Customers' Perception on Islamic Retail Banking:

A Comparative Analysis between the

Urban and Rural Regions of Malaysia

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Abstract

Islamic banking was launched in Malaysia nearly three decades now, back in 1983. However, the market share of Islamic retail banking (IRB) still seemed to be relatively low. Therefore, the main aim of the present study is to analyze the difference in the awareness, perception, and preferences on IRB between the urban and rural banking customers of Malaysia. Hence, a comparative analysis was conducted based on 537 respondents representing both urban and rural regions of Malaysia. Results revealed that there is a significant difference in terms of awareness and on perceived complexity, uncertainty, and observablity. There also seem to be some variations for returns, loan repayment period, service charges, and overdraft facilities. Thus, the findings would be useful for the banking sector in understanding the customer perception and preferences concerning IRB, and to promote it strategically, and for the relevant authorities, in promoting specific regulations and policies that enhance the market share of IRB.

Keywords: Islamic retail banking, Customers' perception, Urban, Rural, Malaysia

1. Introduction

The emergence of Islamic banking system has created a new dimension to the current economic models (Fazlan.S & Mohammad, 2007). Widely known as Islamic banks, these interest-free institutions are organized financial intermediaries, which operate in accordance with Islamic law (Shariah Law) (Iqbal & Mirakhor, 2007; Khabir, H. & M.K. Lewis, 2007). The term "Islamic Banking" is defined as the conduct of banking operations in consonance with Islamic teachings (Mirakhor, 2000; A.Haque, Jamil.O & Ahmad.Z, 2007). The main principles of Islamic banking activities comprise of prohibition of interest (riba) in all forms of transactions undertaking business and trade activities, based on, fair and legitimate profit (Mirakhor, 2000; A. Haque et al., 2007). Unlike conventional banking system, the Islamic banking system prohibits usury (riba), the collection and payment of interest; instead, it promotes profit and loss sharing in all conduct of banking businesses. Besides that it also promotes giving zakat (alms tax), prohibition of monopoly, and cooperation for the benefit of society, and development of all halal aspects of business, that are not prohibited by Islam (Haron, 1997; Mirakhor, 2000).

Over the past four decades, Islamic banking has emerged as one of the fastest growing industry, at an estimated growth rate of 15-20 percent per annum (A. Haque et al., 2007). It has spread to all corners of globe and received wide acceptance by both Muslims and non-Muslims (Aziz Z.A, 2006). Great emphasis is given by the Malaysian government to develop a well functioning and efficient Islamic banking system. It is not a coincidence that Islamic banking is making its progress in Malaysia but it is the Malaysian government's vision to develop a progressive and robust Islamic banking industry, rooted in the Islamic core values and principles that best serve the needs of the nation's economy. It is the aspiration of the Malaysian government to have a strong Islamic banking industry capturing 20 percent of the market share of financing and deposits in the Malaysian financial industry by 2010 (Aziz Z.A, 2007).

The Islamic banking system in Malaysia has evolved as a competitive component of the overall financial system, complementing the conventional financial system as a driver of economic growth and development. Today, Malaysia has succeeded in implementing a dual banking system and has emerged as the first nation to have a full-fledged Islamic banking system, operating in parallel, with the conventional banking system. The Malaysian Islamic banking system today, comprises of eleven (11) local Islamic banks and six (6) foreign Islamic banks (BNM, 2010)

1.1 Research Background

While the opportunities for Islamic banking will continue to grow, there is a need to develop products and services that are in line with the changing needs and demands of customers to remain competitive in the business. A feature of the banking industry across the globe has been that it is increasingly becoming turbulent and competitive (Sadiq & Shanmugham, 2003). The process of globalization and liberalization together with digitalization has fueled the intensity of business competition today. Islamic banking in Malaysia, as one of the most important components in the service industry is faced with stiff competition, not only with the long established conventional banking system and the international players, but also within themselves.

As competition intensifies in the banking industry today, Islamic banking is no longer regarded as a banking service striving to fulfill only the religious obligations of the Muslim community, but more significantly as an innovation in the banking industry, that ought to be, as competitive as conventional banking. This necessitates Islamic financial institutions to understand the real needs of their customers towards Islamic banking services. In Malaysia, customers' positive perception towards Islamic banking is far more crucial mainly because Islamic banks have to compete with the dominant and long established conventional banks in a dual-banking system (Aziz ZA, 2006; Asyraf, 2007).

