

Consumer behavior towards the acceptance of Islamic home financing.

Dr. Tahir Mehmood¹

ABSTRACT:

Purpose - The purpose of this study is to examine whether consumers in Pakistan are aware of Islamic home financing and to identify the factors that influence customers to choose Islamic home finance facilities. The basic model employed is the Theory of Planned Behavior (TPB) to measure consumer acceptance of Islamic home finance. This study also analyzes the factors related to the Islamicity of the product.

Design- The design of this study adopted qualitative analysis and aimed to conclude the results with the help of academia, households, and small businessmen through live interviews. The analysis focused on the factors that influenced the acceptance of Islamic home finance.

Finding- The core finding of this study is that factors such as attitude, subjective norm, perceived control, and Islamicity of the product, along with demographic factors like age, gender, job, and income, influence consumer acceptance of Islamic home financing.

Research limitation/implication- There are some limitations to this study. It is conducted only in Lahore, Pakistan. Currently, only four major Islamic banks are operating in Pakistan. Another limitation is that conventional banks offering Islamic services through branches and Islamic windows are excluded. The practical implication of this study is to support the growth of the Islamic home financing sector in Pakistan and to identify the issues faced by people adopting Islamic home financing. This study will also help to determine the demand for Islamic home financing.

Keywords:

Islamic home financing; Theory of Planned Behavior (TPB); Consumer acceptance; Shariah compliance; Islamicity of product

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¹Minhaj University, Lahore - Visiting professor
Email: Tahirchishtyi@gmail.com

1. Introduction:

The core function of an Islamic bank is to offer their services and products in accordance with Shariah compliance and standards. Islamic banks offer their products and services completely dependent on fatwas and interpretations provided by Shariah scholars based on the Quran and Sunnah. According to Islam, Riba is prohibited, and charging extra fees and dealing with Haram goods are not permitted. The primary difference between Islamic and conventional banking systems is the process of financing. In the Islamic banking sector, there is no concept of borrower and lender. Instead, the culture of Islamic banks involves customers and bankers working together, promoting the concept of partnership. (Usman, Sara & Atif, 2015).

The Islamic banking sector gained fame rapidly all over the world. The reason for its popularity is the wide range of sharia-compliant products, as well as the increasing demand for sharia-based investments among people in the Middle East and Asia (Newell and Osmadi, 2009). The emergence of large new Islamic financial centers has also contributed to its popularity in countries like Malaysia, Iran, Saudi Arabia, UAE, Kuwait, Bahrain, and Qatar (The City UK, 2012).

According to the Pakistan financial report (2016), there are a total of 35 banks operating in Pakistan. Of these, 5 are Islamic banks, and 17 are conventional banks that have Islamic windows and branches. To strengthen the Islamic banking sector in Pakistan, a new Shariah governance framework was introduced, which was developed in 2014. The total share of Islamic banking assets was Rs 1.625 trillion in March 2016. Between 2010 and 2015, the Islamic banking industry experienced an annual growth rate exceeding 30%, both in assets and liabilities. The Islamic banking branch network operates throughout Pakistan, totaling 2,082 branches as of March 2016.

Islamic home financing facilities depend on the rules of “Musharakah -mutanaqisah, bay-bithaman ajil, and ijarah-muntahiyah bittamlik.” These facilities are based on Islamic laws governed by Shariah. They have different names and vary from bank to bank based on policies. The reason behind the different home financing options offered by banks is to create a competitive advantage that leads to higher profits (Amin et al. 2014). In the context of Pakistan, four full-fledged Islamic banks offer home financing facilities. Their home financing mechanism is the same, but the names of the facilities differ. Meezan Bank offers a home facility called Meezan Easy Home. Al Baraka offers Al Bait Home Financing. BIPL offers MUSKUN Home Financing, and DIBP offers Dubai Islamic Home Financing.

The Pakistani regulatory authority has taken additional steps to attract investors to the property market by offering low-interest rates, increasing transparency in land records, and establishing a mortgage market. In 2015, the mortgage rate in Pakistan ranged from 18 to 18 percent, compared to Japan's 2.7 percent. In India, it was 8-12 percent, and in China, 7-8 percent. (Dawn Economics and Business, 2015). This report further states that in Pakistan, the property market generated \$3 billion.

