Marketing Islamic banking products:
Malaysian perspective

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Introduction
Malaysia established the first Islamic bank in 1983 with the formation of Bank Islam Malaysia Berhad (BIMB). As any other banks in Malaysia, the Central Bank of Malaysia (also known as Bank Negara Malaysia) governs the operation of Islamic banks; the Islamic Banking Act 1983 covers the jurisdiction (Central Bank of Malaysia, n.d.). The operation of the Islamic banking system is parallel with the conventional system. This means that the government allows the Islamic banks to compete with conventional banks without favoring either.

BIMB was the only bank that provided Islamic banking services until 1993 when the government allowed all conventional banks to offer Islamic banking services, or more widely known as the Islamic banking window. The window was called an interest-free banking scheme. Subsequently, the government introduced the second Islamic bank, Bank Muamalat Malaysia Berhad in 1999. With the opening up of the financial market, the Malaysian government has allowed foreign banks to open Islamic banking services since 2004. Three financial institutions from the Middle East have opened up their offices in Malaysia – Kuwait Finance House from Kuwait, al-Rajhi Banking and Investment from Saudi Arabia and Asian Finance Bank from Qatar. Moreover, the government has permitted five local conventional banks to offer full-fledged Islamic banking services from their own subsidiaries since 2005.

In summary, the development of Islamic banking in Malaysia has grown from strength to strength despite having a dual-banking system where the conventional banking system is operating side by side with the Islamic banking system. Eventually, the products offered by the Islamic banking system have to compete with those of the conventional banking system. This paper will re-evaluate the progress and achievements of Islamic banking in Malaysia, particularly in the area of sales and marketing of Islamic banking services.

Islamic banking
Islamic banking refers to a system of banking or banking activity that is consistent with the Principles of Islamic Law (Syariah). Syariah prohibits the practice of giving or accepting additional money for money that is borrowed. In other words, Syariah bans interest charged on loans, regardless of the quantum of the interest. Furthermore, the types of businesses must also comply with the principles of Islam. For example, the business should not be involved directly or indirectly in alcoholic drinks, gambling-related business, pornography or any type of business that is considered harmful or that could cause disruption to the welfare of the society.

In Malaysia, all banks that offer Islamic banking products must have their own Syariah Advisory Board. The responsibility of the board is to ensure that the products and services offered by the bank are consistent with Syariah principles at all times. Customers that have any doubt about the integrity of the Syariah Advisory Board are advised to complain directly.
to the Central Bank of Malaysia (CBM). In fact, all banks operating in Malaysia are under the purview of CBM and, therefore, all banking-related complaints should be directed to CBM.

Technically speaking, Islamic banking is no different from conventional banking in the sense that both banks must be able to collect funds from depositors and investors and then invest the funds in profitable business. The salient features of the two banking systems are summarized as follows:

As can be seen from Table I, the main difference between Islamic banking and conventional banking is interest-based business or Usury. Islam does not view money as a commodity that can be rented out (Ismail, 2010, pp. 17-19). Therefore, Islam prohibits interest or Usury. In other words, Islam does not allow money to grow purely by charging interest on loans, which means that money grows by giving a loan today and expecting to get more than that in the near future because of Usury. Islam encourages trading but not Usury, as mentioned in the Quran:

Trading is only like Usury, whereas God has permitted trading and forbidden Usury (al-Baqarah, 2:275).

Since Islam prohibits Usury, sharing the risk of trading and investment is aligned with the principle of Islam. This means that the moneylender has to take a risk by participating in the business of the money-borrower. In other words, in Islam the relationship between the borrower and the lender is more than a purely creditor-debtor relationship. Essentially, Islam encourages businesses to grow by taking risk and taking part in a project without compromising the welfare of either party.

With the prohibition of Usury in place, the banking and finance transaction must involve the exchange of an asset or money. In summary, there are four categories or principles of Syariah used in Islamic banking, which replace the interest-based transactions:

1. Profit and loss sharing principles, example: Mudarabah and Musyarakah.
2. Fee or charged based principles, example: Murabahah and Ijarah.
3. Free service principles, example: Qard-Hassan.
4. Ancillary services, example: Wadiah.

In summary, Islamic banking serves as a commercial and investment bank as well as an investment trust and investment-management institution. In some aspects, Islamic banking products are better than conventional banking products. For example, as Islamic banks charge a fixed rate for all their financing products, customers can calculate the amount of money they are paying to the bank until the end of financing. Essentially, there is no financial uncertainty. As more banks are embracing Islamic banking products, Islamic banking is no longer a theoretical idealism but a practical reality (Lee and Detta, 2007, pp. 27-47).

