

## CUSTOMER EDUCATION IN ISLAMIC BANKING IN MALAYSIA

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### Abstract

Customer knowledge (CK) in Islamic banking services is generally low and this has affected the customers' perception and their choice criteria. It is important that the initiatives for customer education (CE) to be deliberately strengthened in order to increase the customer knowledge (CK) as well as customer satisfaction (CS). The value created through the customer education (CE) initiatives would help to increase the customer knowledge (CK) in Islamic banking perspective. However, the dimensions that constitute the customer education (CE) need to be identified so that initiative can be implemented on a more focus way. Thus, this conceptual paper will dissect the dimensions that involved in customer education (CE) and how it can benefit to increase the customer knowledge (CK) in Islamic Banking.

**Keywords**-- Customer knowledge, Customer education, Islamic Banking

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### INTRODUCTION

Islamic banking in Malaysia has been one the significant contributors to gross domestic product (GDP) growth and over 21,000 of individuals are employed in the sector (Financial Stability and Payment System Report, 2017). Despite its tremendous growth, there have been some concerns over the level of understanding and knowledge of the customers in Islamic banking especially in terms of its principles and operational matters. Customers especially that are from the individuals' market segment are still frequently having some misconception and clarity in understanding Islamic banking principles and practice. This is due to the low knowledge that they possess on Islamic banking (Nik Muhamad, Abdul Hamid, Bahrom, Haniff, Ab Manan and Abdul Aziz, 2013). Lee and Ullah (2011) also stated that customer actual knowledge on Islamic banking is still inadequate and Shaharuddin (2012), further mentioned that customers' low knowledge and understanding of the Islamic banking financing facility has led to a perception that Islamic banking financing operational is not much different from the conventional counterpart.

In Malaysian context, some studies have been conducted and the results stated that customers' level of understanding and knowledge on Islamic banking and its terminologies were relatively low (Md Saad and Duasa, 2010; Hamid and Nordin, 2001; Ahmad and Haron, 2002). Hamid and Nordin (2001) found that only 15 percent of the respondents have a good knowledge on Islamic banking while Ahmad and Haron (2002) revealed that 35 percent from the corporate respondent category have a sound knowledge in Islamic banking. Marimuthu, Jing, Gie, Mun and Ping (2010) also found that in their study that majority of the surveyed respondents indicated little knowledge on Islamic banking. Mahamad and Tahir (2010), further stipulated that the knowledge of Islamic banking among the non-Muslim in Malaysia are still low as their knowledge on the Islamic banking terminologies is only limited to *riba'* and lack of understanding of the product values as well as recognizing the Arabic-named products (Bley and Kuehn, 2004; Rammal and Zurbruegg, 2007; Sayani and Miniaoui, 2013).

Basically, one of the concerns that affecting the customer knowledge (CK) is the customer education (CE) effort provided to the customers of Islamic banking. In general, the customer education (CE) platform in Islamic banking is still inadequate and

as mentioned by Kamarulzaman and Madun (2013), the information related to the Islamic banking products are inadequate especially when it comes to convincing and assisting the customers to make decision. The important issue that has been addressed is inadequate and lacking of effort in educating the customers (Ahmad and Haron, 2002). Therefore, the attention of customer education (CE) should be given a priority since it can affect the customer behaviour. Dusuki and Abdullah (2007) have earlier emphasized that Islamic banking needs to further explore the aspect of customer education (CE) since it is also a critical factor that could affect the customer satisfaction (CS) and organization's competitiveness. Raja Harunet *al.* (2015), have also described that even nowadays the Malaysian Islamic banking is having a strong operational base and regulatory framework, it still having problem when it comes to cater the demand form customers. It is also coming to a point where the knowledge of the bank employees is questionable whether they have sufficient knowledge and adequate training or vice-versa.

Therefore, it is crucial to look into the dimensions of customer education (CE) which significantly would support for the betterment of customer knowledge (CK) in Islamic banking as well as a promotion tool in Islamic financial service (Marimuthu *et al.*, 2010). Burton (2002) has earlier mentioned that customer education (CE) could become a central competitive strategy which can improvise existing services, increase loyalty and improve customer retention. In line with this, Homburg, Wieseke and Bornemann (2009) also emphasized that the face to face interaction between frontline staff and the customers implies that the provision for customer education (CE) is required in order to create customer satisfaction (CS) and customer value. Burton (2002) suggested that customer education (CE) is essential even it was argued that it is not the service organizations' responsibility to provide customer education (CE). Besides, it is also apparent that there will be an impact to service quality (SQ) of not providing necessary and enough knowledge for customer when it is in fact required.

