k_2= 260.46	χ^2= 13.235	0.010
	31-40	170	k_3= 289.26		
	41-50	91	k_4= 285.68		
	Above 50	32	k_5= 336.09		
	Total N	551			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	120	k_1= 230.76		
	College Diploma/Matriculation/A-Level	155	k_2= 247.80		
	Bachelor (First Degree)	198	k_3= 306.54	χ^2= 31.751	0.000
	Professional Qualification	22	k_4= 351.77		
	Postgraduate (Master or PhD)	52	k_5= 295.08		
	Total N	547			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	68	k_1= 232.60		
	RM 1,001 - RM 3,000	239	k_2= 243.09		
	RM 3,001 - RM 5,000	131	k_3= 290.99	χ^2= 34.265	0.000
	RM 5,001 - RM 10,000	77	k_4= 337.54		
	RM 10,001 - RM 20,000	20	k_5= 279.02		
	More than RM 20,000	2	*k6*=423.50		
	Total N	537			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	104	k_1= 247.85		
	1 - 3 years	170	k_2= 269.64	χ^2= 8.929	0.030
	3 - 5 years	101	k_3= 266.49		
	More than 5 years	173	k_4= 299.97		
	Total N	548			

Appendix 7.2

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on question "'Interest' on deposit paid by conventional bank is the same to the profit on deposit paid by Islamic bank?" – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 13(b): Interest is the same as profit	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	394	u_1=250.06	z= -6.057	0.000
	Bank Employees	154	u_2=337.03		
	Total N	548			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	261	u_1=268.98	z= -0.815	0.415
	Islamic Subsidiaries	287	u_2=279.52		
	Total N	548			
	AGE:		**K-W Test:**		
	Below 20	23	k_1= 178.11		
	21-30	234	k_2= 259.56	χ^2= 17.723	0.001
	31-40	171	k_3= 286.77		
	41-50	88	k_4= 301.16		
	Above 50	32	k_5= 314.16		
	Total N	548			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	119	k_1= 221.34		
	College Diploma/Matriculation/A-Level	154	k_2= 243.06		
	Bachelor (First Degree)	197	k_3= 302.84	χ^2= 40.907	0.000
	Professional Qualification	22	k_4= 342.36		
	Postgraduate (Master or PhD)	52	k_5= 332.28		
	Total N	544			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	68	k_1= 217.54		
	RM 1,001 - RM 3,000	239	k_2= 242.17		
	RM 3,001 - RM 5,000	129	k_3= 296.30	χ^2= 36.644	0.000
	RM 5,001 - RM 10,000	77	k_4= 326.41		
	RM 10,001 - RM 20,000	20	k_5= 330.83		
	More than RM 20,000	2	*k6*=367.75		
	Total N	535			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	103	k_1= 229.75		
	1 - 3 years	169	k_2= 254.02	χ^2= 24.638	0.000
	3 - 5 years	99	k_3= 277.31		
	More than 5 years	174	k_4= 314.59		
	Total N	545			

Appendix 7.3

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on question "It is sinful to take conventional bank deposit interest?" – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 13(c): Sinful to take conventional bank deposit interest	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	393	u_1=258.65	z= -3.687	0.000
	Bank Employees	153	u_2=311.63		
	Total N	546			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	257	u_1=268.56	z= -0.722	0.470
	Islamic Subsidiaries	289	u_2=277.89		
	Total N	546			
	AGE:		**K-W Test:**		
	Below 20	23	k_1= 234.41		
	21-30	231	k_2= 248.33	χ^2= 14.982	0.005
	31-40	170	k_3= 293.00		
	41-50	90	k_4= 301.51		
	Above 50	32	k_5= 300.91		
	Total N	546			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	118	k_1= 238.35		
	College Diploma/Matriculation/A-Level	155	k_2= 261.08		
	Bachelor (First Degree)	197	k_3= 284.29	χ^2= 17.278	0.002
	Professional Qualification	22	k_4= 364.39		
	Postgraduate (Master or PhD)	50	k_5= 290.80		
	Total N	542			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	67	k_1= 226.13		
	RM 1,001 - RM 3,000	239	k_2= 244.96		
	RM 3,001 - RM 5,000	130	k_3= 291.71	χ^2= 25.602	0.000
	RM 5,001 - RM 10,000	75	k_4= 312.91		
	RM 10,001 - RM 20,000	20	k_5= 323.58		
	More than RM 20,000	2	$k6$=376.50		
	Total N	533			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	102	k_1= 227.81		
	1 - 3 years	167	k_2= 267.25	χ^2= 14.029	0.003
	3 - 5 years	101	k_3= 283.33		
	More than 5 years	173	k_4= 296.02		
	Total N	543			

