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**CUSTOMERS' PERCEPTION OF ISLAMIC HIRE-PURCHASE (AITAB)
IN MALAYSIAN FINANCIAL INSTITUTIONS:
EMPIRICAL EVIDENCE**

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Abstract:

One of the latest innovative products of Islamic banks is the Islamic hire-purchase (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. This paper presents empirical evidence on the customers' perception of AITAB. A country-wide questionnaire survey has successfully obtained from 203 customers, aiming at eliciting their awareness and perception of AITAB. 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 of AITAB to be marketed to various segments of customers comprising those who are concerned with the legitimacy of the facility, and those who seek for convenience and less complicated transactions.

Keywords:

Islamic banking, ijarah, AITAB, Islamic hire-purchase, customers' perception, questionnaire survey

1. INTRODUCTION

As one of the most important players in 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 the old ones. As for Islamic financial institutions, customers' satisfaction towards their products is very crucial

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mainly because of the fact that they have to compete with the long-established conventional banks especially in the Malaysian dual-banking system. One of the latest innovative products of Islamic banks is the Islamic hire-purchase (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.

This is an 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, the more focused research studying the specific products offered by Islamic banks remains embryonic. Moreover, a 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 the important gap to the present literature on Islamic banking in general and AITAB in particular.

The paper has been organised in the following way. The next section begins by laying out the conceptual idea of AITAB and its mechanism. The following section gives a brief overview of AITAB operation in Malaysia. The fourth section provides some literature review of study of customers' perceptions done so far. 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 literatures refer AITAB to *ijārah wa iqtinā'* or *al-ijārah al-muntahiyyah bit-Tamlīk*. According to Wahbah al-Zuhayli, 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-Zuhayli 2002). Al-Sanhuri asserts that this arrangement comprises an *ijārah* contract which is then followed by contract of sale, thus, each contract is independent and not combined in one agreement (Al-Sanhuri undated).

In a commercial context, *ijārah wa iqtinā'* is a mode of financing adopted by Islamic banks and other financial institutions offering Islamic products. It is a contract under which the bank finances an asset such as equipment, building or other facilities for the customer against an agreed rental together with an undertaking from the customer to make additional payments in an account which will eventually enable him to purchase the asset. The rental and the purchase price are fixed so that the bank gets back its principal sum along with some profit which is usually determined in advance (Al-Omar and Abdel-Haq 1996).

Like any other contracts, AITAB has to fulfil all conditions of a valid contract stipulated by the *Sharī'ah*. 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 (Ahmad 1994). In particular, AITAB has to adhere to principles of *ijārah* and sale contract in respect of conditions imposed onto the contracting parties, offer and acceptance, consideration and subject matter of the contract.

AITAB facility can be utilised to finance a wide range of assets in addition to cost-plus sale (*murābahah*) and deferred payment sale (*Bay' bithaman ājil*) (Bakar 2000). It generally involves the purchase by the bank of a specific asset and then it leases to the customer for a long or intermediate plan on the basis of an agreement under which the bank receives, in addition to payment of principal, a share in the nature of rental for the use of the goods. As soon purchase price of the asset and the rental is paid off within the lease period, the ownership automatically transfers to the customer as agreed upon in the contract (Hassan 1985; Ahmed 2000).

