



CUSTOMERS' PERCEPTIONS OF ISLAMIC HIRE-PURCHASE FACILITY IN MALAYSIA: AN EMPIRICAL ANALYSIS

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ABSTRACT

One of the latest innovative products of Islamic banks is the Islamic hire-purchase facility or *Al-Ij'rah Thumma al-Bay'* (AITAB) which is designed to meet the current demand and avoid certain risks in the financing of consumer durables and motor vehicles. AITAB can be utilized to finance a wide range of assets, either for individual or corporate customers. This paper presents empirical evidence on the customers' perception of AITAB. A country-wide questionnaire survey has been conducted on 203 AITAB customers, aiming at eliciting their awareness and perception of AITAB facility. Overall, the results provide a strong signal to the bankers that efforts need to be intensified in educating the public about the distinctive characteristics of AITAB and how it may suit the interest of customers in financing their assets. There is a huge potential for AITAB to be marketed to various segments of customers comprising those who are concerned with the legitimacy of the facility, and those who seek convenience and less complicated transactions.

JEL classification: G21, Z12, G20, M00

Key words: Islamic hire-purchase, Customers' perceptions, Customer satisfaction.

1. INTRODUCTION

As one of the most important players in the service industry, banking is no longer regarded as a business dealing with money transactions alone, but also as a business that is ineluctably in need for winning over customers and retaining old ones. As for Islamic financial institutions, customers' satisfaction towards their products is very crucial, mainly because of the fact that they have to compete with the long-established conventional banks especially in the Malaysian dual-banking system. Hence, greater attention needs to be given to increasing the range of products and services of Islamic banking to meet the greater satisfaction of consumers and the more complex requirements of today's businesses, in addition to enhancing the overall efficiency at which such products and services are provided. This is particularly true when consumer financing normally accounts for a significant proportion of a banks' total financing. According to the Annual Report of the Central Bank of Malaysia 2005, consumer financing, mainly for the purchase of passenger cars accounted for the largest component (36.3 percent) of total financing (RM9.5 billion) extended by the Islamic banking institutions.

One of the latest innovative products of Islamic banks is the Islamic hire-purchase or *Al-Ijġ'rah Thumma al-Bay'* (hereafter AITAB) facility which is designed to meet the current demand and avoid certain risks in the financing of consumer durables and motor vehicles. AITAB can be utilized to finance a wide range of assets, either for individual or corporate customers. Since its first inception more than 10 years ago, AITAB has gradually grown in popularity and continuously expanded partly due to the heightened demand by customers.

This exploratory study aims at eliciting customers' perceptions of AITAB facilities offered by Islamic banks in Malaysia. In recent years, there has been an increasing interest in patronage studies of Islamic banks, particularly to survey the customers and other stakeholders' opinions and views towards the operation of Islamic banks. Notwithstanding the progress made to date in the study of customers' perceptions towards Islamic banks, more focused research studying specific products offered by Islamic banks remains embryonic. Moreover, more specific research to study customers' views on AITAB is almost non-existent. Therefore, it is imperative to survey the perception

of customers of Islamic banks towards AITAB facilities offered. Hence, this paper is deemed to be of significance in filling this gap.

The paper has been organised in the following way. The next section begins by discussing the concept and mechanism of AITAB. The third section gives a brief overview of AITAB operations in Malaysia. The fourth section reviews past literature on customers' perceptions towards Islamic banking. Research methodology adopted in this study is further elaborated in section five. While the findings and analysis are discussed in section six, the conclusion is presented in the final section.

2. CONCEPT AND MECHANISM OF AITAB

Most writings refer to AITAB as *ijl'erah wa iqtinl'* or *al-ijl'erah al-muntahiyah bit-Tamlk*. According to Wahbah al-Zuhayli (2002), it refers to owning the benefit of certain assets for a specific period of time, by paying an agreed sums of rental, with an agreement that the owner will transfer the rented asset to the hirer at the end of the agreed period or during the period, provided all rental payments or instalments have been made in entirety. The transfer of ownership is affected by a new and independent contract, either by giving the asset as a gift, or selling it at an agreed price. Al-Sanhuri asserts that this arrangement comprises an *ijl'erah* contract which is then followed by contract of sale, thus, each contract is independent and not combined in one agreement.

Like any other contract, AITAB has to fulfil all conditions of a valid contract stipulated by the *Sharfah*. The contract should be executed by mutual agreement, responsibilities and benefits of both parties should be clearly spelt out, the agreement should be for a known period and against a known price. In particular, AITAB has to adhere to both principles of leasing (*ijl'erah*) and sale (*bay'*) contracts in respect of conditions imposed onto the contracting parties, offer and acceptance, consideration and subject matter of the contract.

The legitimacy of the AITAB contract has been resolved by a *fatwl'* of the Islamic Fiqh Academy (Jeddah) since 1985.¹ The Academy has allowed the combination of *ijl'erah* and sale provided the transaction involved the same subject matter. For example, if a person rents a sedan car for certain period of time and then later decides to purchase a multi-

purpose vehicle (MPV) from the same owner, he cannot conclude the transaction by the AITAB contract because it does not involve the same subject matter.

