SWITCHING INTENTION IN ISLAMIC BANK DEPOSIT ACCOUNT

SITI NABIHAH BINTI ABDULLAH

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By

SITI NABIHAH BINTI ABDULLAH

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DEDICATION

Dedication

With lots of love and respect to:

My mother Hapizah Binti Hasan,

My father Abdullah Bin Hassan,

My husband Nor Ridzuan Bin Shahirudin,

and my siblings.

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ABSTRAK

Kewangan Islam sudahpun mencapai pertumbuhan yang membanggakan di serata dunia. Malaysia amat pesat dalam pembangunan kewangan Islamnya. Meskipun pertumbuhannya menggalakkan dan produk-produk kewangan Islamnya menunjukkan penerimaan yang amat baik, wujud kontroversi yang membelenggu kewangan Islam. Isunya ialah beberapa buah bank Islam mengamalkan konsep *bai al-inah* bagi akaun deposit yang membolehkan bank-bank berkenaan menjanjikan pulangan kepada para pendepositnya. Majlis Syariah Kebangsaan Indonesia tidak meluluskan *bai al-inah* dalam sistem perbankan Islamnya. Lebih lanjut lagi, kebanyakan negara Timur Tengah sudahpun menolak konsep *bai al-inah* dalam transaksi kewangan Islamnya. Kajian ini menggunakan Teori Tingkah Laku Terancang dengan meletakkan niat sebagai faktor yang mungkin boleh menjadi penentu terbaik bagi tingkah laku seseorang. Saiz sampel kajian ini ialah 340 orang, dan pensampelan tujuan digunakan dalam kajian ini dengan menggunakan satu set borang kaji selidik. Metode analisis dalam kajian ini ialah Pakej Statistik bagi Sains Sosial (SPSS) versi 21 dan SmartPLS M3 2.0. Berdasarkan keputusan, tiga hipotesis iaitu sikap, kawalan perilaku anggapan, dan keagamaan Islam disokong dan berhubung kait secara negatif dengan niat berpindah ke bank lain. Dua hipotesis, iaitu norma subjektif dan kos bertukar yang berhubung kait secara negatif dengan niat berpindah ke bank lain, tidak disokong. Oleh itu, dapatan-dapatan daripada kajian ini menunjukkan bahawa pendeposit dalam kalangan orang Islam tidak begitu kisah tentang pulangan yang dijanjikan terhadap akaun deposit sebagaimana yang diamalkan oleh beberapa buah bank Islam. Oleh hal yang demikian, bank-bank Islam

tidak perlu risau untuk memperkenalkan produk yang berasaskan janji terhadap akaun deposit.

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ABSTRACT

Islamic finance has achieved remarkable growth all over the world. Malaysia has been robust development in Islamic finance. Despite the encouraging growth and the great acceptance of Islamic financial products, there is a controversy in Islamic finance. The issue is several Islamic banks practiced the concept of *bai al-inah* towards deposit account which allows them to promise return to the depositors. The National *Shari'ah* Council of Indonesia has not legalised *bai al-inah* in their Islamic banking system. Moreover, the majority of Middle East countries have rejected the *bai al-inah* concept in their Islamic financial transactions. This study was used a Theory of Planned Behaviour whereby the intention could be the best determinant of an individual behaviour. The sample size was 340 and purposive sampling was employed in this study using a set of questionnaire. The methods of analysis in this study were Statistical Package for Social Sciences (SPSS) version 21 and SmartPLS M3 2.0. Based on the results, three hypotheses which are attitude, perceived behavioural control and Muslim religiosity were supported and negatively related with switching intention. The two hypotheses, which are subjective norms and switching costs negatively related with switching intention, were not supported. Therefore, the findings in this study showed that Muslim depositors do not really care about a promised return towards deposit account practiced by several Islamic banks. For that reason, Islamic banks should not worry about introducing a promised-based product towards deposit account.

CHAPTER 1

INTRODUCTION

1.1 Introduction to Islamic Finance

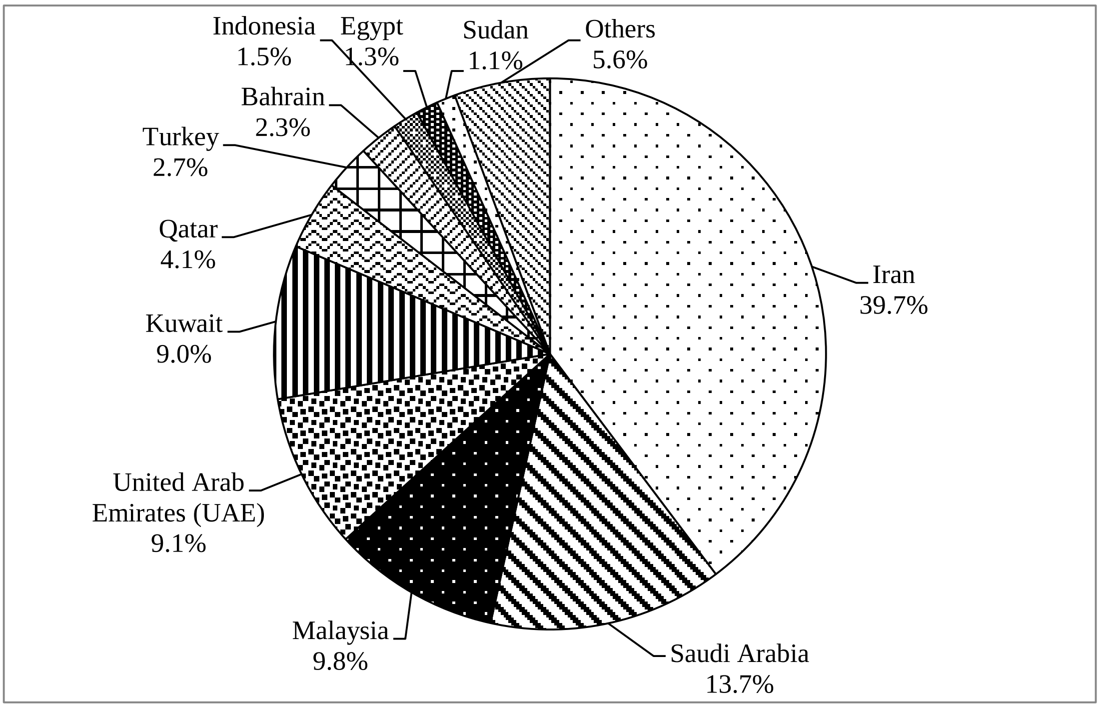
Islamic finance is already playing a significant role in the financial systems (Duran & Lopez, 2012) and a fast growing sector in the world, making it available in more than 50 countries across the globe (Chong & Liu, 2009). At the same time, Islamic finance also growing very rapidly and stronger in the western markets (Shah, Raza & Kurshid, 2012). As the result, the total global Islamic finance assets in 2011 stood at USD 1,329.4 billion with the Gulf Cooperation Council (GCC) being the largest Islamic banks assets, leading the market share, as shown in Table 1.1.