Appendix 7.4

Mann-Whitney U and Kruskal-Walis Test: Respondents that do not understand what type of account that they were holding – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 14: Inferential Statistic: Do not know what type of account that the respondents holding	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	476	u_1=336.72	z= -4.531	0.000
	Bank Employees	172	u_2=290.69		
	Total N	648			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=323.48	z= -0.213	0.831
	Islamic Subsidiaries	345	u_2=325.40		
	Total N	648			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 409.13		
	21-30	273	k_2= 326.16	χ^2= 22.412	0.000
	31-40	204	k_3= 307.68		
	41-50	106	k_4= 329.46		
	Above 50	33	k_5= 316.77		
	Total N	648			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 324.55		
	College Diploma/Matriculation/A-Level	188	k_2= 335.45		
	Bachelor (First Degree)	222	k_3= 319.01	χ^2= 6.698	0.153
	Professional Qualification	27	k_4= 287.43		
	Postgraduate (Master or PhD)	56	k_5= 304.25		
	Total N	644			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 357.87		
	RM 1,001 - RM 3,000	281	k_2= 316.29		
	RM 3,001 - RM 5,000	153	k_3= 307.56	χ^2= 19.558	0.002
	RM 5,001 - RM 10,000	85	k_4= 294.77		
	RM 10,001 - RM 20,000	24	k_5= 285.65		
	More than RM 20,000	3	*k6*=377.67		
	Total N	631			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 350.91		
	1 - 3 years	203	k_2= 333.92	χ^2= 26.255	0.000
	3 - 5 years	108	k_3= 311.11		
	More than 5 years	194	k_4= 292.02		
	Total N	641			

Appendix 7.5

Mann-Whitney U and Kruskal-Walis Test: Respondents' level of understanding and knowledge on the underlying contract governing the deposit account – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 16: Knowledge on the underlying contract governing the deposit account	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	474	u_1=294.16	*z*= -7.566	0.000
	Bank Employees	171	u_2=402.95		
	Total N	645			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	302	u_1=328.06	*z*= -0.749	0.454
	Islamic Subsidiaries	343	u_2=318.54		
	Total N	645			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 204.39		
	21-30	271	k_2= 308.70	χ^2= 33.393	0.000
	31-40	203	k_3= 327.17		
	41-50	107	k_4= 364.98		
	Above 50	32	k_5= 395.88		
	Total N	645			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	150	k_1= 305.20		
	College Diploma/Matriculation/A-Level	186	k_2= 294.80		
	Bachelor (First Degree)	222	k_3= 331.07	χ^2= 21.319	0.000
	Professional Qualification	27	k_4= 343.43		
	Postgraduate (Master or PhD)	56	k_5= 399.60		
	Total N	641			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	84	k_1= 253.67		
	RM 1,001 - RM 3,000	280	k_2= 301.51		
	RM 3,001 - RM 5,000	153	k_3= 341.92	χ^2= 28.492	0.000
	RM 5,001 - RM 10,000	85	k_4= 363.26		
	RM 10,001 - RM 20,000	23	k_5= 340.13		
	More than RM 20,000	3	*k6*=253.67		
	Total N	628			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	135	k_1= 249.03		
	1 - 3 years	203	k_2= 296.80	χ^2= 62.448	0.000
	3 - 5 years	107	k_3= 340.12		
	More than 5 years	194	k_4= 382.57		
	Total N	639			

Appendix 7.6

Factor Analysis: Rotated Component Matrix[a] (Oblimin Rotation Method) on factors influencing Islamic Banking Deposits Account Selection Criteria

Variable	Factor 1 Physical Services	Factor 2 Religiosity/ Islamic identity	Factor 3 Financial/ Product Services	Communality of Each Variable
Convenience factor	**.855**			.692
Location factor	**.817**			.619
Number of branches factor	**.805**			.653
Customer Service Quality factor	**.657**			.575
Greater deposit guarantee coverage	**.521**		-.329	.486
Religious obligation/ requirement		**.885**		.769
'Interest' free account		**.871**		.755
'Islamic' as a brand name		**.547**	-.344	.488
Attractive product package			**-.778**	.651
Higher return on deposits			**-.710**	.461
Opportunity to get other financing facilities			**-.708**	.619
Encouragement from friends and family			**-.611**	.406
Sound financial reputation	.418		**-.437**	.563

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 6 iterations.

