

Factors Associated with Taking out a Personal Finance from Islamic Banks: A Study from Almadinah, Saudi Arabia

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Abstract

Islamic banking is growing rapidly and currently are operating in about half of the world countries. In the current study, factors that contribute to taking out a personal finance from full-fledged Islamic banks in Saudi Arabia were investigated. To achieve the study objective, customers (269) of full-fledged Islamic banks from Almadinah city were surveyed using self-administered questionnaire. About 53% of the sample reported taking out a personal finance from Islamic banks. The purpose of taking personal finance was consumption and investment in 90% and 10% of the cases respectively. Regression analysis showed that age, social status, type of employment, satisfaction level and adherence to Islamic principles were associated with taking out a personal finance. The results provide feedback to the Islamic banks in Almadinah to improve personal financing programs.

Keywords: Islamic banks; personal finance; religion, Saudi Arabia.

1. Introduction

Islamic banking arose in Egypt during the sixties of the past century as an Islamic alternative of interest (riba) based conventional banking system. During the last decades, Islamic banking has grown rapidly and currently is operating in more than 60 countries, including USA and United Kingdom (Imam & Kpodar, 2013). The current estimate of the size of Islamic banking industry is more than US \$700 billion in assets worldwide (Alharbi, 2015; Khan, 2010). A unique feature of Islamic banking is its profit-and-loss sharing principle, which is compliant with Islamic law (Farooq, 2007; Waemustafa & Sukri, 2016). The Islamic banking system has utilized several Islamic contracts such as Murabahah and Ijarah to be used in personal financing (Baber, 2017; Jalil & Rahman, 2010; Prabowo & Jamal, 2017). Murabahah is a contract in which the bank provides the cost and profit margin of an asset. It is the most widely used financing contract to finance the purchase of the consumer goods, real estate, equipment and other personal needs (Wulandari et al., 2016). Ijarah on the other hand is a lease-to-purchase contract that used mainly by Islamic banks to finance housing (Archer & Haron, 2013). In the current study, factors that are associated with taking out a personal finance from Islamic banks in Almadinah city, Saudi Arabia, were investigated. Saudi Arabia has a long history of Islamic banking system as the first Islamic bank was established in the country in 1985 (Aljasser & Sasidhar, 2015). In Almadinah, several full-fledged Islamic banks and conventional banks are currently operating to serve the needs of the city population (Aljasser & Sasidhar, 2015; Almotairi et al., 2013; Fayaz Lone & Ur-Rehman, 2017). Thus, the city is an ideal place to conduct the current investigation.

1.1. Study Objectives

The aim of the current investigation is to examine factors that contribute to taking out a personal finance from full-fledged Islamic banks in Saudi Arabia. The study findings provide feedback that can be used by Islamic banks to improve their performance in the highly competitive banking environment.

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1.2. Literature Review

Factors that are associated with taking out a personal loan from conventional banks have been investigated extensively (Frangos et al., 2012; Mehtap-Smadi, 2010; Rao & Sharma, 2010; Senyücel, 2009). However, such studies on Islamic banks are rare and will be covered in this section. A study from Pakistan that was conducted on 471 customers showed that pricing, adherence to the Islamic principles and government support were significantly associated with the intention to use Islamic personal financing products (Ali & Chin-Hong, 2015). Another study from the same country showed that service costs, religious motives and quality of services were important for selecting Islamic banking by consumers (Hasan et al., 2012). Similarly, religious motives and quality of services were important Customer's criteria for selecting an Islamic bank in Pakistan (Awan & Shahzad Bukhari, 2011).

In Malaysia, a study by Hanudin Amin (2008), included 141 participants and examined factors that contribute to taking out Islamic home financing, showed that adherence to the Islamic principles, lower monthly payment and 100 percent financing were the most important factors considered by the customers (Amin, 2008). In addition, factors such as gender, marital status and age were also associated with taking out Islamic home personal financing. Another study that was conducted by the same group on 136 customers showed that attitude, social influence and pricing of service were the most detrimental factors that influence Islamic personal financing (Amin et al., 2011). Similarly, other studies from Malaysia reported that adherence to the Islamic principles and social factors were strong influential factors to use Islamic home financing (Alam et al., 2012; Asma' Rashidah Idris et al., 2011; Fauziah et al., 2008).