Table 1.1
Global Islamic Finance Assets in 2011

	GCC	MENA (Ex-GCC)	Asia	Sub-Saharan Africa	Others (North America and Europe)
Banking Assets (USD billion)	411.1	462.6	144.8	14.5	42.9
Islamic Funds (USD billion)	27.1	0.5	16.2	1.5	14.6
Total Assets (USD billion)	500.3	469.2	284.2	16.6	59.1

Note: MENA stands for Middle East and North Africa
Source: Kuwait Finance House (2012)

Some countries have large share in the global Islamic banking assets, for instances Iran, Saudi Arabia, Malaysia, United Arab Emirates (UAE), Kuwait, Qatar, Turkey, Bahrain, Indonesia, Egypt, and Sudan. Iran has been the largest contributor to the Islamic finance development with a share of 39.7%, followed by Saudi Arabia (13.7%) and Malaysia (9.8%), as shown in Graph 1.1.



Graph 1.1*: Share of Global Islamic Banking Assets in 2011*
Source: Kuwait Finance House (2012)

Products and services are principally implemented in accordance to the *Shari'ah* or Islamic law requirement (Gait & Worthington, 2008). The main sources of *Shari'ah* are the Holy Quran, *Hadith*, *Sunnah*, *Ijma'*, *Qiyas*, and *Ijtihad* (Shah et al., 2012). The elements such as *riba* (interest), *gharar* (uncertainty, risk, and speculation), and *maisir* (gambling) are among the primary consideration and must be freed and eliminated in Islamic finance to be classified as *Shari'ah*-compliant (Siddiqi, 2006; Obaidullah, 1999).

Moreover, Malaysia has shown a robust development in Islamic banking, which has contributed to the growth of Malaysian economy (Amin & Isa, 2008). According to the report released by Bank Negara Malaysia, the total assets in the

Islamic banking sector grew 23.8% to RM 434,853.3 billion, accounting for 22.4% of total banking assets as at the end 2011 (Bank Negara Malaysia Annual Report, 2011). Therefore, this sector strengthens the country's position as the global hub in accordance with the *Shari'ah* principles (Kassim, Majid & Yusof, 2009). The *Shari'ah* Advisory Council (SAC) has been given the authority for the ascertainment of Islamic law in terms of the operations and activities conducted by the Islamic banks in Malaysia (Hasan, 2011). To date, Malaysia has 16 Islamic banks, 27 commercial banks, 15 investment banks, 5 international Islamic banks, and 2 other financial institutions (Bank Negara Malaysia Annual Report, 2011).

According to Noor and Ahmad (2012), the Islamic banking system has emerged and grown rapidly in terms of size and number of players as a new reality in the world since the opening of the first Islamic bank in Egypt in 1963. Naser, Jamal and Al-Khatib (1999) state that the Islamic banking system is not limited to Islamic banks only. International conventional banks are increasingly showing their interest in the Islamic banking system as well. Moreover, not only Muslim people use the Islamic banks. In prior study by Abdullah, Sidek and Adnan (2012), they mention that with the acceptance of non-Muslims in Malaysia, these authors strongly believe that in the future the Islamic banking would dominate the conventional banking in Malaysia. This is because not only the Muslim customers, the non-Muslim customers also get the benefits from Islamic banking. Thus, the potential of this sector to attract these customers is likely to be high (Iqbal & Molyneux, 2005; Amin & Isa, 2008). Census of Department of Statistic, Malaysia (2010) reveals that in 2010 the total population in Malaysia was estimated to be 28.6 million with 61.3% Muslims, 6.3% Hindus, and 9.2% Christians.

Currently, Malaysia is broadly believed that to have the most developed Islamic banking system and thus proven to be at the forefront of the banking sector (Chong & Liu, 2009). Moreover, according to Mokhtar et al. (2006), Malaysia is the first country that has come out with a dual banking system where Islamic banking system operates side-by-side with the conventional one. The 'Interest-Free Banking Scheme' introduced in 1993 by the government is known as the 'Islamic windows'. The scheme allows the existing conventional banks to introduce Islamic banking products and services to the customers together with their conventional banking facilities. Then, Bank Negara Malaysia's review in 2003 called for the setting up of an 'Islamic subsidiary' (Dusuki & Abdullah, 2011).