In early 1990s, the scope of Islamic banking studies was extended to leading issues in Islamic banking system. In the Southeast Asian context, the Malaysian experience in Islamic banking has been very encouraging. Saad Al-Haran in his book, "Leading Issues in Islamic Banking and Finance", highlighted that for a viable Islamic Economic System to operate critical issues on product development and market research have to be addressed first. His line of argument was not only confined to Bank Islam Malaysia Bhd that lacked the marketing research during that point of time, but also to most conventional banks that underestimated the importance of marketing of their products to consumers (Saad Al-Haran, 1995). While studies on consumer adoption of Islamic banking services in Malaysia remain scarce, almost all of these studies largely focused on the combination of various factors such as religion, relative cost and benefits, service delivery, staff competency and convenience (Saad Al-Haran, 1995).

Further studies related to Islamic banking adoption also affirm that the selection of Islamic banks appears to be predominantly a combination of Islamic and financial reputation and quality service offered by the banks, whilst other factors such as good social responsibility practices, convenience and product pricing are also considered to be important (Abbas et al, 2003; Asyraf & Nurdianawati, 2006). Asyraf and Nurdianawati (2006), also critiqued the earlier studies stating that Islamic banking activities should no longer be regarded as a mere initiative striving only to fulfill the religious obligations, but more significantly as an innovation that is ineluctably in need for winning over customers. Recent studies conducted by Ahasanul et al (2007), highlighted that demographic factors such as gender and race are significantly relationship to the overall perception of Islamic banks.

However, the perceived attributes of innovation as highlighted by Rogers (1999) so far, has not been examined in Malaysia, whilst Gerard (1997) and Yusof (1999) have examined these attributes in Singapore. As opined by Fazlan and Mohammad (2007), in practice, much of the decision to adopt an innovation is influenced by two major factors. Firstly, the perceived attributes of the innovation and secondly the characteristics of the consumers. Accordingly, Yusof's (1999) study on Islamic banking adoption in Singapore focused mainly on the perceived attributes of innovation and consumers' characteristics (Yusof, 1999). He argued that the initial influence arises

from the attributes of an innovation itself and the way in which these present the possibility of improvement and second is the personal characteristics of the consumers, such as attitudes, beliefs, and human values. However, Yusof gave less emphasis in his study to variables such as consumer awareness and awareness of Islamic banking attributes.

Whereas Philip Gerard and Cunningham (2003) in their Internet banking adoption studies conducted in Singapore, has stressed the significance of customer awareness, product knowledge, and informative advertising campaigns. However, so far the Islamic banking studies in Malaysia indicate religion as the most important reason for customers patronizing Islamic banks (Kader, 1993, 1994; Haron et al, 1994; Naser, 1999). It was critiqued by Ahmad and Haron (2002) in their later study conducted in Malaysia that Islamic banks should not only rely on the religious factor as a strategy in its effort to attract more customers, but emphasized on service level efficiency and situational factors as pertinent factors that would determine its future competitiveness

Apart from the above, in the context of Malaysia, the previous studies related to Islamic banking adoption is limited in scope due to either limited sample size or representation (Asyraf & Nurdianawati, 2007). As opined by Asyraf and Nurdianawati (2007), research by Ahmad and Haron (2002), for instance had only 45 respondents. As for Kader (1993, 1995) and Haron et al (1994), their sample was restrictive in the sense that they were collected from one single location or district. For example, in Kader (1993, 1995), the survey was confined to one location, that is, Kuala Lumpur. Similarly, for the studies conducted by Haron et al., (1994), the samples were drawn from three towns namely: Alor Setar, Sungai Petani and Kangar. Whilst, Asyraf and Nurdianawati (2007) in their research have included only the major cities of Malaysia, that is, Kelantan, Penang, Kuala Lumpur and Johore, and did not cover any rural areas of Malaysia. These efforts could be inadequate to represent the overall awareness, perception, and preferences of the consumers of banking services in Malaysia. Therefore, samples to conduct a comparative analysis for this study were drawn from the major cities and rural areas of Malaysia in order to cover wider scope of representation (see Table 1 in Appendix 1). Moreover, most of the previous Islamic banking adoption studies were represented by only Muslim consumers (Kader, 1993, 1994; Saad & Almossawi, 1998; Yusoff, 1999; Naser, 1999; Haron, 2002) and only limited studies have included Non-Muslims as respondents (Hussain, 2005; Ahasanul et al., 2007; Asyraf & Nurdianawati, 2007)

