

# Acceptance of Islamic Banking in New Zealand: Perspectives from Potential Customers

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**Abstract:** The Islamic banking system stems from an interest free economic transaction model, which was introduced well in the early days of Islam. Even though the development of Islamic banking in the southern hemisphere is not as rapid as in the northern hemisphere, this does not imply that small western countries such as New Zealand are not interested in this niche sector. The increasing number of the Muslim population in New Zealand, which grew to 70,000 by 2018, shows that there may be a potential demand for Islamic financial services. This perception study which is part of a larger feasibility study uses a quantitative approach to examine the perception level of New Zealand residents towards their intention to use Islamic banking. Using purposive sampling technique, 300 questionnaires were distributed to potential banking customers, irrespective of religion, residing in New Zealand. Multiple regression analysis was conducted to capture whether the variables based on the theory of reasoned action including knowledge, religious values, subjective norms and attitude had an effect on the New Zealand residents' intention to use Islamic banking. It was interestingly noted that only attitude had a significant effect on how New Zealand residents perceive their intention to use Islamic banking in their daily lives. Overall, this study has ascertained the level of perception towards their intention to use Islamic banking among potential customers in New Zealand. The results of this study can be used as a framework for the setting up of an Islamic banking system in New Zealand.

**Keywords:** Islamic banking, New Zealand, perception, economics, finance, western economy, Malaysia.

## 1. INTRODUCTION

The Islamic banking system is an interest-free economic transaction model currently practised by many Muslim populated countries in the world. It recognises a stakeholder-centric transaction that ensures justice for both the lending and receiving parties through the abandonment of interest-based transactional philosophy. The principles of this banking system are based on seeking social justice, and the banks operate as a party to investment schemes sharing the risks of this investment on an agreed upon share. Even though the development of Islamic banking in the southern hemisphere is not as rapid as in the northern hemisphere (Ernst & Young, 2016), this does not imply that countries such as New Zealand are not interested in this niche sector.

A notable trend in New Zealand is that there is an increase in the migrant population, especially Muslims in the last ten years. As a significant number of the Muslim population is needed for the retail banking products and services to be offered, there is a potential demand for Islamic banking products in New Zealand. Currently, residents in New Zealand are familiar with Islamic products such as Islamic capital market

instruments like the Islamic bonds (Sukuk) the halal industry (Nalar, 2012) and halal food outlets. Pollard and Samers (2007) have studied the demand for Islamic banking, which is seen as religious (for the Muslims) and moral banking services (for the non-Muslims).

Therefore, this study aims to assess the perception level of potential customers in New Zealand on the potential demand for Islamic banking. Potential customers who are New Zealand residents comprising Muslims and non-Muslims answered a self-administered questionnaire on their perception of their intention to use Islamic banking. A multiple regression analysis was done to capture whether identified determinants such as knowledge, religious values, subjective norms and attitude affected the New Zealand residents' intention to use Islamic banking.

## 2. LITERATURE REVIEW

The theory of reasoned action (TRA) introduced by Fishbein and Ajzen (1975) established a relationship among belief, attitude, intentions, and behaviours (Md Taib, Razak and Ramayah 2008). TRA is the fundamental theory used to explain human behaviour (Venkatesh, *et al.*, 2003). Based on the theory of TRA and Theory of Planned Behaviour, the variables which influence the intention to use Islamic banking were identified. The independent variables identified were

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knowledge/awareness, religious values, subjective norm and attitude. The dependant variable was the intention to use Islamic banking.

### 2.1. Demographic Variables

In terms of demographic variables, men are always perceived as more techno-savvy especially with complicated banking and financial products (Bliss & Potter 2002) and seen as more risk-takers with regards to financial decisions as clarified by Jianakoplos and Bernasek (1998), Barber and Odean (2001) and Huang and Kisgen (2013). In terms of age, Khan *et al.*, (2007) and Rashid *et al.*, (2009) in their studies revealed that those in the age between 25 and 35 years old were the main patrons of Islamic banks in Bangladesh, and similar results were also displayed for the Islamic banks in Malaysia as shown by Muhamat, Jaafar, and Azizan (2011) and Islamic banks in the United Kingdom (Dar, 2004). Amongst the earliest studies that measure Islamic banks patronage pattern is Metawa and Almosawi (1998) on their findings from the bank customers in Bahrain who remarked that the most important factor in determining the intention of Islamic bank customers was religion compared to profitability. This is consistent with findings by Ahmad *et al.*, (2008) and Khan *et al.*, (2007) in determining banking selection, especially for the Muslims. For the non-Muslims, this is not the main pull factor (Gait & Worthington, 2008).