In ensuring that knowledge for the customers are being provided effectively, Islamic banking should be looking into the effective and sufficient provision of customer education (CE) to the customers. Burton (2002) and Bell and Eisingerich (2007) claimed that educating the customers has long been seen as creating values for customers and they will perceive it as a

valuable support to the service provided. This is also can be supported by Bashir (2012) which stated that customer education (CE) is believed to assist people to be more aware on Islamic banking products and services. In other words, by having the customer education (CE) initiative will instil better customers' perception on the firm's high service quality (SQ) and customers are more likely to be satisfied and intend to stay with the business organization.

However, the dimensions of customer education (CE) have not been discussed deliberately and many of the studies conducted in Islamic banking scenario have only stated customer education (CE) as part of the initiatives proposed. Dusuki and Abdullah (2007) for instance, indicated the importance of having the customer education (CE) programs to be implemented but did not elaborate on how the implementation should be conducted. Likewise, Abdullah and Abdul Rahman (2007), have also recommended that more focus and improvement of education and training are urgently needed. Cheteni (2014), also had mentioned the importance of having customer education in Islamic banking but did not elaborate further on such implementation. Ringim (2014), also concluded that the result of customer perception on Islamic banking warrants for an urgent attention to strengthen public education towards the characteristics of Islamic banking.

Therefore, this conceptual paper is aiming to look into the dimensions of customer education (CE) construct and to strengthen the dimensions in order to create a strategic pathway for increasing the customer knowledge as well as awareness on Islamic banking especially in the Malaysian context.

**BACKGROUND OF STUDIES**

Malaysia's Islamic banking assets have grown up tremendously. As for the year 2016 alone, its total assets of the Islamic banking industry have increased up to RM742 billion to chart for 28% of the overall banking system (Global Islamic Finance Report, 2017). As for financing and loans segment, Islamic banking has already recorded for a 34.9 per cent of total finances and loans. From the disbursement by Islamic banks during 2016, around 60% was distributed to households, followed by financing, insurance and business activities sector (7.7%); education and health (5.3%) and real estate (5.2%). Meanwhile, Islamic deposits figure grew by 5% to RM529 billion as at end of 2016 whilst Investment Account also raised at RM73.7 billion to record for 12.2% of total Islamic deposits and investments within the Islamic banking system. Figure 1.1 below indicates the growth of Islamic banking assets, financing and deposits from 2010 until 2016.

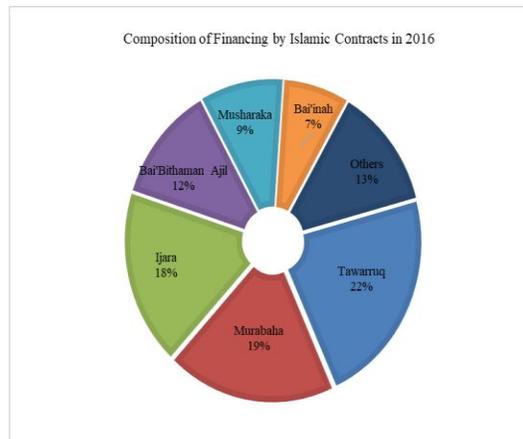


**Figure 1.1.** Malaysian Islamic Banking Total Assets, Financing and Deposits, 2016.  
 Source: Global Islamic Finance Report, 2017.

The Islamic banking industry in Malaysia has progressive rigorously over the years. From a market share of only 5.3% in

the year 2000, its financing volume now stated a 34.9% of total loans and financing. Islamic banks also offer a wide range of innovative and competitive products, complementing solutions offered by conventional banks. Islamic banking in Malaysia has remained on a solid financial footing where in the year 2016 and 2017 it recorded a pre-tax profit of RM5.6 billion and RM6.7 billion respectively.