As the government strives to build Malaysia as the regional Islamic banking hub, specific studies are needed to help the government learn more about the voice of Malaysian banking consumers regarding Islamic banking services. Such studies will reveal the perceptions of the consumers in Malaysia towards Islamic banking products and services, and provide a framework to approach the prospective consumers. In this context, it is imperative to examine the factors affecting the adoption of Islamic retail banking in Malaysia, extending the scope, from the urban regions to the rural regions. Clear understanding of customer awareness, perception, and preferences will help Islamic financial institutions to create appropriate marketing strategies to take a larger share of the financial market. After all, the customer is the final arbiter who determines the market share of any industry (Kotler & Gary, 2001).

Moreover, it is nearly three decades now, ever since Islamic banking was launched in Malaysia, back in 1983, when Bank Islam Malaysia Berhad (BIMB) first commenced its operations. In addition, it is the aspiration of the Malaysian government to turn Malaysia into a regional Islamic banking hub. However, the market share of Islamic deposits and financing as of 2009, stood at only 18.2 and 17.8 percent of the industry's total, despite twenty-eight years (28) of operation (Bank Negara Malaysia, 2009). This implies that although the number of Malaysian banking consumers using Islamic banking products and services are growing, a majority still have not adopted the system particularly in the rural regions, even though the rural population of Malaysia comprises of about 38 percent, of the total population of 28 million people (http://www.statistics.gov.my, 2010).

Against this backdrop, this study aims to address the following question: **How do the Malaysian rural banking consumers perceive Islamic retail banking?**

Specifically, the study sets out to address the following research questions:

   i)   Are the banking consumers of Malaysia aware of IRB?

   ii)   Are there any significant differences in perception on IRB between the urban and rural banking customers of Malaysia?

   iii)   Are there any significant differences between the urban and rural banking customers in terms of their preferences for IRB?

2. Research Objectives

The study has two categories of objectives that are general and specific. The general objective of the present study is *to understand the nature of consumer adoption of Islamic banking, in particular retail banking, in the urban and rural regions of Malaysia.* The specific objectives are as follows:

- To analyze the awareness on Islamic retail banking, between the urban and rural banking customers.
- To analyze the perception on Islamic retail banking, among the rural and urban banking customers.
- To analyze the preferences of the urban and rural banking consumers with regard to Islamic retail banking.

The following section describes briefly on the research methodology. The result of the research survey is then presented. The final section of this paper concludes with a summary, outlining the implication of the findings and the limitations of this study.

3. Research Methodology

To determine the Malaysian banking customers' awareness and perception on Islamic retail banking schemes, a survey was conducted among the banking customers, in the urban and rural regions of Malaysia, during October to December 2009. A survey instrument was designed to collect data. The instrument itself was a questionnaire designed previously (Yusof, 1999), consisting a list of 32-questions that measures six key constructs of the study. Respondents were asked to indicate their awareness and their current perception for each of the question with regard to Islamic retail banking. Responses to the survey question on the variables were entered on a five-point Likert-type scale as follows: 1 = Strongly Disagree, 2 = Disagree, 3 = Neither Agree or Disagree, 4 = Agree and 5 = Strongly Agree. Respondents were also requested to identify whether they were users or non-users of Islamic retail banking schemes. In addition, the survey questionnaire also includes data on participant's demographic profile including gender, age, ethnicity, and religion, level of education, monthly income, and occupation.