### 2.2. Knowledge and Awareness

Knowledge and awareness are two components that are related to each other, especially for distinct products like banking products, which is quite technical (Ahmad, 2010). Knowledge can create awareness and awareness is someone's ability to make an informed decision based on the knowledge that the person has (Abdullah and Wahab, 2015). Nevertheless, awareness and knowledge about banking products offered by any bank are important and suggested by previous researchers as a critical factor in decision making on using banking products and services (Crossan, Feslier, & Hurnard, 2011). Hence, the proposed hypothesis:

*H1: Knowledge and awareness positively influence the behavioural intention to use Islamic banking.*

### 2.3. Religious or Moral Values

Islamic banking which is established on the precepts of Islamic finance that rejects usury, excessive speculation and gambling in its operation, is

regarded as an alternative banking system that is socially responsible, and at the same time commercially viable (M. Khan & Bhatti, 2008; Muhamat, Jaafar, & Basri, 2017). Therefore, from the religious point of view, Islamic banking is a universal banking system since it is built on the universally accepted principles and the institutions do not propagate the Islamic teachings to the customers although the banks are required to adhere to the Shariah rulings, which are primarily on the business transactions and not on the religious rituals such as prayer, etc. The Shariah committee which oversees the management of Islamic banking is another governance organ which is established to ensure the compliance aspect of the business with regards to Shariah requirements is adhered, as well as to ensure the rights of the depositors and borrowers are protected (Hasan, 2011).

In another perspective, in Western countries such as the United Kingdom and France, Islamic banking is always promoted as the socially responsible banking system that operates on a high moral standard. The population in these countries have commendable awareness on human rights, environmental issues and protection of wildlife. Therefore, the Islamic banks in these countries position themselves according to high moral expectations, which is the basis of establishment for Islamic banks. Thus, the proposed hypothesis:

*H2: Religious or moral values positively influence the behavioural intention to use Islamic banking.*

### 2.4. Subjective Norm Towards Islamic Banking

In TRA, it is postulated that subjective norm (SN) affects behavioural intention (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). This is where Fishbein and Ajzen (1975) found that subjective norm is a function of the perceived expectation by an individual or a group who are important to the person and by the persons' motivation to comply with the expectations.

The results on the influence of subjective norm on behavioural intention by Ramayah *et al.*, (2003), Ma'ruf *et al.*, (2003), Ramayah, Noor, Nasurdin, and Sin (2004), Eri (2004), Ramayah, Ling, Norazah, and Ibrahim (2005), May (2005), and Gopi and Ramayah (2007) found that subjective norm has a positive direct relationship towards behavioural intention. In the context of Islamic finance, subjective norms have a direct impact on the intention (Amin *et al.*, 2011). Hence the proposed hypothesis is:

*H3: Subjective norm positively influences the behavioural intention to use Islamic banking.*

## 2.5. Attitude Towards Islamic Banking

Dusuki and Abdullah (2007) in their findings based on their study in a dual banking system (Islamic banks and conventional banks operate side by side under the surveillance of the central bank) signified that attitude of the customers towards the Islamic banks are influenced by mostly the combination of Islamic values and financial reputation, followed by quality of the services offered, social reputation of the Islamic banks, convenience and lastly, the product price. Nevertheless, this study is significant in the context of Malaysia being a multi-religious country which is similar to most English-speaking countries like New Zealand, Australia, the United Kingdom and the United States of America, to name a few. Haron, Ahmad, and Planisek (1994) who surveyed nearly an equal percentage of Muslims and non-Muslims respondents in Malaysia signified that both groups emphasised the features of the Islamic banks' products even for the Muslims respondents.

In another interesting study by Erol and El-Bdour (1989), one of the earliest studies assessing the customers' patronising attitude towards Islamic banks, it was found that that religious factor is not the only significant element that the customers consider when they decide which banks to bank with. They also gave priority to Islamic banks' products features such as the percentage of return that they can earn from the savings or investment accounts or the rate of borrowing that they will have to bear. Their respondents were from Jordan, a predominantly Muslim country. Consequently, the proposed hypothesis is:

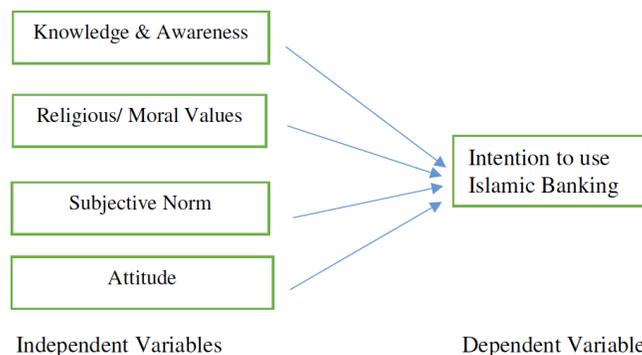
*H4: Attitude negatively influences the behavioural intention to use Islamic banking.*

