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*Original Paper*

# A Study on the Level of Acceptance towards the Islamic Home Financing: Empirical Study in Malaysia

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***Abstract***

*This paper offers a conceptual understanding of the Islamic housing loan (BaiBithaman Ajil) with a special focus on the operational matters and the factors that affect the acceptance of Bai-Bithaman Ajil. Approach: This paper incorporates relevant findings and issues surrounding the acceptance and implementation of the Islamic housing loan Findings: This paper offer more insights on the challenges faced by Islamic banking institutions to deal with both muslim and non-muslim markets in terms of the marketability of the product especially multi-racial society.*

***Keywords***

*Bai-Bithaman Ajil, loan, challenges*

## 1. Introduction

### *1.1 Background of Study*

Bai Bithaman Ajil (BBA) house financing is an Islamic financing concept refers to the sale of assets or goods on deferred payments at a fixed price that includes profit margin to the seller. This concept is commonly used in property or asset financing. Bai Bithaman Ajil (BBA) house financing is the popular concept in countries like Malaysia, Indonesia and Brunei. Customer identifies the asset he wants to purchase and approaches the bank for financing. Under the Bai Bithaman Ajil (BBA) house financing concept, the bank will purchase the asset at cost and sell the same to the customer at cost plus profit on deferred payment basis at the duration and price agreed by both parties payable by fixed installment. The current difference between the fixedrate Bai Bithaman Ajil (BBA) house financing and the conventional mode is that once the profit rate is fixed in the Bai Bithaman Ajil (BBA) house financing, let say at 7% per annum, it will remain the same for the entire duration of financing. The total cost of financing is known upfront at the time of the contract and hence there is no uncertainty or Gharar. Bai

Bithaman Ajil (BBA) house financing concept enables the customers to plan their cash flow accurately since their payments would not influence by fluctuating interest rate. On the other hand, the total cost of the property purchased is determined at the time of contract or ‘aqad by applying BBA concept. There is no additional or hidden cost that will change the price of the property purchased. Customers will know exactly when the financing will end. Besides, there will be no compounding of arrears and outstanding penalty charges. Presently there is also no additional/penalty charge on outstanding miscellaneous charges. In general, Islamic banks are characterized by the following features: 1) Transactions that is free from the payment and receipt of a fixed or predetermined rate of interest, 2) Transactions that are based on Profit and Loss Sharing (PLS) arrangements where the rate of return is not fixed prior to the undertaking of the transactions, 3) Business activities and investments that is undertaken on the basis of permissible activities, 4) Transactions that is free from elements of gharar (unreasonable uncertainty), 5) Payment of Zakat (alms or taxes) by the bank, 6) Transactions that operate through Shariah-compliant modes of financing. Another salient feature of Islamic banks is the requirement for the establishment of Shariah supervisory boards. These boards are responsible for reviewing, scrutinizing and endorsing the activities and operations of Islamic banks to ensure that their activities are in line with Shariah principles. Islamic banks today represent the majority of Islamic financial institutions, which are spread worldwide. The emergence of Islamic banking was a result of a revival of interest to develop an Islamic economic system as well as the increasing demand from Muslims worldwide for products and modes of investment that are in compliance with Shariah principles. The pioneering establishment of Islamic banks had been the catalyst for growth and provided the foundation for the development of the Islamic financial services industry as a whole. In the ten years since the establishment of the first private commercial bank in Dubai (1974), more than 50 interest-free banks have come into being. Though nearly all of them are in Muslim countries, there are some in Western Europe as well: in Denmark, Luxembourg, Switzerland and the UK. Many banks were established in 1983 (p. 11) and 1984 (p. 13). The numbers have declined considerably in the following years. As a country which population is dominated by Muslims, Malaysia was also affected by the resurgence that had taken place in the Middle East. Many parties were calling for the establishment for an Islamic bank in Malaysia. For example, in 1980, the Bumiputera Economic Congress had proposed to the Malaysian Government to allow the setting up of an Islamic bank in the country. Another effort was the setting up of the National Steering Committee in 1981 to undertake a study and make recommendations to the Government on all aspects of the setting up and operations of Islamic bank in Malaysia, including the legal, religious and operational aspects. The study concluded that the establishment of an Islamic bank in Malaysia would be a viable project from the operation and profits points of view. The conclusion marked the establishment of the first Islamic bank in Malaysia, Bank Islam Malaysia Berhad (BIMB) in July 1983, with an initial paid up capital of RM80 million. The funding operations are broadly divided into four main types of Islamic bank accounts—current accounts, savings accounts, investment accounts and special investment accounts. These accounts are

structured under various Shariah principles such as Mudharabah, Wadiah Yad Dhamanah (trust account), Musharakah and others. Apart from funding operations, Islamic banks provide financing facilities to their customers either on a short, medium or a long-term basis in accordance with the various Shariah principles. In general, Islamic banks' financing activities can be divided into several types, such as project financing under the principles of Mudharabah, Musharakah, Bai-Bithaman Ajil and Ijarah. The reports so far received from the Islamic banks reveal that the performance of these banks has been quite satisfactory and it is hoped that they will be able to offer a much better service and reward to their clients than the competing Western banks. With the successful working of the Islamic banks, the Muslim world is again heading towards a new era of financial institutions and equitable socio-economic development. The results so far obtained from the experience of the few Islamic banks look quite baffling. Not only the new PLS accounts are improving the efficiency of capital, but are also contributing towards the betterment of the existing pattern of income distribution.

*1.2 Problem Definition*

Although Bai Bithaman Ajil (BBA) home financing has been established long time ago in Malaysia, but it still has not penetrated the non-Muslim markets. Some non-Muslims may think that Bai Bithaman Ajil (BBA) home financing is not suitable for them. This is because in their perception, Bai Bithaman Ajil (BBA) home financing is only for Muslims but in fact it is suitable for both Muslims and non-Muslims. This may be also due to the mis-perception of non-Muslims towards Islamic Banking products. Moreover, some of the non-Muslims in Malaysia are not aware and do not understand the concept of Bai Bithaman Ajil (BBA) home financing thus their only choose home financing form conventional banks.

*1.3 Objective*

The objectives of this research project are:

a) To understand the concept of Bai Bithaman Ajil (BBA) home financing.

b) To identify the factors that may influence the acceptance of Bai Bithaman Ajil home financing.

c) To determine level of acceptance among non-Muslims towards Bai Bithaman Ajil home financing.