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Islamic principles in marketing

Islam recognizes that one of the ways to satisfy human needs is through buying and selling, not through stealing, robbing and taking people's property by force. God commands in the Quran:

Eat not up your property among yourselves unjustly except it be trade amongst you by mutual consent (an-Nisaa, 4:29).

This shows that Islam does not allow people to acquire another person's asset or property through manipulation, cheating, bribery or any other illegal means. However, Islam encourages trading, which is the exchanging of products or services for money.

The idea of exchange is not alien in nature. According to Kotler (2003, p. 122), the concept of exchange leads to the concept of a market. A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want. With the establishment of Islamic banks in Malaysia we now have the market for Islamic banking products.

From the perspective of an Islamic bank, the elements of a market for Islamic banking products have five tenets:

1. The sellers: Islamic banks and other banks participating in Islamic banking.
2. The buyers: The customers of the banks.
3. The relevant products/asset.
4. The exchanges made according to the various Islamic civil contracts.
5. The selling price.

The five tenets above are the elements that should be explicitly mentioned in the contract between the customer and the Islamic bank in order to comply with Islamic principles. Furthermore, important information should be disclosed in the contract and made known to both parties to avoid the element of Gharar. Gharar is an Arab word that means negative elements such as deceit, fraud, uncertainty, danger, risk and hazard that might lead to destruction or loss. Thus, Gharar exists in a contract when its consequences are purposely hidden and remain unknown to any of the contracting parties (Lee and Detta, 2007, p. 36).

In summary, the marketing of Islamic banking products should always incorporate the five tenets above, provide accurate information and not hide any important information that will lead to Gharar. Ultimately, the marketing of Islamic banking products should observe the ethical aspects as well as the religious aspects.

The marketing of Islamic banks

Although the first Islamic bank in Malaysia has been in existence for the past 27 years, its presence in the market is either not really seen or significant. For example, it is very rare to see the advertisements of the Islamic banks on television compared to other conventional banks in Malaysia. In contrast, the advertisements of Malayan Banking Berhad, for instance, the largest bank in Malaysia, are often aired on television.

Haron and Wan Azmi (2005) suggest that Islamic banks in Malaysia do not aggressively market their products. They suggest that Islamic banks should have a better understanding of the needs, preferences and behavior of their target customers. This is because religion is not the only important factor that drives customers to use the Islamic banking facility. Therefore, depending on religion alone is not effective to attract customers. In fact, non-Muslim customers will also use the Islamic banks if they find that the service is good and meets their expectation.

As suggested by Fornell et al. (1996), customers will be loyal to a product if they have no complaint about the product or if they are satisfied with the product. Moreover, customers will be satisfied and will not complain if their expectation about the quality and value of the
product matches their own experience when they use the product. This means that it is important for the Islamic banks to understand the expectation of their customers. Basically, the Islamic banks should know the value and quality expected by the customers from the banks.

Therefore, it is vital for the Islamic banks to communicate with their customers so that customers know the value and quality offered by the Islamic banks. One means of communication is in the form of advertising through the media. According to Kotler (2003, p. 123), a company must use the media if it wants to remain competitive. The company can use television, radio, newspapers, magazines, catalogs, direct mail, telephone or online because each medium has its own advantages and disadvantages in terms of cost, reach, frequency and impact.

Obviously, the promotion of Islamic banking products appears to be subdued. Nevertheless, the amount of money deposited in the Islamic banking system is growing year by year. For example, in December 2006 RM99 billion was deposited in the Islamic banking system and by August 2010, it had soared to RM212 billion, as shown in Figure 1, which means that the growth of deposits is more than 20 percent per annum.

It can be claimed that the increase in the total deposits could be due to the increased awareness among Muslims concerning the importance of supporting the Islamic banking system. However, it could also be argued that the increase is not due to the increased awareness among individual Muslims, but rather the increase in total deposits is due to the increased contribution from Islamic-related organizations such as the pilgrimage funds and Zakat (tithe) institutions.

Since Islamic-related organizations are not allowed to deposit their funds in the conventional banking system, it means that without the contributions from these organizations, the total deposit in the Islamic banking system could be growing at a slower rate. Moreover, Malaysia has seen an increase in the number of licensed banks that offer Islamic banking products as well as the growth of funds management that observe Islamic principles in their investment funds. Therefore, it is argued that individual Muslims are not the main customers of Islamic banks.

In summary, the driving force for the growth of Islamic banking and financing products is the corporate clients, and not the Muslim individuals. Therefore, the marketing of Islamic banking products toward Muslim consumers is still lacking and needs to be addressed.