## 3. METHODOLOGY

This study used a primary survey whereby a sample of 300 respondents were given a self-administered questionnaire throughout New Zealand. Only 285 usable questionnaires were analysed. Questionnaires were distributed using both print and online medium using Google Doc. The non-probability sampling method of convenience and purposive sampling techniques were used in a non-contrived setting and unit of analysis was individuals. The respondents must have an account in a bank and can be a Muslim or a Non-Muslim currently residing in New Zealand.

Data was analysed using descriptive and inferential analysis. Multiple regression analysis was used to test the hypotheses and obtain the perception level on the behavioural intention to use Islamic banking among Muslim and non-Muslim customers in New Zealand. To safeguard the confidentiality of respondents, no names were mentioned. All respondents were informed that answering the questionnaire was voluntary, and they had a choice to decline to answer.

The conceptual framework of the study based on literature review is as shown in Figure 1 below:-



**Figure 1:** Conceptual Framework of Study.

## 4. FINDINGS AND DISCUSSION

### 4.1. Demographic Profile of Respondents

Table 1 below shows the profile of the respondents in this survey. It is noted in terms of educational level, a majority of the respondents (50%) possessed a basic degree. This means that all the respondents were qualified to understand the survey questionnaire and the issues relating to Islamic banking products and services in New Zealand. In terms of religion, 48 per cent of the respondents were Muslims, 34 per cent from other religions and 18 per cent categorised themselves as "no religion". There were more males (65%) compared to females. In terms of marital status, a majority (51%) were married while 35 per cent of the respondents were never married.

The age group of the respondents shows a Generation Y majority where 45 per cent of the respondents were young and were in the 21-30 years age group and 24 per cent came from the 31-40 years age group. A major portion (46%) of the respondents had a household size of more than four persons. As the study tried to capture the perception of potential customers, students, working people and non-working people, as long as they had a bank account, they were given a questionnaire. A majority of the respondents

**Table 1 – Demographic Profile of Respondents**

1NZD = RM2.8

Variables	Description/Values	Percentage
Educational Level	High School Certificate	15
	Bachelor Degree	50
	Postgraduate Degree	29
	Others	6
Religion	Christian	15
	Muslim	48
	Hindu	12
	Buddhist	7
	Others (No religion)	18
Gender	Male	65
	Female	35
Marital Status	Never Married	35
	Married	51
	Partner/Living Together	6
	Separate/Divorced	3
	Others	5
Age	18-20 years	6
	21-30 years	45
	31-40 years	24
	41-50 years	13
	51-60 years	6
	Above 60 years	6
Household Size	Single	23
	Couple	13
	3 persons	16
	4 persons	25
	More than 5 persons	23
Are you working?	Yes	71
	No	29
Annual Personal Income	Below NZD 35,000	29
	NZD \$35,001- NZD \$45,000	13
	NZD \$45,001- NZD \$55,000	10
	NZD \$55,001- NZD \$65,000	11
	NZD \$65,001- NZD \$80,000	16
	NZD \$80,001- NZD \$100,000	11
	Above NZD \$100,001	10
Industry	Banking/ Finance	8
	Manufacturing	7
	Construction	3
	Education	17
	Legal	2
	Healthcare	7
	Others	56

(71%) were working, while 29 per cent were not working.

When the sample was categorised based on yearly income, it showed that a majority (37%) of the respondents earned an annual income above NZD 65,000. A majority of the respondents were working in the education sector and also in the private sector.

#### 4.2. Perception of Respondents Towards the Intention of Using Islamic banking

The objective of the research was to investigate the relationship between knowledge, religious values, subjective norms and attitude towards Islamic banking and the intention to use Islamic banking in New Zealand. Regression analysis was conducted, and R-square was found to be 74%, which means that the selected variables explained 74% of the intention towards Islamic banking in New Zealand.

Tables 2, 3 and 4 show the results and the summary of hypotheses tested.