1.2 Background of Study

The banking industry is concerned with customers' switching behaviour, which usually would reduce a bank's market share and profit (Ennew & Binks, 1996). According to Colgate (1999), the annual switching rate creates a loss of profits and lifts up new customer acquisition costs. Previous studies (e.g., Colgate & Hedge, 2001; Gerrard & Cunningham, 2004; Clemes et al., 2007; Matthews & Murray, 2007) have investigated a combination of several factors that may cause customers to switch banks. These studies are important to assist the bank management in developing strategies in order to minimise the negative effects of defection and to keep long-term relationships with customers.

However, the factors that influence a customer's decision to switch banks can be numerous and complex (Clemes et al., 2007). According to Stewart (1998), the factors related to switching behaviour are charges and their implementation; facilities and their availability; provision of information and confidentiality; and services issues relating to customer treatment. Other than that, Levesque and McDougall (1996) stated that pricing problems and inconvenient location are the main factors that cause customers to switch banks. Besides, Gerrard and Cunningham (2000) state that the Asian banking market is influenced by service failures, pricing, and inconvenience, which are the reasons for customers intending to switch the banks.

1.3 Products and Services of Islamic Banking

Banking system can be separated into two categories namely deposit and financing. In Islamic banking system, deposit is the source of funds, while financing is the application of funds. This second category namely financing is the most important product in a bank's operation. According to Bank Negara Malaysia Annual Report (2011), the total deposits and financing of Islamic banking in Malaysia has revealed significant growth over the last five years, as shown in Chart 1.1. That is the reason the banking industry has emerged as one of the fastest growing industries in Malaysia.

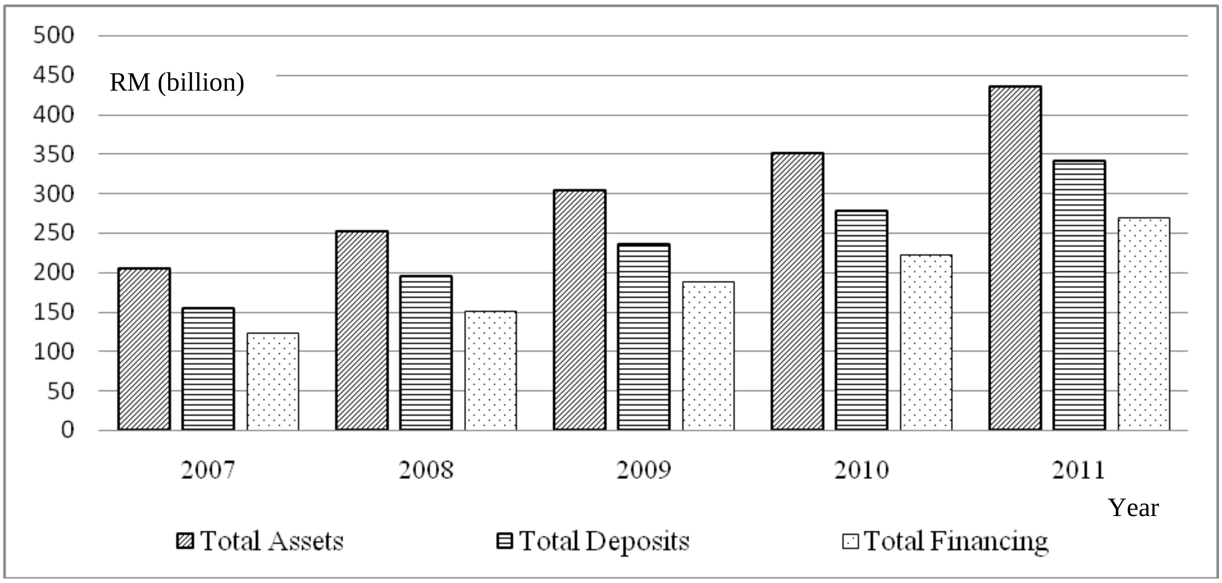


Chart 1.1: *Total Assets, Deposits, and Financing of Islamic Banking System in Malaysia*
Source: Bank Negara Malaysia Annual Report (2011)

In general, the products and services provided by the Islamic banking system are personal and business banking (Ali et al., 2008). Islamic banking system also offers a range of banking products and services that comply with *Shari'ah* principles. In ensuring that customers' beliefs and values are upheld, the Islamic banking products and services are offered in order to suit everyone's need and aspiration (Dusuki & Abdullah, 2011). Figure 1.1 shows the products and services in Islamic banking system.