Individual customers of banking sector from the urban and rural region of Malaysia participated in the study. The urban regions are represented by the main cities in Malaysia comprising; Kuala Lumpur, Seremban, Johore Bahru, Kuantan, Ipoh, GeorgeTown, Kota Bahru and Kuala Terengganu. Correspondingly the rural regions are represented by, Sekinchan, Bahau, Labis, Chaah, Raub, Sungkai, Pasir Mas and Kuala Berang. Therefore, the urban and rural locations of the study overall cover the northern, central, southern and eastern regions of Malaysia. The respondents are comprised of both Muslim and non-Muslims. The responses from urban region consist of respondents, who possess better education level, income level, and profession compared to the responses from rural region. The sample for urban regions was drawn from bank customers at three leading banks of Malaysia and, as for the rural regions; it was drawn from the mosques and households. The survey instrument was personally administered, and administered through the medium of Internet. Hardcopies of questionnaires were distributed using convenient sampling while online questionnaires were sent out randomly to friends and colleagues in the mailing list. A total of 281 useable responses from the urban region and 256 from the rural region were obtained respectively.

4. Analysis and Discussion

To investigate the awareness on IRB between the urban and rural banking customers, a comparison of awareness on the existence and terms of Islamic retail banking, was conducted between the urban and rural region. The underlying reason for such an analysis was, to examine whether regional barriers affect the adoption of Islamic retail banking in Malaysia.

4.1 Awareness on IRB Existence between the Urban and Rural Regions

The cross-tabulation table 2 below (see Appendix 1) illustrates that urban customers seemed to be more aware of the existence of IRB compared to the rural customers. The urban banking customers who were aware of Islamic banking represented nearly 45.8% and those from rural regions accounted for 38.0% and both regions collectively made-up to 83.8%. However, the difference in the percentage is not too large. In contrast, the percentage of respondents who are not aware of IRB is higher in the rural region (9.7%) in comparison to urban region (6.5%). Nevertheless, the findings indicate that majority of the banking customers from both the regions are seem to be aware of the existence of Islamic banking and that there is a growing awareness among the rural customers.

At the same time the Chi-Square, statistics for the above test denoted, a Pearson X^2 value of (1, 537) = 6.091 = p=0.014 (<0.05). This was further confirmed by the symmetric measure of Cramer's V, with value 0.107 (p=0.014). Therefore, there is a statistical difference between the urban and rural regions on awareness of IRB

existence. Thus, it implies that there seems to be a significant association between region and awareness of Islamic retail banking.

4.1.1 Awareness on IRB Terms between the Urban and Rural Regions

A Multiple dichotomy analysis was performed in order to identify the frequency of respondents who are aware of some fundamental terms used in Islamic retail banking (IRB) (Al-Harran, 1995; Gerrard, 1997). The result from the analysis indicates that about 80.3% (431) out of the total 537 respondents were aware of IRB terms. Apparently, 19.7% (106) were not aware of any Islamic banking terms.

Based on the findings shown in table 3 (see Appendix 1), it is also interesting to note that the awareness on IRB terms seem to be higher among the urban customers in comparison to the rural customers. The percentage score for all the terms in fact seemed to be relatively high for the urban region compared to the rural region. This is due to the reason, that part of the rural respondents of this study was non-Muslims and possibly, they may not have the awareness on all the Islamic banking terms and concepts. In addition, generally the rural customers compared with urban customers may not be affluent with banking terms and concepts because of their low literacy level. Besides that, it is obvious the term *Riba* seems to be the most popular in IRB, compared with any other terms. Almost 66.6% or 287 respondents out of total 431 respondents were aware of the term *Riba*. This is followed by, the term *Al-Wadiah*, nearly 64.7%, and the term *Shariah*. Almost 58.5% of the total respondents are aware of the term *Shariah.*

On the other hand, other Islamic banking terms such as "*Mudarabah*", "*Musyarakah*", "*Bai' Bithman Ajil*", "*Murabahah*" and "*Ba Inah*" are appeared to be less popular among the banking customers. Therefore the finding indicates, in average almost half (50%) of the total respondents of this study are seem to be aware of the fundamental terms riba, Al-wadiah and shariah. This is mainly because almost 56.4% of the total respondents of this study were Muslims and as such, they may have the exposure to these terms.