The basic and initial problem that encourages this study is “What factors determine consumer acceptance of Islamic home financing products?” Although there is evidence of high growth in this area, the share of Islamic home financing is very small when compared to other conventional sector home loans. People who use home financing acknowledge the benefits of Islamic home financing in terms of financial advantages and religious benefits. However, at the same time, the involvement in choosing Islamic home financing is hindered by factors such as the Islamic nature of the product, transaction costs, and influence from others (Wan-Ahmad et al., 2008).

In the past, several studies have been conducted on consumer preferences in Islamic home finance. “(Amin et.al. 2009; Amin, 2008; Jalil et.al. 2010; Ford and Jones, 2001; Lymperopoulos et.al. 2006; Devlin, 2002a, 2002b; Hamid and Masood, 2011).” These studies used various factors and variables to examine consumer acceptance of Islamic home financing, such as service quality and standards, religion, profit ratios, and other demographic aspects like age, location, income, and marital status. According to (Thean, 2009), customers are more attracted to conventional bank home loans because of their attractive prices compared to Islamic home financing options. However, in the context of Islamic banking, customers are also aware of the religious benefits and have the intention to adopt Shariah-based products. Nowadays, understanding consumer behavior towards Islamic home financing often involves the Theory of Planned Behavior (TPB), which is based on factors that influence consumer intentions.

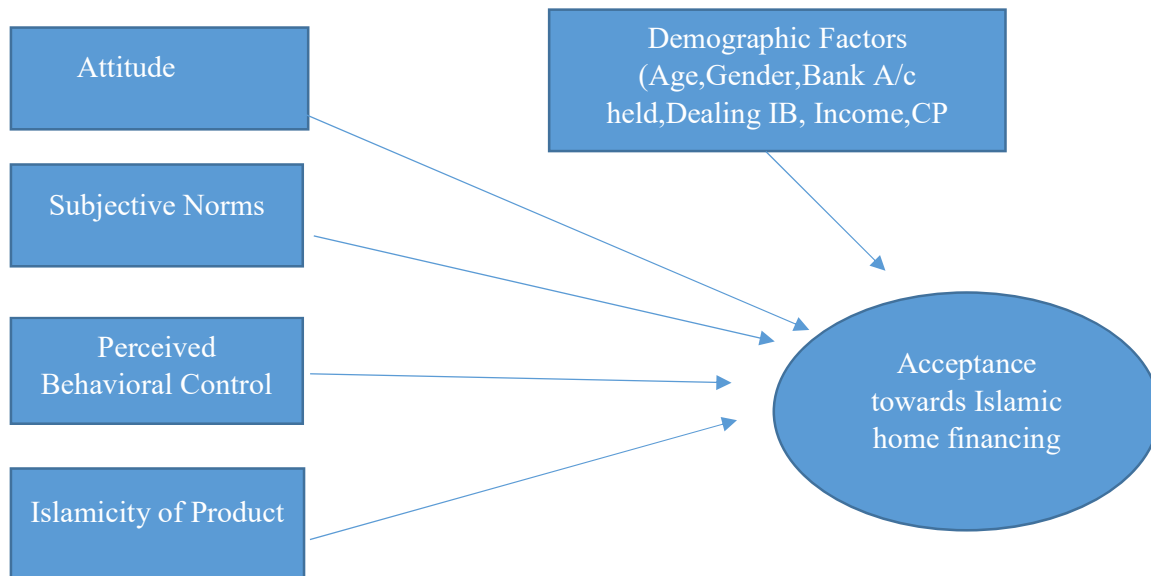
1.1 Theoretical development:

This study uses a model of TPB to examine customer attractiveness toward Islamic home financing. The reason for choosing the TPB approach is based on its successful implementation in previous studies. Several studies have explained consumer intentions toward Islamic home financing (Lobbe et al., 2007; Gopi and Ramayah, 2007; Amin et al., 2014). In these studies, the authors are satisfied and motivated to adopt this model by examining consumer intentions regarding Islamic home financing. Ajzen (1991) was the first to introduce the model of the theory of planned behavior (TPB), which was a new approach compared to the TRA (theory of reasoned action) model (Ajzen and Fishbein, 1980). In 1991, Ajzen further explained the TPB framework and addressed the limitations of the TRA framework. The theory of planned behavior is more successful because it adds a new factor, perceived behavioral control. The TPB model is based on three factors: subjective norm, attitude, and perceived behavioral control, which influence individuals' intentions. The factor of perceived behavioral control bridges the gap left by the TRA model.