In addition to the above rulings, a *fatwā* passed by the International Association of Muslim Scholars² has ruled that a valid Islamic hire-purchase should consist of an *ijʿarah* contract and gift (*ʿuibah*), which shall follow three conditions: firstly, the period of *ijʿarah* must be precisely specified and its rules must be observed during that period; secondly, the amount of periodic payment must be fixed; and thirdly, transfer of ownership from the owner to the lessee is made effective by way of *ʿuibah* (gift) at the end of the *ijʿarah* period.

In the subsequent years, Kuwait Finance House³ in its legal rulings affirms two significant rules to approve the operation of Islamic hire-purchase. Firstly, in the issue of a promise to sell the leased asset at the beginning of the Islamic hire-purchase contract; whether or not it is permissible for the hirer to agree from the very beginning to buy the asset from the owner at a particular time of the *ijʿarah* period. In this respect, the *fatwā* approves the contract because it is actually concluded by a contract of sale which is independent from the *ijʿarah* contract, not the promise. Secondly, is the issue of the validity of a sale by an unreal price which does not reflect the real market value of the asset. The *fatwā* allows a sale of a leased asset by a real or 'symbolic' price provided the price is agreed and known to the parties.

In a commercial context, *ijʿarah wa iqtināʿ* is a mode of financing adopted by Islamic banks and other financial institutions offering Islamic products. In case of AITAB, this facility can be utilised to finance a wide range of assets in addition to cost-plus sale (*murʿabahah*) and deferred payment sale (*bayʿ bithaman ʿajil*). It generally involves the purchase by the bank of a specific asset and then it is leased to the customer for a long or intermediate plan on the basis of an agreement under which the bank receives, in addition to the payment of the principal, a share in the nature of rental for the use of the goods. As soon as the purchase price of the asset and the rental is paid off within the lease period, the ownership will be transferred to the customer as agreed upon in the contract.

In practice, AITAB combines the lease contract and sale contract in one trading document. Although it is deemed to be controversial from

the *Sharfah* viewpoint, this has been widely practised by Islamic banks in Malaysia. One of the main reasons is due to the requirement imposed by the Hire-Purchase Act 1967. Many *Sharfah* scholars in Malaysia approved this transaction with a condition that the contracting parties are aware and understand the nature of the AITAB contract, i.e., lease contract and sale contract signed under AITAB, activated and operated in sequence.

Under the first contract, the hirer leases goods from the owner at an agreed rental over a specified period. Upon expiry of the leasing or rental period, the hirer enters into a second contract to purchase the goods from the owner at an agreed price. In the current practice, AITAB involves three main parties: the customer, financing company, and vendor. Using, for the sake of illustration, the common example of car financing, AITAB operates as follows:

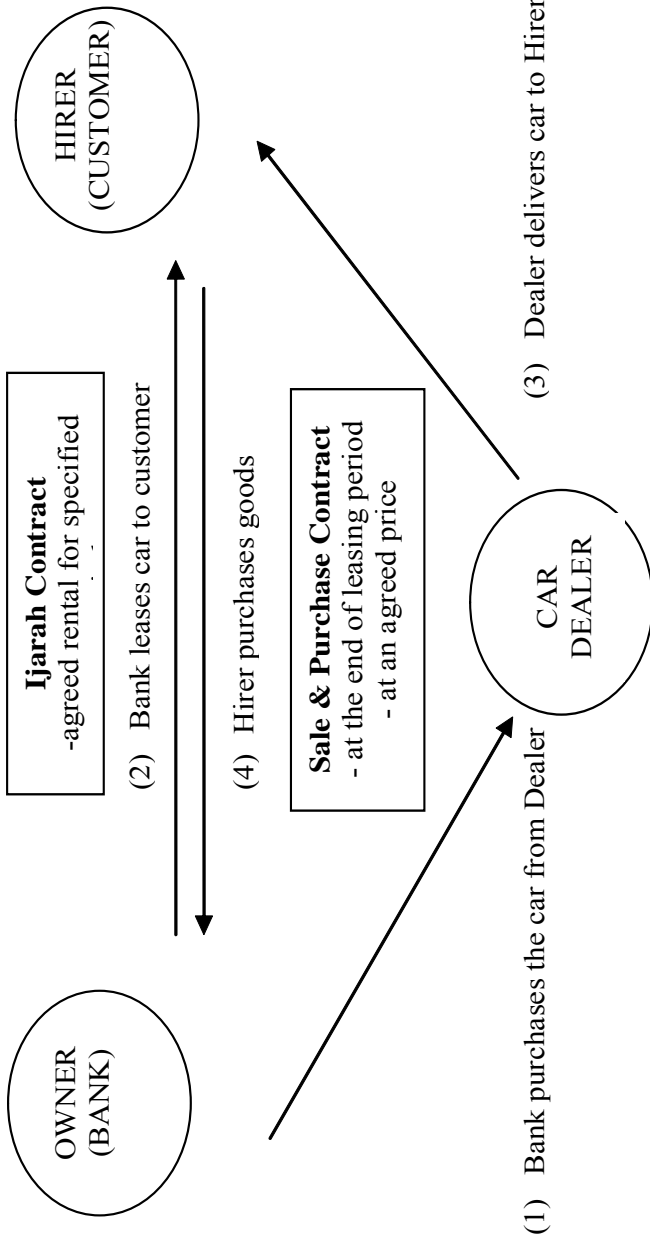
- a. The finance company buys the vehicle from the vendor or car dealer based on the order of the customer.
- b. The finance company rents the vehicle to the customer at a rate agreed upon for a specified period of time. The customer (hirer) agrees to pay for road tax and insurance coverage. He also will be responsible for its maintenance.
- c. At the end of the period the finance company and the customer will sign the sale and purchase agreement.