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Figure 1 | Total deposit in the Islamic banking system
Conclusion

This paper has re-evaluated the progress and achievement of Islamic banks in Malaysia, particularly in the area of marketing Islamic banking products. It is found that the Malaysian government has been proactive and played an important role in opening up the market for Islamic banks. The jurisdiction and operation have been accommodated and modified so that Islamic banks can grow in a conducive environment. For example, in a usual case, profit from the sale of a property is subject to capital gains tax. However, the Islamic banks involved in home financing transactions are exempted from tax. This is due to the nature of the Islamic principle that requires the exchange of an asset for money before the financing can take place. Otherwise, the home financing product is considered as not observing the Islamic principle.

Although the market has gradually embraced Islamic banking products, the marketing of the products is not encouraging. One of the main problems is that the information concerning the Islamic banking products is limited and not sufficient to convince the consumers. It is important to disclose information on the products to consumers so that the consumers can evaluate and judge the products by themselves. For example, many of the Islamic banks web sites provide minimal information concerning Islamic financing offered by the bank. Consumers need sufficient and helpful information in helping them to make a decision.

On the banking front-line, there are cases where the Islamic banks’ employees themselves are not well versed and knowledgeable about the Islamic banking products. As a result, they failed to market the products effectively. A customer applying for home or vehicle financing may end up not fully understanding the product but still buying the product or may end up not buying the Islamic banking product.

Furthermore, conventional banks that have Islamic banks as a subsidiary usually operate the banks within the same premises. This shows that banks are sharing the same resources to serve two totally different products, i.e. Islamic banking products as well as conventional banking products. It is doubtful that the employees of the banks are capable or adequately trained to market both products seamlessly.

Besides the lack of information and the incompetence of the Islamic banks employees to explain and attend to queries from customers about the Islamic products, other obstacles hinder the growth of Islamic banks. At the macro-level, the lack of liquid Islamic financial products is among the biggest challenges for Islamic banks (Ayub, 2007, pp. 477-478). As a result, Islamic banks are not able to manage the risk and hedge their investment against potential loss. Unlike the conventional banking system, there are many products that the conventional banks can use to manage the risk such as the financial derivative products.

In summary, the lack of effort of marketing of Islamic banking products is attributable to the combination of problems at the micro-level and macro-level. At the micro-level, it has to deal with the management problems of the banks that are offering the Islamic banking products, while at the macro-level it has to deal with the completely integrated structure of the Islamic banking and finance system.

Recommendations

It appears that the efforts in marketing Islamic banking products are low despite experiencing an increased amount of money deposited in the system during the past five years. Essentially, marketers should exploit the advantages and differences of Islamic banking and conventional banking products, particularly in countries where Muslims are the majority. It is important how the product is promoted, as promotional activities help in creating or changing consumers’ perception.

Obviously, Islamic banks need to differentiate their products from the conventional banking products, as these products are free from Usury. Moreover, the principle of the running of Islamic banks is based on Islamic teachings and principles. Therefore, these products need to be handled with extra care because a slight misunderstanding in the minds of the customers could create a bad reputation for the Islamic banking products.
Islamic banking products need to be promoted in an entirely different manner. The current practice by some banks needs to be changed so that a better image of Islamic banking products can be projected. For example, well-trained employees to explain Islamic banking products to walk-in consumers must operate the front-line of the Islamic bank. Although many conventional banks also have Islamic banks as a subsidiary and share the same premises, banks should not favor one over the other. Therefore, it is recommended that dedicated employees should be assigned to handle queries concerning Islamic banking products.

As consumers become more aware about Islamic banking products, new segments could be created to match their expectations. For example, currently, most Islamic banks have two types of saving accounts, i.e. wadiah and mudarabah (Ismail, 2010, pp. 93-96). It is recommended that the Islamic banks offer a variety of savings accounts for various purposes. This could be accomplished by modifying the profit-loss sharing ratios according to the type of accounts and the period of saving.

Like any other business, keeping the customer loyal to a particular product name is important so that the reputation of the company can be communicated to other potential customers. Therefore, it is crucial to manage the existing customers’ expectations so that they are matched with the services offered by the Islamic banks. It is recommended that Islamic banks provide accurate information concerning the Islamic banking products and avoid misrepresentation of information. Furthermore, all banking services products are monitored and governed by the Central Bank of Malaysia, and, therefore, the differences between any two products are usually not significant in terms of pricing.

In summary, the paper has managed to show that the marketing of Islamic banking products is relatively low compared to the conventional banking products. Reasons for the low activity of marketing Islamic banking products at the micro and macro-levels have been discussed. A continuous review of marketing Islamic banking products is what is needed, as suggested by Kotler (2003, p. 2):

[... ] Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does...

References


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