The industry is now accommodating more than 60 Islamic financial products including *Musharaka* (Joint Venture), *Murabaha* (Cost Plus Profit Sale), *Ijara* (Leasing), *Bai' Inah* (Cash Financing), *Bai' Bithaman Ajil* (Deferred Payment Sale) and *Tawarruq* (Tripartite Sale) and others. Figure 1.2 below depicts the compositions of financing by Islamic contracts for the year 2016.



**Figure 1.2.** Composition of Financing by Islamic Contracts, 2016.  
 Source: Global Islamic Finance Report, 2017.

Previously, in a Bank Negara Malaysia Financial Master Plan 2001 (BNM), it has been suggested that under the Institutional Capacity Enhancement program, a complementary initiative should be undertaken in order to increase the public awareness and knowledge on the Islamic banking operational and product offerings. Knowledge sharing sessions and promotional should be conducted on regular basis in order to assist the provision of customer education (CE) in Islamic banking. This planning could be executed through the innovative and creative management team that can provide the enhanced knowledge provision and customer relationship.

**CUSTOMER EDUCATION**

Customer education (CE) would be an effective avenue in creating value to the customers and it can be positively linked to both customer loyalty and expertise (Bell and Eisingerich, 2007). The efforts created in educating the customers will be perceived as a valued extension to the service process and it shows as a positive gesture of the organizational commitment to retain the relationship with the customers. In relations to Islamic banking, Dusuki and Abdullah (2007) have emphasized that customer education (CE) programs are important since they can act as an avenue to constantly create the awareness and also to increase the level of knowledge of the customers. It is a platform whereby the banking staff can inform and explain to the customers about the financial concepts as well as the advantages and disadvantages of the chosen products (Bell and Eisingerich, 2007). Earlier study undertaken by Abdul Hamid and Mohd. Nordin (2000) has indicated that the inadequate knowledge on Islamic banking has made it as an important indicator to draw upon the strategy on educating the customers not only on the services and products, but also to adopt the Islamic economic principles in the customers' daily financial activities. Series of efforts in educating the public and disseminating the knowledge

and technical know-how on Islamic banking are part of the customer education (CE) activities that could have been spelled out in the strategy. For instance, some of the activities undertaken by one of the local standalone Islamic banking institutions are educational programs, publications, seminars and conferences, in-house training services and library services. These customer educational programs have reflected the true effort in Islamic banking in allowing more knowledge transfer activities to be taking place for the benefits of the customers.

The identification of customer education (CE) dimensions or range of initiatives needs to be clearly define in order to ensure that the efforts are being undertaken effectively. According to Bell and Eisingerich (2008), some of the initiatives of customer education (CE) are advisory services and interactive updated web page. Dusuki and Abdullah (2007) also added that adequate staff training is also important when it comes to execute customer education (CE) programs while Zainolet *al.* (2008) added that seminars and workshops are also considerably important elements in customer education (CE). Ringim (2014) on the other hand suggested forum and conferences as medium for executing customer education (CE) program.

**CLASSIFICATION OF KNOWLEDGE**

As believed by Plato (Adamson, 2005), knowledge can be defined as a set of belief that can be supported by logical explanation. It can be recommended that knowledge comes from the increased ability to interpret and maneuver the availability of information that resides in all kind of environment either from social or organizations. Basically, customer knowledge (CK) has four dimensions namely objective, subjective, specific and general knowledge (Sääksjärvi *et al.*, 2009). The details are further explained in Table 1.1 below. These dimensions of customer knowledge are important since these dimensions indicate the level of customer knowledge on the services and products offered especially in the Islamic banking context.

**Table 1.1.** Dimensions of Customer Knowledge.

Customer Knowledge Dimensions	Definition
Objective knowledge	Indicates in terms of level of factual that customer knows about products details and linkages between various product attributes .
Subjective knowledge	Indicates consumers' perceptions about how much they presume they know about a product.
Specific knowledge	More detailed type of knowledge than general knowledge.
General knowledge	General (basic) level knowledge that shows knowledge about the shared features of a product class such as product terminology.

On the other hand, the types of knowledge can be divided into four as presented in the Table 1.2.