Accordingly, the first hypothesis testing shows there is a negative relationship between knowledge and the intention to use Islamic banking in New Zealand ( $t = -0.88$ ,  $p = 0.931$ ) but it is not significant and does not conform to the past studies of Dar (2004) and Aysan *et al.*, (2018). Nevertheless, the influence of country specific factors such as banking regulation and population size are amongst the factors that need to be considered before a generalisation can be made between findings in the past studies and in this study. Hence, Hypothesis 1 is not supported. This study shed new light on the banking industry as customers who are not familiar with Islamic banking would be more cautious in their intention to use Islamic banking. Hence, customers may only adopt Islamic banking if consumers have adequate knowledge that could shape their perception of risks and benefits towards the adoption of Islamic banking, as mentioned by Hassan, John and Harun (2016) about Muslim consumers' perception and intention to purchase genetically modified food. More importantly, this implies that individuals who have an understanding of Islamic banking products and services are more likely to practise Islamic banking rather than those who do not possess the knowledge (Mehtab, Zaheer, and Ali, 2015).

The next hypothesis testing shows that there is a positive relationship between religious values and

intention to use Islamic banking in New Zealand ( $t = 1.664$ ,  $p = 0.114$ ), but it is not significant and does not conform to most literature, although for this part, mixed findings were gathered in the past studies. Aysan *et al.*, (2018) remarked that the Muslims depositors were not hesitant to withdraw their deposits if the Islamic banks that they patronised perform badly. However, most of the past studies pointed out that religiosity is amongst the critical factors that "spark" the Muslims to engage with the Islamic banks (Dusuki, 2007; Suhartanto, 2019). Hence Hypothesis 2 is not supported. Earlier studies show that religion defines the ideas for life, which are reflected in the values and attitudes of societies and individuals (Fam, Waller, & Erdogan, 2004). Consequently, religiosity is known as one of the important cultural forces and a key influence on behaviour whether good or immoral (Delener, 1994; Essoo & Dibb, 2004; Sood & Nasu, 1995). Perhaps, the reasons for them to use Islamic banking is due to the benefits or economic value they gained, rather than the religious or moral values embedded in the adoption of Islamic banking. Hidayat and Al-Bawardi's (2012) study concluded that non-Muslim customers in Saudi Arabia used the Islamic banking services because of the cost factor, quality of services and the nature of services provided by the Islamic banks.

The third hypothesis testing shows there is a negative relationship between subjective norms and intention to use Islamic banking in New Zealand ( $t = -1.669$ ,  $p = 0.112$ ); hence, the results did not support Hypothesis 3. This finding is not consistent with many previous studies in the banking field (Fauziah *et al.*, 2008; Md-Nor *et al.*, 2008; Zolait, 2010) as well as Agarwal *et al.*, (2009) who explored that subjective norms have a significant direct influence on consumers' intention to use banking systems. However, this study has similar results to the study of Abdullah and Wahab (2015), whereby social influence was found to have no significant influence on the intention to use Islamic personal financing. This could imply that social influence did not have a certain amount of impact on the intention to use the Islamic banking system in New Zealand. It is suggested that individuals in New Zealand may not attempt to adopt Islamic banking since they have no motivating factors or support from the members of the family or friends. Consequently, this finding is not congruent to the theory of reasoned action, which suggests the construct of subjective norms and conduct of certain behaviours is a result of the subjective assessment of events that occur in the environment (Alqasa, Isa, Othman and Zolait, 2014).

Finally, the H4 hypothesis testing shows there is a negative relationship between attitude towards intention to use Islamic banking in New Zealand ( $t = -3.464$ ,  $p = 0.03$ ) and the results support Hypotheses 4 since it has a significant relationship. This finding is similar to the results of the earlier Malaysian customers' acceptance-based studies (Ramayah *et al.*, 2003, 2004, 2005; Ramayah and Mohd. Suki, 2006; Gopi and Ramayah, 2007). However, the negative relationship denotes that awareness and the usefulness of Islamic banking, as well as Shariah compliance, substantially influence the formation of a positive or negative attitude (Ali and Hassan, 2017). Lack of product knowledge and employees having religious values may affect employees' attitude towards Islamic banking (Ali and Hassan, 2017). Consequently, individuals in New Zealand may not have the necessary information about the advantages of Islamic banking. Nevertheless, they may adopt and use Islamic banking when they understand and believe that Islamic

banking is somewhat beneficial for them since it is very different from conventional banking. Findings in this study show that although the customers may consider patronising Islamic banks, due to convenience or switching costs they may prefer to adopt the present conventional banking.