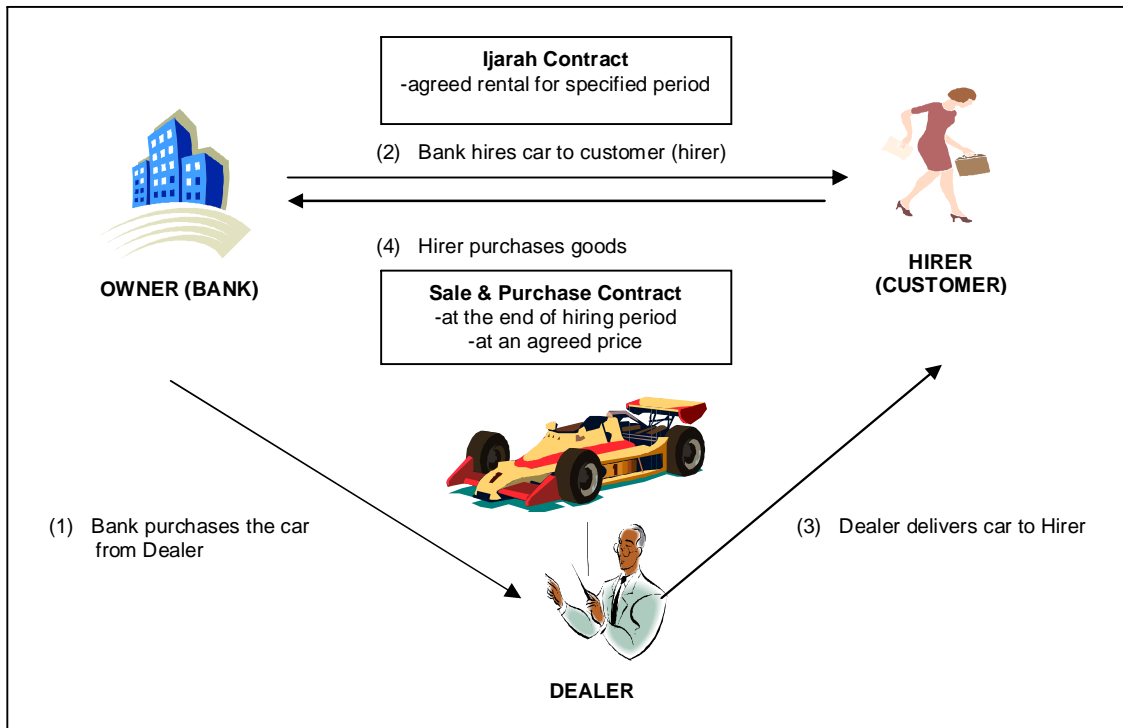
In practice, AITAB combines lease contract and sale contract in one trading document. Although it is deemed to be controversial from *Shari'ah* viewpoint, this has been widely practised by Islamic banks in Malaysia. One of the main reasons is due to the requirement imposed by Hire-Purchase Act 1967. Nevertheless, many Shari`ah scholars in Malaysia approved this transaction with a condition that the contracting parties are aware and understand the nature of AITAB contract i.e. lease contract and sale contract signed under AITAB, activate and operate in sequence.

Under the first contract, hirer leases goods from 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: customer, financing company, and vendor. Using, for the sake of illustration, the common example of car financing, AITAB operates as follows:

- (a) Finance Company buys the vehicle from Vendor or car dealer, to the order of Customer.
- (b) 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, due to their popularity in the present customers' demand. Figure 1 below further illustrates the mechanism of AITAB as practised in Malaysia.