Currently, AITAB is limited to the financing of certain items such as motor vehicles. Some banks also offer this facility to finance industrial goods like equipment, machinery, building, transport and other durable article. The facility has been actively promoted by the banks in view of the low risk involved, high return on the investment and tax benefits derived. Figure 1 below further illustrates the mechanism of AITAB as practised in Malaysia.

3. OPERATION OF AITAB IN MALAYSIA

The operation of AITAB has undergone several phases. Bank Islam was the first bank that initiated the AITAB facility. Its operation was then extended to conventional banks under the Islamic Banking Scheme

FIGURE 1
Mechanism of AITAB



(IBS), which were pioneered by three anchor banks: Maybank, Bank Bumiputera Malaysia Berhad and Bank Rakyat. Consequently, Bank Islam set up a consultancy to assist other banks and finance companies to operate IBS, thus expanded AITAB operation to finance companies and cooperative societies. Starting from 2005, conventional banks which initially offered Islamic banking products via Islamic windows, have set up distinct Islamic banking subsidiaries.⁴ As a result, more financial institutions participate in offering Islamic banking products, including AITAB, i.e., 15 banks as compared to 13 financial institutions (mostly finance companies) prior to 2005.

Almost all banks provide AITAB for vehicle financing, except Bank Pembangunan and HSBC which utilize AITAB for financing of machinery and industrial goods. Banks like Maybank, AmIslamic Bank, Affin Islamic Bank and Bank Muamalat offers AITAB for individual and corporate customers. Other banks like Affin Islamic Bank, Bank Rakyat, EONCAP Islamic Bank, Hong Leong Islamic Bank, Public Bank and RHB Islamic Bank put sole concentration on vehicle financing due to increasing demand from the public and corporate customers. On the other hand, Bank Islam and OCBC tend to offer a rather different hire purchase mechanism to corporate customer which is known as *IjErah Muntahiyyah bit-Taml#k*.

AITAB appeals to many Islamic financial institutions partly due to its favourable features based on asset-backed transactions and its relative liquidity. This is particularly true especially when the value of the capital goods or equipment itself is grounded in tangible property and hence, promoting a sense of security. Furthermore, as it does not involve debt or interest-based lending, AITAB is conveniently accepted as a *Shar#ah* compliant instrument. One of advantages of being an asset-backed transaction is that, if the asset is of high quality, the bank may not have to rely so much on the creditworthiness of the customer. This allows a relatively weaker creditworthiness customer to obtain *ijErah* financing. The lease (*ijErah*) can also be securitized or transferred from one owner to another, or the asset can be sub-leased. It offers the possibility of a floating rate base, whereas other modes of Islamic financing generally adopt a fixed rate basis.

TABLE 1
Malaysian Financial Institutions Providing AITAB

Institution	Date	Product
Bank Islam Malaysia Berhad	1983	<i>IjĒrah Muntahiyyah bit Tamlik</i> (Corporate Financing)
Affin Islamic Bank Berhad	1999	AITAB
AmIslamic Bank Berhad	1993	Islamic ARIF Hire-Purchase AITAB Industrial Hire-Purchase
Bank Pembangunan	1998	AITAB
EONCAP Islamic Bank Berhad	1998	Auto AITAB
Hong Leong Islamic Bank Berhad	1997	Hong Leong Hire-Purchase Financing-i
HSBC Amanah	2000	Lease with an option to purchase (IwOP)
Maybank	1994	AITAB
Public Bank	1996	AITAB
RHB Islamic Bank	2006	Hire-Purchase-i
Bank Muamalat	1 October 1999	AITAB
Bank Rakyat	October 2001	AITAB Car Hire Purchase Financing-i
OCBC	June 2002	Islamic Industrial Hire-Purchase (IHP-I)/ <i>IjĒrah Muntahiyyah bit-Tamlik</i> .
Alliance Bank	2 August 2004	Alliance Hire Purchase-i
Kuwait Finance House (M) Berhad	8 August 2005	<i>IjĒrah Thumma al-BayĒ</i>