## 2. Literature Review

*2.1 Malaysia Dual Banking*

Islamic banking system has emerged as a competitive and a viable substitute for the conventional banking system during the last three decades. It is especially true for Muslim world where presently Islamic banking strides at two separate fronts. At one side, efforts are also underway to cover the entire financial systems in accordance to Islamic laws (Shariah). At the other side, separate Islamic banks are allowed to operate in parallel to conventional interest based banks. Iqbal et al. (2005) have found that Islamic banks has spread to all corners of the globe and received wide acceptance by both Muslims and

non-Muslims alike. Islamic banks perform the same essential functions as banks do in the conventional system, except that the need for them to carry out their transactions in accordance with the rules and principles of Islam. According to Iqbal and Molyneux (1995), as one of the most important players in service industry today, Islamic banking is no longer regarded as a business entity striving only to fulfill the religious obligations of the Muslim community, but more significantly, as a business that is ineluctably in need for winning over customers whilst retaining the old ones. This necessitates Islamic banks to really understand the perceptions of their customers towards them in terms of service quality and other patronage factors to secure customers' allegiance. Bacha et al. (2004) state that Malaysia has a truly dual banking system with both conventional and Islamic banks operating side by side. Though each system operates theoretically within its own sphere, it is inevitable that given a common macro environment, the two systems interact. A very substantial conduit connects the two. These being the very large non-Muslim customer base even of the Islamic banking system. Given Malaysia's multi-racial profile, non-Muslim depositors/customers are indeed a very large constituency for both banking systems. The ability of non-Muslim customers/depositors to switch between the two systems means that deposit and financing rates between the systems have to be similar. In a sense, the activity of this non Muslim customer base would act to arbitrage rate differentials and fund flows. The fact that the Islamic Banking system in Malaysia has moved away from traditional profit and loss financing like Mudarabah and Musyarakah into instruments that mimic conventional ones. Murabaha and Bai Bithamin Ajil (BBA) has made the interface between the systems that much easier. According to Yakcop et al. (2000), in the dual banking system in Malaysia, the Islamic banking system is a full-fledged system with a large number of products, a large number of institutions and an interbank money market. The Islamic banking products offered in Malaysia's dual system are therefore much more sophisticated and cover a wider range of services than the Islamic banking products offered in the conventional plus system. Malaysia's dual system has at least two basic advantages, as follows:-

The range of Islamic banking products in a dual system tend to be wider when compared to the products in a single Islamic system, since a dual system the Islamic banks have to, willy-nilly, provide all the services provided by the conventional banks. If they do not, then the nonMuslim clients are very likely to shift back to the conventional system. In the case of the Muslim clients, some of them may also shift back to the conventional system. And even in cases of Muslim clients who do not shift back to the conventional system, one can expect them to complain loudly on the inadequacies of the Islamic banks compared to the conventional banks. In a dual system, therefore, the Islamic banks cannot afford to be complacent, since they operate in a competitive and dynamic environment. In the single Islamic system model, on the other hand, the financial institutions would not have a similar incentive to expand the range of the Islamic banking products as the possibility of domestic customers shifting away to the conventional system does not arise. In addition to a wider range of services, the Islamic banking products in the dual system can also be expected to have a higher level of sophistication compared to the Islamic banking products in the single Islamic system. In the international conventional banking

system, innovations are the order of the day. New products come one stream very regularly. In a dual system of banking, such innovations will quickly find their way to the domestic conventional banking system. The Islamic bankers operating in the dual system would have no choice but to create similar sophisticated products on an Islamic basis. This will be an on-going process, whereby the level of sophistication in the Islamic banking system will continuously upgraded.

Malaysia's overall strategy in the development of Islamic banking, which can be summarized as follows (Yakcob et al., 2000).

1) The objective was a full-fledged Islamic banking system operating on a parallel basis with a full-fledged conventional system (dual banking system);

2) A step-by-step approach, in the context of an overall long term strategy;

3) A comprehensive set of Islamic banking legislation and a common Syariah Supervising Council for all Islamic banking institutions; and

4) A practical and open-minded approach in developing Islamic financial interests.

*2.2 Islamic Finance Fundamentals*

Islamic law on commerce is known as fiqh al-mu`amalat. Much of the laws, rules and interpretations of Shariah take into consideration issues of social justice, equitability, and fairness as well as practicality of financial transactions. In general, the Shariah legal maxim in relation to commercial transactions and contracts state, they are permissible unless there is a clear prohibition. In a nutshell, prohibited elements of a commercial transaction must first be removed for it to be Shariah-compliant.

*2.3 Permitted Involve in Al-Bai (Trade Transaction)*

2.3.1 Al-Bai' Bithaman Ajil (BBA)

House Financing BBA House Financing is an Islamic house financing facility, which is based on the Syari'ah concept of Al-Bai' Bithaman Ajil (BBA). BBA is a contract of deferred payment sale, i.e., the sale of goods on deferred payment basis at an agreed selling price, which includes a profit margin agreed by both parties. Profits in this context are justified since it is derived from the buying and selling transaction as opposed to interests accruing from the principal lent out.

2.3.2 Al-Ijarah Thumma Al-Bai' (AITAB) Financing

The term "Al-Ijarah" means hire, lease or rent whereas "Al-Bai'" means purchase. Under the Syari'ah principle, Al-Ijarah Thumma Al-Bai' (AITAB) refers to two contracts undertaken separately which are; Al-Ijarah Contract (hiring); and Al-Bai' Contract (purchase) Under the Al-Ijarah contract, the hirer (customer) hires the goods from the owner (finance company) at an agreed rental over a specified period. Upon expiry of the hiring period, the hirer enters into the Al-Bai' contract to purchase the goods from the owner at an agreed price. During the period of the agreement, the finance company owns the vehicle. Upon settlement of the hire rentals, the Purchase Agreement will be executed automatically, thus transferring the ownership of the vehicle from the finance company to the hirer. However, in the event of the customer failing to perform his obligation to service the hire rental or performs otherwise from the terms and conditions stated in the agreement, the finance company has the right to exercise

reasonable actions to mitigate its losses.

