

Islamic Banking in Malaysia: A Sustainable Growth of the Consumer Market

Ching Wing Lo and Chee Seng Leow

Abstract—For the past 3 decades, the Malaysian Islamic banking sector has been growing rapidly with an average of 18% growth per annum in terms of assets since 2000. As at 2013, Malaysia continued to record substantial achievement with a total asset of RM426.16 billion which represent about 13% of the total global Islamic banking assets, behind only to Iran and Saudi Arabia. However, if compare to conventional banking sector in terms of assets and customers size, the Malaysian Islamic banking sector is considered at its infancy stage. This is mainly due to the late establishment of Islamic concept into the banking system. Although the general awareness towards Islamic banking in Malaysia is considered at acceptable level, in terms of assets, financing and deposits the Islamic banking sector only captured about 13%-14% of the total banking markets share which is still far fetch from the conventional banking sector. Nevertheless, the consumer market still provides great opportunity for the Islamic banks to target on for more profitability. Therefore, Islamic banks should formulate strategies to educate and attract more consumers to use Islamic banking products. The objective of this short paper is to discuss on the sustainable growth of the Islamic banking consumer market in Malaysia in order to identify a research gap. The research methodology is based on analytical literature review. It is found that lack of studies was conducted on customer perceptions. In the conclusion, this paper strongly recommended more empirical studies on customer perceptions towards Islamic banking in Malaysia should be conducted immediately.

Index Terms—Islamic banking, consumer market, sustainable growth, customer perceptions.

I. INTRODUCTION

Islamic banking is defined as a banking system that is based on the Shariah law with the main principles to conduct business in accordance to the sharing of profit and loss and the prohibition of interest earning and rewarding [1]. For the past three decades, Islamic banking has been growing very fast around the world with wide acceptance by both Muslims and non-Muslims [2]. The estimated size of the global Islamic banking industry is projected to reach US\$1.6 trillion by 2012 [3]. Today, there are more than 300 financial institutions operating worldwide across 75 countries with the biggest hubs centred in the Middle East and Southeast Asia.

Manuscript received June 5, 2014; revised August 16, 2014. This work is part of a research project studying on the Relationship between Customer Perception of Islamic Banking Product and Intention to Purchase. The research project is self-funded by Lo and supervised by Leow.

Ching Wing Lo is with Labuan Faculty of International Finance, Universiti Malaysia Sabah, Labuan International Campus, W.P. Labuan, Malaysia (e-mail: ebryanlo@gmail.com).

Chee Seng Leow is with IIC University of Technology, Phnom Penh, Cambodia (e-mail: drleowcs32@gmail.com).

According to Malaysia International Islamic Financial Centre 2013 report, the Malaysian Islamic banking sector (including

DFIs) shared 13% of the total global Islamic banking assets, behind only to Iran and Saudi Arabia [4]. In other words, the Malaysian Islamic banking sector has also been growing equally fast vis-à-vis the global Islamic banking development. Nevertheless, if compare to conventional banking sector in terms of assets and customers size, the Malaysian Islamic banking sector is considered at its infancy stage. This is mainly due to the late establishment of Islamic concept into the banking system. Although the general awareness towards Islamic banking in Malaysia is considered at acceptable level [5] but not until the 2009 global financial crisis that tested how resilient of the conventional banking sophisticated products which led to many corporations and national economies melted down. Then only the bank customers began to realize how stable Islamic banking system is. During this period, the financial crisis has revealed the weaknesses of conventional banking as compared to the Islamic banking system, as a better alternative banking in terms of fundamental risk-sharing [6], [7]. Therefore, Islamic banks especially those conventional banks should leverage on its Islamic entity to managing risk and generate more profits. At the same time, Islamic banks should formulate strategies to educate and attract more consumers to use Islamic banking services. However, at its core Islamic banks have to understand the consumers' behavior first prior to convert them into a customer. In view of the above, this paper will discuss Islamic banking in Malaysia from consumer's perspective. The main objective is to evaluate the sustainable growth of the Islamic banking consumer market in Malaysia in order to identify a research gap. At the end of the discussion, a recommendation is provided for future research.