FIGURE 1: Mechanism of AITAB



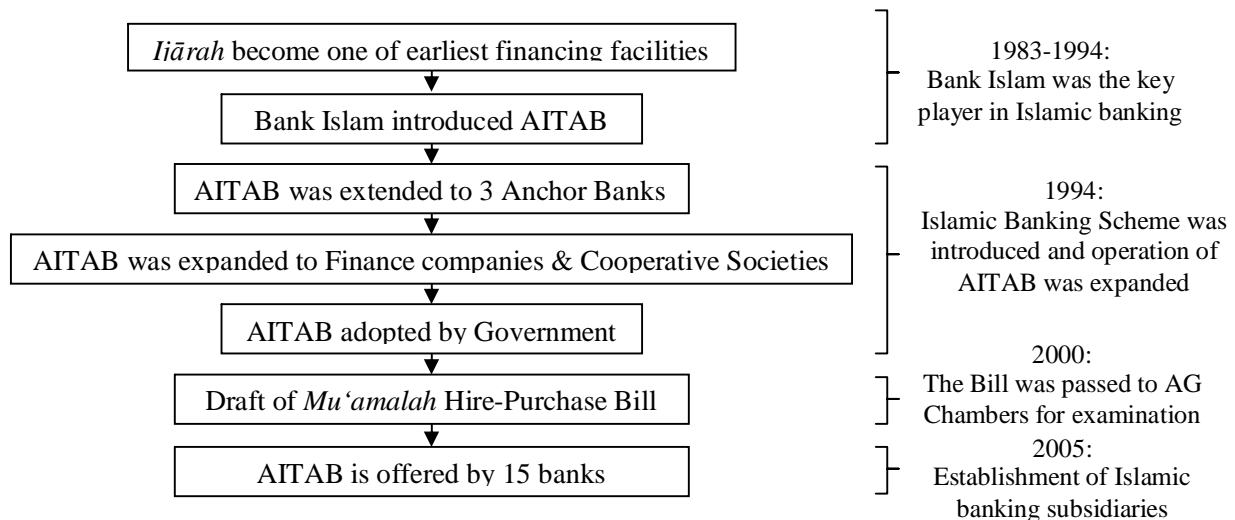
3. OPERATION OF AITAB IN MALAYSIA

During the first ten years of Islamic banking system in Malaysia, Islamic hire-purchase was not fully developed although *ijārah* facility has been introduced in the market. Subsequently, *ijārah* has been developed into Islamic hire-purchase (*al-ijārah thumma al-bay'* or *al-ijārah al-muntahiyyah bittamlīk*) and accepted as a mode of financing. Islamic hire-purchase is known in Malaysia as *al-ijārah thumma al-bay'* (AITAB). Under AITAB mechanism, bank has an authority over the leased asset. If the customer defaulted, bank can take an action against him and repossess the asset. If the customer constantly pays and then satisfies all required payments, the bank will eventually sell the asset to him at the end of the agreement.

The operation of AITAB has undergone several phases. Bank Islam was the first bank that initiated AITAB facility. Its operation was then extended to conventional banks under Islamic Banking Scheme (IBS), which were pioneered by three anchor banks; Maybank, Bank Bumiputera Malaysia Berhad and Bank Rakyat. Consequently, Bank

Islam set up a consultant to assist other banks and finance companies to operate IBS thus expanded AITAB operation to finance companies and cooperative societies. By this time, AITAB has been well received to the extent that, the government adopted it in their dealings. This has led to the formulation of *Mu'amalah* Hire-Purchase Bill, a proposed law to regulate Islamic hire-purchase transaction and to remedy any inconsistencies in the Hire-Purchase Act 1967. Starting from 2005, conventional banks which initially offered Islamic banking products via Islamic windows, have set up distinct Islamic banking subsidiaries.¹ 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.

FIGURE 2: Development of AITAB



AITAB is widely applied to consumer goods and motor vehicles. Some 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 (Kamil 1993). Almost all financial institutions provide AITAB for vehicle financing, except Bank Pembangunan, RHB Islamic Bank, SME Bank, HSBC and OCBC. Anchor banks like

¹ For example, RHB Islamic Bank, Commerce Tijari, Hong Leong Islamic Bank and the latest is Affin Islamic.

Maybank, AmBank, Alliance Bank and Bank Muamalah offers AITAB for individual and corporate customers. Institutions like Affin Bank, Bank Rakyat, EON Bank, Hong Leong Bank, Public Bank and Southern Bank put sole concentration on vehicle financing due to increasing demands from the public and corporate customers.

AITAB appeal to many Islamic financial institutions partly due to its favourable features based on asset-backed transaction and relatively liquid (Hairetdinov 1998). This is particularly true especially when the value of the capital goods or equipment itself and 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 *Shari`ah* compliant instrument (Fisher 1993). 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 credit worthiness of the customer. This allows a relatively weaker credit worthiness customer to obtain *ijārah* financing (Pervez 1990). The lease (*ijārah*) 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 basis, whereas other modes of Islamic financing generally adopt a fixed rate basis (Wohabe 1997).

4. CUSTOMER'S PERCEPTION

The customers' perception is 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 (Naser, Jamal et al. 1999). Others like Othman and Owen (2001, 2002) and Ismail, Razak et al. (2005) further used more sophisticated measures which cover 34 items in respect of compliance, assurance, reliability, tangibles, empathy and responsive aspects (Othman 2001; Othman and Owen 2002; Ismail, Razak et al. 2005).

Other important indicator determining customers' positive or negative perception is on their patronage criteria towards 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 the customers in bank selection are provision of fast and efficient services, bank's reputation and image, and confidentiality (Erol and El-Bdour 1989). This finding is supported by Naser, Jamal and Al-Khatib (1999) who studied the Jordanian customers' satisfaction which mainly concerns with 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 portrayed by the personnel's' friendliness, dress code, communication techniques and customer relations (Haron, Ahmad et al. 1994; Naser, Jamal et al. 1999). As such, Islamic banks need to invest in improving their service quality, image and reputation in order to gain maximum customers satisfaction and impressive perception towards their products and services.