*2.4 Principles for Islamic Financial Products and Services*

Kamali (2000) found that the underlying fundamentals of Islamic financial transactions form the basis of the difference between conventional and Islamic financial instruments. Modern Islamic finance began with the emergence of Islamic banking, where products and services are not based on riba (interest). As the industry grew, many other financial products in the insurance and capital market sectors were adapted to incorporate Shariah compliant aspects. Product innovation has been significant in the Islamic financial services industry over the last decade, resulting in a wide array of Islamic instruments being introduced in the market. Shariah compliance rules have been developed for equity, debt and securitization products and are in the process of being extended to structured products and examined for derivatives as well. Rules to determine Islamic-compliant operations have also been developed for the banking, broking, investment management and advisory services. Islamic equity financing represents a component of the overall capital market activity. Typically, equity-financing is structured through profit-sharing contracts or `uqud a-lisytirak. The two common types of equity financing instruments are mudharabah (profit-sharing) and musharakah (profit and loss sharing). Significant differences, according to Kamali (2000), however, occur in the area of debt-financing due to the fact that conventional debt-financing is essentially structured upon interest-based lending. Islamic debt-financing is structured through contemporaneous underlying contracts of exchange such as sale and purchase contracts or `uqud al-mu'awadat. Common Shariah principles that are used in Islamic debt instruments include murabahah (trade with mark up or cost plus), ijarah (lease financing), bai` al-salam (advance purchase), istisna` (purchase order) and others. Similarities with the conventional market also exist in ijarah, whereby Shariah recognizes the different types of leasing such as an operating lease and a finance lease, as long as the aim of the lease is Shariah compliant. Obaidullah (2003) found that Modern banking operations involve "debt-related riba" prohibited by the holy Qur'an, in that they borrow and lend against certain specified—paid orreceived-revenue. These operations also involve "sales-related riba" prohibited by the wellknown ahadith. We will examine the incidence of both kinds of riba—relating to sales and debts—in the following sections. Riba exists in every debt, which carries a stipulation binding the debtor to pay to the creditor any sum of money in excess of the principal sum of the debt. When a conventional bank raises funds through deposits, the depositor is often entitled to fixed and predetermined return in the form of interest on the amount deposited. The return at times is not fixed, as in case of floating-rate deposits where the interest rate is linked to some other benchmark, such as, the London Inter-Bank Offering Rate (LIBOR) and varies over time depending upon the value of the benchmark. But under both situations, the rate of return can never be negative, the nominal value of deposits is guaranteed and the depositor is entitled to an amount in excess of the amount deposited. Hence, the conventional deposits, which constitute the most important source of funds for a modern bank, involve debt-related riba. Banks also borrow from other sources, such as, the central bank or the inter-bank money market for raising funds. All such contracts requiring

interest payments clearly involve riba. When banks invest, their investments are again primarily in the form of loans which involve interest payments over and above the loan amount and hence, clearly involve riba. Mohammed Obaidullah (2003) also found that several bank investment, services and product which are involve riba as below:

2.4.1 Mudharabah (Profit-Sharing)

Kamali (2000) states one of the most important Shariah principles for investment activities is mudharabah, also known as qirad or muqaradah. It offers the owner of capital the opportunity to invest his capital in a certain project without becoming involved in managing that capital, and limits his liabilities to the capital committed. There is also an entrepreneur, who solely manages the projects. The most important feature of mudharabah is that the capital provider cannot claim a fixed profit and an assured return of his capital if the project is profitable, as the profit will be distributed based on a pre-agreed ratio between the capital provider and the entrepreneur. In the event of a business loss, it shall be borne solely by the capital provider and none on the part of the entrepreneur, unless the loss is due to negligence of the entrepreneur. In addition, Shariah scholars have evolved the mudharabah principle further by introducing a "two-tier mudharabah". The first tier mudharabah is created when the investor or capital provider places his capital with an Islamic financial institution which acts as the entrepreneur. The financial institution in turn invests the capital with another entrepreneur by means of a second-tier mudharabah. In other words, by using this type of mudharabah, an Islamic financial institution can act as an intermediary between investors and entrepreneurs. Sarker (2001) argues that the Mudarabah is mean Profit sharing principle for Islamic business contracts is based on the Mudarabah principle in which the owner of the capital provides funds to the capital-user or entrepreneur for some business or productive activity on the condition that profits generated will be shared between them. The loss, if any, incurred in the normal process or course of business and not due to neglect or misconduct on the part of the entrepreneur is borne by the capital-owner. The entrepreneur does not invest anything in the business except his human capital and does not claim any wage for conducting the business. The ratio in which the profits are distributed is ex-ante. In the event of loss, the capital provider loses his capital to the extent of his loss, and entrepreneur losses all his labors. The willingness to bear the loss justifies a share in the profit for the capital-owner. The profit sharing ratio mutually agreed upon between finance-provider and finance-user is determined by the market forces (Siddiqui, 1987). The finance-user guarantees to return funds only on two conditions which is if he negligent in the use of the funds or if he breaches the conditions of mudarabah (Iqbal & Mirakhor, 1987). Sarker (2001) found that the mudarabah has been Classification or types of Mudarabah to the two main types of mudarabah which are Restricted and unrestricted mudarabah. The first type of the mudarabah is Restricted Mudaraba which is the capital owner asks the working partner to trade by his capital subject to certain restrictions related to the type of commodity that is to be traded, the time of trade, the place of trading or the person with whom the working partner should trade. The restrictions related to time or persons are approved in both the Hanbali and Hanafi Schools but not approved in

Shafi and Maliki Schools. The second type of mudarabah is Unrestricted Mudarabah which is, the working partner or mudarib can trade in any commodity (that is legitimate), with any persons whom he deems appropriate without being restricted to certain period of time or place. Macfarlane (2006) found that the Mudarabah is the installment payment goes toward the final purchase (with the transfer of ownership to the lessee), by either party and Identical to an investment fund in which managers handle a pool of funds. The agent-manager has relatively limited liability while having sufficient incentives to perform. The bank acts as a partner, providing cash to the borrower and sharing in the net profits and net losses of the business. The loan is for an undetermined period, although the contract may be rescinded another important instrument, accounting for about 10% of Islamic financial transactions, is leasing. Leasing is designed for financing vehicles, machinery, equipment, and aircraft. The bank purchases a piece of equipment and rents it to the business. Alternatively, with hire purchase contracts, the business partly purchases and partly rents the equipment. Different forms of leasing are permissible, including leases where a portion.

2.4.2 Musharakah (Profit and Loss Sharing)

Kamali (2000) found that Musharakah is analogous to a joint venture. Both the entrepreneur and investor contribute to the capital (assets, technical and managerial expertise, working capital, etc.) of the operation in varying degrees and agree to share the returns, as well as the risks, in proportions agreed to in advance. Shariah scholars have developed the musharakah principle further by introducing diminishing musharakah (or musharakah mutanaqisah), as a newly developed financial contract. Under this contract, the financial institution and client share the ownership of the financed asset. The periodic payment of the client contains two parts; a rental payment for the part of the property owned by the Islamic financial institution and a buy-out of part of that ownership. Over time, the portion of the asset owned by the client increases, until he owns the entire asset and the contract is eventually terminated. Najjar (1963) found that Musharakah is the Islamic banks lend their money to companies by issuing floating rate interest loans. The floating rate of interest is pegged to the company's individual rate of return. Thus the bank's profit on the loan is equal to a certain percentage of the company's profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. Macfarlane (2006) found that the Musharakah is analogous to the classic joint venture. Both entrepreneur and investor contribute to the capital (assets, technical and managerial expertise, working capital, etc.) of the operation in varying degrees and agree to share the returns (as well as the risks) in proportion to their involvement. Traditionally, this form of transaction has been used for financing fixed assets and working capital of medium and long-term duration. The bank provides part of the equity and part of the working capital for the business, and shares in profits and/or losses.

