

**A STUDY OF CONSUMERS' ADOPTION TOWARDS ISLAMIC BANKING
PRODUCTS AND SERVICES IN THE STATE OF KEDAH DARUL AMAN**

**Thesis Submitted to College of Business,
Universiti Utara Malaysia,
In Partial Fulfillment of the
Requirement for the Degree of
Master of Science (Banking)**

By

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ABSTRACT

The aim of this study is to examine the level of Islamic banking adoption and to identify factors that influence its adoption in the state of Kedah Darul Aman, Malaysia. Islamic banking has evolved as a new reality in the international financial scene since 1970s. Since then, numerous studies have been undertaken by researchers to examine issues related to Islamic banking across the globe. In Malaysia, Islamic banking started in 1983 with the establishment of Banks Islam Malaysia Berhad. The emergence of a new generation of consumers in Malaysia, who are knowledgeable and educated, had expected superior and innovative financial products and services to fulfill their financial needs. This poses new challenges to the banking sector in general and Islamic banking in particular, due to the different perception of banking customers towards Islamic banking. The underpinning theory adopted for this study is based on Roger's (1995) diffusion of innovation that is used to develop the conceptual framework. Quantitative method in the form of survey using questionnaire is used to conduct this study. A total of 192 respondents had participated in this survey. Multiple analytical techniques including factor analysis, logistic regression and descriptive statistics were used to analyze the data and test the model. The results show that Islamic banking adoption is still low among bank customers. Economic advantage is the only factor that is significantly associated with Islamic banking adoption.

Keywords : Islamic Banking, Conventional Banking, Adoption factors, Diffusion Of Innovation

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Islamic finance is a financial system whereby the services are designed to comply with the central tenets of *Syariah* (Islamic law). It is one of the most rapidly growing segments of the global finance industry. Starting with the Dubai Islamic Bank in 1975 (with operations in the United Arab Emirates, Egypt, the Cayman Islands, Sudan, Lebanon, the Bahamas, Bosnia, Bahrain and Pakistan), the number of Islamic financial institutions worldwide now has exceeded over 300 located in 75 countries (El-Qorchi, 2005). Islamic banking services provide indirect competition to the services offered by conventional banks.

The Islamic banking system is gaining momentum worldwide. Many international conventional banks have started to open branches which operate in accordance with the "*Syariah*" principle. The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well-established conventional banks that offer Islamic services (Naser and Moutinho, 1997).

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