A study by Haron et al. (1994) reveals that only 40% 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, be them Muslims or non-Muslims (Gerrard and Cunningham 1997). These results suggest that Islamic banks do not need to rely on 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 *Shari'ah*-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 (Metawa and Almosawi 1998). This study does not seem to uphold the findings by Haron et al. (1994) and Gerrard and Cunningham (1997). Nevertheless, Ahmad and Haron (2002) conclude 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% of the customers have limited knowledge of Islamic banking products and services (Ahmad and Haron 2002).

The above studies have given useful insight into some criteria and factors contributing to customers' satisfaction towards provision of products and services of Islamic banks in general. However, the customers' attitude and perception towards particular Islamic banking products are still lacking. In respect of 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 in the gap as it offers a critical analysis of customer's satisfaction of AITAB

5. RESEARCH METHODOLOGY

Instrument Development

In all research strategies, there is a need to develop procedures which produce results that are both reliable and valid. In this study, efforts have been taken to make sure the instrument to be used is valid and reliable for collecting the most accurate data. These have been carefully monitored during pilot study. As pointed out by Silverman (2001), "pre-testing can act as a preventive measure against inconsistencies and ambiguities" (Silverman 2001).

Therefore, the test is hoped to reveal unanticipated problems with question wordings, instructions, presentation etc. It could also see if the respondents understand the questions and give useful answers. In the pilot study, the instrument was tested with 20 identified respondents from different background and expertise. They include senior executives from Central Bank of Malaysia, officers of Bank Islam Malaysia Berhad, members of the *Sharī'ah* Advisory Board of Islamic banks, *Sharī'ah* scholars, economists, legal practitioners, government officer, academicians, corporate and general public. Based on their responses and feedbacks, 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 scheme as provided by Islamic banks or other banks which offer Islamic banking scheme. In fact,

they are unaware that they are using AITAB facility. As such, it was viewed that the most effective method of administering research instrument and obtaining the feedbacks is by face-to-face survey.

As a result the instrument was modified to make it more attractive and friendly to the respondents and avoid from complexities and technicalities. The instrument included 5 items to extract the respondent's overall view of AITAB facility. The respondents had to express their level of agreement to (a) AITAB is in accordance with *Shari'ah* guidelines, (b) AITAB is a good alternative to acquire asset, (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.

The questionnaires were translated into Malay language which is the main language used in Malaysia. Translated set is prepared to cater for certain types of respondent who are not well-versed in English. The translation work is quite difficult for certain questions. It often results in longer questions when translated into Malay language. To assist in the translation work, a "reverse translation method" was used (Casley and Lury 1981). This is 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 in Centre for Languages and Pre-Academic Development (CELPAD), International Islamic University Malaysia.

Data Collection

A total of 450 questionnaires have been distributed to individuals having experience of AITAB facility in four states (Pulau Pinang, Kelantan, Kuala Lumpur and Johor) representing four regions in Peninsular of Malaysia. Certain groups of people are targeted due to their high probability of using AITAB. Then respondents in the groups are selected based on convenient sampling. They comprise people in the bank premises who either are dealing with their financial affairs or just accompanying their friends or family,

people in the street and residential area, school teachers and support staffs from secondary and primary schools, university academic and administrative staffs, and people at selected driving schools. In the course of administering questionnaires, the respondents were asked whether they have ever signed up for Islamic car financing scheme. Brief explanation was given in respect of objectives of the survey and contribution they would give by participating in the survey. Finally, the researcher has managed to get 203 responses which is incredibly surprising results, yielding a good response rate of about 45%. Table 6.12 depicts the response rate of different type of respondents.

**TABLE 1:
Respondents, Distribution of Questionnaires and Response Rate**

Respondents	No. Issued	No. Of Return	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 staffs have given the highest response of 70% to the questionnaires. The obvious reason is that, they are entitled to special government scheme of owning a private car, which is jointly provided by the Government and a bank². Interestingly, the bank adopts Islamic concepts in all its financing facilities, including car financing which is based on Islamic hire-purchase concept. The second highest response rate is obtained from those people interviewed in some selected banks (54%). Most of them were either waiting for their turn, or simply accompanied their friends or relatives to the bank. University academic and non-academic staffs contributed 41% responses, a relatively half of school teachers and support staffs as mentioned earlier. Almost all university staffs use a staff scheme when applying for car financing. However, certain scheme provided by some universities does

² This is based on interview with the bank officers and some of school teachers. Detail information can be found in <http://www.bankrakyat.com.my/index.php?ch=6&pg=26&ac=11&lang=en>.

not adopt a financing which is based on Islamic hire-purchase concept, for instance, conventional hire-purchase financing and BIMB's car financing³.