2.4.3 Murabahah

Kamali (2000), one of the most widely used instruments for short-term financing is based on the traditional notion of purchase finance. In this sale, the buyer (client) knows the price at which the seller obtains the object to be financed, and agrees to pay a premium over the initial price. It is an agreement

that refers to the sale and purchase transaction for the financing of an asset or project, whereby the costs and profit margin (mark-up) are made known and agreed to by all parties involved. As practiced in the market for murabahah arrangements, the financier undertakes to buy the asset required by the client for resale to the client at a higher price as agreed upon by both parties and this can be settled in cash or in installments as specified in the agreement. Najjar (1963) found that Murabahah is in an Islamic Mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller, and resell it to the buyer at a profit, while allowing the buyer to pay the bank in installments. However, the fact that it is profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. Sarker (2001), argues that the Muharabah is a cost plus contract in which one party wishing to purchase equipment or goods and commodities approaches other party to purchase those itemsand sell to him at cost plus a declared profit. By this method of contract, a party needing finance to purchase business machinery or equipment gets the necessary finance on deferred payment basis. Farmers may also get various inputs and agricultural implements from the bank on a deferred payment basis.

2.4.4 Bai-Bithaman Ajil (Deferred-Payment Sale)

Bai-Bithaman Ajil has similar features as murahabah in term of the financier undertaking to buy the asset required for resale to the client at a higher price as agreed to by the parties involved. According to Mohammad Hashim Kamali (2000), the difference with murahabah is that bai bithaman ajil is used for long term financing and the seller is not required to disclose the profit margin which is included in the selling price. Bai`al-salam (Advance purchase) According to Mohammad Hashim Kamali (2000), in modern Islamic finance, Shariah scholars have allowed parallel salam or back to back salam contracts, whereby the financier will play a dual role. On one hand the financier is the seller in one salam purchase agreement and on the other hand he becomes a customer by entering into a separate independent salam agreement in order to acquire salam goods of a similar specification. The most important thing in the parallel salam is to distinguish the contracts as two separate deals of salam.

2.4.5 Bai-Bithaman Ajil

Bai-Bithaman Ajil (deferred payment sale), refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties. Al Bai-Bithaman Ajil 2 means a “deferred payment sale”. It is a mode of Islamic financing used for property, vehicle, as well as financing of other consumer goods. Technically, this financing facility is based on the activities of buying and selling. The furniture that you wish to purchase for example, are bought by the bank and sold to you at an agreed to price, after the bank and you determine the tenure and the manner of the installments. The price at which the bank sells you the furniture will include the actual cost of the furniture and will also incorporate the bank’s profit margin. There is no interest charged and the extra price compensates the bank for its profit. Installments remain fixed over the period of the contract and

no adjustment is made if interest rates fluctuate. The fixed monthly installments are determined by the selling price, repayment period and the percentage margin of financing. Therefore, Bai-Bithaman Ajil is known as Bai Muajjal. Bai-Bithaman Ajil refers to the sale of goods on a deferred payment basis. The bank will purchase the assets that are requested by a client and subsequently sell the goods to the client at an agreed price, which includes the bank's mark up (profit). The client may pay by installment within a pre-agreed period, or in a lump sum. Although house and commercial property financing are common examples, cars, machinery or any other assets can be financed under this concept. Bai-Bithaman Ajil house financing is an Islamic house financing facility. The main characteristics of a Bai-Bithaman Ajil house financing are all the components to determine the selling price. It has to be fixed because the selling price has to be fixed at the time the contract is made. Hence, the profit rate for Bai-Bithaman Ajil financing is fixed throughout the period of financing. The advantages of Bai-Bithaman Ajil house financing are the total cost of the property purchased is determined at the time of contract or 'aqad. There is no additional or "hidden" cost that will change the price of the property purchased and the transaction is transparent. Besides, there is no element of uncertainties or Gharar. Customers will know exactly when the financing will end. Furthermore, there will be no compounding of arrears and outstanding penalty charges. Presently there is no additional/penalty charge on outstanding miscellaneous charges. Repayment is not subjected to fluctuation of based lending rate and it allows for better financial planning. The Bai-Bithaman Ajil is basically a sale contract which provides the buyer the benefit of a deferred payment, whereby the deferred price of the sale object carries an additional profit. It is an extension of the murabahah (cost plus) contract, whereby the commodity exchanged is "delivered" immediately but the sale price (with profit) is paid in installments, over a long period (the murabahah itself being generally for short periods). While the BaiBithaman Ajil is widely used in Malaysia, Indonesia, Brunei and few other countries, it has been subjected too much controversy among the fuqaha worldwide with regards to its permissibility; where most of the Middle East scholars have rejected it. In the conventional system, home financing is, of course, usually interest-based and is forbidden in Islam. From the Holy Quran, instead of charging the customer interest, financiers charge a profit derived through a buy-and-sell contract which is permitted in Islam. Yaquby and Usmani (1998) found that the profit rate is dependent on the market interest rate due to arbitrage activities. Therefore, while the Bai-Bithaman Ajil is practiced as Shariah compliant in some countries, it is, nonetheless, converging to the conventional mode where the computational formulas are similar to the conventional and where the profit rate tracks the market interest rate. The current difference between the fixed-rate Bai-Bithaman Ajil and the conventional mode is that once the profit rate is fixed in the BBA, say at 7% per annum, it will remain the same for the entire duration of financing. This, in fact, causes problems for the financiers as it is difficult to estimate accurately the cost of funds and hence the appropriate profit rate over long periods like 20 years, due to the volatility of economic conditions. This encourages customers to refinance their home from Bai-Bithaman Ajil to conventional during low interest periods and vice versa.

*2.5 Operational Issues Bai-Bithaman Ajil*

Is a facility provided by the financier to assist the customer pay the cost of financing, e.g., a house, over the tenor of financing, e.g., 20 years, at a fixed rate determined by the financier. The financier initially buys the house from the customer (cost of financing amount) and sells it back to the customer, plus of its profit margin. Meera and Larbani (2004) and Rosly (2005) found that as the seller of the property, the Shari'ah requires the bank to hold ownership of the property and to hold all liabilities arising, including defects. But currently, BBA documentations show that the bank merely acts as a financier rather than a seller and excludes itself of all liabilities. This, of course, ignores the Shari'ah principle of "al-Ghorm bil Ghonm" (no reward without risk), "Ikhtiar" (value-addition or effort) and "al-Kharaj bil Daman" (any benefit must be accompanied with liability), thereby rendering the BBA profit to be implicated with riba. The issue of concern here is that the availability of iwad (counter value) in BBA financing. The Qur'an uses trade (al-bay) because the profit generated from trading incorporates risk-taking, while the contractual profit from loan transactions (riba) is risk-free. It further asserts that albay implies the existence of iwad required by the Shari'ah to be a lawful profit in Islam. Three elements of iwad that should exist are risk (ghorm), work and effort (ikhtiar) and liability (daman). There is no risk taking in the current BBA financing. Daman (liability) should also exist in a trading transaction whereby the supplier provides guarantees on the goods sold. However in the current BBA home financing, the customer is forced to face the burden of financial payment for the house even before it is completed, as he has engaged in a "debt contract" with the bank at the outset. By ignoring the concept of iwad, the BBA contract is not seen as conforming to the maqasid al-Shari'ah that removes hardship (raf' al-haraj) andpreventing harm (daf' al-darar) in the economic sphere, thereby leaving the welfare of people unprotected—a possible crime when the transaction is done under an Islamic label (Rosly, 2005). Another issue that arises from the long-term BBA financing is the mismatching of the BBA funds against its short-term deposit tenor. Whilst conventional financing has the ability to address this mismatch in the cost of funds through the variable interest rate (BLR + a spread), BBA financing cannot do this since customers are charged a fixed profit rate for the entire period of financing.

