Intention to Use Islamic Banking Products and Its Determinants

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ABSTRACT

As there is an increasing trend of Muslims and non-Muslims accepting Islamic banking, it is crucial to reconnoiter customers' intention to use Islamic banking products. Such rationale is based on theoretical foundation and empirical evidence that customers' perception towards a particular product would lead to their intention to choose that product. The purpose of this study is to examine the determinants of intention to use Islamic banking products in an emerging and vibrant market. 200 copies of questionnaires were distributed, 131 usable copies were subsequently collected. The data were then analyzed using partial least squares-structural equation modeling. The findings show that attitude, government support, and social influence possess explanatory and predictive capacity to envisage customers' intention to use Islamic banking products. As banking service is localized to better serve the customers, this study extends the literature by providing insights into the subject matter in emerging markets.

Keywords: Islamic Bank, Intention, Attitude, Social Influence, Government Support, Product Pricing, Religious Obligation, Partial Least Squares-Structural Equation Modeling
JEL Classifications: G2, Z1

1. INTRODUCTION

Islamic bank has emerged as one of the most rapid growing industries in the last 30 years (Abdullah and Dusuki, 2006). Islamic banking has spread worldwide, and is widely accepted not only by Muslims, but also by non-Muslims (Iqbal and Molyneux, 2005). According to Henry and Wilson (2004), and Iqbal and Mirakhor (2004), Islamic bank performs the same essential functions as the conventional banks, except that the transaction is performed in accordance to the rules and principles of Islam. Therefore, Islamic banking strictly prohibits not only Riba (usury) or the excess interest charge, for example additional charge on loan, but also involvement in other unethical activities, such as speculation, liquor, and gambling (Amin et al., 2011).

Specifically Islamic banks in Malaysia have provided various types of banking products in order to carter financial needs of both Muslim and non-Muslim customers (Amin et al., 2011). Being an emerging and vibrant market, Malaysia is not only mostly

populated by Muslims, it is also recognized as a promising and prospective hub for Islamic banking at the international stage (Lo and Leow, 2014). Given the theoretical foundation and empirical evidence on the relationship between perceptions and behavioral intention, it is necessary to investigate customers' intention to use Islamic banking products in emerging markets like Malaysia. The purpose is to determine whether attitude, government support (GS), religion obligation, product pricing, and social influence have significant and substantial effect on the intention to use of the Islamic banking products.

2. LITERATURE REVIEW

2.1. Intention to Use Islamic Banking Products
Behavioral intention is largely described as willingness to adopt, use or accept an act of behavior (Fishbein and Azjen, 1975). In addition, numerous studies have concluded that intention is a strong predictor of actual behavior (Putit and Johan, 2015). Although past studies have also suggested mediators and moderators between

intention and actual behavior, it is predominantly found that the relationship between the two variables of interest remains significant. Ajzen and Madden (1986) demonstrate in their study that the stronger an individual's intention is, the more likely he is willing and expected to try, and hence the greater the likelihood that the behavior will eventually be performed.

In the present study, intention to use Islamic banking products is constructed as the outcome variable. Instead of exploring the factors that contribute to the said intention, past literature is reviewed so as to come out with factors which determine the intention. As such, attitude, GS, product pricing, religious obligation, and social influence are selected and incorporated into the research model to fulfill the purpose of the study. These variables are found to be key determinants in behavioral studies, and important constructs in studies pertaining to using Islamic banking products. Each of these variables is explained in the following sections.

2.2. Determinants of Intention to Use Islamic Banking Products

2.2.1. Attitude
Attitude is regarded as the most influential factor explaining one's intention to use Islamic banking products, such as Islamic credit card and Islamic personal financing (Amin et al., 2013). Studies by Lada et al. (2009), Amin et al. (2009), Md-Taib et al. (2008) have consistently shown the significant effect of attitude towards the use of Islamic banking products on the intention to use it. Particularly, attitude and intention to use Islamic banking products are found to be positively related, implying that efforts on changing or influencing potential users' attitude through education and marketing campaign may result in the willingness of the Muslims and non-Muslims to choose Islamic banking products.