II. ISLAMIC BANKING DEVELOPMENT IN MALAYSIA

Islamic banking concept was introduced in Malaysia in the early '80s with a noble cause to assist the Muslims as a better banking system compared to the then Tabung Haji (the Pilgrims Management and Fund Board) saving scheme established in 1963.

In 1993, the Malaysia government had liberalized the banking industry further by allowing the conventional banks to offer Islamic banking products through an "Islamic windows" to enhance the dual banking system to be more effective in promoting Islamic banking as a whole [8]. The decision has compelled the entire banking industry in Malaysia becoming more competitive as a way to improve

and increase the productivity of banking operations [9], [10].

Since 2000, the Islamic banking sector in Malaysia has been growing at average of 18% per annum in terms of assets but the Malaysian government continued to challenge upward a 20% of the total banking markets share by 2010 [11]. This is part of the long term aspiration to turn Malaysia into a leading global Islamic banking hub.

Although the Malaysia Islamic banking sector has been established for three decades the market share still very low as compared to the conventional banking sector [12]. In terms of assets, financing and deposits the Islamic banking sector only captured about 13%-14% of the total banking markets share which is still far fetch from the conventional banking sector (please refer Fig. 1, Fig. 2 and Fig. 3 below).

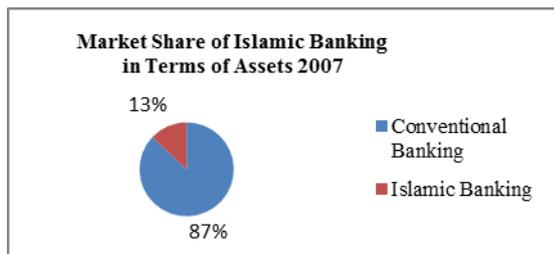


Fig. 1. Source: Bank Negara Malaysia, 2007.

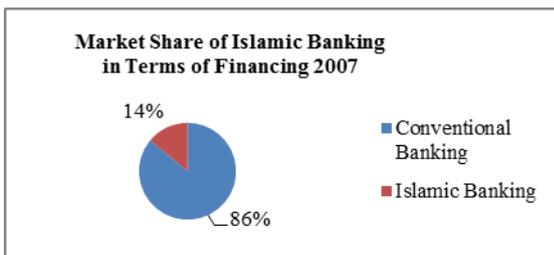


Fig. 2. Source: Bank Negara Malaysia, 2007.

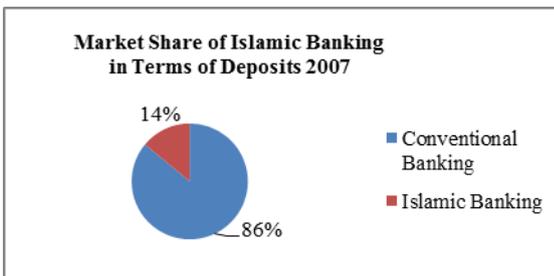


Fig. 3. Source: Bank Negara Malaysia, 2007.

Therefore, there are still great potential for the Islamic banking to tap from the overall banking markets size.

The positive perception of customers especially among the non-Muslims towards Islamic banking is important because the Islamic banks have to compete directly with the more established conventional banks under the dual banking system [13]. According to [14], in order to capture greater market share in a dynamic and competitive financial environment, is boils down to strategic positioning of the Islamic banks to maintain their competitive edge that can satisfy the needs of their customers.

Recognizing Islamic banking has played an important role for the overall Malaysia financial industry [14], in 2002 the Malaysia government has launched the first Islamic sukuk in the world which has attracted a wide geographical distribution of investors [15].