4.1.2 Awareness on IRB Attributes between the Urban and Rural Regions

Subsequently further analysis was undertaken, to examine the urban and rural customers' awareness on IRB attributes. An independent group *t*-test was conducted to study the variances between these two groups. The table 4 below (see Appendix 1), provides the results of the analyses. Based on the results, with, t (528) = 2.722, p=0.007 (p<0.05 significant level), there is a significant difference between the urban and rural respondents on their awareness on the attributes of Islamic retail banking. There seemed to be better awareness among the urban customers (M= 18.913) compared to the rural (M= 17.867) ones. However, there is only a small difference between the mean, indicating that there is a growing awareness among rural customers.

Based on the foregoing analysis, it is interesting to note that there are significant differences between the urban and rural banking customers, in terms of their awareness on existence of IRB, awareness on banking terms and concepts as well as the awareness on IRB attributes. Overall, the urban customers appear to have better awareness on IRB compared to the rural customers. Although, the margin of difference seemed to be relatively small, it is vital to promote IRB to the rural regions of Malaysia.

4.2 Perception on IRB between the Urban and Rural Banking Customers

Independent-groups *t*-test was conducted to investigate if there is a significant difference in the perception between the urban and rural customers (Sekaran, 2003; Coakes, 2009). Table 5 below (see Appendix 1), provides an overview of the analysis. The results reveal significant differences among the urban and rural customers in terms of *complexity*. However, complexity exhibits a negative relationship with adoption of Islamic retail banking for both the regions, as framed by the theory of Rogers (2003). The more complex customers perceive Islamic retail banking, the lesser will be the rate of adoption. Given that, t (528) = -6.909, p=0.000 (p <0.05), thus, this implies that there is a significant difference between the two regions, with regard to perceived complexity in operating IRB schemes. It is obvious from the mean value, that the rural customers (M = 18.6) seemed to perceive IRB as more complex compared to the urban customers (M=15.6). This may be because respondents residing in rural regions might not be exposed to banking activities, as much as the respondents in the urban region. At the same time, low literacy level may further influence them to perceive an innovation, in this case IRB, as complex.

Besides that, with t (528) = 3.406, p=0.001 (p <0.05), the perceived *observablity* too varies between the urban and rural respondents. Moreover the mean for the urban respondents (M= 15.10) seem to be higher than the rural respondents (M= 13.96). This implies that urban customers are observable about the outcome of IRB compared to customers in rural regions. IRB as an innovation in banking system is, easily observed and communicated among the banking consumers in the urban region due to media publicity, and easy accessibility to banking

services. Furthermore, most of the banking and financial services are usually centers around the urban regions. Thus, the result is easily observed in the urban region compared to rural region.

Similarly, *uncertainty* also seemed to be significantly different among the urban and rural customers. With t (528) = -4.163, p= 0.001, uncertainty revealed a negative relationship with adoption of IRB. As theorized by Rogers (2003) the more people are unsure about a product the lesser will be the rate of adoption. Hence, there is a significant difference on perceived uncertainty between the urban and rural customers. The mean score of 15.1 and 16.6 for the urban and rural region respectively shows that naturally, the rural customers are more uncertain about IRB compared to the urban customers. This is because the urban customers are more exposed, in terms of Islamic banking knowledge due to media exposure and banking habits, compared to rural customers. Therefore, they are having less doubt on IRB, unlike rural customers.

However, perceived relative advantage and compatibility appeared to be not significant for both the regions. Given that the *t*-test value for relative advantage, t (528) = 1.393, p = 0.164 and compatibility, t (528) = 0.058, p = 0.954, (p >0.05), there seemed to be no significant difference between the urban and rural respondents with regard to relative advantage and compatibility. Therefore, it is not proven however, that banking customers from the urban in comparison to rural customers perceive IRB as relatively more advantageous and compatible with conventional banking schemes.

4.3 Customers' Preferences on IRB between the Rural and Urban Region

Finally, the urban and rural customers' preferences on IRB were analyzed. A *t*-test was performed to compare the means of the urban and rural customers. Table 6 shows (see Appendix 1), the findings of the *t*-test. The result revealed the preferences of urban and rural customers significantly vary in terms of returns from Islamic deposit schemes (Fixed Deposit and Savings schemes), in terms of tenure for their Islamic home financing schemes (Home Loan), overdraft facilities, and low service charges. Conversely, there seem to be no significant differences identified with regard to preference for wide range of products, Islamic home loans with flexible repayment period and additional fringe benefits.