A study that was conducted in Bahrain and included 300 customers showed that selection criteria of Islamic bank were adherence to the Islamic principles, followed by the cost. The study also showed that the majority of Islamic bank customers were young (25-50 years old) and educated adults (Metawa & Almossawi, 1998). Finally, religious conviction was found to be a key factor in the use of Islamic finance. In addition, factors such as bank reputation, quality of services and service cost were also relevant factors (Gait & Worthington, 2008). According to the literature reviewed, the current study is the first of its kind that conducted in Saudi Arabia and the region.

2. Methods

The study is a survey based aimed at examining factors associated with taking out a personal finance from Islamic banks in Almadinah city, Saudi Arabia. Almadinah is a major city in the Hejaz region of the Kingdom of Saudi Arabia. It is the second holy place for Muslims after the city of Mecca. The population of the city is close to two million. Both Islamic and traditional banks operate in the city. Participants of the study were recruited using social media applications. Of the 292 participants who filled the questionnaire, only 269 were included in the analysis. About 23 participants were excluded due to incomplete information. The study was conducted according to research regulations of Taibah University.

2.1. The study instrument

The study instrument was constructed in Arabic and adapted from similar previous investigations (Amin, 2008; Amin et al., 2011; Awan & Shahzad Bukhari, 2011; Frangos et al., 2012). The instrument was validated by piloting it to a total of twenty subjects. The survey language clarity and accuracy were also checked at this stage. For all questions, the concordance in the answers in the pilot study was between 95 to 100%. The instrument collected demographic data such as age, gender, education, social status and monthly salary and employee sector. The instrument also asked questions related to taking out a personal finance from Islamic banks, duration with the bank, satisfaction level and purpose of received finance. The Arabic version of the survey is available upon request. The instrument was administered using google forms. Before filling the questionnaire, information regarding study objectives, confidentiality and contact information of researcher were provided. The instrument was distributed between December of 2018 and March of 2019 .

2.2. Statistical procedures

Data were analyzed using the IBM SPSS statistical package for social sciences (version 22). Descriptive statistics were conducted using frequency and crosstabs tools and Chi Square or Fisher Exact tests as appropriate. Logistic regression analysis was performed to deduce factors that are associated with taking out personal finance from Islamic banks. A $P < 0.05$ was used to indicate statistical significance.

3. Results

In the current study, 269 Islamic bank customers were recruited in the study. Characteristics of participants were shown in Table 1. The majority of participants were young (less than 40 years old), women (54%), married (58.4%), and have a university degree (63%). In addition, for the majority, the monthly salary was less than 5000 riyal. Moreover, the majority were satisfied with the services provided by Islamic banks (85%) and had positive perceptions about adherence of the bank to Islamic law (71%).

Table 1: Characteristics of study participants.

Parameter	Frequency	Percent
Age category (year)		
- Less than 30	89	33.1
- 30-40	87	32.3
- 41- 50	58	21.6
- more than 50	35	13.0
Gender		
Men	123	45.7
Women	146	54.3
Social status		
Single	112	41.6
Married	167	58.4
Educational level		
- School certificate	78	29.0
- Diploma	21	7.8
- Bachelor degree	134	49.8
- Master/PhD	36	13.4
Employment sector		
- Government	133	49.5
- Private	136	50.5
Salary per month (Riyal)		
- less than 5000	155	57.6
- 5000-10000	44	16.4
- more than 11000	70	26.0
Duration with bank (years)		
- < 5	94	34.9
- 5-10	78	29.0
- 11-15	55	20.4
- > 15 years	42	15.6
Services satisfaction level		
- High	116	43.1
- Moderate	115	42.8
- Low	38	14.1
Adherence to Islamic law		
- Positive perception	191	71.0
- negative perception	78	29.0

About 53.3% of participants reported taking out personal finance from Islamic banks. The purposes of finance were to cover personal needs (90%) and for investment use (10%). To understand factors associated with personal finance from Islamic banks, crosstab analysis was performed (Table 2). The results showed a strong association between taking out a personal finance and age ($P < 0.001$), gender ($P < 0.05$), employment sector ($P < 0.001$), monthly salary ($P < 0.001$), duration with the bank ($P < 0.001$), satisfaction level ($P < 0.01$) and perception about the adherence of the bank to Islamic law ($P < 0.01$).