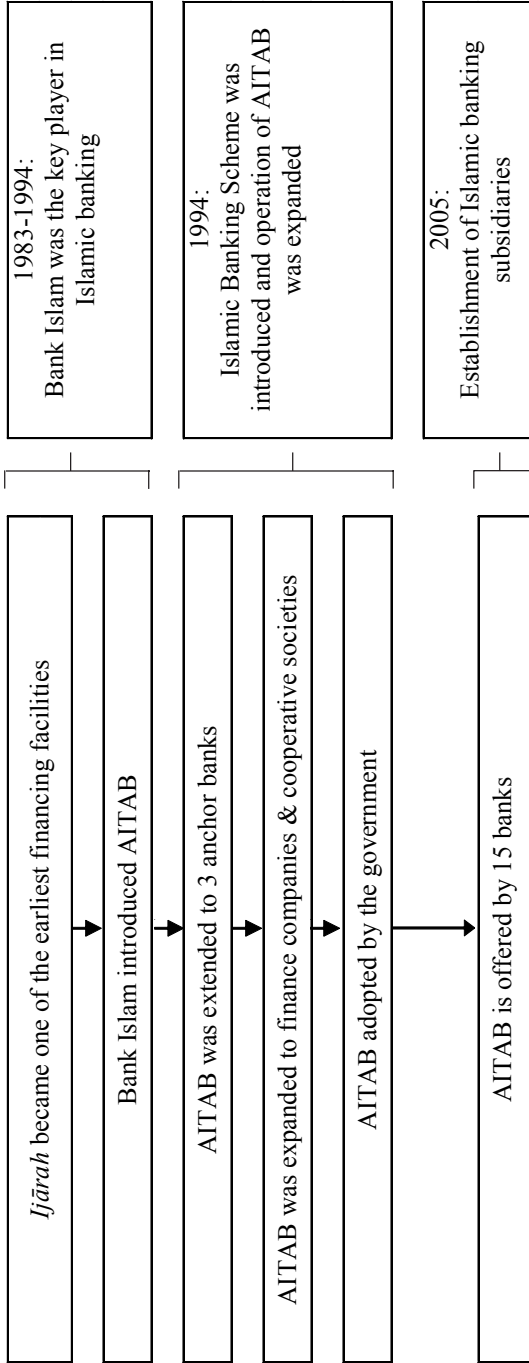
4. CUSTOMERS' PERCEPTIONS

It has been widely acknowledged in the literature that perceptions may influence the subsequent behaviour of various stakeholders. Essentially, behaviour is concerned with what subjects have done, or are currently doing, or even planning to do.⁵ The focus on behaviour therefore, involves a description of what sort of actions respondents may take to express their beliefs and attitudes towards some particular objects. In this study, customers' perceptions are often identified by their level of satisfaction towards particular products or services. Customer satisfaction is usually measured in terms of service quality and service features offered by an institution. Among the most important service features used to measure customer satisfaction are convenience, competitiveness and location of service provider. Others like Othman and Owen (2001, 2002) and Ismail, et al. (2005) further used more sophisticated measures which cover 34 items in respect of compliance, assurance, reliability, tangibles, empathy and responsive aspects.

Another important indicator determining customers' positive or negative perception is their patronage criteria towards the service provider. In one of the earliest patronage studies on Islamic banking, Erol and El-Bdour (1989) discovered that the most important criteria considered by customers in patronising Islamic banks are provision of fast and efficient services, the bank's reputation and image, and confidentiality. This finding is supported by Naser, Jamal and Al-Khatib (1999) who studied Jordanian customers' satisfaction which mainly focused on the bank's name, image, confidentiality policy and reputation. Provision of fast and efficient services are always regarded as high quality services by bank customers who value time and expect the transaction to be completed as quickly as possible. Quality services are also reflected through the personnel's' friendliness, dress code, communication techniques and customer relations. As such, Islamic banks need to invest in improving their service quality, image and reputation in order to gain maximum customer satisfaction and impressive perceptions towards their products and services.

A study on Singapore by Haron, Ahmad and Planisek (1994) revealed that only 40 percent of Muslim customers consider religion as an important factor in patronizing banks. Similarly, there is general lack of awareness of Islamic banking system among Singaporean communities,

FIGURE 2
Development of AITAB



be they Muslims or non-Muslims. These results suggest that Islamic banks do not need to rely on the religious factor as a strategy in attracting customers, but they should focus more on provision of quality and efficient services.

However, a study among bank customers in Bahrain points out that provision of *Shariah*-compliant products and services were highly regarded by majority customers while selecting Islamic banks. Other important factors are reward given by the banks, influence of family and friends, convenient location and customer's education and awareness. This study does not seem to uphold the findings by Haron, Ahmad and Planisek (1994) and Gerrard and Cunningham (1997). Nevertheless, Ahmad and Haron (2002) concluded that both religious and economics are significant patronage factors among the Malaysian corporate customers towards Islamic banking products. Majority of corporate customers somehow viewed that Islamic banks have not done enough in educating their customers and promoting products and services. This is evidenced by their findings that 65 percent of the customers have limited knowledge of Islamic banking products and services.

Table 2 provides a summary of the customers' perceptions studies in the area of Islamic banking that have been conducted so far. Studies on customers' perceptions have given useful insights into some criteria and factors contributing to customers' satisfaction towards provision of products and services of Islamic banks in general. Notwithstanding the progress made to date in the study of customers' perceptions towards Islamic banks, a more focused research studying specific products offered by Islamic banks remains embryonic. With respect to Islamic hire-purchase or AITAB, no attempt has been made so far to measure customers' perception and level of satisfaction of the facility. Therefore, this study fills an important gap as it offers a critical analysis of customer's satisfaction of AITAB.