The preference for Islamic deposit schemes with higher returns seem to be significantly different between the urban and rural regions. Given that, t (528) = 4.676, p = 0.000 for Islamic fixed deposit and with t (528) = 3.018, p=0.003 for Islamic savings account respectively, revealed that the preference in terms of returns, for these schemes seem to be higher among the urban respondents in comparison to the rural respondents. The mean value indicate, the urban customers prefer higher returns from their Islamic deposit schemes compared to the rural customers. This may be because urban bank customers are more profit oriented, hence cautious about their returns on their savings compared to the rural customers.

In terms of Islamic financing schemes, home loans with fixed repayment period seem to be more popular compared to the one with flexible repayment period. The analysis further denotes that there is a significant difference between the urban and rural respondents, with regard to their preference for Islamic home loans, with fixed repayment period., with t (528) = 4.737, p = 0.000. The mean for urban region (M= 3.73) appeared to be higher than rural region (M= 3.31). Thus, these indicate that the preference for fixed term home loan is higher among the urban customers rather than the rural customers. In contrast, there is no significant difference between the urban and rural customers, in terms of their preference for Islamic home loans, with flexible repayment period. Given that, t (528) = -1.726, p = 0.085 (p >0.05), there seem to be no significant difference between the two regions. However, it is interesting to note that home loans with fixed repayment term seem to be more popular compared to the flexible repayment scheme. This could be because the Islamic home loan with flexible repayment facility is a new scheme therefore the banking customers might not be still aware of this scheme. Besides that, there is also no significant difference between the urban and rural respondents, concerning preference for home financings with fringe benefits. With, t (528) = -0.729, p = 0.466, the consumers' preferences do not vary between both the regions, in terms of additional benefits that comes as a package with Islamic home loans. This again indicates lack of awareness among the banking customers on the promotions conducted by the banks. Moreover, the promotions conducted by the banks are not effective enough to reach the customers on their product offerings.

Nevertheless, it is also interesting to note that banking customers are also concern about facilities such as lower service charges and overdraft facilities. The result from the t-statistic indicates that lower service charges, are the prime concern of banking customers. Given that t (528) = 5.699, p = 0.000, (p<0.05), there is a significant difference between the urban and rural respondents, in their preference for lower service charges. The mean value further indicates that the preference for lower service charges, is higher among the urban respondents (M= 4.28) compared to the rural respondents (M=3.81). The main reason could be that, generally urban bank

customers are more active their banking activities. The urban customers daily perform more banking transactions and usually maintain current accounts compared to the rural customers. Hence, their main concern is Islamic retail schemes with lower service charges.

Likewise, there is also a significant difference between the urban and rural respondents, on their preference for overdraft facility. Given that, t (528) = 3.259, p = 0.001, there seem to be a significant difference between the two regions. The mean value indicate that significantly more preference is from the urban customers (M=3.26) compared to the rural customers (M= 2.94). This is possibly because current account is more widely used by the urban banking customers compared to the rural banking customers. Therefore, the preference to package it with overdraft facility is more common, among the urban customers compared to the rural customers.

5. Summary and Implications

This study revealed that generally there is a lack of awareness on IRB between the urban and rural banking customers. On top of that, the results also show that, perception of urban banking customers on IRB, in comparison with rural customers also seemed to vary, about perceived complexity, uncertainty, and observablity. However, there is no significant difference between the two regions, in terms of perceived relative advantage and compatibility. Surprisingly the rural customers still seem to perceive IRB as more complex and even, uncertain about it. Nevertheless, it is interesting to note that urban consumers are observable about the outcome of using IRB compared to rural customers.

When reviewing the differences in preferences towards IRB schemes, there were quite number of differences identified between the urban and rural banking customers. The findings showed that urban customers placed relatively higher importance in service charges to be paid, securing overdraft facilities, preference for higher returns on Islamic deposit accounts and home loans with fixed repayment period. However, there were no significant differences identified between the two regions in terms of preferences for wide range of investments, additional fringe benefits for Islamic home loans and Islamic home loans with flexible repayment period.