*2.6 Challenges Faced by Bai-Bithaman*

2.6.1 Demographic

Demographics can be grouped of the variables such as age, gender, income, education level, religion, occupations and so on. Demographic variables are often associated with customer needs and wants, preferences and usage rate. Metawa and Almossawi (1998), well-educated customers tend to put more emphasis Islamic principles in selecting their banks than those customers in the other educational groups. Well educated non-Muslims might be more open minded thus the level of acceptance of those non-Muslims would be higher. Non-Muslims are more aware and understanding about the BBA house financing concept with their well educational background. Therefore, they are easier in acceptance of Bai-Bithaman Ajil house financing. Dusuki and Abdullah (2006), religion perceived as an important

role when selecting Islamic banking as alternative services. Naser, Jamal, and Al-Khatib (1999), also concluded that religion is a very important reason for people to select Islamic banks. Rodney (1998) argues that clients in most Muslim countries have a free choice whether to use conventional or Islamic banks, but large numbers have chosen the latter because of their religious convictions. Religion is one of the factors that influencing level of acceptance of non-Muslims toward Islamic banking products. Non-Muslims might have prejudice or misunderstood toward Islamic banking products. They might think that BBA house financing concept is only suitable for Muslims. Thus, the level of awareness, understanding and acceptance of non-Muslims toward BBA house financing might be low.

2.6.2 Behavior

Lancaster (2003) defined that consumer behavior can be formally defined as: the acts of individuals directly involved in obtaining and using economic goods and services, including the decision processes that precede and determine these acts. Individuals are different in terms of how they look, their education, their feelings and their responses to marketing efforts. Some will behave predictably and others less predictably according to an individual's personality. The individual consumer absorbs information and develops attitudes and perceptions. Lancaster (2003) says personality and self-concept also is one of the factors that influence the customer's behavior. It means that how we think other people see us, and how we see ourselves. Self' is influenced by social interaction and people make purchases that are consistent with their self-concept in order to protect and enhance it. Personality is the principal component of the self-concept. It has a strong effect upon buyer behavior. Many purchase decisions are likely to reflect personality, and marketers must consider personality when making marketing appeals. Perception by the buyer is affected by the nature of the product itself, by the circumstances of the individual buyer, and by the buyer's innate situation in terms of how ready they are to make the purchase in terms of needing it at a particular point in time. On the other hand, attitudes will influence the customer's behavior. The sum total of attitudes can be regarded as a set of cognitions that a potential buyer has in relation to a potential purchase or a purchasing environment. Although nowadays most of the banks include foreign banks which are launching Islamic banking products, but Islamic products are still new to non-Muslims. The awareness of Non-Muslims about Islamic product is lower.

2.6.3 Knowledge

Saleh (2005) found that the level of acceptance by non-Muslims is influenced by their knowledge on BBA house financing. "Syariah Knowledge Bank of Information" is known as the knowledge of the principles in any transaction or deal prepared or completed at the Islamic Bank. The Syariah knowledge can be a real source of Islamic Banking Practice which acts as learning and training hub for the bank employees and the customers. The research done by Sudin, Norafifah, and Planisek (1994) shown that almost 100 percent of Muslims and 75 per cent of non-Muslims were aware of the existence of the Islamic bank. Although Malaysia is a Muslim country, but only 12 percent of the Muslims and 32 percent of the non-Muslims believe that the Islamic bank is for Muslims customers only. Other sources

of information are not so effective for the non-Muslims. Even though it has been nearly a decade since the Islamic bank was first established in the country, only about 63 per cent of the Muslims have understood either partly, or completely, the differences between the Islamic bank and conventional banks. Non-Muslims showed much less understanding. In terms of why people patronized the Islamic bank, about 39 per cent of the Muslim respondents believe that religion is the only reason why people patronize the Islamic bank, and, surprisingly, the percentage is much lower for non-Muslims. More than half of both respondent groups have indicated the possibility of establishing a relationship with the Islamic bank if they have a complete understanding about the operations of an Islamic bank. Haron and Planisek (1994) also found that more than half of the Muslim and non-Muslim respondents indicated the possibility of establishing relationships with the Islamic banks if they have a complete understanding about their operations.

2.6.4 Loyalty

Anderson et al. (1976) found that used “determinant attribute analysis” in a survey in the USA and stratified their samples according to convenience and services. Based on 15 selection criteria, convenience customers selected “recommendation by friends” as the most important factor, followed by “location”, “reputation”, “service charges” and “friendliness of bank staff”. The service customers ranked “availability of credit” as the most important factor, followed by “reputation”, “recommendation by friends”, “friendliness of staff” and “interest charged on loans”. Rodney (1998), the names and reputations of the scholars on the shariah boards seems to be one factor influencing client choice, especially initially when Islamic banks first open, but over time, as the banks have established reputations as solid financial institutions, name and brand image have become important. The number of major multinational banks offering Islamic financing facilities demonstrates the viability of Islamic finance. HSBC, ABN-AMRO, Deutsche Bank, Citibank and Arab multinationals such as the Arab Banking Corporation all offer Islamic financing products. Their financial resources and brand strength helps ensure that Islamic finance becomes better known to the global financial community. At the same time this competition poses a challenge to the dedicated Islamic banks, with fewer resources and more limited global reach. Brand name is an important factor that affects the level of awareness by non-Muslims toward Bai-Bithaman Ajil house financing. Customers are more confident to apply BBA house financing which is offering by Islamic Banking if they found that Islamic Banking is a well known bank and its products are reliable. Reputation is a factor that attracts customers in choosing BBA house financing. Warren (2001), the conventional banks will see Islamic banks as a threat as Islamic Banks grow quickly. The large international global brand names are not known for innovation. They are known for responding to new products and services. It is the small, lean and new institutions that usually create new products and innovative services. However, once a new product or service is perceived as a threat to conventional businesses, they will respond by providing a competing product and then take over. But at end of the day, the international brand name banks with good ratings will have the edge. Besides, in Malaysia, a majority of Muslim retail clients are still prepared to use

conventional products and they don't go to a brand name bank asking for Islamic banking services. Clients worldwide would rather go to a brand name with ratings, and that provides appropriate service, regardless of whether it's Islamic or otherwise. But given a choice between a pure Islamic bank and a highly rated reputable international bank providing the same service, a client would rather go to the one that has a brand name than the one that provides Islamic-only services, without the brand name.