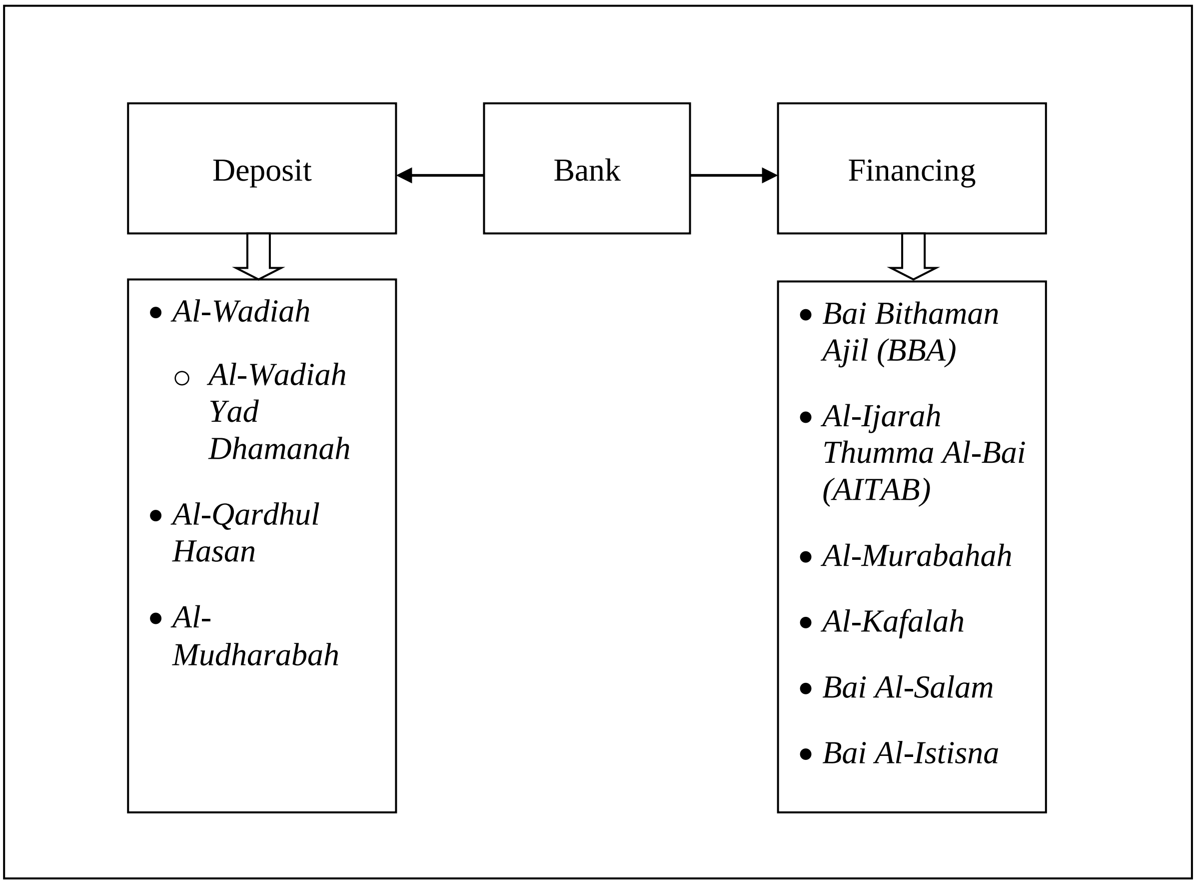


Figure 1.1: *Products and Services in Islamic Banking*
Source: Ali et al. (2008); Dusuki & Abdullah (2011); Hanif (2011)

1.4 Deposit Account in Islamic Banking System

Money is placed into a banking institution for safekeeping (Ali et al., 2008). The banks offer this service by offering the customer to open deposit accounts. There are three types of deposit account, namely current, saving, and investment account. These accounts allow money to be deposited and withdrawn by the account holder (Dusuki & Abdullah, 2011). Deposits are the primary funding source for Islamic banking institutions. These deposits are used primarily to fund loans and investments that are *Shari'ah*-compliant (Kassim & Majid, 2009). In terms of return, it is based on the pre-agreed profit sharing ratio, and the funds will be invested in *Shari'ah*-permitted instruments or transactions only.

In Islamic banking system, *al-wadiah* is a contract between an owner of goods and a custodian of the goods. This contract protects the goods from being stolen and destroyed and ensures the safe custody of the goods. Besides, deposit account operates under the contract of *al-wadiah yad dhamanah* (guaranteed custody) (Ali et al., 2008). The bank accepts deposits from its customers who are looking for safe custody and convenience. The Islamic banks request permission to make use of the depositors' funds for investment purposes. But, the depositors may withdraw their balances at any time. Profit generated from the use of the depositors' funds belongs to the bank. But, the bank may at its absolute discretion reward the depositors by declaring profits to them (Dusuki & Abdullah, 2011).

Hibah, which is a gratuitous contract, refers to the payment made willingly in return for a benefit received. It also means transfer of ownership of an asset to a person who has no promised return when he or she deposits his or her money in the bank (Ali et al., 2008; Rosly & Zaini, 2008). The *hibah* concept is normally applied to reward *al-wadiah* and *al-qardhul hasan* depositors in the Islamic banks although the depositors only intend to put their savings in the banks for safekeeping (Dusuki & Abdullah, 2011). According to *Shari'ah* resolution of Bank Negara Malaysia 2010, *hibah* is given by Islamic banks to *al-wadiah* depositors as a token of appreciation for the depositors' confidence and self-belief towards the institutions (Ibrahim & Noor, 2011).

1.4.1 *Bai al-Inah*

Bai al-inah refers to a contract that involves sale and buy back transactions of an asset by the seller. In these transactions, the seller sells an asset to the buyer on cash basis and then buys back the asset at a deferred price that is higher than the cash sale price (Ali et al., 2008; Dusuki & Abdullah, 2011).

According to Manan and Kamaluddin (2010), the sale and buy back contract involves a sale contract between two contracting parties and followed by a promise (*wa'ad*) by the original seller to buy back the asset on a different date if the buyer decided to sell the asset to the original seller. Thus, the price in the second contract is different from the price in the first contract. Besides, the importance given in the second contract is the promise by the original seller to buy back the asset from the buyer based on agreed terms and conditions.

Bai al-inah concept has so many controversies over Islamic financial system (Dusuki & Abozaid, 2007; Dusuki & Abdullah, 2011; Hosen & Nahrawi, 2012). The National *Shari'ah* Council (NSC) of Indonesia has not legalised *bai al-inah* concept in their Islamic products and services in Islamic banking system as *bai al-inah* has a great deal of *khilaf* (controversy). This concept contains the virtues of *maslahat* and *mudharat*, which would surface from the fatwa (legalisation) with the endorsement of the *bai al-inah* concept. Moreover, the majority of Middle East countries have rejected the concept of *bai al-inah* in the Islamic financial transactions as according to them this concept forbidden from the viewpoint of Islamic law (Dusuki & Abdullah, 2012; Hosen & Nahrawi, 2012). The *Shari'ah* Advisory Boards of different banks may have different opinions or pass different rulings in certain issues. In addition, the majority of *Shari'ah* scholars namely *Hanafi*, *Maliki*, and *Hambali* disallow this concept. *Shafi'e* school also discourages the practice of *bai al-inah* although the school of though acknowledges its validity (Dusuki & Abdullah, 2011; International *Shari'ah* Research Academy for Islamic Finance [ISRA], 2012).