Currently, there are eleven local-owned and six foreign-owned Islamic banks in the Malaysian Islamic banking sector [16]. Table I shows the list of Islamic Banks in Malaysia:

TALBE I: SOURCE: BANK NEGARA MALAYSIA, 2013

No.	Name	Ownership
1	Affin Islamic Bank Berhad	Local
2	Alliance Islamic Bank Berhad	Local
3	AmIslamic Bank Berhad	Local
4	Bank Islam Malaysia Berhad	Local
5	Bank Muamalat Malaysia Berhad	Local
6	CIMB Islamic Bank Berhad	Local
7	EONCAP Islamic Bank Berhad	Local
8	Hong Leong Islamic Bank Berhad	Local
9	Maybank Islamic Berhad	Local
10	Public Islamic Bank Berhad	Local
11	RHB Islamic Bank Berhad	Local
12	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
13	Asian Finance Bank Berhad	Foreign
14	HSBC Amanah Malaysia Berhad	Foreign
15	Kuwait Finance House (Malaysia) Berhad	Foreign
16	Standard Chartered Saadiq Berhad	Foreign
17	OCBC Al-Amin Bank Berhad	Foreign

Today, Islamic banking is complementing with the conventional financial system in the economy successfully and Malaysia once again proves to the world that implementing dual-system is achievable [17].

III. WHY THE CONSUMER MARKET IS SUSTAINABLE?

There are five reasons that have been identified why Islamic banks should focus on the consumer market for its long term sustainability and growth.

- 1) The Malaysian government continued commitment in providing supports in financial infrastructure, institutions, regulatory framework, and guidelines through its 10-Year Financial Sector Plan serve as the foundation for a long term play for the entire Islamic banking sector [18]. Under this plan, greater emphasis will be placed on enhancing the resilience of the Islamic finance sector as well as special attention will be given to protect and educate the consumers on financial institutions' service quality and integrity and personal wealth management. Hence, the 10-year blueprint plan will surely help the Islamic banking sector progress and develop ahead.
- 2) The Malaysian population will soon total to 30 million by 2015 and forecasted to reach 32 million in year 2020. Out of the 32 million population, 67.6% of them are aged between 15-64. It is estimated a quarter of the population fall under the middle-income group in 2020 with 60% of

them will earn a higher real annual income (after adjusting for inflation) of RM36,000 in 2020. On the other hand, the overall consumption and investment will increase in proportion to the rising incomes and enlarged middle class population [18]. All these economic activities need banking support system. That is the opportunity that Islamic banks can capitalize on.

- 3) According to PwC, the Malaysian Islamic finance system has a competitive advantage as compared to other Islamic financial centres due to its holistic and integrated approach especially the strength of its dual banking system [19]. This augurs well for the Islamic banking sector in cross-promoting Islamic banking products to the existing conventional banks' captive customers. This is particularly true to the non-Islamic banking customers who are currently using the conventional banking products but lack of knowledge on Islamic banking products. They can be educated and converted into Islamic banking customers.
- 4) Since day one, the present Islamic banking products offered by most Islamic banks in Malaysia have been designed and innovated for the consumer markets. Save for sukuk, most of the products concept such as Mudharabah (profit-sharing), Musyarakah (joint venture), Murabahah (cost plus), Al-Ijarah (leasing), Al-Kafalah (bank guarantee) to name a few are basically functioning like the conventional banking products but structured and complied with shariah law. Therefore it is easier to continuing adopt and develop from the present guidelines both for the bank staff and customers understanding.
- 5) Finally, the most critical point that contributes to the Islamic banking business and profit is about the consumer perceptions and acceptance of Islamic banking products. According to [20] Islamic bankers considered retail customers less important than corporate customers in generating profits. It could be due to lack of awareness among the consumers towards Islamic banking that resulted in low patronage in Islamic banking [5]. However, in the recent years, the Islamic banking sector continued to record growth with a total assets of RM426.16 billion in 2013, a 10% rise from RM389.3 billion in 2011 [4]. This is a sign of increase in general acceptance of Islamic banking in Malaysia. Therefore, there is compelling reason to target on the consumer market to achieve greater profitability.

IV. LACK OF STUDIES CONDUCTED IN MALAYSIA

So far, very limited studies were pursued on Islamic banking in general let alone on customer perceptions. Some previous literatures related to customer perceptions towards Islamic banking can be divided into two categories. The first category of earlier studies was mainly conducted in foreign countries such as United Kingdom, Bahrain, Jordan, Pakistan, United Arab Emirates, and Singapore. While the second category which this paper focusing on is in Malaysia.

