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Islamic Finance: Factors Influencing the Perception of Muslim Individuals in Perth

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ABSTRACT

The purpose of this study is to investigate the factors that influence the perception of Muslim individuals about Islamic banking and Finance. A structured close-ended questionnaire was adopted to investigate the perception of the 300 Muslim individuals from the different suburbs of Perth. Regression analysis is used to test the impact of Islamic knowledge, financial concepts and service quality on customers' perception toward Islamic banking. The findings of the study suggest that Religious inclination, understanding of Islamic financial concepts and brand image & quality has a significant impact on the respondent's perception. In addition, it is found that there is high potential for Islamic banking and finance in Perth due to increasing Muslim population. These findings can be helpful for Australian Islamic Financial Institutions to target their potential market in Perth.

Keywords: Finance; Muslim; Islam banking.

1.0 Introduction

Islamic banking, or an interest-free banking, is relatively a new concept that emerged in the past 30 years having the aim to abide the Islamic teaching and principles (Shams, 1996). As an alternate to the interest-based banking system, Muslim economists and scholars brought the concept of interest-free banking system in the beginning of 1960s (Fada, 2012). Since then, this financial system has grown year-on-year with the expansion not limited only to the Muslim countries but also to the non-Muslim countries around the world.

The mechanism of Islamic banking and its products is still unclear to the mass consumers. There is an ambiguity in the minds of Muslim customer that whether the products of Islamic banks are interest-free and according to *Sharia* or is it the same with a different name? In order to answer this question, it is crucial to understand how Islamic banking and finance are perceived by the Muslim and non-Muslim customers.

History of Muslims in Australia starts from 16th century. Mirza and Halabi (2003), states that "Some of Australia's earliest visitors were in fact Muslim fishermen from the island of Makassar from the east Indonesian archipelago". According to

Cleland (2001), Afghan Muslims have played vital role in the exploration of central Australia in nineteenth century. In addition, population growth was needed in Australia after the Second World War; as a result, around 10,000 Turks came to Australia under an agreement between Turkey and Australia (Saeed, 2004). Currently from more than sixty countries Muslims had come to Australia and settled down. Majority of the Muslims came from the countries including Turkey, Lebanon, Indonesia, Iraq, Iran, Pakistan and India (Saeed, 2004).

According to the Australian Bureau of Statistics (2016 census), Australia has Islam as the second biggest religion after Christianity with a population of 2.6 percent. This increasing population comes with Islamic social and financial needs of the Muslims in Australia. Although, currently no major Australian bank is offering Islamic Finance option, several Islamic Financial institutions are operating in Australia since 1989. These institutions include; MCCA (Muslim Community Co-operative Australia), ICFAL (Islamic Co-operative Finance Australia Limited) and Iskan Finance (Farrar, 2011).

After the entrance of Islamic finance into the Australian market, it has been a bit difficult journey throughout because of stiff regulations faced by Islamic Financial Institutions in Australia (Farrar, 2011). The study suggests that it is difficult for

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Islamic Banking and Finance (IBF) to penetrate in Australian market until the Australian government make legislative changes. However, study of Sadiq and Black (2012), illustrates that there is continuous growth for Islamic Banking and Finance in Australia without having any amendments or alterations in legislation.

Keeping in mind that Islamic Financial System is relatively a new concept particularly in Australia, literature on perception regarding Islamic Banking and finance in Australia is not available in bulk. Rammal and Zurbruegg (2007), conducted their study in Adelaide on the behaviour of individual customers and found that there is a deficiency of awareness regarding Islamic banking products and Islamic financing. However, real interest is shown by the practicing Muslim for the products of Islamic Banking. Jalaluddin (1999), examined the behaviour and attitude of total of 385 small businesses in Sydney regarding Profit and Loss Sharing (PLS) system. The study found that the respondents will be interested in PLS system if they have business support, sharing the risk between lender and borrower and default risk in interest-based banking.

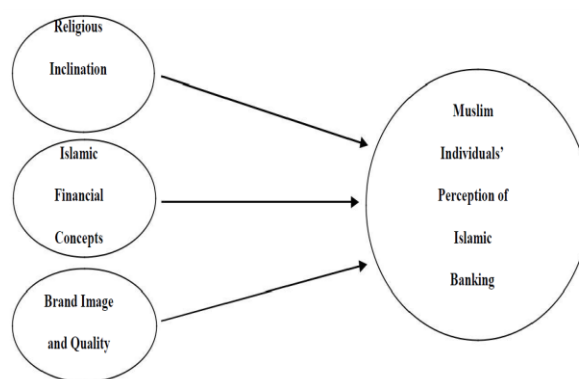
There is a dearth in contemporary literature on Islamic Banking in Australia and this study is first in nature to investigate the perception of Muslims in Perth about Islamic Banking and finance. Furthermore, the study highlights the factors that influence the perception of Muslim individuals.

2.0 Conceptual Framework

The conceptual framework is showed in figure 1. Previous studies have examined the customers' perception regarding Islamic banking and finance. The aim of this study was to highlight the factors that influence the perception of the Muslims with respect to Islamic banking and finance. Here independent variables are selected on the basis of previous literature, according to which Religious inclination, understanding of Islamic Financial Concepts and the Brand Image and Service Quality of the banks is considered to be the

dominant factors that may influence the perception of the customers

Fig 1: Conceptual Framework



3.0 Data and Methodology

3.1 Instrument

A self-administered questionnaire was used to collect the responses. The questionnaire was divided into four sections. The first three sections were based on the questions related to independent variables i.e. religious inclination, Islamic financial concepts and service quality. The fourth section was based on questions related to customer perception toward Islamic Banking and finance. The impact of independent variable on dependent variable was analysed using regression analysis.