To illustrate, Bank Kerjasama Rakyat Malaysia Berhad (BKRM) uses the concept of *bai al-inah* in Islamic general investment account that allows the bank to promise return to the depositors (see Table 1.2). General Investment Account-i is one of the deposit accounts. There are three type of deposit account; saving, current and investment account. *Bai al-inah* is a *Shari'ah* concept applied in general investment account. However, *bai al-inah* is a controversial concept in other Islamic countries.

Table 1.2
General Investment Account-i

Qiradh General Investment Account-i	
Period of investment (months)	Rate (%)
1	3.26
3	3.65
6	3.75
9	3.85
12	4.01
15	4.05
18	4.10
24	4.20
36	4.25
48	4.30
60	4.50
Above 60	4.60

Source: http://www.bankrakyat.com.my (Oct. 2012)

1.5 Problem Statement

Islamic banking has emerged as an important financial system with worldwide acceptance as it offers a wide range of products and facilities to accommodate customers' need (Dusuki & Abdullah, 2011). The existence of Islamic banking in Malaysia makes the customers to have an intention to move from conventional bank to Islamic bank due to *Shari'ah*-compliant operation of the Islamic banking system (Haque, 2010). The operation of Islamic banking system in Malaysia allows customers to choose *Shari'ah* principles that are not practised by the conventional banks. The religious reason is one of the important criteria to be considered for the selection of Islamic banking services (Haron, Ahmad & Planisek, 1994; Metawa & Almossawi, 1998; Naser et al., 1999).

The enormous development of Islamic finance in today's dynamic corporate environment is obvious as it greatly influences customers' intention to patronise the products and services of Islamic banks, and wide acceptance has been received from both Muslim as well as non-Muslim customers (Mohsan et al., 2011; Thambiah et al., 2011; Quresh, Hussain & Rehman, 2012). Non-Muslims now make up half of some Islamic bank's customers in Malaysia (Abdullah et al., 2012).

Many customers are not having full understanding about the *Shari'ah* concept applied in Islamic deposit account. However, some Islamic banks have introduced unpromised return towards the deposit account. Based on *Shari'ah* principles, Islamic banking system should practise the unpromised return on deposit account.

Recently, the promised return on deposit account as practised by several Islamic banks via the controversial concept of *bai al-inah* (Dusuki & Abdullah, 2011). *Bai al-inah* is a controversial product in Islamic finance because it is close to *haram* according to *Shariah* principle, and the motive or intention of the contracting parties, i.e., *hilah* is deemed invalid and nullified (Ali et al., 2008; Dusuki & Abdullah, 2011; ISRA, 2012; Shaharuddin, 2012). In addition, some Islamic countries such as Indonesia and Middle East countries do not permit the concept of *bai al-inah* because the contract resembles *riba* (Dusuki & Abdullah, 2011; Hosen & Nahrawi, 2012; Shaharudin, 2012). The Islamic banks cannot promise return on deposit account. Bank is not allowed to promise, and the customer is not allowed to request for any return when accepting or depositing the funds (Dusuki & Abdullah 2011). Any promise or request is equivalent to *riba*, which is strictly prohibited in Islam (Rahman, 2009; Ali et al., 2008; Dusuki & Abdullah, 2011).

Currently, bank uses the concept of *al-tawarruq* in their Islamic general investment account due to restriction regarding the use of *bai al-inah* concept by Bank Negara Malaysia (Dusuki & Abdullah, 2011). However, *al-tawarruq* is also a controversial concept like that of *bai al-inah* (ISRA, 2012). In the concept of *al-tawarruq*, the Islamic banks can still promise return to the depositors, such a through fixed amount that depositors should get upfront. Islamic banks have rearranged the concept of *al-tawarruq*, but it still occurs in practical context. *Al-tawarruq* is an alternative to compromise the validity of organised *al-tawarruq* by setting a number of conditions to avoid this contract from falling into *bai al-inah* (Hosen & Nahrawi, 2012). The "hidden" intention of the concept of *bai al-inah* and *al-tawarruq* is very obvious, i.e., to get money. So the question remains: Why Islamic banks should introduce *bai al-inah* contract while there is a purely permissible contract namely *al-mudharabah*, or course unable to promise return?

As mentioned earlier, Muslim depositors possibly have no full or do not care of acquiring full knowledge about the Islamic point of view on promised and unpromised return towards deposit account. If the Muslim depositors know that the promised return that is based on concept of *bai al-inah* is a controversial product and it is close to *haram*, they are likely to have intention to switch from promised return to unpromised return.

The Islamic banking system should not only be consistent with the *Shari'ah* principles in all products and services, but also avoid any application of controversial contracts. However, due to dire need for Islamic banks in Malaysia to increase its attractiveness when the competition has been becoming stiffer and stiffer, the reverse has taken place. The challenge to attract the customers is the most important responsibility of the banks' management and to promise return akin to conventional bank has become primary business strategy.