## 5. CONCLUSION AND POLICY IMPLICATION

In the context of Islamic banking in New Zealand, the country does not have a significant Muslim population and at this point of time there is no bank that offers purely Islamic banking products. To date, none of the banks in New Zealand offer Islamic banking services because they argue that the Muslim population is not big enough for the banks to provide such facility (Shaw, 2017). Nevertheless, there is an institution referred to as Amanah Ethical New Zealand that offers Shariah compliant fund management services to the public in the country

**Table 2: Items Reliability Score**

Items	Component				
	1	2	3	4	5
<i>Knowledge</i>	.931				
I am truly aware of the existence of Islamic banking as part of a banking system.					
I understand that Islamic banking products and services are offered to both Muslims and non-Muslims.					
If I put my money in Islamic banks, I am happy that my money will not be invested in ventures like alcohol, gambling, etc.					
<i>Religious values</i>		.840			
My religion is one of the most important part of my philosophy of life.					
My moral values are one of the most important parts of my philosophy of life.					
My religion forms an important basis for the kind of person I want to be.					
I often think about religious matters.					
I often think about doing good for others.					
<i>Subjective norms</i>			0.945		
My parents think that I should bank with an Islamic bank.					
My friends support my decision to patronise an Islamic bank.					
It is generally expected that I should choose Islamic banking.					
<i>Attitude towards Islamic Banking</i>				0.937	
Patronising, an Islamic bank is a good idea.					
Patronising an Islamic bank is something pleasant for me.					
Choosing Islamic banking is beneficial for me.					
<i>Intention to use Islamic banking</i>					0.934
I am interested in using Islamic banking products.					
I will recommend Islamic banking products to others.					
I will use Islamic banking when it is made available.					

**Table 3: Correlation Analysis between Constructs**

Constructs	1	2	3	4	5
Knowledge					
Religious Values	0.56**				
Subjective Norms	0.21**	0.24			
Attitude towards Islamic Banking	0.29**	0.71	0.73**		
Intention to use Islamic banking	0.65**	-0.26	-0.042**	-0.61**	

\*\* Correlation is significant at the 0.01 level (1-tailed).

**Table 4: Results of Hypothesis Testing**

Hypo	Path	Standard Coefficient	t-value	Sig.	Results
H1	Knowledge → Intention to use Islamic banking	-.015	-.088	.931	Not supported
H2	Religious Values → Intention to use Islamic banking	.294	1.664	.114	Not supported
H3	Subjective Norms → Intention to use Islamic banking	-.318	-1.669	.112	Not supported
H4	Attitude towards Islamic banking → Intention to use Islamic banking	-.764	-3.464	.003	Supported

(<https://www.amanahnz.com/who-we-are-1>). The New Zealand bank, that is the Kiwi Bank, operates its transactions on demand following the Shariah principle. The study revealed a few interesting findings, as mentioned below.

In terms of awareness and knowledge, the overall level among the respondents was encouraging, but the level of awareness among the non-Muslims and the younger generation is low as stated by Bley and Kuehn (2004) due to the fact that religious belief has an influence on consumers' attitude towards Islamic banking (Souiden and Marzouki, 2015). Hence, customers may only adopt Islamic banking if consumers have adequate knowledge, particularly when they have a strong conviction of religious belief that could shape their perception of risks and benefits towards the adoption of Islamic banking.

With regards to religious or moral values, even though religiosity is known as one of the important cultural forces and a key influence on behaviour, it was not significant in this study.

Social norm or subjective norm was found to have no significant influence on the intention to use Islamic personal financing.

The most critical finding is that how attitude is important, and it is substantially framed by awareness

and product knowledge. Hence, even if the potential customers in New Zealand do not have the necessary information pertaining to the advantages of Islamic banking, if they understand and believe the benefits, they may consider using it.

Overall, there is an interest in Islamic banking if it is made available. This may imply that there is a potential for the Islamic banking system to be implemented in New Zealand.

The major recommendations suggested based on the findings of the study are as follows:

- i. In the context of New Zealand, the Islamic banks need to position themselves according to the "taste" and demand of the New Zealand population. The best is for them to market themselves as an ethical banking provider, which is parallel to the Shariah objectives as well as in tandem with the sophisticated New Zealand population, which is an environmental and human rights empowered community.
- ii. As the Muslim population in New Zealand is not as big as in the United Kingdom, proper marketing strategies are needed because if the potential customers do not have the basic understanding about the Islamic banking system, then it would be hard for the Islamic banks to sell

their products and services, especially with regards to the retail banking sector.

Future research should target a larger sample to generalise. A continuous increase in the number of Muslims in New Zealand has resulted in an increasing demand for Islamic banking in the country. Hence, a significant finding is that there is a potential of setting up a non-conventional bank in this western economy.

The findings of this study may provide an impetus to set up an Islamic banking system in the small, western country. With an increasing number of the immigrant mix in the population, there is an opportunity to service a niche market in New Zealand.

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