3.2 Data collection

Random convenience sampling technique was used, and respondents were contacted at the Mosques and Islamic centres in the different suburbs of Perth. For the higher probability of responses, respondents were approached after the prayer time at the mosques.

3.3 Sample

Structured questionnaire was distributed among 350 Muslims individuals residing in different suburbs of Perth. Only 318 were retrieved out of which 300 were selected for data analysis.

4.0 Results and Discussion

4.1 Reliability statistics

The instrument adopted for the data collection was tested for reliability.

The value of Cronbach's alpha is reported as 75.5 percent that implies that the instrument used to test the customer's perception is reliable.

Table 1: Reliability Table

Cronbach's Alpha	No of Items
.754	4

4.2 Item total statistics

The reliability of each variable in the table shows that service quality is the most reliable variable among all variables with the value .762 of Cronbach's Alpha followed by Perception.

The values of individual Cronbach's alpha depict that all the variables formulated in the study are acceptable and reliable.

Table 2: Item Wise reliability of the variables

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
REL_INCL	6.5509	3.623	.707	.625
CONC_OF_IF	6.4902	3.306	.608	.663
SERV_QUAL	5.7412	4.033	.423	.762
Perception	6.3473	3.582	.501	.727

4.3 Model summary

Table 3 of model summary shows $r=.619$ and standard error of estimate = .684. The value of R square indicates that 38% of dependent variable can be explained by the independent variables.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.619 ^a	.38	.375	.68478	.908
19 ^a	.3				

a. Predictors: (Constant), SERV_QUAL, CONC_OF_IF,

b. Dependent Variable: PERCEPTION

ANOVA: The value of significance in table 4 is .000 which shows that the independent variables (Religious Inclination, Islamic Financial Concepts and Service Quality) can significantly impact the dependant variable (Perception of Muslims regarding Islamic Banking)

Regression Results

The regression model showed a positive and significant relationship between religious inclination and Muslims' perception toward Islamic banking.

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	69.220	3	23.073	49.205	.000 ^b
Residual	111.605	238	0.469		
Total	180.825	241			

a. Dependent Variable: PERCEPTION

b. Predictors: (Constant), SERV_QUAL, CONC_OF_IF, REL_INCL

It means that the customers who are more inclined toward their religion tend to perceive Islamic banking more as compared to those who are not that much inclined towards the religion. In addition, knowledge of concepts and different products of Islamic finance also have positive relation with perception. Brand image and service quality provided by the bank have significant but negative relation with the perception of Muslims about Islamic banking and finance. However, Dusuki & Abdullah (2007) found brand image and service quality to be the most influential factors for choosing an Islamic bank in Malaysian customers.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients B	Standardized Coefficients Beta	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	Unstandardized Coefficients Std. Error
Constant	0.915		0.613	0	5.604
REL_INCL	0.593	0.82	0.476	7.208	0.000
CONC_OF_I F	0.317	0.061	0.318	5.207	0.000
SERV_QUA L	-0.215	-0.067	0.195	3.223	0.001

a. Dependent Variable: Perception

4.0 Conclusions and Recommendations

The literature presented in this study suggests that Islamic Banking and finance is new and in its early stages of evolution in Australia. The purpose of this study was to focus on the factors that influence the perception of Muslim individuals about Islamic Banking and finance. On the basis of the findings, it

can be argued that the religious inclination of respondents and knowledge about the concepts of Islamic finance had significant positive impact on the perception of the Muslims regarding Islamic banking and finance. In addition, there is a high potential for Islamic Banking and finance in Perth because of increasing population of Muslims. The results also showed that not enough marketing has been done by the Australian Islamic financial institutions to engage the Muslim customers.

The findings suggest that if more clarity on the concepts of Islamic finance provided by the Islamic Financial Institutions, it can impact positively on the perception of the Muslims which may result in increased demand of Islamic financial products and services. In addition, targeting the religiously more inclined Muslims can also help capture the potential market.

The high potential for Islamic banking is significant for the Australian banks in a way that they may offer Islamic banking window to the Muslim customers. Further studies are needed to explore the customer perception and need of Islamic finance in Australia. In addition, studies to provide a better insight into the mechanism of Islamic Financial products and services will help Muslim customers to understand clearly the concepts of Islamic finance.

4.1 Limitations

The study has only focused on three factors that influence the perception of the customers. However, results showed that beside these factors; there are other important factors as well that influence the perception of the customers. In Addition, data collected was only from the mosques in Perth that may be biased in way that people coming to mosques are religiously more inclined. For more diversified population, data must be collected from all the Muslim society having respondents not going to mosques.

4.2 The way forward

Australia is competing directly with Asian market and it is argued that Malaysia, Singapore and Hong Kong are direct competitors of Australia with

regard to Islamic Finance (Black, 2012). Currently these competitors are way ahead of Australia. The reason behind the success of Islamic banking in these countries is explained by Farrar (2011). The study also indicates that Islamic Financial Institutions have gained Muslim and Non-Muslim customers in Malaysia because of its justified terms & conditions and quality of the products provided by IFIs. In contrast, the studies of Sadiq and Black (2012), explain the reason behind the growth is the proactive approach of Malaysia towards Islamic Banking and Finance. Furthermore, providing tax incentives and exemptions have contributed immensely.

According to (Farrar, 2011), the Australian government is taking an interest in investing in Islamic Finance with the co-ordination of Malaysia. Malaysia is a hub for Islamic finance in Asia-Pacific region. A collaboration of these two countries could help Australia in many ways. The study further explains that Malaysia can help form an independent *Sharia* Supervisory board in Australia to monitor and regulate IFIs. It also can assist the Australian regulatory authorities in reforming the legislation to accommodate IBF in Australia.

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