In our study, the addition of two more factors to the TPB model includes one being the islamicity of the product and the other being demographic factors such as age, income, and marital status. According to (Wan-Ahmad et al., 2008), the islamicity of a product essentially reflects the individual's adherence to being free from Riba, qimar, and gharar.

However, in our study, the term “Islamicity of product” refers to the concept of Halalness in Islamic banking products, meaning they are free from Riba, gharar, maisir, and other illegal business investments and partnerships. The factor of islamicity of the product is also discussed in various Islamic banking studies (Kazi and Halabi, 2006; Khan, 2010; Muneeza et al., 2011).

Figure 1: TPB MODEL



2. Literature Review:

2.1 Financing concept in Islam:

The religion of Islam promotes a cycle of wealth distribution. Those who have excess wealth circulate it to those in need, which helps the development of the entire Muslim community. “First time Islamic financing was channelized money”, money transfer to wealthy persons to deficit units. “Secondly, it fulfills the basic needs of people and allows the Muslim community to grow its wealth”. (Khaf and Khan, 1992).

2.2 What is Islamic home financing?

Islamic home financing offered by Islamic banks operates strictly according to Sharia rules and regulations (Amin 2008; Haroon, 2005). Islamic home financing ensures that it is free from interest and gharar elements, unlike the conventional banking sector, which is based on interest payments on the principal amount (Tse, 1997). Islamic banks adhere to Sharia compliance rules and regulations, which is why they charge a flat rate or profit rate rather than interest (Amin 2008). In this scenario, monthly payments remain the same, and the rate does not fluctuate, even with inflation. The Islamic home financing process involves consumers providing specifications for the house, such as location and

price. The Islamic bank then purchases the house at market price from the seller and resells it to the consumer, charging an agreed-upon profit margin. The customer is required to make payments in the form of monthly installments (Maali et al., 2006). The income of Islamic institutions is primarily derived from the difference between the cost and the selling price of the home. This method is considered useful, according to Rosely (1991).

2.3 Empirical studies on Islamic home financing:

Some old studies on Islamic home financing facilities have not fully targeted the factors of subjective norms, attitude, perceived behavioral control, and the religiosity of the product related to consumer acceptance of Islamic home financing. (Amin, 2008; Nayeem et al., 2009; Hanaffi and Kasim, 2006; Taib et al., 2008; Abdul-Razak et al., 2008; Jalil et al., 2010; Amin et al., 2014)

According to (Nayeem et al, 2009), U.S. studies have some conflicts of purpose in Islamic home financing. In the U.S., a total of three Islamic banks offered Islamic home financing facilities, but all three adopted different mechanisms for Islamic home financing. They were concluded to provide guidelines of residencia; LLC offered an Islamic ally loan for home financing based on “declining Musharaka,” and the University of Islamic Financial Corporation adopted mechanisms of “Murabaha and Ijara wal Iqtina.” American finance house “LARIBA” also provides different types of mechanisms. However, the gap in this study is that it only provides the transaction model and financing modes and ignores consumer acceptance in Islamic home finance.

According to (Amin, 2008), Islamic home financing facilities mainly target people with low salaries or monthly income, focusing on Riba-free banking, Sharia compliance, and the genuine practices of Islamic banks. In this study, factors such as branch location, product range, and time period have very little effect on consumer acceptance of Islamic home financing. However, this study also does not sufficiently explain consumer behavior towards Islamic home financing. The study by (Hanaffi and Kasim, 2006) analyzes the use of “Bay bithamanajil” and “Istsina” in Islamic home financing. The results show that “Bay bithamanajil” is a successful method for Islamic home financing, especially for newly constructed houses, while “Istsina” is considered the best model for houses under construction.

Md-Taib et al. (2008) explained the elements of diminishing Musharaka in the context of customer acceptance of Islamic home financing facilities. The gap in this study is that it adopts the TRA model and ignores the TPB model. In this study, the attitude factor is made to have more influence on consumer acceptance of Islamic home financing.

