

**CUSTOMER PERCEPTION TOWARDS ISLAMIC FINANCING**  
**An Comparative Studies Between Islamic Finance and Conventional Loans**

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**MASTER IN SCIENCE MANAGEMENT**  
**UNIVERSITI UTARA MALAYSIA**

**2014**



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## **Abstract**

The expansion of *Islamic banking industry* in the financial markets of the world has made this newly born industry a ground reality. Islamic banking industry have shown the current global financial crisis in entire market. Islamic banking is a new phenomenon that has taken many observers by surprise. The speed with Islamic banks have sprung up and the rate at which they have progressed make it worthwhile to study them systematically. The purpose of this paper is to examine the main factors that motivate customers to deal with Islamic banks particularly in a dual banking environment. A discussion on factors relating to how Shariah complaints and Islamic value initiatives as part of potential customers' banking selection criteria is also included. Islamic Banking and Finance (IBF) involves wider ethical and moral issues than simply 'interest-free' transactions. Its advocates argue that these make it more economically efficient than conventional banking and promote greater economic equity and justice. To what extent, then, do actual Islamic Banking practices live up to the ideal, and how different are they from conventional banking? A preliminary investigation shows that, three decades after its introduction, there remain substantial divergences between IBF's ideals and its practices, and much of IBF still remains functionally indistinguishable from conventional banking. This runs counter to claims by IBF advocates that it would rapidly differentiate itself from conventional banking. However, despite not providing an alternative to conventional banking and finance, IBF does strengthen a distinctly Islamic identity by providing the appropriate Islamic terminology for the factor of conventional financial transactions.

## **Acknowledgement**

I would like to express my appreciation and gratitude to everyone who has contributed in completing this thesis. It was my pleasure to study under Prof. Madya Dr. Muhammad Nasri Md Hussain's supervision. Without his valuable support, my thesis would not have been possible.

I would like also to thank my parents, family members and all of my relatives for their love and support. My goal would not have been achieved without them.

I had a very enjoyable study at Universiti Utara Malaysia (UUM). Not only, does it has a beautiful natural environment but the university also has helpful staff.

Finally, I would like to thank all of my friends for their encouragement during my study.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Islamic banking is a banking activity which is consistent with the principles of Shariah and its practical application through the development of Islamic economies. As such, a more correct term for 'Islamic banking' is 'Shariah compliant finance'. Shariah prohibits the fixed or floating payment or acceptance of specific interest or fees which is known as a 'Riba' for loans. Investing in businesses that provide goods or services considered contrary to Islamic principles is also prohibited. Although these principles have been applied in varying degrees by historical Islamic economies due to lack of Islamic practice, only in the late 20th century were a number of Islamic banks formed to apply these principles to private or semi-private commercial institutions within the Muslim community. Islamic banks today exist in all part of the world and are looked upon as a viable alternative system which has many things to offer. It was initially developed to fulfil the gained a lot of significance and attracted a widespread attention of many bankers, experts of finance, economists and investors from the main stream and traditional banking sector of the global economy. The reason behind it was the tremendous global and widespread expansion of the Islamic banking industry in the financial markets of the world. The capital markets of the world is the resilience which Islamic bank have shown in the current financial crisis of the world which started in 2007 and still impeding the growth of many economies around the globe. The recent financial crisis not only leads to great reforms in the conventional banking system of the world and is requiring more regulatory control on the operational mechanism.



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## APPENDIX