5. RESEARCH METHODOLOGY

5.1 INSTRUMENT DEVELOPMENT

A structured questionnaire consisting of mainly close-ended questions with several open-ended questions was carefully constructed for the

TABLE 2
Customers' Perceptions Studies of Islamic Banking

Literature	Criteria in Banking Selection								
	A	B ^a	C ^b	D ^c	E ^d	F ^e	G ^f	H	I
Erol and El Bdour (1989)	-	+	+	+	+	+	+	+	+
Erol and El-Bdour (1990)	-	+	+	+	+	+	+	+	+
Haron, Ahmad and Planisek (1994)	-	+	+	+	+	+	+	+	+
Kader (1993)	+	-	+	+	n/a	+	n/a	+	+
Kader (1995)	+	-	+	+	n/a	+	n/a	+	+
Gerrard and Cunningham (1997)	±	+	+	+	+	+	+	+	+
Metawa and Almassawi (1998)	+	+	n/a	n/a	n/a	+	n/a	+	n/a
Naser and Al-Khatib (1999)	+	+	+	+	+	+	+	+	n/a
Othman and Owen (2001)	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-
Othman and Owen (2002)	+	+	+	+	n/a	+	+	n/a	+
Ahmad and Haron (2002)	-	+	+	+	+	+	n/a	n/a	n/a
Omer (2002)	+	+	n/a	n/a	n/a	n/a	n/a	+	n/a
Abbas et al. (2003)	±	+	+	n/a	+	+	+	+	n/a

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: Religious factor

F: Convenience

B: Cost/Benefit

H: Friends' and relatives' influence

C: Service Delivery

G: Confidentiality

D: Size and Reputation

I: Mass media Advertising

E: Staff factors

^aCost/benefit factors include the cost of the services and products offered by the bank perceived by the customers e.g. rate of return on deposits, investments etc.

^bService Delivery criteria include factors such as provision of a fast and efficient service e.g. application process and a wide range of services offered.

^cSize and reputation here imply the bank's reputation and image.

^dStaff 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 knowledgeable and preparedness in providing solutions and answers concerning bank's products and services.

^eConvenience criteria include the location, ample parking space, the external appearance and interior comfort.

^fConfidentiality means the extent customers can have trust in their transactions with the bank.

study. The questionnaire was originally prepared in English and then translated into Malay by using the backward translation method with an assistant from a third party who was fluent in both languages to avoid translation bias and error. The "backward translation method" was done by translating back the translated version of the questionnaire into English. When the translation does not match the original language, more attempts are made until the best translation is attained. The final version was referred to an English teacher at the Centre for Languages and Pre-Academic Development (CELPAD), International Islamic University Malaysia. Only minor discrepancies were observed between the original instrument and its back translated version and hence were easily resolved by the translator.

Before the final version of the questionnaire was sent out, it was pilot-tested to determine the appropriateness and relevance of the questions in the instrument. In the pilot study, the instrument was tested with 20 identified respondents from different background and expertise. They included senior executives from the Central Bank of Malaysia, officers of Bank Islam Malaysia Berhad, members of the *Sharfah* Advisory Board of Islamic banks, *Sharfah* scholars, economists, legal practitioners, government officers, academicians, members of the corporate sectors and the general public. Based on their responses and feedback, some modifications were made to the structure, presentation, and wording so that the respondents understand the context of the questions. It was also discovered that most customers using AITAB through car financing schemes provided by Islamic banks or other banks which offer Islamic banking scheme were unaware that they actually used the AITAB facility. As such, it was viewed that the most effective method of administering the research instrument and obtaining the feedback was through face-to-face interview.

As a result, the instrument was modified to make it more attractive and friendly to the respondents and avoid complexities and technicalities. The instrument included five items to extract the respondent's overall view of the AITAB facility. The respondents had to express their level of agreement to the following statements: (a) AITAB is in accordance with *Sharfah* guidelines, (b) AITAB is a good alternative to acquire assets, (c) AITAB is not much different from conventional hire-purchase, (d) AITAB is too costly, and (e) AITAB is a financing method of last resort. The respondents also had to indicate how they were introduced to AITAB.

5.2 DATA COLLECTION

A total of 450 questionnaires were distributed to individuals having experience of the AITAB facility in four states (Pulau Pinang, Kelantan, Kuala Lumpur and Johor) representing four regions in Peninsular Malaysia. Certain potential groups of people were identified based on their experience of using the AITAB facility. The identified groups consisted of those who were approached in the various bank premises either to settle their AITAB instalments or who were accompanying their friends or family members, people on the street and in residential areas, school teachers and support staff from secondary and primary schools, university academic and administrative staff, and people at selected driving schools.

The respondents in each of the identified groups were then selected based on convenient sampling. In the course of administering the survey, the potential respondents were politely approached, and were asked whether they have ever signed up for an Islamic car financing scheme. A brief explanation was given with respect to the objectives of the survey and the contribution they would make by participating in the survey. Once they had agreed to participate, the researcher then handed over the designated questionnaire to the participating respondents to be answered either in English or in Malay according to their preferences. The researcher then left the respondent alone to answer the questionnaire and did not interfere in any way, so as to avoid any potential bias such as the respondents feeling intimidated, threatened or being influenced by the researcher. Once completed, the respondent then returned the questionnaire to the researcher.

From a total of 450 questionnaires distributed, 205 were returned and deemed to be usable (completed), yielding a response rate of 45 percent. This response was considered large enough and sufficient for statistical reliability and generalization. This high response rate undoubtedly improved the validity and reliability of the survey. Hence, no further attempt was made to increase the sample size. Table 3 depicts the response rate of different groups of respondents.