2.2.2. GS
GS refers to a governmental actions and agenda that affect the behavior and decisions of household, local companies and international businesses (Amin et al., 2011). The study by Amin et al. (2011) shows that the stronger the GS is, the less likely that Islamic personal financing is going to be used. Such assertion contradicts the earlier studies by Rosly (2005), Haron (2005) which claim that the government in fact has a strong positive influence on the demand for Islamic banking products. Malaysia, as an international Islamic financial center, has full GS to strengthen the dual banking systems where Islamic banking is practiced hand in hand with the conventional banking system (Amin et al., 2011). Hence, it is interesting to investigate the effect of GS on intention to use Islamic banking products in Malaysia.

2.2.3. Product pricing
A study by Ramayah et al. (2006) provides an evident verdict pertaining to the inclusion of perceived financial cost in explaining behavioral intention, and at the same time supports Amin's et al. (2013) study on the importance of perceived financial cost in Islamic banking transaction. It is found that perceived financial cost has inverse relationship with the intention to choose Islamic credit cards. In fact, past studies by Amin (2008), Abdullah and

Dusuki (2006), Rahman (2005) advocate pricing as the key predictor of the Islamic bank patronage on intention to use a banking product. The same conclusion can be apparently drawn from the studies by Yu (2012), Luarn and Lin (2005). This explains that the greater the perceived financial cost is, the more likely that one's intention is inhibited from choosing Islamic banking products. The findings provide useful insights to bankers in order to develop a proper pricing strategy on the products. It thus justifies the need to look into this matter in the present study in the context of emerging market.

2.2.4. Religious obligation
Religiosity is found to be tri-dimensional (Souiden and Rani, 2015). Their study shows that the more an individual fear of divine punishment, the more he will develop a favorable perception towards Islamic banks. In addition, the more he believes in Islamic law, the more he is in favor of Islamic banking products. However, religious obligation is found to be insignificant when assessing its effect on the intention to use Islamic personal financing product (Amin et al., 2011). Contradicting from the study by Amin et al. (2011), Alam et al. (2012) found religiosity is an important element as it is capable of influencing an individual cognitively and behaviorally. Religion contributes to the base of knowledge that justifies and controls the attitude and behavior of an individual (Foxall and Goldsmith, 1994). Such assertion is also advocated by Weaver and Agle (2002), adding that there is consistency in religious influence in subscribing to an Islamic bank's services, though some religious people tend to question the compatibility of Islamic banks with Islamic principles. As such, it is necessary to assess its relationship with intention to use Islamic banking products in the study.

2.2.5. Social influence
Studies related to intention to use Islamic banking products often look into the role of subjective norm or social influence (Amin et al., 2013). The findings of studies by Lada et al. (2009), Amin et al. (2009), Md-Taib et al. (2008) indicate that subjective norm motivates the use of banking products. When being under significant social influence or pressure, an individual would perform the expected behavior even though he might not be in favor of performing the behavior (Venkatesh and Davis, 2000). It is also documented that opinions voiced by Ulamak (panel of chief priests), Shariah board members, family members and peers have significant influence on one's intention to use diminishing partnership home financing (Md-Taib et al., 2008). Given its relevance in the present study, social influence is adopted to assess its effect on intention to use Islamic banking products.

2.3. Framework and Hypotheses Development
The aforementioned review of literature provides the basis for the developing of the research framework of the present study and its hypotheses. Moreover, the theory of reasoned action (TRA) is also adopted as the underpinning foundation to postulate relationships of variables in the study (Fishbein and Ajzen, 1975). While attitude, GS, religious obligation and social influence are hypothesized to have positive relationship with intention to use Islamic banking products, product pricing is hypothesized to have inverse relationship with intention to use. As such, the

research framework is depicted as in Figure 1, followed by the five hypotheses of the study.

H_1: Attitude has positive effect on intention to use Islamic banking products.

H_2: GS has positive effect on intention to use Islamic banking products.

H_3: Product pricing has negative effect on intention to use Islamic banking products.

H_4: Religious obligation has positive effect on intention to use Islamic banking products.

H_5: Social influence has positive effect on intention to use Islamic banking products.

3. METHODOLOGY

A quantitative approach which assumes positivist paradigm was adopted in the present study. The target population was made up by customers patronizing conventional banking in Malaysia. They were chosen because they possessed potential purchasing power and ability to make decisions on the use of Islamic banking products. To ensure the respondents sampled matched the purpose of the study, non-probability purposive sampling technique was used to ensure the collected data were from valid sources. Sample size estimation was determined using G power analysis and the complexity of the study, and that is the number of variables under investigation and their respective items (Onwuegbuzie and Collins, 2007).