The research area this study will be focusing on is the area of consumers' switching intention specifically the Muslim depositors in Islamic banking system particularly in Malaysia. This study attempts to understand the decision making made by depositors when they deliberate whether they would switch the existing Islamic bank if the bank makes unpromised return to them. The understanding of customers' switching intention is very important for banking institutions in order to gain understanding of consumer behaviour for these institutions to be able to attract more customers. Therefore, the switching intention in this study is pertaining to a depositor's intention to switch from Islamic bank A to Islamic bank B if Islamic bank A makes unpromised return to the depositors. Moreover, Muslim depositors' intention to deposit their excess money is either due to profit-seeking motivation or strictly because of their desire to be true Muslims by observing that all their activities are in line with Islamic teaching or laws, including when it comes to where to place their money. If the intention is the latter, the strategy of Islamic banks to offer promised return is no longer valid, and in fact, it may create confusion among Muslim depositors knowledgeable of Islamic finance.

In this point of view, the objective of the current study is to deepen our understanding of the switching intention towards the deposit account in Islamic banks. Thus, this study proposes and tests a model that considers switching intention as a phenomenon. In the model, there are determinant factors for the switching intention, namely attitude, subjective norms, perceived behavioural control, Muslim religiosity, and switching cost.

Previous studies have discussed and debated the controversial *bai al-inah* concept. Besides that, many previous studies have presented the various Islamic products such as Islamic credit card (Amin, 2012), Islamic personal financing (Amin et al., 2011), Islamic home financing (Amin, 2008; Hamid & Masood, 2011; Razak & Taib, 2011; Alam et al., 2012), and partnership home financing (Taib, Ramayah & Razak, 2008). Despite the large number of studies on Islamic banking sector, the number of studies specifically on Islamic deposit account and switching intention is lacking. Therefore, this research gap is addressed. Owing to the research gaps, this study is planned to add to the limited knowledge presently available about switching intention towards the deposit account in Islamic banks mainly in the Malaysian context.

Besides, this study focuses on switching intention. Previous study focuses only on intention to use but uses the same theory namely Theory of Planned

Behaviour (TPB). The original independent variables in TPB are attitude, subjective norms, and perceived behavioural control (Ajzen & Fishbein, 1973). In the present study, to fill the gap, this study uses these original independent variables and includes another two new independent variables namely Muslim religiosity and switching costs.

Moreover, previous researches only use an econometric to determine the rates of profit Islamic deposit account (Haron & Azmi, 2008) and identification and selection of significant macroeconomic variables that determine return volatility of *al-mudharabah* time deposit (Anwar et al., 2010). To achieve the research objectives, the current study uses a survey questionnaire using purposive sampling in order to get the feedbacks from the respondents. Therefore, this study uses the primary data using PLS-SEM in order to do the analysis.

1.6 Research Questions

In seeking to achieve the objectives of this research, this study aims to address the following research questions:

i. Do Muslim depositors understand the concept of promised and unpromised return on deposit account in Islamic banks?

ii. What are the factors that influence depositors' intention to switch on deposit account in Islamic banks?

iii. Do depositors have an intention to switch if Islamic banks make unpromised return on their deposit accounts?

1.7 Objectives of the Study

In general, this study intends to find out customers' switching intention towards the deposit account in Islamic banks. Therefore, this study attempts to concentrate on the following specific objectives:

i. To examine the understanding of Muslim depositors about the concept of promised and unpromised return on deposit account in Islamic banks.

ii. To identify the factors that influence customers' intention to switch on deposit account in Islamic banks.

iii. To determine if depositors have an intention to switch if Islamic banks make unpromised return on their deposit accounts.

1.8 Significance of the Study

This study is expected to contribute to both theoretical and practical perspectives. There are several reasons this study is significant as discussed below.

1.8.1 Theoretical Contribution

To the researcher's knowledge, this study is the first that investigates switching intention of depositors towards the deposit account in Islamic banks. Specifically, this study adapts the Theory of Planned Behaviour (TPB) to conceptualise the relationship between independent variables and dependent variable towards the deposit account in Islamic banks context. In addition, the present study improves the theoretical framework definitions of the original constructs as well as extends new independent variables namely Muslim religiosity and switching costs. It means that this study contributes to the theory by integrating the independent variables (i.e., attitude, subjective norms, perceived behavioural control, Muslim religiosity, and switching costs) with switching intention as the dependent variable. In other words, the theory used in this study was an extended TPB with Muslim religiosity and switching costs which is can also be treated as external variables in TPB. Besides, this study may help to enhance and deepen understanding of this theory by applying it to deposit account in Islamic banks. In addition, the theoretical contribution of this study is the extension of the TPB theory, which may add to literature by providing in-depth understanding of the characteristics of Muslim religiosity and switching costs.

1.8.2 Practical Contribution

The study gives insights on Muslim consumers' behaviour in choosing deposit account in Islamic banks. This study also examines the most important perception to Muslim individuals whether there is an Islamic value or profit in choosing Islamic banks as a value in their money. As a result, this study shows that Muslim depositors choose the money as an Islamic value from *Shari'ah* viewpoint.

For the organisation specifically, the findings of the present study may help them to deeply understand about the switching intention of depositors towards deposit account in Islamic banks. Moreover, it is important to understand how customers' perceptions towards unpromised return on the deposit account may impact the switching intentions from the Islamic banks. Therefore, it is hoped that this study will assist policy makers and practitioners to be more concerned about the *Shari'ah* concept of deposit account in Islamic banking system specifically in Malaysian context.

In addition, the results confirm the irrational decision made by several Islamic banks in order to promise return to the depositors. Besides, this study will give the significance for Islamic banking industry whereby possibly, it is not necessary for them to practise the concept of *bai al-inah* because Islamic value is the most important value for Muslim individuals. *Bai al-inah* is very close to *haram* with the fact that the Middle East countries as well as Indonesia condemns and disallows this concept to be applied in their Islamic banks. So, why Islamic banks obviously intend for *shubhat* practice while Islamic finance has a guideline based on the *Shari'ah* principles? Violating Islamic values is considered a crime, while earning through *halal* (*Shari'ah* complaint) ways is considered an act of worship. In addition, Islam prohibits earning abnormal profit from business transactions and forbids the accumulation of wealth. Therefore, Islamic banking system should convince the people towards Islam. The Islamic banks can practise the pure *Shari'ah*-compliant principles in order to give confidence to the Muslim depositors without any confusion.