*2.7 Theoretical Framework*

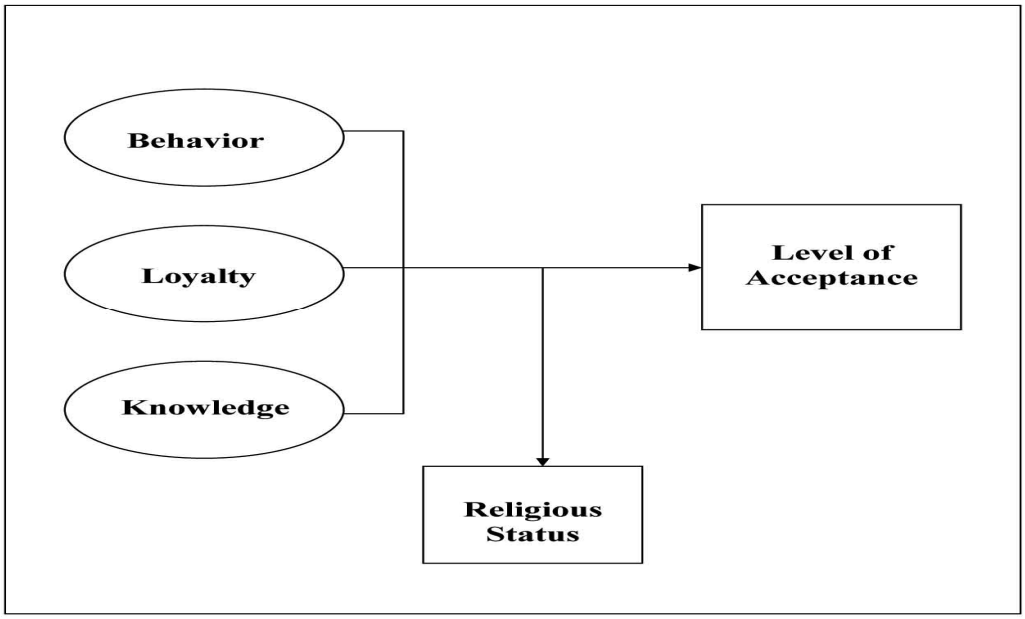


**Figure 1. Research Method**

## 3. Research Methodology

The qualitative approach and techniques which were use as secondary data or historical data, they can be used to justify our research. It has helped us to understand the nature and the concept of the Bai Bithaman Ajil (BBA) home financing of our research. As a fundamental research, we have to understand the nature of the Bai Bithaman Ajil (BBA) concept of the elements in our research topic in order to produce a reliable research. We also use the surveying method to gather data that is necessary for our research topic, which will eventually produce the desired results concerning the relationship between the selected variables.

*3.1 Research Design*

In this research the researchers are using the causal method. "Studies that engage in hypotheses testing usually explain the nature of certain relationships, or establish the differences among groups or the independence of two or more factors in a situation" (Causal Research, 2008). Examples of such studies are given below. Hypothesis testing is under-taken to explain the variance in the dependent variable or to predict organizational outcomes. We used causal method in our study to explain the variance in the

knowledge, loyalty and behavior independent variable and to predict the level of acceptances of non-muslims and muslims organization outcomes.

By using survey as research technique, researchers had designed specific questions for research questionnaires. The essential aspect of the development of a survey research design consists of the task of writing a list of questions initially. Then, researchers chose the one that was appropriate for research topic to test the research questions. After that, researchers designed the exact format of the questionnaire that can be distributed to target respondents. However, a distribution of questionnaire was decided due to the potential of convenience and the speed of feedback. It is a quick method to obtain feedback. It is also inexpensive and a relatively accurate way to access certain information from the population. In order to do the causal research, the term is very important. It is necessary to distinguish clearly between the terms dependent variables (level of acceptance Bai Bithaman Ajil (BBA) home financing towards non-Muslims) and independent variables (behavior, knowledge and loyalty). Then, researchers should be able to manipulate the variable and to assess what the influence of the manipulation on the variable was. In this research, independent variables are those factors such as behavior, knowledge and loyalty. The goal of this survey is to find out the level of acceptance Bai Bithaman Ajil (BBA) home financing towards non-Muslims. In additional, researchers would like to test whether it is significant between each factor (behavior, knowledge and loyalty) in the level of acceptance Bai Bithaman Ajil (BBA) home financing. It is important to consider which variable to allow for, or to directly control or eliminate, in the design of experiments.

*3.2 Data Source*

Researchers are able to acquire meaningful empirical data from the literature. Primary data is the fundamental source of the research study. The primary data is useful for future researchers due to the convenience in obtaining the information and data. Beside that, to ensure the research project has enough information and data to support, researchers apply primary data as the source for these research project. The researchers had searched for relevant and accurate sources to support the research project. The sources of the data are related to Bai Bithaman Ajil (BBA) home financing which is a focal point to non-Muslim's awareness and level of acceptance in Bai Bithaman Ajil (BBA) home financing. In order to create more significance in the research, other sources would be browsed and searched from the website and current issue from the newspaper, relevant articles also would be inspiration in the research study. Secondary data has been choosed and used in our research because it provide us a further advantages which it is less time consuming, inexpensive and accurate from the statement analysis. The transformation criteria are movement toward the analytical tool to evaluate the empirical data. In the common sense, it is seem to be more comprehensive and adequate in the source of data.

*3.3 Data Collection Method*

3.3.1 Pilot Test

In this research study, the questionnaire focus on the level of acceptance of non-Muslims toward Bai Bithaman Ajil (BBA) home financing. Before questionnaire is distributed to the respondents, the

questions that being asked have been ensure with the logicality and rationality. To be prudent, the questionnaires had been reviewed and assessed before distributed to public. 50 respondents have been selected as research sample.

3.3.2 Questionnaire

Researchers will try to evaluate respondent's level of acceptance towards Bai Bithaman Ajil (BBA) home financing. Researchers also need to indicate the behavior of non-Muslims in accepting Bai Bithaman Ajil (BBA) home financing. Lastly researchers must relate to the possible reasons that individual may consider in choosing Bai Bithaman Ajil (BBA) home financing. Issues and factors identified are area of knowledge, behavior, and loyalty of non-Muslims in accepting Bai Bithaman Ajil (BBA) home financing. Researchers also need to do the demographic survey which seeks to collect the information of the respondents such as respondent's age, gender, type of job, income level, religion, and highest education level. In this research, we have decided to select 200 respondents which is convenience sampling as research sample. There are 85 Muslims respondents and 115 non-Muslims respondents have been selected for our sampling design. The major reason to used questionnaire to conduct for our research is due to the reduction of cost and it is inexpensive. Convenience sampling allowed us to select respondents randomly if compare with simple random which require select a specific population before conduct the questionnaire, it is waste of time and money. When we selected a specific population, we need to delivery the questionnaire to them. As an example, we have been selected ten listed company in Malaysia as our sampling design. Therefore this will require researcher to waste money and time in order to distribute the questionnaire.