Data collection was done using self-administered questionnaire. The questionnaire was designed and pre-tested. Apart from profiling questions, all variables used multiple items and 5-point Likert scale for measurement (Hayduk and Littvay, 2012). Data collection was executed in early 2016. 200 copies of questionnaires were distributed and 140completed copies were subsequently collected. The response rate of over 65.5% indicates non-response error was not a major issue (Nulty, 2008). After initial screening, 131 copies were retained for data entry and further analyses. Partial least squares structural equation modeling was adopted to perform measurement model and structural model assessments.

4. FINDINGS

4.1. Measurement Model Assessment
Table 1 depicts the results of construct reliability and convergent validity testing. The results demonstrate that the constructs

Figure 1: Research framework
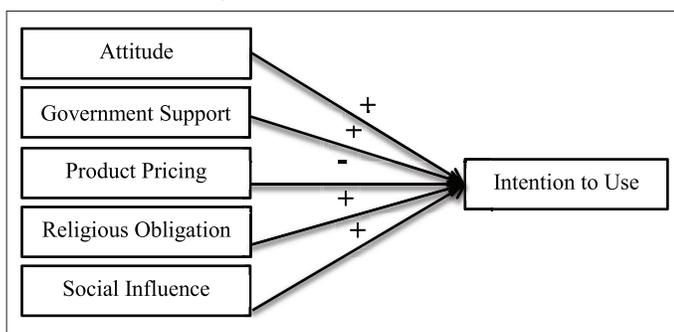
(or variables under investigation) have high internal consistency (Roldán and Sánchez-Franco, 2012) and sufficient average variance extracted to confirm convergent validity (Hair et al., 2014).

Heterotrait-Monotrait (HTMT) ratio is used to assess discriminant validity (Henseler et al., 2015) as shown in Table 2. Referring to HTMT results, discriminant validity among the constructs is confirmed at $HTMT_{90}$. As such, it can be concluded that there is no issue of multi-collinearity between items loaded on different constructs in the outer model. As such, it is appropriate to proceed to structural model assessment so as to test the hypotheses of the study.

4.2. Assessment of Structural Model
A 5000 bootstrap re-sampling of data is conducted to assess the hypotheses of the study (Hair et al., 2014). Table 3 shows the valuation of path co-efficient which is represented by Beta

Table 1: Assessment of convergent validity

Constructs	Items	Loadings	AVE	CR
Attitude	ATT_1	0.925	0.754	0.948
	ATT_2	0.912		
	ATT_3	0.900		
	ATT_4	0.775		
	ATT_5	0.833		
Government support	GS_1	0.781	0.625	0.908
	GS_2	0.775		
	GS_3	0.722		
	GS_4	0.685		
	GS_5	0.851		
	GS_6	0.908		
Intention to use	INT_1	0.837	0.717	0.924
	INT_2	0.932		
	INT_3	0.888		
	INT_4	0.916		
	INT_5	0.622		
Product pricing	PP_1	0.822	0.711	0.924
	PP_2	0.892		
	PP_3	0.942		
	PP_4	0.865		
	PP_5	0.673		
Religious obligation	RO_1	0.788	0.73	0.931
	RO_2	0.822		
	RO_3	0.879		
	RO_4	0.843		
	RO_5	0.932		
Social influence	SI_1	0.758	0.738	0.933
	SI_2	0.855		
	SI_3	0.898		
	SI_4	0.875		
	SI_5	0.901		

CR: Construct reliability, AVE: Average variance extracted

Table 2: HTMT ratio criterion

	ATT	GS	INT	PP	RO	SI
ATT	0.868					
GS	0.487	0.790				
INT	0.822	0.580	0.847			
PP	0.217	−0.089	0.285	0.843		
RO	0.446	0.416	0.539	0.298	0.854	
SI	0.556	−0.053	0.479	0.208	0.417	0.859

HTMT: Heterotrait-Monotrait, ATT: Attitude, GS: Government support, INT: Intention to use, PP: Product pricing, RO: Religious obligation, SI: Social influence

values for each path relationship. The results show that only three hypotheses are supported. Attitude, GS, and social influence are found to have positive effect on intention to use Islamic banking products. As such, Hypotheses 1, 2 and 5 are supported. As product price and religious obligation are not found to have significant effect on intention to use, Hypotheses 3 and 4 are thus not supported.