Table 2: Factors associated with Taking out a personal finance from Islamic banks

Parameter	Personal finance: N(%)		Crosstab output
	Yes	NO	
Age category (year)			Chi value = 43.7 df = 3 P value = 0.000
- Less than 30	24 (27.0)	65 (63.0)	
- 30-40	51 (58.6)	36 (41.4)	
- 41- 50	46 (79.3)	12 (21.7)	
- more than 50	23 (65.7)	12 (34.3)	
Gender			Chi value = 6.2 df = 1 P value = 0.013
Men	76 (61.7)	47 (38.3)	
Women	68 (46.6)	78 (53.4)	
Social status			Chi value = 0.257 df = 1 P value = 0.622
Single	62 (55.4)	50 (44.6)	
Married	82 (52.2)	75 (57.8)	
Educational level			Chi value = 5.4 df = 3 P value = 0.144
- School certificate	34 (43.6)	44 (56.4)	
- Diploma	10 (47.6)	11 (52.4)	
- Bachelor degree	78 (58.2)	56 (41.8)	
- Master/PhD	22 (64.7)	14 (35.3)	
Employment sector			Chi value = 31.1 df = 1 P value = 0.000
- Government	94 (70.7)	39 (29.3)	
- Private	50 (36.8)	86 (63.2)	
Salary per month (Riyal)			Chi value = 25.2 df = 2 P value = 0.000
- less than 5000	63 (40.6)	92 (59.4)	
- 5000-10000	29 (65.9)	15 (34.1)	
- more than 11000	52 (74.3)	18 (25.7)	
Duration with bank (years)			Chi value = 24.3 df = 3 P value = 0.000
- < 5	35 (37.2)	59 (62.8)	
- 5-10	41 (52.6)	37 (47.4)	
- 11-15	34 (61.8)	21 (38.2)	
- > 15 years	34 (81.0)	8 (19.0)	
Services satisfaction level			Chi value = 10.9 df = 2 P value = 0.004
- High	65 (56.0)	51 (44.0)	
- Moderate	68 (59.1)	47 (40.9)	
- Low	11 (28.9)	27 (71.1)	
Adherence to Islamic law			Chi value = 6.9 df = 1 P value = 0.009
- Positive perception	112 (58.7)	79 (41.3)	
- negative perception	32 (42.3)	46 (57.7)	

When regression analysis was performed (Table 3), taking out personal finance was associated with customers of 30-40 years old ($P < 0.01$), married ($P < 0.01$), governmental employee ($P < 0.01$), satisfaction level ($P < 0.001$) and positive perception about adherence to Islamic law ($P < 0.05$).

4. Discussion

In the current investigation factors associated with taking out a personal finance from Islamic banks in Almadinah city, Saudi Arabia were investigated. About half of the sample reported taking out a personal finance from Islamic banks. The purpose of the finance was consumption by 90% of the cases. Regression analysis showed that age group, social status, type of employment, satisfaction level and adherence to Islamic principles were associated with taking out a personal finance. The results showed that about 53% of respondents have taken a personal finance from Islamic banks. This indicates good trust in Islamic banks in the city. In fact, the results showed that about 86% of the respondents had an acceptable level of satisfaction to the services provided by Islamic banks. The results showed a strong association between customers' satisfaction and taking out a personal finance from Islamic banks. Good satisfaction levels of services provided by Islamic banks also was reported in previous studies from Saudi Arabia and elsewhere (Alanazi & Lone, 2016; Aljasser & Sasidhar, 2015; Almotairi et al., 2013; Khokhar & Sillah, 2014; Fayaz Lone et al., 2017; Sanjuq, 2014).