Probably the first study on Islamic banking was researched in United Kingdom by [21] with the key finding that corporation prefers foreign banks than local banks. In

Bahrain, [22] and [23] revealed that the importance of fast and efficient service, reputations and confidentiality for Islamic banking. A separate finding in Bahrain showed adherence to Islamic principles is the primary factor for selection criteria [24]. Similar results on compliance to shariah principles as selection criteria were also found in Jordan [25], in Pakistan [26], and in Bangladesh [27] respectively. Reference [28] study in United Arab Emirates showed that non-Muslim students viewed Islamic finance is more appealing to Muslims and Islamic finance does not provide superior products. Across Singapore, study found that there was a general lack of awareness of Islamic banking knowledge among both Muslims and non-Muslims [29].

Meanwhile in Malaysia, there were some recent studies done on customer perceptions as follow. Reference [5] study was focused on how the Malaysian customers select Islamic banking products. The results revealed that fast and efficient service, speed of transaction and friendliness of bank staff, are among the top priorities for customers' consideration. Follow through studies has been conducted by Haron and team in corporate customer perceptions. In 2002, [20] found that cost of the products is an important factor for corporate customers in bank selection. Another new finding about customer perceptions in Malaysia is that Islamic banking should not view as a business entity striving to fulfill the religious obligations but as a viable business that can win over customers [14]. A specific study on Islamic retail banking conducted by [30] states that there is significant difference in perceptions towards Islamic banks between urban and rural customers. On the other hands, few studies comparing between Muslim and non-Muslim on customer perceptions revealed that a high level of dissatisfaction among customers due to low intention use of Bai Bithaman Ajil [31], Muslims are supportive of Islamic banking while non-Muslims perceived Islamic banking as relevant mainly to Muslims [32], non-Muslims opined that Islamic banks cannot compete with conventional banks effectively while non-users indicated a low willingness to deal with Islamic banks [33], Islamic banking is gaining greater acceptance among the non-Muslims in Kuala Lumpur [34].

Clearly, the above review shows that the previous studies conducted not only limited but also in different perspective.

V. CONCLUSION

As the government aspire to turn Malaysia into a leading Islamic hub in the world, Islamic banks has to contribute directly towards this achievement by increasing their assets size. Following the discussion above, it has been inferred that the consumer market growth in Malaysia is sustainable which the Islam banks can capitalize on. Since customer is the main source for business and profit generation, understanding consumer behavior is crucial. Therefore, prior to formulate and implement marketing strategies, empirical studies should be carried out on customer perceptions towards Islamic banking enable more valuable knowledge can be accumulated for reference. Local researchers had advised Islamic banks to study on customer perceptions in order to promote and market their products more effectively [5], [14]. To sum up, it is recommended that studies on customer

perceptions towards Islamic banking should be conducted in Malaysia not only immediate but more researches have to be embarked as to contribute critical knowledge to the local academic and industry literature.