In the context of Abdul-Razak et al. (2008) adopting the mode of “bithamanajil” to examine consumer intention towards Islamic home finance, the results of this study show that the “bithamanajil” mode has very little impact on consumer acceptance of Islamic

home financing facilities. In another context, the Muslim population primarily concerns itself with “bithamanajil” and sharia-compliant products, while non-Muslim customers respond positively. Another study (Jalil et al., 2010) explained customer selection criteria for Islamic home financing and conventional home loans in Malaysia. This study shows that customers give positive feedback and express full interest in Islamic home finance. However, it does not explain the theoretical framework that accounts for consumer intention towards Islamic home financing.

3. Methodology:

This study uses a qualitative method, and the results are based on interviews and previous studies conducted on the TPB model. The measures used in the interviews to conclude this study include Attitude, Subjective Norm, Perceived Behavioral Control, Islamicity of the product, and demographic factors. For the attitude questions, the study by (Taib et al., 2008) was used. The subjective norm questions were based on studies by (Hansen et al., 2004; Venkatesh and Davis, 2000), and the perceived behavioral control questions were selected from the study by (Taylor and Toud, 1997). The factor of Islamicity of the product was chosen from the study by (Wan-Ahmad et al., 2008).

4. Conclusion and Future Implications:

This study purely targets consumer acceptance of Islamic home financing. It also shows that previous studies using the TBP approach have been successful. This research indicates that factors such as attitude, the Islamicity of the product, subjective norms, and demographic factors influence consumer acceptance of Islamic home financing. Based on interviews and previous studies, perceived behavior and the Islamicity of the product are the most influential factors affecting consumer acceptance. In the context of Pakistan, the Islamic nature of the product truly matters to consumers because the majority of the population is Muslim. Although the TPB model is flexible and related to measuring Islamic home financing.

The most important factor I analyze in this study through interviews is the feedback on the Islamicity of the product, as it is the key factor in choosing Islamic home financing because its home financing involves a long-term policy. In Pakistan, the tenor ranges from 3 years to 25 years, and the majority of people avoid conventional home financing due to interest and religious considerations. Compared to Islamic home finance, it makes it easier for those who need home financing. In the interviews, most people are willing to use Islamic home financing because Pakistan Islamic Bank offers long-term tenors, and other factors increase demand, such as home repairing facilities provided to consumers.

There is some problem found through interviews and previous studies: people are a bit confused about the mechanism of Islamic home financing and conventional home financing.

The practical implication of this study will support the growth of the Islamic banking home financing sector in Pakistan. It also identifies issues faced by people adopting Islamic home financing, such as confusion about the mechanisms of conventional versus Islamic home financing in Pakistan. In the future, this study will help determine the demand for Islamic home financing, as my research shows a clear interest among consumers. Additionally, this study will assist Islamic bank managers in understanding consumer behavior towards Islamic home financing. Moreover, it will aid in the pre-development and post-development stages and help formulate home financing plans using the TPB theory.

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Appendix

Question using in interviews

1. I like Islamic Home financing because it is Shariah Compliant (free from riba).
2. Engaging in Islamic home financing is good because of its product advantages.
3. I like Islamic Home financing because of its beneficial to me (profit rate).
4. Taking Islamic home financing would be good for me.
5. Having Islamic home financing would be peace of mind to me (nor fluctuation in repayment amount).

Subjective Norm

1. Most people who are important me support me taking Islamic home financing.
2. Most of my friends/colleagues have taken Islamic finance agreed that Islamic finance is better than conventional.

3. When it comes to a matter of home financing, I would like to be like my friends.
4. I choose Islamic home financing based on recommendation from friends and relatives.

Perceived Behavioural Control

1. I am confident that I would take Islamic home financing for my next home purchase.
2. I am confident that I would like Islamic home financing even if it is more expensive.
3. I am confident that I would take Islamic home financing even if the bank personnel advise me take conventional financing.
4. I am sure I would be able to undertake Islamic home financing.
5. Taking Islamic home financing is entirely within my control.
6. I have resources, knowledge and ability to undertake Islamic home financing.

Islamicity of product

1. Islamic home financing is free from gharar (Uncertainty).
2. I try to follow Islamic injunctions in all matters of my life.
3. I always try to avoid minor and major sin.