

The Effects of Religiosity, Knowledge and Service Quality Towards Compliance Behavior of Islamic Banking Products and Services

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Abstract

The objective of this study is to observe the influence of religiosity, knowledge and service quality on compliance behavior of Islamic Banking products and services among Islamic Banking customers in Penang. This study adopted quantitative methodology and the study has collected a hundred respondents through questionnaires. The result revealed that religiosity has no significant influence, while knowledge and service quality have a significant influence on the compliance behavior of Islamic banking products and services among customers of Islamic Banking in Penang. To increase the productivity of Islamic Banking products and services, Islamic banks should improve their management ethics among bank staff based on the concept of good deeds.

Introduction

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

This study attempts to examine the factors which influence compliance behavior towards Islamic Banking products by choosing religiosity, knowledge and service quality as the determinants of compliance behavior towards Islamic Banking products and services among customers of Islamic Banking in Penang.

Literature Review

Religiosity

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

Knowledge

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

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

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

Service Quality

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

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

Research Design

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

Theoretical Framework of the Study

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

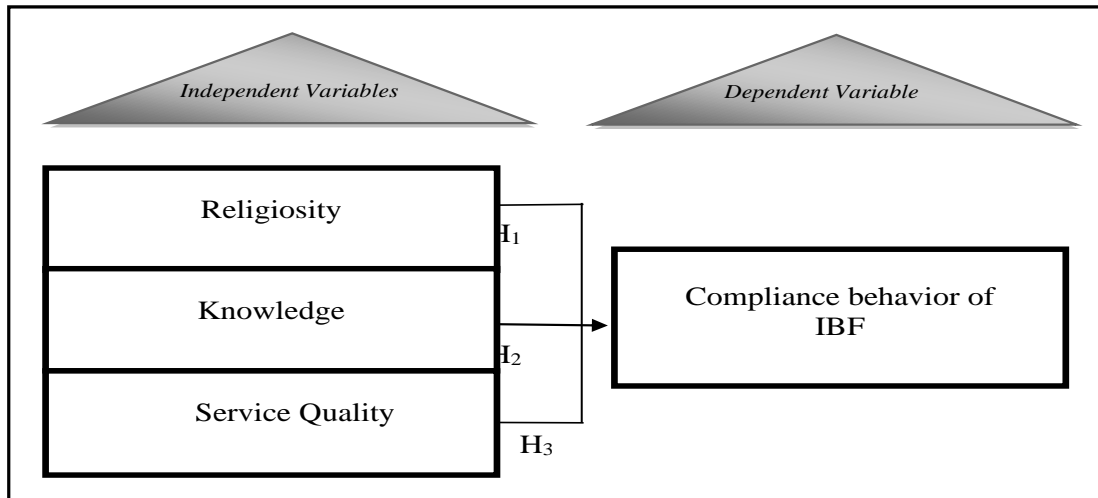


Figure 1: Theoretical Framework of the Study

Findings

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

Table 1: Multiple Regression Analysis

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

a. Dependent Variable: TCB

1) Adjusted R square: 0.423

2) ANOVA: 6.778

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

due to religiosity in Islamic banking which is somehow not directly involved in selection criteria to use Islamic banks. There is no point of view that religiosity beliefs are not the sole reason to select an Islamic bank, (Haron et al. 1994). Additionally, this study provides evidence supporting Al-Ajmi et al., (2009) who confirms that religiosity is not an important factor when it comes to Islamic banking selection.

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

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

Conclusion

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

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