Apart from the above respondents, questionnaires were also distributed in market place, shopping complex and town streets. Response rate is relatively low (18%), which is not surprising due to the fact that most people in the street are in hurry and less cooperative to the like research. Finally, only 20% response is obtained from instructors and managers of driving schools and this is the lowest response rate gained by the research. From the researcher's observation, their tiring working environment which constantly expose them to hot and wet weather makes them less cooperative to the survey. Having to deal with various attitudes of driving students is another factor which mostly occupies the instructors' time.

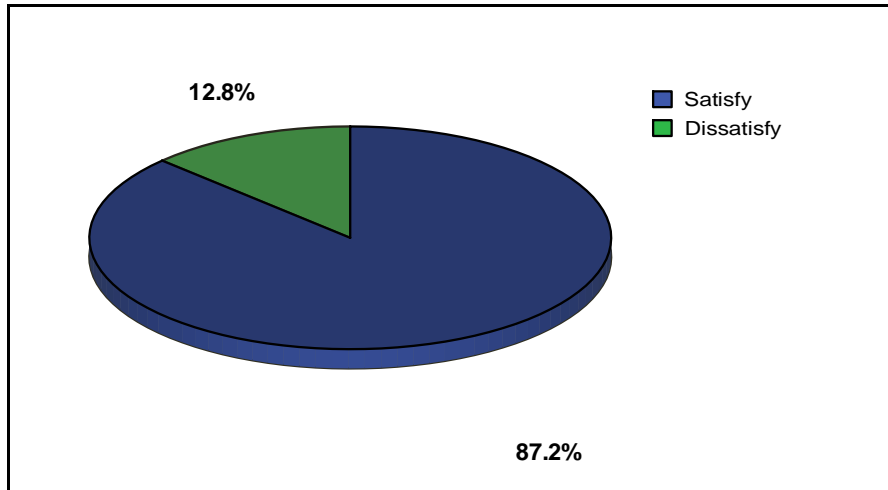
6. ANALYSIS AND FINDINGS

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 especially in the Malaysian dual-banking system. Accordingly, the respondents were asked to express their degree of satisfaction towards AITAB facility. The findings are reported in Figure 3.

³ BIMB's car financing uses concept of *Bay' bithaman ājil* (deferred payment sale).

FIGURE 3:
Customers' Satisfaction with AITAB



As depicted in Figure 3 above, a large majority of respondents (87%) are satisfied with AITAB facility offered by various Islamic financial institutions. Only a small percentage (13%) expresses 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 and z-score, z values were computed.

Comparative Analysis Across Demographic

The Kruskal-Wallis test (K-W Test) and Mann-Whitney test (U-Test) are conducted in the comparative analysis. The K-W Test and U-Test are used to assess any significant difference in the responses, given the different groups involved in this survey. This non-parametric test is appropriate when measurement of the variables under investigation is in ordinal scale. The null hypothesis to be tested reads:

Ho: 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 equals.

The results of these K-W Test and U-Test are presented in Table 2.

TABLE 2:
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	Asymp. Sig. (p)
Degree of Satisfaction with AITAB	AGE:		K-W Test:	$\chi^2 = 3.019$	0.555
	Below 20	1	$k_1=89.00$		
	20-30	53	$k_2=96.66$		
	31-40	88	$k_3=106.30$		
	41-50	46	$k_4=100.03$		
	Above 50	15	$k_5=102.53$		
	EDUCATION:		K-W Test:	$\chi^2 = 3.463$	0.484
	Secondary or lower	29	$k_1=96.00$		
	Diploma/A-Level	58	$k_2=99.50$		
	Bachelor (first degree)	93	$k_3=103.19$		
	Professional Qualification	7	$k_4=103.50$		
	Master or PhD	16	$k_5=114.38$		
	OCCUPATION:		K-W Test:	$\chi^2 = 3.463$	0.484
	Manager	14	$k_1=118.00$		
	Professionals	40	$k_2=96.61$		
	Academician	87	$k_3=104.17$		
	Housewife	1	$k_4=89.00$		
	Student	3	$k_5=89.00$		
	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		U-Test:	$z = -0.285$	0.776
	Male	104	$u_1=102.66$		
	Female	99	$u_2=101.30$		
	MARITAL STATUS		U-Test:	$z = -0.944$	0.345
	Single	37	$u_1=97.23$		
Married	166	$u_2=103.06$			