**Table 1.2.** Types of knowledge

Types of Knowledge	Explanation
Internal and External Knowledge	The sources of knowledge that emerge either from the internal or external of the organisation. Company repositories can be the internal sources while the external sources can be obtained from the internet, websites or other

	companies' database.
Theoretical and Practical Knowledge	The theoretical knowledge that covers more on the intellectual discourse while the practical knowledge indicates the abilities and skills of individuals. The practical knowledge can be in a form of learning by doing while the theoretical knowledge is portrayed on communication of knowledge.
Individual and Collective Knowledge	Individual knowledge is the knowledge possessed by the individuals in an organisation or social context. Collective knowledge is gathered from all of the communication and interaction among the staff in the organisation.
Tacit and Explicit Knowledge	Resides in individuals' mind and thinking which is normally hidden and difficult to be connected with. Knowledge that can be articulated, connected, documented and shared across the organisation.

As for knowledge categorization, the most widely used is the tacit and explicit category (Guchait, Namasivayam and Lei, 2011; Meyer, and Sugiyama, 2007). Table 1.3 further differentiates between tacit and explicit knowledge.

**Table 1.3.** Tacit and Explicit knowledge

Explicit Knowledge	Tacit Knowledge
Articulated.	Unarticulated.
Codified.	Hidden and not easily represented via electronics medium.
Documented and transferrable.	Undocumented and personal.
Stored in external data bases and other various forms.	Stored within the individual mind.
Availability in organisational repositories.	Transferred through the people interactions and skills.
Not owned by individuals.	Owned by individuals.

**PROPOSED RESEARCH FRAMEWORK**

Figure 1.3 presents the proposed research framework that is adopted for this study. It contains one independent variable namely customer education (CE), while customer knowledge (CK) is the dependent variable.

This framework will focus on the aspect of CE dimensions of which its dimensions are to be tested in order to know whether those dimensions consist of related and correct items. Another aspect that will be looked into are the dimensions of CK that actually play part as indicators for customer knowledge level. Those dimensions will be general knowledge (Gen Know), objective knowledge (Obj Know), subjective knowledge (Sub Know) and specific knowledge (Spec Know).

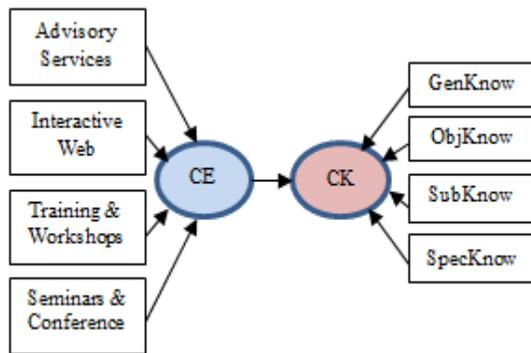


Figure 1.3. Proposed Research Framework

**METHODOLOGY**

This research will be applying the questionnaire as medium of instrument for data collection under survey method of study. Southern geographical areas in the West Coast of Malaysia will be chosen as designated areas for questionnaire distribution among the Islamic bank branches. As such the state of Johore will be chosen for the first phase of this research activity. Target respondents will be from customers of the local full-fledged and window Islamic bank while the convenient sampling will be the sampling procedure used. In addition, primary data collection will be through self-administered questionnaires collected from the existing retail customers namely Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, CIMB Islamic Banking, MBB Islamic Bank, Am Bank Islamic and Public Bank Islamic bank branches. For analysis purposes, the study will deploy the use of PLS-SEM as it suggests an effective alternative to SEM in utilizing multiple regressions, factor analysis and path analysis simultaneously (Hair *et al.*, 2014). Moreover, the justification of this study to use PLS-SEM is because of its non-normal data pattern obtained and PLS-SEM is less stringent on non-normal data (Chin, 2010).

**CONCLUSION**

The implementation of customer education (CE) concept in the Islamic banking in Malaysia would help to build the trustworthiness, confidence and loyalty of the customer and as a result, could increase larger market share in the banking industry. The customer education (CE) which can become critical functional avenue for increasing the customer knowledge (CK) would also serve as the bridge for connecting service quality (SQ) the increase of customer satisfaction (CS). Hence, an empirical study needs to be conducted in order to prove that by strengthening the usage of customer education function (CE) which could increase and enhance the level of customer knowledge (CK), a good platform in facilitating the increase growth of Islamic banking is being built upon and eventually would also hold significant importance since the value derived from both aspects would provide competitive advantages for the Islamic banking industry.

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