TABLE 3
Respondents, Distribution of Questionnaires and Response Rate

Respondents	No. Issued	No. Returned	No. of Usable	% Usable
People in selected banks	130	83	70	53.8
People in street or residential area	100	31	18	18
Primary or Secondary School teachers and support staffs	100	79	70	70
University Lecturers and non-academic staffs	100	45	41	41
Driving Schools	20	11	4	20
Total	450	249	203	45.1

From the table, it is observed that school teachers and support staff gave the highest response of 70 percent to the questionnaires. The obvious reason was that they were entitled to special government schemes of owning a private car, which was jointly provided by the government and one of the Islamic banks.⁶ The second highest response rate was obtained from those customers interviewed in some selected banks (54 percent). Most of them were either waiting for their turn at the counter, or were simply accompanying their friends or relatives to the bank. University academic and non-academic staff contributed 41 percent responses.

Apart from the above respondents, questionnaires were also distributed in the market place, shopping complexes and town streets. Response rate was relatively low (18 percent), which was not surprising due to the fact that most people on the street were in a hurry and were less likely to cooperate to the survey. Finally, only 20 percent response was obtained from instructors and managers of driving schools. From the researcher's observation, their tiring work environment in which they are constantly exposed to hot and wet weather and having to deal with various attitudes of driving students made them less cooperative.

6. ANALYSIS AND FINDINGS

6.1 CUSTOMERS' SATISFACTION WITH ISLAMIC HIRE-PURCHASE (AITAB) FACILITY

The survey starts by exploring the extent of customers' satisfaction with AITAB offered by financial institutions in Malaysia. For Islamic financial institutions, customers' satisfaction towards their products is very crucial, mainly because of the fact that they have to compete with the long-established conventional banks in Malaysia's dual-banking system. Accordingly, the respondents were asked to express their degree of satisfaction towards the AITAB facility. The results indicate that majority of the respondents (87.2 percent) expressed their satisfaction with the AITAB facility offered by various Islamic financial institutions. Only a small percentage (12.8 percent) expressed their dissatisfaction with the facility. To further examine the relationship between the degree of satisfaction and other demographic factors related to the respondents (age, gender, level of education, marital status and occupation), chi-square χ^2 or z values were computed.

6.2 COMPARATIVE ANALYSIS ACROSS DEMOGRAPHIC FACTORS

The Kruskal-Wallis test (K-W Test) and Mann-Whitney test (U-Test) were conducted in the comparative analysis to assess any significant differences in the responses given by the different groups involved in this survey. These non-parametric tests are appropriate when measurement of the variables under investigation are in ordinal scale. The null hypothesis to be tested is as follows.

H_0 : There are no significant differences in the various subgroups of respondents when expressing their degree of satisfaction with AITAB, i.e. the mean ranks of various subgroups (age, marital status, gender, education level and occupation) are equal.

As shown by the K-W Test and U-Test results in Table 4, even though there are differences in the mean ranks of various subgroups in terms of their age, gender, marital status, education level and occupation, these variations are not likely to hold in the population since the observed

significance levels are all higher than 0.05. The null hypothesis of equal independent means, therefore, cannot be rejected. This suggests that customers are homogeneously satisfied with the AITAB facility offered by financial institutions in Malaysia irrespective of their differences in terms of age, level of education, occupation, gender and marital status.

This result implies a strong potential of AITAB in appealing to various groups of customers. Since satisfaction is an important component of the total package of value required by customers, financial institutions can use a segment of satisfied customers in their marketing strategy and as promotional tools to attract new customers. This necessitates banks to strategically promote and market the AITAB facility through various channels of marketing communications.

6.3 SOURCES OF INFORMATION ON AITAB

Respondents have indicated their awareness and knowledge about AITAB from various sources of information. More specifically, the majority of respondents (61 percent) indicate that they obtained the knowledge and understanding about AITAB from various means of communication used by the banks such as advertisements, banks' prospectus, and conferences and seminars. Besides direct effort by banks, 'word-of-mouth' communication is undoubtedly among the strongest communication tools in forming expectations and influencing subsequent purchasing behaviour. This is substantiated by the fact that 30 percent of the customers have been influenced to use AITAB facility based on the recommendation made by friends and dealers.

To sum up, more than 90 percent of customers benefit from these direct and indirect sources of information or means of marketing communication, as compared to only 2 percent of customers who claim that they took their own initiatives and personal efforts in getting to know and learn about AITAB. This shows the importance of marketing tools and strategies to financial institutions.

6.4 CUSTOMERS' PERCEPTIONS OF AITAB

To enable the study to gather the respondents' perceptions towards AITAB, five different statements were posed to them. The statements are measured on a five point Likert-scale (from 1 = strongly disagree to

TABLE 4
 K-W Test and U-Test Results Comparing the Mean Ranks of the Degree of Satisfaction towards AITAB in terms of Age, Education, Occupation, Gender and Marital Status

Variable	Subgroup	N	Mean Rank	z / χ^2	p-value
Degree of satisfaction with AITAB	AGE				
	Below 20	1	$k_1 = 89.00$		
	20-30	53	$k_2 = 96.66$	$\chi^2 = 3.019$	0.555
	31-40	88	$k_3 = 106.30$		
	41-50	46	$k_4 = 100.03$		
Above 50	15	$k_5 = 102.53$			
EDUCATION					
	Secondary or lower	29	$k_1 = 96.00$		
	Diploma/A-Level	58	$k_2 = 99.50$	$\chi^2 = 3.463$	0.484
	Bachelor (first degree)	93	$k_3 = 103.19$		
	Professional qualification	7	$k_4 = 103.50$		
	Master or PhD	16	$k_5 = 114.38$		
OCCUPATION					
	Manager	14	$k_1 = 118.00$		
	Professionals	40	$k_2 = 96.61$	$\chi^2 = 3.463$	0.484
	Academician	87	$k_3 = 104.17$		
	Housewife	1	$k_4 = 90.00$		
	Student	3	$k_5 = 89.00$		