Appendix 7.7

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on 'physical services' aspect of choosing to have Islamic banking account – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
Bank Selection Criteria: Physical Services	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=328.62	*z*= -0.824	0.410
	Bank Employees	172	u_2=314.96		
	Total N	649			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=336.83	*z*= -0.388	-1.514
	Islamic Subsidiaries	346	u_2=314.64		
	Total N	649			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 298.61		
	21-30	273	k_2= 318.63	χ^2= 6.326	0.176
	31-40	204	k_3= 341.13		
	41-50	107	k_4= 336.85		
	Above 50	33	k_5= 265.12		
	Total N	649			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 336.99		
	College Diploma/Matriculation/A-Level	189	k_2=318.97		
	Bachelor (First Degree)	222	k_3= 308.55	χ^2= 8.591	0.072
	Professional Qualification	27	k_4= 279.41		
	Postgraduate (Master or PhD)	56	k_5= 377.20		
	Total N	645			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 308.83		
	1 - 3 years	203	k_2= 332.02	χ^2= 1.782	0.619
	3 - 5 years	109	k_3= 310.54		
	More than 5 years	194	k_4= 325.54		
	Total N	642			

Appendix 7.8

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on 'financial services' aspect of choosing to have Islamic banking account – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (p)
Bank Selection Criteria: Financial Service	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=327.23	z= -0.507	0.612
	Bank Employees	172	u_2=318.81		
	Total N	649			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=331.00	z= -0.767	0.443
	Islamic Subsidiaries	346	u_2=319.74		
	Total N	649			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 309.25		
	21-30	273	k_2= 332.37	χ^2= 1.331	0.856
	31-40	204	k_3= 322.95		
	41-50	107	k_4= 322.80		
	Above 50	33	k_5= 299.08		
	Total N	649			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 335.22		
	College Diploma/Matriculation/A-Level	189	k_2=311.86		
	Bachelor (First Degree)	222	k_3= 318.03	χ^2= 2.542	0.637
	Professional Qualification	27	k_4= 321.06		
	Postgraduate (Master or PhD)	56	k_5= 348.29		
	Total N	645			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 309.41		
	1 - 3 years	203	k_2= 324.40	χ^2= 0.926	0.819
	3 - 5 years	109	k_3= 318.92		
	More than 5 years	194	k_4= 328.39		
	Total N	642			

Appendix 8.1

Mann-Whitney U and Kruskal-Walis Test: Respondents' level of familiarity of profit-sharing based deposits accounts – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	z , χ^2	Asymp. Sig. (*p*)
QUESTION 20: Familiarity of Profit-sharing based deposits accounts.	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=307.49	z= -4.961	0.000
	Bank Employees	172	u_2=373.56		
	Total N	649			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=337.75	z= -0.2	0.039
	Islamic Subsidiaries	346	u_2=313.83		
	Total N	649			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 184.45		
	21-30	273	k_2= 296.39	χ^2= 39.565	0.000
	31-40	203	k_3= 352.27		
	41-50	107	k_4= 367.30		
	Above 50	33	k_5= 383.36		
	Total N	648			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	150	k_1= 276.55		
	College Diploma/Matriculation/A-Level	189	k_2= 299.83		
	Bachelor (First Degree)	222	k_3= 347.69	χ^2= 31.904	0.000
	Professional Qualification	27	k_4= 442.81		
	Postgraduate (Master or PhD)	56	k_5= 364.21		
	Total N	644			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 209.46		
	RM 1,001 - RM 3,000	280	k_2= 292.95		
	RM 3,001 - RM 5,000	154	k_3= 356.46	χ^2= 68.595	0.000
	RM 5,001 - RM 10,000	85	k_4= 391.66		
	RM 10,001 - RM 20,000	24	k_5= 421.56		
	More than RM 20,000	3	*k6*=420.33		
	Total N	631			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 235.46		
	1 - 3 years	203	k_2= 286.91	χ^2= 77.225	0.000
	3 - 5 years	109	k_3= 354.83		
	More than 5 years	193	k_4= 398.02		
	Total N	641			

Appendix 8.2

Factor Analysis: Rotated Component Matrix(a) (Oblimin Rotation Method) on factors influencing opening profit-sharing based deposits accounts.