As shown by the K-W Test and U-Test results in Table 2, 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 confidence intervals. The computed χ^2 and z values are all lower than the tabulated chi-square and z -

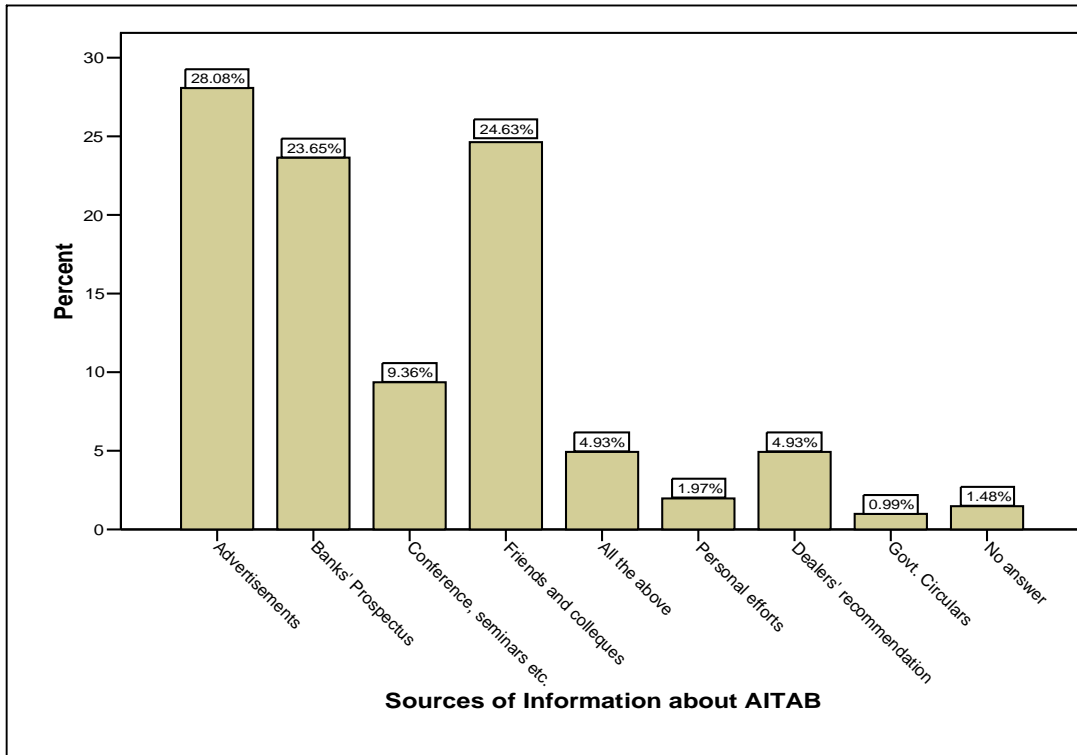
score values, at various degrees of freedom. The null hypothesis of equal independent means, therefore, cannot be rejected; which suggests that customers are homogeneously satisfied with the AITAB facility offered by financial institutions in Malaysia irrespective of their differences in terms of age, 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 AITAB facility through various channels of marketing communications.

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%) point out that they got the knowledge and understanding about AITAB from various means of communication endeavoured by the industries 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% of the customers have been influenced to use AITAB facility based on the recommendation made by friends and dealers.

FIGURE 4:
Customers' Sources of Information about AITAB



To add up, more than 90% of customers benefit from these direct and indirect sources of information or means of marketing communication, as compared to only 2% of customers who claim that they took their own initiatives and personal efforts in getting to know and learn about AITAB. This proves the importance of the financial institutions to strategically package and market AITAB product to stimulate and influence patronage behaviour of customers by adopting various marketing tools and strategies.

Customers' Perception of AITAB

To enable the study to gather the respondents' perception towards AITAB, five different statements were posed to them. The statements are measured on a five point Likert-scale (from 1 = strongly disagree to 5 = strongly agree). Table 3 describes respondents' perception of AITAB.