*3.4 Sampling Design*

Rsearchers found that non probability sampling is more appropriate to determine the target respondents in which the respondents being chosen are unknown. Generally, most of the researchers preferred to use convenience sampling as their sampling technique. According to Zikmund (2003), convenience sampling refers to sampling by obtaining units or people who are most conveniently available. Convenience sampling is used to obtain a large number of completed questionnaires quickly and economically. Researchers distributed the questionnaires to the target respondents who are easy to get in Kajang area.

*3.5 Hypothesis*

**Hypothesis 1:**

$H_0$: There are no significant differences between non-Muslims and Muslims with regard to level of acceptance towards Bai Bithaman Ajil (home financing);

$H_1$: There are a significant differences between non-Muslims and Muslims with regard to level of acceptance towards Bai Bithaman Ajil (home financing).

**Hypothesis 2:**

$H_0$: There are no significant relationships between the independent variables (behavior, knowledge, loyalty and religious status) and the level of acceptance towards Bai Bithaman Ajil (home financing);

$H_1$: There are a significant relationships between the independent variables (behavior, knowledge, loyalty and religious status) and the level of acceptance towards Bai Bithaman Ajil (home financing).

## 4. Analysis and Results

*4.1 Reliability Test*

**Table 1. Reliability Test**

| | **Cronbach's Alpha** | **N of Items** |
|---|---|---|
| **Knowledge** | 0.908 | 3 |
| **Behavior** | 0.927 | 3 |
| **Loyalty** | 0.895 | 3 |
| **Level of Acceptance** | 0.787 | 3 |

Table 1 shown that the reliability tests of knowledge was 0.908, behavior was 0.927, loyalty was 0.895 and level of acceptance was 0.787. The results shown were all above 0.7 levels. Hence, the data collected was considered reliable and trustworthy.

*4.2 Descriptive Analysis*

**Table 2. Descriptive Analysis**

| Profile | | Frequency | Percent |
|---|---|---|---|
| Gender | Male | 107 | 53.5 |
| | Female | 93 | 46.5 |
| | | | 100 |
| Age | 18 to 24 | 29 | 14.5 |
| | 25 to 34 | 82 | 41.0 |
| | 35 to 44 | 68 | 34.0 |
| | 45 and above | 21 | 10.5 |
| | | | 100 |
| Religion | Buddhist | 53 | 26.5 |
| | Hindu | 26 | 13.0 |
| | Christian | 6 | 3.0 |
| | Muslim | 115 | 57.5 |
| | | | 100 |
| Marital | Single | 56 | 28.0 |
| | Married | 121 | 60.5 |
| | Divorced/Separated | 20 | 10.0 |

| | | | |
|---|---|---|---|
| | Widow | 3 | 1.5 |
| | | | 100 |
| Education | Secondary School | 79 | 39.5 |
| | Degree | 98 | 49.0 |
| | Master | 21 | 10.5 |
| | PHD | 2 | 1.0 |
| | | | 100 |
| Occupation | Professional/Technical | 5 | 2.5 |
| | Upper Management/Executive | 25 | 12.5 |
| | Middle Management | 32 | 16.0 |
| | Sales Marketing | 41 | 20.5 |
| | Clerical/Service Worker | 26 | 13.0 |
| | Tradesman/Machine Operator/Laborer | 35 | 17.5 |
| | Own Business | 28 | 14.0 |
| | Others | 8 | 4.0 |
| | | | 100 |
| Annual | Below RM15,000 | 13 | 6.5 |
| Income | Between RM15,001 to RM20,000 | 25 | 12.5 |
| | Between RM 20,001 to RM25,000 | 25 | 12.5 |
| | Between RM25,001 to RM30,000 | 62 | 31.0 |
| | Between RM30,001 to RM35,000 | 30 | 15.0 |
| | Above RM35,000 | 45 | 22.5 |
| | | | 100 |

According to Table 2, the male respondents were more than the female respondents. There were 107 persons (53.5 percent) of male respondents, while 93 persons (46 percent) of female respondents. The majority of the respondents were felt under the age group between 25 to 34 years old, which consists of 41 percent (82 persons) from the over all respondents. Secondly, there was 34 percent (68 persons) of the respondents were between the age of 35 to 44 years old. Go on with 14.5 percent (29 persons) of the respondents were 18 to 24 years old and 10.5 percent (21 persons) were between 45 years old and above. Besides, the majority of the respondent's religious faiths were Muslims, which consists of 115 persons or 57.5 percent among the total respondents. Followed by 53 persons or 26.5 percent were Buddhist and 26 persons or 13 percent were Hindu. Lastly, the small portion, 6 persons or 3 percent of the total respondents were Christian. The majority of the respondents were married, which consists of 60.5 percent (121 persons) of the over all respondents. Secondly, there was 28 percent (56 persons) of the respondents were single. Go on with 10 percent (20 persons) of the respondents were divorced and

1.5 percent (3 persons) were widows. Furthermore, the majority of the respondents were attained the Bachelor degree in their respective discipline, which consists of 49 percent (98 persons) from the over all respondents. Secondly, there was 39.5 percent (79 persons) of the respondents were secondary school holder. Go on with 10.5 percent (21persons) of the respondents were master holders and 1 percent (2 persons) are PhD holders. Next, most of the respondents were sale marketing, where they consist of 41 persons (20.5 percent) of the total respondents. Followed by 35 persons (17.5 percent) are tradesman/machine operator/laborer and 32 (16 percent) persons were middle management of the total respondents. By the way, there were 28 persons (14 percent) own business, 26 person (13 percent) were clerical/service worker, 25 persons (12.5 percent) were upper management/executive, 8 persons (4 percent) were others occupation and lastly 5 persons (2.5 percent) were professional/technical. Moreover, most of the respondents income level were between RM25,001 to RM30,000, which were 62 persons or 31 percent of the total respondents. Followed by 45 persons (22.5 percent) of respondents' income level were above RM35,000 and 30 persons (15 percent) were between RM30,001 to RM35,000. For the respondents whose income level were between RM15,001 to RM20,000 were 25 persons (12.5 percent), RM20,001 to RM25,000 were 25 persons (12.5 percent). Lastly, there were only 13 persons or 6.5 percent of the respondents' income level were below RM15,000.