Variable	Factor		Communality of Each Variable
	1 Commercial Value	2 Fundamental Characteristic Value	
Attractive promotion	**.972**		.825
Attractive product packaging	**.612**	-.342	.674
Potential of giving higher return	**.586**		.579
Profit-sharing contract is highly encouraged in Islamic banking		**-.928**	.797
Flexibility of deposits withdrawal scheme		**-.761**	.707

Extraction Method: Principal Component Analysis. Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 12 iterations.

Appendix 8.3

Mann-Whitney U and Kruskal-Walis Test: Respondents' perceptions on displayed rate of return (board rate) – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 25: Perception on the displayed rate of return	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=297.34	*z*= -7.434	0.000
	Bank Employees	169	u_2=397.33		
	Total N	646			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	303	u_1=317.44	*z*= -0.963	0.335
	Islamic Subsidiaries	343	u_2=328.85		
	Total N	646			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 261.88		
	21-30	272	k_2= 310.56	χ^2= 5.985	0.010
	31-40	202	k_3= 331.83		
	41-50	107	k_4= 345.27		
	Above 50	33	k_5= 368.32		
	Total N	646			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 267.27		
	College Diploma/Matriculation/A-Level	187	k_2=297.75		
	Bachelor (First Degree)	221	k_3= 357.03	χ^2= 50.298	0.000
	Professional Qualification	27	k_4= 398.83		
	Postgraduate (Master or PhD)	56	k_5= 369.54		
	Total N	642			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 270.59		
	RM 1,001 - RM 3,000	280	k_2= 282.50		
	RM 3,001 - RM 5,000	154	k_3= 354.09	χ^2= 54.612	0.000
	RM 5,001 - RM 10,000	84	k_4= 383.75		
	RM 10,001 - RM 20,000	24	k_5= 359.38		
	More than RM 20,000	3	*k6*=425.00		
	Total N	630			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	135	k_1= 294.23		
	1 - 3 years	202	k_2= 311.82	χ^2= 10.283	0.016
	3 - 5 years	108	k_3= 322.04		
	More than 5 years	194	k_4= 345.31		
	Total N	639			

Appendix 8.4

Mann-Whitney U and Kruskal-Walis Test: Respondents' level of familiarity with profit equalization reserve accounts (PER) terminology – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

Variable	Subgroup	N	Mean Rank	*z* , χ^2	Asymp. Sig. (*p*)
QUESTION 26: Familiarity with profit equalization reserve (PER)	**RESPONDENT CATEGORY:**		**U-Test:**		
	Ordinary Depositor	477	u_1=302.24	*z*= -5.268	0.000
	Bank Employees	170	u_2=385.05		
	Total N	647			
	ISLAMIC BANK TYPE:		**U-Test:**		
	Stand-Alone	301	u_1=307.31	*z*= -2.250	0.024
	Islamic Subsidiaries	346	u_2=338.52		
	Total N	647			
	AGE:		**K-W Test:**		
	Below 20	32	k_1= 226.89		
	21-30	272	k_2= 313.66	χ^2= 15.888	0.003
	31-40	204	k_3= 330.88		
	41-50	107	k_4= 353.26		
	Above 50	32	k_5= 367.30		
	Total N	647			
	EDUCATION:		**K-W Test:**		
	Primary/Secondary School	151	k_1= 312.85		
	College Diploma/Matriculation/A-Level	188	k_2=302.64		
	Bachelor (First Degree)	222	k_3= 331.31	χ^2= 8.476	0.076
	Professional Qualification	27	k_4= 388.11		
	Postgraduate (Master or PhD)	56	k_5= 348.64		
	Total N	644			
	INCOME:		**K-W Test:**		
	RM 1,000 and below	85	k_1= 263.49		
	RM 1,001 - RM 3,000	280	k_2= 305.78		
	RM 3,001 - RM 5,000	153	k_3= 326.16	χ^2= 24.601	0.000
	RM 5,001 - RM 10,000	85	k_4= 343.98		
	RM 10,001 - RM 20,000	24	k_5= 418.60		
	More than RM 20,000	3	*k6*=520.50		
	Total N	630			
	DURATION OF RELATIONSHIP:		**K-W Test:**		
	Less than 1 year	136	k_1= 287.13		
	1 - 3 years	203	k_2= 300.96	χ^2= 15.882	0.001
	3 - 5 years	108	k_3= 340.42		
	More than 5 years	193	k_4= 353.42		
	Total N	640			