Table 4 shows the quality of the model. On the hypotheses that are tested to have significant relationship, attitude and GS have large and medium effect on intention to use Islamic banking products respectively. Social influence, in turn, carries small effect on intention to use Islamic banking product. As the effect of product pricing and religious obligation on intention is not significant, there is no effect size. The $R^2 = 0.763$ denotes that 76% of variance of intention is explained by the three determinants (attitude, GS and social influence). The predictive relevance value indicates that the independent variables are capable of predicting intention to use Islamic banking products (Hair et al. 2014).

5. DISCUSSIONS AND CONCLUSION

The study, along with its findings, has provided additional insights into intention to use Islamic banking products in Malaysia. Despite being a country dominated by Muslims, not all customers who use conventional banking system have similar perception towards Islamic banking. The study suggests such intention to use Islamic banking products is determined by attitude, GS and social influence. Although these three variables have significant relationship with the said intention, they are different in terms of their substantive relationship. Firstly, attitude is found to carry large effect on intention, implying that customers' behavioral intention to use Islamic banking product is predominantly explained and predicted by their learned predisposition (Finch, 2012). This highlights the need to understand customers' beliefs about the Islamic banking products and to facilitate their learning

Table 3: Assessment of path coefficients

Path relationship	Beta	S.E	t-value	Decision
H$_1$: ATT→INT	0.526	0.073	7.231**	Supported
H$_2$: GS→INT	0.316	0.072	4.377**	Supported
H$_3$: PP→INT	0.148	0.123	1.205	Not supported
H$_4$: RO→INT	0.069	0.065	1.060	Not supported
H$_5$: SI→INT	0.143	0.055	2.593**	Supported

**P<0.01. ATT: Attitude, INT: Intention to use, GS: Government support, PP: Product pricing, RO: Religious obligation, SI: Social influence

Table 4: Assessment of model quality

Variable	R^2 variance explained	Q^2 predictive relevance	F^2 (Effect size) Intention	Size
ATT			0.465	Large
GS			0.192	Medium
INT	0.763	0.754		
PP			N.S.	N.S.
RO			N.S.	N.S.
SI			0.040	Small

N.S.: Not significant, CR: Construct reliability, ATT: Attitude, INT: Intention to use, GS: Government support, PP: Product pricing, RO: Religious obligation, SI: Social influence

experience so as to ensure they are in favor of the products. Secondly, GS, which yields medium effect, is pivotal to shaping the said intention in the Malaysian context. This indicates customers in general feel more secured when government intervenes in a positive manner. As Malaysia has gone through financial crisis in late 1990s and 2008, resulting in major change in banking industry, customers welcome the support from government when it comes to banking services (Ting, 2016). Lastly, although social influence only possesses small effect size, it cannot be overlooked. The results imply customers' intention to use Islamic banking products are still dependent on opinions from significant others and social trends. As Malaysia embraces collectivist culture, it explains why social influence has substantive effect on intention to use (Triandis et al., 1988; Triandis, 1989).

It is somewhat surprising that product pricing and religious obligation, despite their relevance, are found to be insignificant when assessing their relationship with intention to use Islamic banking product. One possible reason is the dominant effect of attitude and GS in the structural model. Malaysian customers who use Islamic banking products look at this matter from attitudinal perspective, rather than a religious viewpoint. It is something which they are in favor of, rather than an obligation they need to perform. Moreover, when there is support from the government, this reassures their use of Islamic banking products and thus makes product pricing irrelevant. Another reason, which is a limitation of the study, could be due to the perceptions of non-Muslims in the sample. Since Malaysia is a country with diverse community with different ethnic and religious background, religious obligation might not be the determinant of using Islamic banking products for non-Muslim Malaysians. Furthermore, as the conventional banking system is highly volatile, they might feel more secured to use Islamic banking products which promise to abide Islamic principles.

In light of the findings and discussions, it is necessary to further the investigation by using multi-group analysis in order to determine the difference of effect between groups, such as that between Muslim and non-Muslims, ethnicities and generations (Ting et al., 2015). Moreover, despite being useful in explaining the phenomenon, TRA is found wanting in providing insights into the effect of external factors on intention to use Islamic banking products, such as GS. As such, future study could also consider other potential determinants of intention to use, such as riskiness, rewards, Islamic banks' performance, and the financial knowledge of Islamic banking products. Such continual efforts would extend the existing literature on usage behavior of Islamic banking system and thus enhance its development in Malaysia and other emerging markets.

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