REFERENCES

- [1] S. A. S. Al Nasser *et al.*, "Introduction to history of Islamic banking in Malaysia," *Humanomics*, vol. 29, no. 2, pp. 80-87, 2013.
- [2] M. Iqbal and P. Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects*, New York: Palgrave Macmillan, 2005.
- [3] M. M. Khan and M. I. Bhatti, *Development in Islamic Banking: A Case of Pakistan*, Hampshire: Palgrave MacMillan, 2008.
- [4] Malaysia International Islamic Financial Centre. (2013). Islamic Financial Industry Outperforms in 2013. [Online]. Available: <http://www.mifc.com/index.php?ch=28&pg=72&ac=62&bb=uploadpdf>
- [5] S. Haron, N. Ahmad, and S. L. Planisek, "Bank patronage factors of Muslim and non-Muslim customers," *International Journal of Bank Marketing*, vol. 12, no. 1, pp. 22-40, 1994.
- [6] A. R. Alaro and M. Hakeem, "Financial engineering and financial stability: The role of Islamic financial system," *Journal of Islamic Economics, Banking and Finance*, vol. 7, no. 1, pp. 25-38, 2011.
- [7] R. Rosman, N. A. Wahab, and Z. Zainol, "Efficiency of Islamic banks during the financial crisis: an analysis of Middle Eastern and Asian countries," *Pacific-Basin Finance Journal*, vol. 28, pp. 76-90, 2014.
- [8] Bank Negara Malaysia, *The Central Bank and the Financial System in Malaysia: A Decade of Change 1989-1999*, Kuala Lumpur, 1999.
- [9] A. S. Alias, N. R. Kamarulzaman, and R. Bhupalan, *Islamic Banking in Malaysia: An Overview*, 1st ed. Kuala Lumpur, Institut Bank-Bank Malaysia (IBBM), 1993.
- [10] A. Kaleem, "Modelling monetary stability under dual banking system: the case of Malaysia," *International Journal of Islamic Financial Services*, vol. 2, no. 1, 2000.
- [11] Z. A. Aziz, *Islamic Banking and Finance Progress and Prospects: Collected Speeches 2000-2006*, Bank Negara Malaysia, Kuala Lumpur, 2006.
- [12] Price water house coopers, Malaysia. (2010). *Gateway to Asia: Malaysia*, *International Islamic Finance Hub*. [Online]. Available: http://www.pwc.com/en_MY/my/assets/publications/Gateway-to-Asia.pdf
- [13] F. A. Md Nawi, A. S. Yazid, and M. O. Mohammed, "A critical literature review for Islamic banks selection criteria in Malaysia," *International Business Research*, vol. 6, no. 6, May 2013.
- [14] A. W. Dusuki and N. I. Abdullah, "Why do Malaysian customers patronize Islamic banks?" *International Journal of Bank Marketing*, vol. 25, no. 3, pp. 142-160, 2007.
- [15] A. Sukor, R. Muhamad, and A. Y. Gunawa, "Malaysian sukuk: Issues in accounting standard," *Shariah Journal*, vol. 16, no. 1, pp. 63-74, 2008.
- [16] Bank Negara Malaysia. (2013). List of Financial Institutions: Islamic Banks. [Online]. Available: <http://www.bnm.gov.my>
- [17] T. I. Seethalechumy, Hishamuddin, and C. E. Uchenna, "Customer awareness and current usage of Islamic retail banking products and services in Malaysia," *Australian Journal of Basic and Applied Sciences*, vol. 5, no. 10, pp. 667-671, 2011.
- [18] Bank Negara Malaysia. (2011). *Financial Sector Blueprint 2011-2020*. [Online]. Available: http://www.bnm.gov.my/files/publication/fsbp/en/BNM_FSBP_FUL_L_en.pdf
- [19] Price water house coopers, Malaysia. (2008). *Asia's Islamic Finance Hub*. [Online]. Available: http://www.pwc.com/en_my/my/assets/publications/islamic-finance-hub.pdf
- [20] N. Ahmad and S. Haron, "Perceptions of Malaysian corporate customers towards Islamic banking products and services," *International Journal of Islamic Financial Services*, vol. 3, no. 4, pp. 13-29, 2002.
- [21] P. W. Turnbull, "Corporate attitudes towards bank services," *International Journal of Bank Marketing*, vol. 1, no. 1, pp. 53-68, 1983.
- [22] C. Erol and R. El-Bdour, "Attitude, behavior and patronage factors of bank customers towards Islamic banks," *International Journal of Bank Marketing*, vol. 7, no. 6, pp. 31-37, 1989.
- [23] C. Erol, E. Kaynak, and R. El-Bdour, "Conventional and Islamic bank: Patronage behaviour of Jordanian customers," *International Journal of Bank Marketing*, vol. 8, no. 5, pp. 25-35, 1990.
- [24] S. A. Metawa and M. Almosawi, "Banking behaviour of Islamic bank customers: perspectives and implications," *International Journal of Bank Marketing*, vol. 16, no. 7, pp. 299-313, 1998.
- [25] K. Naser, A. Jamal, and L. Al-Khatib, "Islamic banking: a study of customer satisfaction and preferences in Jordan," *International Journal of Bank Marketing*, vol. 17, no. 3, pp. 135-50, 1999.
- [26] M. Hassan, "People's perceptions towards Islamic banking, a fieldwork study on bank account holders' behaviour in Pakistan," *Journal of Oikonomika*, vol. 43, no. 3-4, pp. 153-176, 2007.
- [27] M. S. N. Khan, M. K. Hassan, and A. I. Shahid, "Banking behaviour of Islamic bank customers in Bangladesh," *Journal of Islamic Economics, Banking and Finance*, 2008.
- [28] J. Bley and K. Kuehn, "Conventional versus Islamic finance: Student knowledge and perception in the United Arab Emirates," *International Journal of Islamic Financial Services*, vol. 5, no. 4, 2004.
- [29] P. Gerrard, and J. B. Cunningham, "Islamic banking: A study in Singapore," *International Journal of Bank Marketing*, vol. 15, no. 6, pp. 204-216, 1997.
- [30] S. Thambiah, U. C. Eze, A. J. Santhapparaj, and K. Arumugam, "Customers' perception on Islamic retail banking: a comparative analysis between the urban and rural regions of Malaysia," *International Journal of Business and Management*, vol. 6, no. 1, 2011.
- [31] D. A. Razak and M. O. Mohammed, "Consumers' acceptance on Islamic home financing: empirical evidence on bai bithaman ajil (BBA) in Malaysia," in *Proc. 2008, IIUM International Accounting Conference IV (INTAV)*, 2008.
- [32] M. Loo, "Attitudes and perceptions towards Islamic banking among Muslims and non-Muslims in Malaysia: implications for marketing to baby boomers and X-generation," *International Journal of Arts and Sciences*, Concordia University College of Alberta, Canada, vol. 3, no. 13, pp. 453-485, 2010.
- [33] M. Mahamad and I. M. Tahir, "Perception of non-Muslims towards Islamic banking: A pilot study," *Journal of Humanitarian*, vol. 16, 2011.
- [34] A. A. Abdullah, R. Sidek, and A. A. Adnan, "Perception of non-Muslim customers towards Islamic banks in Malaysia," *International Journal of Business and Social Science*, vol. 3, no. 11, June 2012.