1.9 Scope of the Study

For the purpose of this study, the scope of study is focused on depositors' switching intention from Islamic bank A to Islamic bank B if the return of deposit account in their existing Islamic banking is unpromised. Furthermore, this study also intends to recognise whether Muslim customers are aware of the *Shari'ah* concept applied in Islamic deposit account in which there is a *hilah* (a legal trick that is valid in form but invalid in substance) in the transaction. That *hilah* is *bai al-inah* concept whereby the Islamic banks allow promising return to the depositors. Thus, this study focuses on depositors' Islamic banks that have deposit account in any Islamic banking in Malaysia, namely full-fledged Islamic banks, conventional banks subsidiary, and Islamic cooperative bank.

1.10 Operational Definitions

The operational definitions for each key term used in the study are described in Table 1.3.

Table 1.3
Operational definitions

Key Term	General Definition	Operational Definition
Attitude	Attitude can be defined as the degree in which an individual has a favourable or unfavourable assessment of behaviour in question (Ajzen, 1991; Taylor & Todd, 1995).	In this study, attitude refers to an individual's feeling about deposit account in Islamic banking. Based on the context of this study, a survey was designed following Alam et al. (2012).
Subjective norms	Subjective norms refer to an individual's beliefs about whether significant others would approve or disapprove of his/her engagement in a given behaviour (Taylor & Todd, 1995).	In this study, subjective norms refer to an individual's perception about social influence that makes the individual thinks to deposit his/her money in Islamic banking. Based on the context of this study, a survey was designed following Alam et al. (2012).
Perceived behavioural control	Perceived behavioural control is the extent to which a person feels that he or she is able to act the behaviour (Ajzen, 1991).	In this study, perceived behavioural control refers to control beliefs about his/her behaviour to deposit his/her money being perform or not perform the behaviour. Based on the context of this study, a survey was designed following Alam et al. (2012).
Muslim religiosity	Muslim religiosity is the degree of being religious (De Run et al., 2010).	Muslim religiosity refers to a Muslim individual's commitment to his/her religion as reflected in his/her behaviour to deposit his/her money due to *Shari'ah* concept practised by the Islamic bank. Based on the context of this study, a survey was designed following Mokhlis (2009).
Switching costs	Switching costs means the cost incurred when switching, including time, money, and psychological cost (Dick & Basu, 1994).	In this study, switching costs refer to the one-time costs when customers switch from existing Islamic banking to another (Clemes, Gan & Zhang, 2010).

Table 1.3 (Continued)

Switching intention	Switching intention refers to replacing or exchanging the existing service provider with another (Bansal, 1997).	In this study, switching intention refers to an individual's intention in changing his/her existing Islamic bank to another Islamic banking. Based on the context of this study, a survey was designed following Ping (1995) and Martin et al. (2012).

1.11 Organisation of the Chapters

This thesis consists of five chapters. The first chapter discusses the introduction and background of study. In this chapter, research objectives and purpose of the study are identified to determine the direction of the study.

Subsequently, chapter two consists of a literature review of related past researches. The outcome of the literature review will contribute to developing the proposed theoretical framework and hypotheses.

Following that, chapter three discusses the research methodology of this research. Every step from the beginning till the end of the study is discussed in this chapter including participants involved, questionnaire design, data collection procedures and data analysis techniques.

In chapter four, the statistical analysis and results were presented. There are several sections in this chapter including response rate, restatement of hypotheses, several analyses, and the summary of results.

In the last chapter (chapter five), the discussion and conclusions were presented. Sections in this chapter including the recapitulation of the findings, discussion of findings, implication of research, the limitation of study, recommendation for future study and the conclusion.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the Islamic banking in Malaysia, the prohibition *riba* in Islam, and the risks facing banks if return on deposit account is promised. Besides, this chapter also discusses the reason promise return is prohibited in Islam. This chapter next sheds light on the potential factors that determine the switching intention of depositors. The review examines the interplay of potential variables in order to provide a holistic and in-depth understanding of the issues related to switching intention of depositors towards deposit account in Islamic banks. Moreover, theories related to switching intention are also discussed in order to justify the expansion of the theories to the present theoretical framework and research model. The framework depicts the relationship between the different variables. Hypotheses to test the relationships among the different variables are proposed at the end of this chapter.

2.2 Overview of Islamic Banking in Malaysia

Malaysia is recognised as one of the dynamic leaders and practitioners of Islamic finance. Since the 1960s, Islamic finance in Malaysia has been making a transition through four distinct phases namely establishment of Islamic financial institutions, establishment of Islamic windows, establishment of Islamic subsidiaries, and liberalisation of Islamic finance (Dusuki & Abdullah, 2011).

2.2.1 Phase 1: Establishment of Islamic Financial Institutions

The development of Islamic bank in Malaysia can be traced from the birth of the world's first Pilgrimage Management and Fund Board or better known as Tabung

Haji. This board was established under the Act 8 of Pilgrimage Management and Fund Board 1969 and Act A 168 of Pilgrimage Management and Fund Board (Amendment) 1973. Its establishment was initiated to organise the savings of Muslims who intend to perform the pilgrimage and to channel the funds to permissible investment according to the *Shari'ah* principles. The objectives of Tabung Haji, among others, are as follows: (1) To enable Muslims to save gradually to support their expenditure during pilgrimage and for other beneficial purposes; (2) To enable Muslims to have active and effective participations in investment activities that are permissible in Islam through their savings; (3) To protect and safeguard the interests and welfare of pilgrims during pilgrimage by providing various facilities and services (Dusuki & Abdullah, 2011).