Appendix 8.5

Cross-tabulation: Respondents' interest in financial statement prior opening a deposits account – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

		I will look at the bank's financial performance before opening an account with a bank				
		Very Unlikely	Unlikely	Likely	Most Likely	Total
Respondent Categories	Ordinary	1.7%	12.8%	62.3%	23.3%	100.0%
	Employees	2.3%	34.3%	55.2%	8.1%	100.0%
Islamic Banking Type	Stand Alone	2.0%	12.9%	63.0%	22.1%	100.0%
	Islamic Subsidiary	1.7%	23.4%	58.1%	16.8%	100.0%
Highest Education Level	Primary/Secondary School	2.0%	14.6%	59.6%	23.8%	100.0%
	College Diploma /Matriculation/A-Level	1.1%	21.7%	61.4%	15.9%	100.0%
	Bachelor (First Degree)	1.8%	16.2%	63.5%	18.5%	100.0%
	Professional Qualification	7.4%	44.4%	37.0%	11.1%	100.0%
	Postgraduate (Master or PhD)	1.8%	16.1%	60.7%	21.4%	100.0%
Monthly Income	RM 1,000 and below	1.2%	8.2%	64.7%	25.9%	100.0%
	RM 1,001 - RM 3,001	1.8%	17.8%	60.1%	20.3%	100.0%
	RM 3,001 - RM 5,000	1.3%	19.5%	63.0%	16.2%	100.0%
	RM 5,001 - RM 10,000	2.4%	27.1%	51.8%	18.8%	100.0%
	RM 10,001 - RM 20,000	4.2%	25.0%	50.0%	20.8%	100.0%
	More than RM 20,000	0.0%	33.3%	66.7%	0.0%	100.0%
Relationship Duration	Less than 1 year	1.5%	16.2%	62.5%	19.9%	100.0%
	1 - 3 years	0.5%	19.2%	57.6%	22.7%	100.0%
	3 - 5 years	0.0%	16.5%	62.4%	21.1%	100.0%
	More than 5 years	4.6%	20.1%	60.8%	14.4%	100.0%

Appendix 8.6

Cross-tabulation: Respondents' interest in using periodic financial statement as a monitoring tool for their investment performance – Statistics consists of respondents from ordinary depositors and bank employees across all categories.

		I will use the financial statement reported by the bank to monitor my investment deposit performance				
		Very Unlikely	Unlikely	Likely	Most Likely	Total
Respondent Categories	Ordinary	1.5%	14.3%	66.6%	17.6%	100.0%
	Employees	1.2%	32.0%	53.5%	13.4%	100.0%
Islamic Banking Type	Stand Alone	1.7%	13.6%	69.5%	15.2%	100.0%
	Islamic Subsidiary	1.2%	23.7%	57.5%	17.6%	100.0%
Highest Education Level	Primary/Secondary School	1.3%	16.7%	63.3%	18.7%	100.0%
	College Diploma /Matriculation/A-Level	0.5%	21.7%	61.9%	15.9%	100.0%
	Bachelor (First Degree)	0.9%	18.0%	63.5%	17.6%	100.0%
	Professional Qualification	11.1%	25.9%	55.6%	7.4%	100.0%
	Postgraduate (Master or PhD)	1.8%	17.9%	69.6%	10.7%	100.0%
Monthly Income	RM 1,000 and below	1.2%	7.1%	69.4%	22.4%	100.0%
	RM 1,001 - RM 3,001	0.7%	18.1%	65.5%	15.7%	100.0%
	RM 3,001 - RM 5,000	0.7%	19.0%	62.7%	17.6%	100.0%
	RM 5,001 - RM 10,000	3.5%	32.9%	51.8%	11.8%	100.0%
	RM 10,001 - RM 20,000	8.3%	16.7%	58.3%	16.7%	100.0%
	More than RM 20,000	0.0%	0.0%	100.0%	0.0%	100.0%
Relationship Duration	Less than 1 year	0.0%	19.3%	64.4%	16.3%	100.0%
	1 - 3 years	1.0%	18.7%	66.0%	14.3%	100.0%
	3 - 5 years	0.0%	17.4%	63.3%	19.3%	100.0%
	More than 5 years	3.6%	20.6%	58.2%	17.5%	100.0%