Ching Wing Lo was born in Sabah, Malaysia in 1965. Lo received his MBA degree in marketing from University of Leicester, Leicester, England in 1994. Lo also holds an LL.M degree in commercial law from Northumbria University in Newcastle upon Tyne, England which has been completed in 2011.

He is a senior lecturer with Labuan Faculty of International Finance, Universiti Malaysia Sabah, Labuan International Campus, Malaysia. Prior to joining Universiti Malaysia Sabah, Labuan International Campus in 2003, he has fourteen years working experience in the banking industry with his last posting as a manager with an international offshore bank in Labuan IBFC, Malaysia. His research interests are consumer behavior, branding, services marketing, financial services and marketing law.



Chee Seng Leow was born in Perak, Malaysia in 1976. Leow holds two master degrees in marketing and counseling from Universiti Putra Malaysia, Selangor, Malaysia which he graduated in 2000 and 2010 respectively. Leow also completed a PhD degree in health education in 2003 from Universiti Sains Malaysia, Penang, Malaysia.

He is attached with IIC University of Technology, Phnom Penh, Cambodia as an associate professor. He is also an honorary professor of Nguyen Tat Thanh University, Vietnam. In addition, he is also the fellow consultant of Putra Business School, Malaysia. He sits as the panel of editor of Body Language Journal, SRM-IMT Journal of Business and Management Research and International Journal of Aerospace Aviation and Astronautics (IJAA). He is also the chief editor of Journal of Productivity Management; His research interests encompass a wide discipline namely human attitude and behaviour, management, marketing, counseling, psychology, consumer behaviour, human resource, and health management.

Prof. Dr. Leow is a fellow member of the Human Behaviour Academy Ltd, Manchester, United Kingdom. Prof. Dr. Leow also the Hon. treasurer of the Institute of Marketing Malaysia since 2009 and Hon. secretary of International Council of Small Business (ICSB) Malaysia Chapter.