TABLE 3:
Customers' Perceptions towards AITAB

	Statements	Disagree (%)	Do not know (%)	Agree (%)	Mean	Std. Dev.
1	<i>AITAB is in accordance with Shari`ah guidelines</i>	1.0	19.7	79.3	4.1527	0.76516
2	<i>AITAB is a good alternative to acquire asset</i>	0.0	21.1	78.9	4.0837	0.70912
3	<i>AITAB is not much different from conventional hire-purchase</i>	23.6	38.4	37.9	3.1626	0.97401
4	<i>AITAB is too costly</i>	29.1	49.3	21.6	2.8818	0.93120
5	<i>AITAB is a financing method of last resort</i>	45.3	40.9	13.8	2.5764	1.00387

Note: 1 = strongly disagree; 5 = strongly agree

Table 3 shows that the vast majority of the respondents (79%) agree with Statement 1 that: “AITAB is in accordance with *Shari`ah*”. 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 on banks’ current practices especially with respect to offering products that are fully *Shari`ah*-compliant. Therefore, banks must maintain their level of integrity and take necessary steps to ensure that their practices are in accordance with the Islamic principles. This in turn will ensure the customers’ loyalty and continuous support to the banks’ operation. This finding is inconsistent with Haron et al. (1994) and Gerrard and Cunningham (1997) who found that religious considerations is not an important criteria patronised by customers. However, their findings have to be taken in cautious since majority of the respondents were not fully aware of Islamic products during that time when the 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 states: “AITAB is a good alternative to acquire asset”. The mean for Statement 2 turns out to be 4.08 which imply 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%) 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 and ensure the security of the underlying assets due to the retention of title by the owner at the same time offer the prospects of an attractive rate of return (see for example in Pervez 1990; Fisher 1993). On the part of customers, they can also gain the benefits of having a fixed-rate facility⁴ as opposed to other financing facilities. Hence, AITAB adds to the list of financing product menu that customers can choose 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 states: “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% disagree with the statement, while the percentages of those who ‘agree’ and ‘are not sure’ are quite similar. About 37.9% agree with the statement, while 38.4% do not know or unsure. In total, those who responded ‘agree’ and ‘do not know’ represent 76%, implying a vast percentage of respondents incline to be of the opinion that AITAB and conventional hire-purchase are similar. This is not a surprising result, since there has been much arguments and scepticism amongst the practitioners and *Shari’ah* scholars that AITAB resembles conventional hire-purchase. However, this does not

⁴ With a fixed-rate facility, the customers can plan ahead the payment of instalments and manage their resources. By 2005 amendment, 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]

preclude the need for banks to ensure the authenticity of AITAB so as to comply with issues like documentation, possession of asset and pricing to avoid any element of *ribā*.

Furthermore, Table 3 also depicts diverse responses on Statement 4 which states: “AITAB is too costly”. Majority of respondents (49%) seem to be unsure about this issue. There is a reasonable balance of opinion amongst the respondents between those who agree (22%) and those who disagreed (29%). This result somehow reflects the emerging competitiveness of AITAB as compared to conventional hire-purchase. In another perspective the finding also suggests that customers do not really care much of the cost and price issues, rather they care more about the religious issue especially with respect to the need for AITAB to really in compliance with *Shari`ah*.

When asked their opinion whether AITAB is a financing method of the last resort, the majority (45%) disagree while only small minority agree with the statement. Another 41% are indifferent. The mean for Statement 5 is 2.58, while the standard deviation is 1.004. It indicates, in general that, the respondents disagree that they commit to AITAB as a last resort. In other words, it implies that the 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 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 the 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.

CONCLUSION

This paper has discussed results of questionnaire survey conducted among 203 AITAB customers. The finding reveals 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. Then, the respondents' overall views of AITAB are studied, whereby they highly regard it as *Sharī'ah*-compliant product and a good financing alternative to purchase an asset.

Overall, 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 of AITAB to be marketed to various segments of customers comprising those who are concerned with the legitimacy of the facility, and those who seek for convenience and less complicated transactions. This relates to the importance of simplified and ambiguity-free documentation and procedures in the transaction. Banks must also ensure their staffs are adequately trained to handle customers' enquiries and provide sufficient explanation about the facility.

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