It is worth to mention here that the purposes of taking out a personal finance was consumption by 90% of the cases and only 10% was directed to investment. This indicates imbalance in giving personal financing and counteracts the social responsibility and Islamic moral economy mission of Islamic banking industry (Asutay, 2008; BinMahfouz & Kabir Hassan, 2013; Rahman, 2007). Thus, Islamic banks and the governments should act together to regulate personal financing and to correct the imbalance between consumption and investment of personal finance programs and products.

Table 3: Logistic regression results

Parameter	Odds Ratio	95% Confidence Interval	P value
Age category (year)			
- Less than 30	Reference		
- 30-40	6.35	1.93-20.86	0.002
- 41- 50	1.12	0.42-2.98	0.081
- more than 50	0.55	0.19-1.29	0.286
Gender			
Men	Reference		
Women	0.82	0.43-1.53	0.535
Social status			
Single	Reference		
Married	2.938	1.41-6.14	0.004
Educational level			
- School certificate	Reference		
- Diploma	0.43	0.12-1.46	0.177
- Bachelor degree	0.47	0.10-2.18	0.341
- Master/PhD	0.44	0.15-1.28	0.133
Employment sector			
- Government	Reference		
- Private	0.37	0.19-0.73	0.004
Salary per month (Riyal)			
- less than 5000	Reference		
- 5000-10000	3.04	0.98-9.44	0.054
- more than 11000	1.38	0.48-3.91	0.545
Duration with bank (years)			
- < 5	Reference		
- 5-10	0.82	0.23-2.91	0.768
- 11-15	1.19	0.38-3.74	0.760
- > 15 years	1.68	0.53-5.24	0.370
Services satisfaction level			
- High	Reference		
- Moderate	0.16	0.06-0.45	0.000
- Low	0.24	0.09-0.66	0.005
Adherence to Islamic law			
- Positive perception	Reference		
- negative perception	0.47	0.24-0.93	0.030

The results showed that taking out a personal finance from Islamic banks was strongly influenced by the customer perception about adherence to Islamic law. About 29% of customers of the current study had negative perception and were unlikely to take a personal finance. Previous studies also indicated that some people had the believe that the actual practice of Islamic banking is deviated substantially from the Islamic teaching (Chong & Liu, 2009). The current findings of the importance of religious believe as a driving force in using Islamic financing products is in agreement with most of the previous investigations that were conducted in other Islamic countries such as Malaysia, Pakistan and Bahrain (Amin, 2008; Awan & Shahzad Bukhari, 2011; Fauziah et al., 2008; Hasan et al., 2012).

However, in one study, religious conviction was found to be of less importance in determining taking a personal Islamic finance (Amin et al., 2011). Collectively, the present findings and previous literature suggest that adherence to Islamic principles play a major role in taking out a personal finance from Islamic banks.

The study showed that being married and being a governmental employee are associated with taking out a personal finance. Married individuals have family responsibilities and are subjected to more urgent situations that requires a finance to solve than single ones. With respect to employment type, governmental employees have stable jobs and monthly salaries than those who work in the private sector. In addition, having a stable monthly salary is an acceptable form of a personal guarantee by the majority of banks. Moreover, Islamic banks apply a conservative policy to its clients by requiring personal guarantees of the individual similar to that of the traditional ones (Al Ali & Naysary, 2014). Thus, such factors are expected to be shared between both Islamic and traditional banks (Frangos et al., 2012; Rao & Sharma, 2010). The current study investigated factors associated with taking out a personal finance from full-fledged Islamic banks. Some of the traditional banks in the city use Islamic windows and provide personal Islamic finance. Therefore, extending the current study to include such banks is recommended in the future.

5. Conclusion

In conclusion, several factors were found to be associated with taking out a personal finance from Islamic banks in Almadinah, Saudi Arabia. These factors include age, social status, employment sector, satisfaction level, and adherence to Islamic principles. The results provide feedback to the Islamic banks to improve provided personal financial services and to widen their customer base.

6. Conflict of Interest

The author has nothing to declare.

7. Acknowledgment

The author would like to thank Department of Finance and Economy at Taibah University for its support.

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