TABLE 4 (continued)

Variable	Subgroup	<i>N</i>	Mean Rank	z / χ^2	<i>p</i> -value
Degree of satisfaction with AITAB	Businessman/Trader	8	$k_6 = 114.38$		
	Clerical/Support staff	24	$k_7 = 93.23$		
	Unemployed	7	$k_8 = 118.00$		
	Retired	2	$k_9 = 89.00$		
	Others	17	$k_{10} = 94.97$		
GENDER					
	Male	104	$u_1 = 102.66$	$z = 0.285$	0.776
	Female	99	$u_2 = 101.30$		
MARITAL STATUS					
	Single	37	$u_1 = 97.23$	$z = -0.944$	0.345
	Married	166	$u_2 = 103.06$		

5 = strongly agree). Table 5 describes respondents' perceptions of AITAB. Majority of the respondents (79 percent) agree with the statement that: "AITAB is in accordance with *Sharfah*." With high means and low standard deviation of 4.15 and 0.765 respectively, it indicates a strong consensus amongst the respondents. This high response reflects the positive perceptions amongst the customers towards AITAB. It implies that customers have a high degree of confidence in the banks' current practices especially with respect to offering products that are fully *Sharfah*-compliant. Therefore, banks must maintain their level of integrity and take necessary steps to ensure that their practices are in accordance with Islamic principles. This in turn will ensure the customers' loyalty and continuous support to the banks' operation. This finding is inconsistent with Haron, Ahmad and Planisek (1994) and Gerrard and Cunningham (1997) who found that religious considerations is not an important criteria sought by customers. However, their findings have to be taken in context since it could very possible be that the majority of their respondents were not fully aware of Islamic products during the time when their survey was conducted.

Statement 2 further examines the perceptions of respondents towards the potential of AITAB as an alternative to other financing methods. The statement read: "AITAB is a good alternative to acquire assets." The mean for Statement 2 turns out to be 4.08 which implies that, in general, the respondents agree with the view that AITAB is a good alternative to purchase transaction. This is confirmed by the fact that the majority of respondents (79 percent) agree with the statement. Considering a relatively low standard deviation (0.709) associated with the statement, it is believed that a conclusion based solely on the mean score is adequate to measure the degree of agreement among the respondents.

This particular finding substantiates many assertions made in the literature pertaining to the various advantages of AITAB to both parties of the contract, the customers and the bankers. For example, as discussed earlier, among the advantages that banks can gain from offering AITAB is lower credit risk since it is an asset-backed transaction that ensures the security of the underlying assets due to the retention of title by the owner while at the same time, offering the prospects of an attractive rate of return (see, for example, Pervez, 1990; Fisher, 1993). On the part of customers, they can also gain the benefits of having a fixed-rate

facility⁷ as opposed to other financing facilities. Hence, AITAB adds to the list of the financing product menu that customers can choose from at their convenience and preference.

Additionally, Statement 3 examines perception of respondents about the nature of AITAB *vis-à-vis* conventional hire-purchase. The statement reads: "AITAB is not much different from conventional hire-purchase." Referring to Table 3, there are mixed responses obtained from the respondents. The mean score is 3.16 and the standard deviation is 0.974. About 24 percent disagree with the statement, while the percentages of those who 'agree' and 'are not sure' are quite similar. About 37.9 percent agree with the statement, while 38.4 percent do not know or unsure. In total, those who responded 'agree' and 'do not know' represent 76 percent, implying a large percentage of respondents are of the opinion that AITAB and conventional hire-purchase are similar. This is not a surprising result, since there has been much argument and scepticism amongst the practitioners and *Sharʿah* scholars that AITAB resembles conventional hire-purchase. However, this does not preclude the need for banks to ensure the authenticity of AITAB so as to comply with issues like documentation, possession of assets and pricing issues to avoid any element of *ribāʿ*.

Furthermore, Table 5 also depicts diverse responses on Statement 4 which reads: "AITAB is too costly". Majority of respondents (49 percent) seem to be unsure about this issue. There is a reasonable balance of opinion amongst the respondents between those who agree (22 percent) and those who disagree (29 percent). This result reflects the emerging competitiveness of AITAB as compared to conventional hire-purchase. From another perspective, the finding also suggests that customers do not really care much about the cost or price, rather, they are more concern about the religious issue especially with respect to the need for AITAB to really be in compliance with *Sharʿah*.