There are a number of major implications for Islamic banks, which arise from the results of this study. First, it is obvious that there is a general lack of awareness in terms of existence, knowledge on Islamic banking terms and attributes of Islamic banking among the rural banking customers. Moreover, customers from rural region still perceive IRB as complex and are skeptical (uncertain) about IRB schemes. Besides that, it appears that the banking customers of both regions seem not to realize the relative advantages and compatibility of IRB in comparison to conventional banking system. Therefore, informative and effective advertising campaigns about IRB would need to be designed and delivered in order to reach out to the urban and rural banking consumers. The banks, instead of using a standard approach of promoting Islamic banking to both the urban and rural regions, it would be more effective and beneficial if they were to use different approaches. Advertisements through media and internet would be more effective to reach out to the urban customers whilst, personal approach and telemarketing is more appropriate to attract the rural banking customers.

Second, it is obvious that the main concern of banking customers is, the cost incurred to them in terms of service charges or other fees besides earning higher returns for their deposit accounts with the banks. Preference for additional packages like overdraft facilities that comes with current account schemes seems to be very attractive among the urban banking consumers. Firstly, this reveal the fact, that generally the rural customers are still not very active in their retail banking activities compared to their urban counterparts. In fact, the limited usage of IRB products seems to restrict their preferences. Secondly, product exposure or the availability of such facilities in IRB is not made known to the banking customers, particularly the rural customers. The banks must device and implement a strategic marketing campaign that does not only promote the products and services offered by Islamic retail banking but also its benefits together. In this context, it is very crucial for the bank staff themselves, to be conversant with their product knowledge about IRB schemes first, which is currently lacking. Media advertisements and the bank's sales force again play a crucial role here to promote IRB effectively.

Most importantly, if the Malaysian government and the relevant authorities aspire to bring Islamic banking across the borders and regions or even across the religions and races in Malaysia, the overall banking culture in Malaysia, has to be changed to the "*culture of Islamic banking*". Conventional banking system has been operating for decades ahead of Islamic banking and it has rooted in the mind of the entire banking community for centuries, not only in Malaysia but also globally. Therefore, it is not that simple to divert their banking habits to a new banking system unless, the value created by Islamic banking products and services overwhelms that of conventional banking. Moreover, the value created by Islamic banking has to be noticeable or rather made aware to the banking consumers in order to divert their demand. Therefore, it is extremely important to instill the *"culture of Islamic banking"* among the people of Malaysia so that generally everyone becomes familiar with

Islamic banking, irrespective of the geographical boundaries, religious differences, and racial diversity. For this to happen, the various authorities that include the government, the Central Bank of Malaysia (Bank Negara Malaysia) and the entire banking system, together with the various Islamic bodies have to work hand in-hand. If the *"culture of Islamic banking"* is spread across widely, the demand side of IRB products and services will be automatically stimulated. Eventually, this will lead to a pull market mechanism instead of a push market, as what is being practiced currently.

6. Limitation and Future Studies

While this study has revealed some interesting results about the awareness, perception, and preferences of the banking consumers of Malaysia in relation to IRB, readers should be cautious on some of its limitations. Firstly, the scope of the study covers only West Malaysia, and generalizing the findings in this paper should be within the West Malaysia, and not East Malaysia. Therefore, future studies should attempt to cover the Eastern regions of Malaysia. Besides that, this study did not make a comparative analysis of, the various religions and races of Malaysia. Although Islam is the main religion of this nation, Malaysia remains a multi-racial country with people of various religions. Thus, it is recommended for future studies to make comparative analysis between the Muslim and non-Muslim banking customers, and customers of different ethnic groups in Malaysia, so that more precise results on the perception and preferences can be identified.