The formal set-up of Islamic bank as a *Shari'ah*-based financial intermediary in Malaysia came into existence when the National Economic Congress in 1980 passed a resolution for the government to allow Tabung Haji to establish an Islamic bank in Malaysia. The initiative was partly influenced by the global movement to develop an alternative banking system to serve for the needs of the Muslims. This initiative was achieved with the establishment of the first Islamic bank, Bank Islam Malaysia Berhad (BIMB) that commenced its operations on 1^{st} July 1983. The establishment of Islamic banks was made possible with the guideline from Islamic Banking Act (IBA) and the Central Bank of Malaysia (BNM) to supervise and regulate Islamic banks, similar to the other licensed banks (Dusuki & Abdullah, 2011; ISRA, 2012).

2.2.2 Phase 2: Establishment of Islamic Windows

Malaysia has always been known to adopt a gradualist approach in the development of its Islamic banking. As such, the government with the major role played by the Central Bank has adopted a step-by-step approach to spread the virtues of Islamic banking on a nation-wide basis with many possible players and to be able to reach all Malaysians. This approach led to the development of the second phase of Islamic banking evidenced by the establishment of Islamic windows, which commenced ten years after the establishment of Bank Islam (Dusuki & Abdullah, 2011).

On 4th March 1993, "Skim Perbankan Tanpa Faedah" (Interest-free Banking Scheme) or SPTF, which was later known as "Skim Perbankan Islam" (Islamic Banking Scheme) or SPI in short, was introduced. In this new arrangement, conventional banks were permitted to offer Islamic banking services by providing the leverage on their existing infrastructure and branches. Banks participating in SPI were required to have firewalls between their conventional and Islamic funds, to establish Islamic banking units, to create an Islamic banking fund, and to appoint at least one *Shari'ah* consultant to advice on day-to-day operations of the Islamic banking division. This effort was deemed as the most effective and efficient approach to increase the number of participation of local banking institutions offering Islamic banking services at the lowest cost and within the shortest time frame (Dusuki & Abdullah, 2011).

2.2.3 Phase 3: Establishment of Islamic Subsidiary

In 2003, Bank Negara Malaysia's review called for the setting-up of an Islamic subsidiary as the Islamic windows achieved wide acceptance. The Islamic subsidiary was formed to give greater strategic focus and resources as well as higher autonomy and governance for Islamic banks than before. During the same period, Malaysia adopted legal reforms to improve the efficiency of the Islamic banking and financial system and to remove any impediments to this reform. High Court judges started to manage matters relating to Islamic banking and finance. At Bank Negara level, Law Review committees were set up to review domestic legislation and incorporate *Shari'ah* principles wherever necessary. Under the amendments to the Central Bank Act, a *Shari'ah* Advisory Council was established at the Central Bank. The Council has authority in all matters relating to Islamic banking and finance (ISRA, 2012).

2.2.4 Liberalisation of Islamic Finance

The integration of local Islamic bank with international Islamic banks began in 2003 when three foreign Islamic banks were granted a license by the Central Bank of Malaysia to undertake Islamic banking business. The banks were as follows: (1) Kuwait Finance House (KFH) commenced its operations on 17th February 2006. In fact, KFH was the first foreign Islamic bank to be licensed by the Ministry of Finance; (2) Al Rajhi Bank set up its first overseas operations in Malaysia in October 2006; and (3) Asian Finance Bank Berhad (AFB) was incorporated on 28 November 2005 backed by a consortium of shareholders from leading Middle Eastern financial institutions such as Qatar Islamic Bank and associates, RUSD Investment Bank Inc. of Saudi Arabia, and Global Investment House of Kuwait (Dusuki & Abdullah, 2011).

2.3 Prohibition *Riba* in Islam

Literally, *riba* means an increase or excess (Nawawi, 1999; Alias et al., 1993; El-Gamal, 2006). Technically, according to Ibn al-Arabi, "Every increase, which is without *'iwad* or an equal counter value is *riba*" (Rosly, 2005). According to majority of the scholars, *riba* can be categorised into two types namely *riba al-fadl* and *riba al-nasiah* (Nawawi, 1999).

Riba al-fadl is *riba* in exchange contract which is an exchange of unequal quantities of same commodity. It means *riba* of surplus. *Riba al-nasiah* is *riba* in loan contract which is excess due to delay in payment. It means stipulated interest which the lender takes from the borrower in consideration of the time given to the borrower to pay back the capital (Ali et al., 2008). In other words, this *riba* is a loan given for stipulated period with a stipulated increase on the principal payable by a person who receives a loan. Charging of interest on loans had never got support in ethics and interest charging is forbidden by Islam.

The concept of the prohibition of *riba* in Islamic banking is widely discussed and unanimously accepted by the majority of Islamic jurists based on the clear revelation in the Quran and *Hadith*, the sayings of the Prophet (pbuh). There are also many classical and contemporary studies that have extensively defined and discussed the meaning of *riba* and its categories (Nawawi, 1999). The Quran as the first source of revelation emphasises the prohibition of *riba* in strongest terms. Similarly, the *Hadith* clearly indicates the degree of the adverse impact *riba* has on the society.

From the perspective of Islamic finance, a return promised by a bank is construed as *riba* (interest) (Iqbal, 1997). The underlying reason is that the pre-determined or guaranteed returns contain an element of uncertainty in any project and investment taken by the fund recipient. Therefore, giving any fixed return to the depositors could be construed as violating the objectives of *Shari'ah* in terms of risk sharing, social justice, equality, and property rights (Iqbal, 1997; Musa et al., 2006).