When asked their opinion whether AITAB is a financing method of the last resort, the majority (45 percent) disagree while only a small minority agree with the statement. Another 41 percent are indifferent. The mean for Statement 5 is 2.58, while the standard deviation is 1.004. This indicates, in general, that the respondents disagree that they commit to AITAB as a last resort. Customers commit to AITAB based on their careful examination about the cost and benefit associated with AITAB compared to other products. This signals the potential of AITAB to

TABLE 5
Customers' Perceptions towards AITAB

Statements	Disagree (%)	Do not know (%)	Agree (%)	Mean	Std. Dev.
1 AITAB is in accordance with <i>Sharf'ah</i> guidelines	1.0	19.7	79.3	4.1527	0.76516
2 AITAB is a good alternative to acquire asset	0.0	21.1	78.9	4.0837	0.700912
3 AITAB is not much different from conventional hire-purchase	23.6	38.4	37.9	3.1626	0.97401
4 AITAB is too costly	29.1	49.3	21.6	2.8818	0.93120
5 AITAB is a financing method of last resort	45.3	40.9	13.8	2.5764	1.00387

appeal to those customers who really shop around for the most attractive products. Hence, as argued before, bankers need to package AITAB in an attractive manner that can stimulate public interest towards the product. These include efforts such as rigorous marketing, advertising and education programmes that can further enlighten the general public about the product and its benefits.

7. CONCLUSION

This paper constitutes a preliminary attempt at gaining an important understanding of the AITAB facility from an empirical study of Islamic banking customers' perceptions. Overall, the results of the survey conducted among 203 AITAB customers reveal that a large majority of

them are satisfied with AITAB. This shows a strong potential of AITAB to be further developed into a more competitive and attractive Islamic banking product that can appeal to various groups of customers.

Furthermore, several factors are important to provide a conducive environment that would encourage and promote the AITAB facility. Firstly, highly qualified and skilled Islamic banking staff are indispensable for the smooth-running and effectiveness of AITAB practice. Banks must ensure their staff are adequately trained to handle customers' enquiries and provide sufficient explanation about the facility. This is particularly important to avoid confusion amongst customers especially with regards to the distinctive features of the AITAB facility.

Secondly, the results presented in this paper provide a strong signal to the bankers that efforts need to be intensified in educating the public about the distinctive characteristics of AITAB and how it may suit the interest of customers in financing their assets. There is a huge potential for AITAB to be marketed to various segments of customers comprising those who are concerned with the legitimacy of the facility from *Shari'ah* viewpoint, and those who seek convenience and less complicated transactions. This also relates to the importance of simplified and ambiguity-free documentation and procedures in the transaction. Extensive education of the consumer and business community would also increase the Islamic Banking market for new and innovative products and approaches. Consumer education programmes are inevitable to increase the level of consumer awareness on the unique characteristics of AITAB and other Islamic financial products offered by Islamic banking institutions.

Thirdly, the findings also imply the need for Islamic banking institutions to increase innovation to strengthen their competitive position. Increasing the capacity to innovate and offer a wide range of products and services underscores the importance of attracting and securing customers' allegiance. It has been the aspiration of the Malaysian government through its Central Bank, as outlined in its Financial Sector Masterplan, to have a strong Islamic banking industry, capturing 20 percent market shares of financing in the Malaysian financial industry by 2010. Looking at the current financial performance, the Islamic

banking industry has managed to secure about 11.7 percent and 12.1 percent of the industry's total deposits and financing, respectively. Hence, in realising this noble vision, Islamic banks need to enhance their innovative capability. This can be reinforced by market research to enhance the understanding of customers' distinct financial needs and their risk appetite and therefore enable the design of Islamic financial instruments that offer tangible benefits and value to customers.

Finally, greater cooperation among the Islamic banking institutions is necessary in order to ensure that the Islamic financial system is not subject to vulnerabilities and abuses. In this respect, sharing of information among the AITAB facility providers is important, especially in a more globalised and liberalised environment where financial transactions and activities have become more complex and globalised. In this regard, there is a greater need for bankers to continuously exchange views and share information on key issues, problems and developments faced when offering the AITAB facility. The ability of the Islamic financial industry to intensify collaborative efforts will definitely strengthen the effectiveness of the Islamic financial system and provide synergies and opportunities for the Islamic financial industry to evolve into an important component of the international financial system.

ENDNOTES

1. The *fatwâ* was passed in the Islamic Fiqh Academy meeting held on 10-16 Rabi'ul Awwal 1406/28 December 1985. The Academy states an opinion expressed by Ibn Rushd who viewed that Muslim jurists are divided on the issue of combining the *ijârah* and sale contract. For instance, the Malikis have allowed the combination, while the Shafi'is disapproved it (see Islamic Fiqh Academy, 1985).
2. It was passed in Kuwait in March 1987 (see Al-Zuhayli, 2002, 399).
3. See Bait at-Tamwil al-Kuwaiti (1990a).
4. For example, RHB Islamic Bank, Commerce Tijari, Hong Leong Islamic Bank, and the latest is Affin Islamic.

5. There is a body of literature that demonstrates a causal link between beliefs, attitudes and behaviour (see Churchill and Iacobucci, 2002; Creyer and Ross, 1997; Howcroft et al., 2002).
6. This is based on interviews with the bank officers and some of school teachers. Detailed information can be found in <http://www.bankrakyat.com.my/index.php?ch=6&pg=26&ac=11&lang=en> (accessed July 2005).
7. With a fixed-rate facility, the customers can plan ahead the payment of instalments and manage their resources. By the 2005 amendment, the hirer is given an option for the terms charges under a hire-purchase agreement to be at a fixed rate or at a variable rate. A variable rate of terms charges shall be quoted at a margin percentage above the base lending rate. [Section 6A, Hire-Purchase Act 1967, Act 212].

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