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Appendix 1

Table 1. The Breakdown on Urban and Rural Respondents as per Location

State	Region	Frequency	Percentage
Johore	Urban	42	7.8
	Rural	26	4.8
	Total	68	12.7
Negeri Sembilan	Urban	42	7.8
	Rural	24	4.5
	Total	66	12.3
Kuala Lumpur	Urban	46	8.6
	Rural	0	0
	Total	46	8.6
Selangor	Urban	0	0
	Rural	39	7.3
	Total	39	7.3
Penang	Urban	40	7.4
	Rural	0	0
	Total	40	7.4
Pahang	Urban	46	8.6
	Rural	28	5.2
	Total	74	13.8
Kelantan	Urban	15	2.8
	Rural	67	12.5
	Total	82	15.3
Terengganu	Urban	20	3.7
	Rural	53	9.9
	Total	73	13.6
Perak	Urban	28	5.2
	Rural	21	3.9
	Total	49	9.1

Table 2. Cross Tabulation between Region and Customer Awareness of Retail Islamic Banking

Region	Customer Aware of Islamic Banking	
	Yes (%)	No (%)
Urban	45.8	6.5
Rural	38.0	9.7
Chi-Square Test	**Value**	**Asymp. Sig**
Phi	0.107	0.014
Cramer's V	0.107	0.014
Pearson X^2	6.091	0.014

Table 3. Awareness on IRB Terms between the Urban and Rural Regions

Islamic Banking Terms	Frequency/ Percentage	Region Rural	Region Urban	Total
Aware of Term_Riba	Frequency	134	153	287
	Percentage	31.1	35.5	66.6
Aware of Term Shariah	Frequency	118	134	252
	Percentage	27.4	31.1	58.5
Aware of Term_AlWadiah	Frequency	136	143	279
	Percentage	31.6	33.2	64.7
Aware of Term_Musyarakah	Frequency	48	58	106
	Percentage	11.1	13.5	24.6
Aware of Term_Mudarabah	Frequency	74	83	157
	Percentage	17.2	19.3	36.4
Aware of Term_Bai'Bithman Ajil	Frequency	47	61	108
	Percentage	10.9	14.2	25.1
Aware of Term_Murabahah	Frequency	42	54	96
	Percentage	9.7	12.5	22.3
Aware of Term_Ba_Inah	Frequency	12	21	33
	Percentage	2.8	4.9	7.7

Table 4. Awareness on IRB Attributes between the Urban and Rural Regions

Variables	Region	N	Mean	SD	t-value	Sig
Awareness on IRB Attributes	Urban	281	18.9134	4.77839	2.722	.007
	Rural	256	17.8656	4.00468		

Table 5. Perception on IRB between the Urban and Rural banking customers

Variables	Region	N	Mean	SD	t-value	Sig
Relative Advantage	Urban	281	26.6570	5.63388	1.393	.164
	Rural	256	25.9644	5.80527		
Compatibility	Urban	281	15.6282	4.34420	0.058	.954
	Rural	256	15.6047	5.00019		
Complexity	Urban	281	15.6245	4.88526	-6.909	.000
	Rural	256	18.5613	4.89018		
Observablity	Urban	281	15.1047	3.97272	3.406	.001
	Rural	256	13.9684	3.68165		
Uncertainty	Urban	281	15.0505	4.22522	-4.163	.000
	Rural	256	16.5534	4.06813		

Table 6. IRB Preferences between the Urban and Rural banking customers

Preferences	Region	N	Mean	SD	t-value	Sig
Islamic FD with Higher Returns	Urban	281	3.89	.955	4.676	0.000
	Rural	256	3.46	1.139		
Islamic Savings with Higher Returns	Urban	281	3.86	.849	3.018	0.003
	Rural	256	3.61	1.084		
Wide Range of Islamic Investments	Urban	281	3.65	1.002	1.043	0.298
	Rural	256	3.56	1.040		
Home Loan Fixed Repayment Period	Urban	281	3.73	.886	4.737	0.000
	Rural	256	3.31	1.134		
Home Loan Flexible Repayment Period	Urban	281	3.77	.954	-1.726	0.085
	Rural	256	3.92	1.074		
Home Loan with Fringe Benefits	Urban	281	3.48	.891	-0.729	0.466
	Rural	256	3.54	1.044		
Overdraft Facility	Urban	281	3.26	1.009	3.259	0.001
	Rural	256	2.94	1.218		
Lower Service Charges	Urban	281	4.28	.921	5.699	0.000
	Rural	256	3.81	.999		