*4.3 T-Test*

**Table 3. T-Test**

| | **Religion** | **N** | **Mean** | **Std. Deviation** | **Std. Error Mean** | **Sig. (2-tailed)** |
|---|---|---|---|---|---|---|
| **Level of Acceptance** | **Non Muslims** | 85 | 3.7765 | 1.02015 | 0.11065 | 0.008 |
| | **Muslims** | 115 | 3.3362 | 1.22155 | 0.11391 | |

*4.4 Cross Tabulation*

**Table 4. Cross Tabulation**

| | **1** | **2** | **3** | **4** | **5** | **Total** |
|---|---|---|---|---|---|---|
| **Non-Muslims** | 6 | 7 | 7 | 51 | 14 | 85 |
| **Muslims** | 14 | 19 | 20 | 54 | 8 | 115 |
| **Total** | 20 | 26 | 27 | 105 | 22 | 200 |

**Hypothesis 1:**

$H_0$: There are no significant differences between non-Muslims and Muslims with regard to level of

acceptance towards Bai Bithaman Ajil (home financing);

$H_1$: There are a significant differences between non-Muslims and Muslims with regard to level of acceptance towards Bai Bithaman Ajil (home financing).

The t-test was used for testing differences between two means. The null hypothesis states that there is no significant difference between the two sample means. The significant level was set at 0.05 for the (2-tailed test). Table 4 has shown the examination of significant differences between non-Muslims and Muslims with regard to level of acceptance towards Bai Bithaman Ajil (home financing). When p-value is at 0.008 which is smaller than significant level of 2-tailed test at 0.05, and thus, reject Ho and accept $H_1$. Hence, it can be concluded that there was a significant difference between non-Muslims and Muslims with regard to level of acceptance towards Bai Bithaman Ajil (home financing). The mean difference was 0.4403 (3.7765-3.3362) where non-Muslims were higher than the Muslims. Besides, the researchers also ran the cross tabulation analysis and the results was consistent with the T-test. Based on the Table 4, there were 85 respondents of non-Muslims and 115 of Muslims respodents. It shown that the percentage of non-Muslims towards acceptance of Bai Bithaman Ajil (BBA) was 76.47 percent while the percentage of Muslims towards acceptance of Bai Bithaman Ajil (BBA) were 53.9 percent. Therefore, the differences of the level of acceptance of non-Muslims were 22.57 percent higher than Muslims

*4.5 Multiple Regression*

**Table 5. Multiple Regresson**

| Model | R | R Square | Adjusted R Square | Std.error of the estimate | Sig. |
|---|---|---|---|---|---|
| **1** | 0.411 | 0.169 | 0.152 | 1.06695 | 0.000 |

**Table 6. Coefficient**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | | | |
| **1 (Constant)** | 2.151 | 0.364 | | 5.911*** | 0.000 |
| **aveKnowledge** | 0.231 | 0.067 | 246 | 3.463*** | 0.001 |
| **aveBehavior** | 0.248 | 0.056 | 0.297 | 4.398*** | 0.000 |
| **aveLoyalty** | -0.025 | 0.067 | -0.027 | -0.375 | 0.708 |
| **Dummy** | -0.282 | 0.159 | -0.121 | -1.774* | 0.078 |

(Religious Status)
0 = non-muslims
1 = muslims

* Confidence level at 10 percent;
** Confidence level at 5 percent;
*** Confidence level at 1 percent;
a. Dependent Variable: ave Level Acceptance.

**Hypothesis 2:**

$H_0$: There are significant relationships between the independent variables (behavior, knowledge, loyalty and religious status) and the level of acceptance towards Bai Bithaman Ajil (home financing);

$H_1$: There are a significant relationships between the independent variables (behavior, knowledge, loyalty and religious status) and the level of acceptance towards Bai Bithaman Ajil (home financing).

Table 5 has shown which multiple regression was significant where adjusted R-square was 15.2 percent explained by the model. The result of coefficients shown the knowledge variable was strongly significant at confidence level at 1 percent and the behavior variable also significant at the confidence level of 1 percent. However, the loyalty variable was not significant at all. For the dummy variable which represents the religious status where 0 was equal to non-Muslims and 1 was equal to Muslims was significant at the confidence level of 10 percent. The result shown -0.282 which indicated that the non-Muslims' scoring were higher than Muslims. This was also consistent with the T-test that has been run by researchers where the level of acceptance among non-Muslims was higher than Muslims. Therefore, researchers were partially rejecting null hypothesis and partially support alternative hypothesis.

## 5. Conclusion and Recommendation

### *5.1 Conclusion*

This paper has highlighted the differences between conventional and Islamic housing loans where their great advantages that can be offered to both muslim and non-muslim markets. However, it is also important to address the issues and challenges faced by Islamic Banks in offering this kind of service as the existing market are still skeptical the extent to which this service will remain intact and sustainable for a long term. This paper also paves way for researchers to conduct empirical studies on the factors affecting the acceptance of BaiBithaman Ajil.

### *5.2 Recommendations*

Although Malaysia is a multicultural country, it does not mean that every race understands each other culture and religions. To create awareness among non-Muslims, banks and financial institutions can promote the Islamic products through their staff, newspapers, advertisement, and internet. They must also be more creative in developing new products which suit the customer's need. For non-Muslims,

knowledge about Islamic banking products is important. Banking products are not the same as other products. It is interrelated to the safety of their money. Knowledge, behavior, and loyalty are step buying behavior of consumers. From our research, since the knowledge of Kajang residents are low. To provide them with confidence, knowledge should be imparted to them before they could accept Bai Bithaman Ajil home financing. As mentioned above, knowledge was one of the factors that affected consumer's buying behavior. Without greater knowledge and understanding of the products, consumers would not consider using or pursue it. From the research, researchers found that most of non-muslims respondents have high level acceptance of Bai Bithaman Ajil but lack of knowledge in Islamic Banking. Although they are using the Islamic banking products, they are not very clear about the actual definition of the Islamic banking products offered by the bank. Lack of knowledge about Islamic banking products is extremely important in drawing up a new education strategy for Islamic banks for the next century. Consumers accept Islamic banking products but this does not indicate that they have greater understanding and knowledge. Since Islamic banking has the potential to growth in future, particular parties such as government, banks and other financial institutions should put some effort into educating the public not only about their services and their products, but also adopting Islamic principles in their customers' financial activities. Banks and financial institutions can organize campaigns, seminars, and talks to the public. These will provide an opportunity to the public to have a deeper view about Islamic banking. Advertising and promotion are effective in attracting more residents using Islamic banking products. Additionally, training courses can be provided to bank staffs to improve their knowledge in Islamic banking. The banking staffs can explain and promote Islamic banking products and facilities accurately. When customers have a greater understanding, he or she will be interested in the products offered by Islamic banks and has intention to use them.

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