THE ACCEPTANCE FACTORS OF TAWARRUQ IN KOTA KINABALU, SABAH.

NUR FADHILA BINTI JUPRIN

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NAME : NUR FADHILA BINTI JUPRIN
MATRIC NO : ME142152T
TITLE : THE ACCEPTANCE FACTORS OF TAWARRUQ IN KOTA KINABALU, SABAH.
DEGREE : MASTER OF ECONOMICS
VIVA DATE : 5th JANUARY 2016

DECLARED BY:

SUPERVISOR : PROFFESOR MADYA DR. REMALI YUSOFF
SIGNATURE : 

PROF. MADYA DR. REMALI YUSOFF
Fakulti Perniagaan, Ekonomi & Perakaunan
Universiti Malaysia Sabah

6.10.2016
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ABSTRACT

Tawarruq is one of the latest innovative products of Islamic housing facility in Islamic banks in Malaysia today, which is designed to meet the hire purchase concept on current demand of customers that focusing in housing financing. Therefore, this research was conducted to study and analyse the factors that influences customers to choose Tawarruq in Kota Kinabalu, Sabah. The main objective of this study is to determine the relationship between religious obligation, level of awareness, and the fast and efficiency services with Tawarruq among customers in Kota Kinabalu, Sabah. A total of 396 customers were selected as respondents and analysed using SPSS for Window version 22.0. For the analysis, the Factor Analysis, the Kruskal-Wallis one-way ANOVA and Multiple Linear Regression was adopted to check the relationship between independent and dependent variables, and the result will be delineated into three cluster namely religious obligation, level awareness, and the fast and efficiency. The findings reveal the respondents expressed their satisfaction with generally positive views on selection factor. One of the most important factor was religious obligation that shown as important criteria in choosing Tawarruq. As conclusion, there is a strong relationship between religious obligation, fast and efficiency services ad level of awareness in choosing Tawarruq. Hence, this show Tawarruq still declare as the best product of Islamic Banking. Furthermore, this will bring a better promising future in Islamic Banking.
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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Malaysia is a country that is constantly innovating new products in the Islamic banking industry. Islamic banking in Malaysia is progressing rapidly in line with the government's aspiration to make Malaysia a hub in the Asia-Islamic. The rapid growth of Islamic financial institutions worldwide demanded financial institutions to act more efficient and proactive in introducing banking products based on sharia. Finance institutions where Islam is making Islamic law as the basis for implementing the financial system in the country.

Malaysia is a country that has worked hard to develop and implement Islamic financial system by incorporating in it the system of Islamic banking and Islamic financial markets stable. Now, all based method has been implemented in Islamic finance. As a result of this, Malaysia is the only country that has a complete system of Islamic finance. Even Islamic banking in the country has been won praise from a wide range of Islamic financial institutions in the region and other countries. According to Mat Hassan Abu Bakar (2004: 3), this system gives freedom to all people to find and assess the property according to ability. Property owners cannot ignore the rights of others.

Islamic banking system has emerged as competitive and a viable substitute for the conventional banking system during the last three decades. Islamic banking refers to a system of banking that complies with Islamic law and also known as Shari’ah law. The core principles that govern Islamic banking are mutual risk and profit sharing between parties, the guarantee of fairness based on an underlying business activity or asset. Activities that involve interest (riba), gambling (maisir) and speculative trading (gharar) are prohibited.
Conventional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other. Interest is considered to be the price of credit, reflecting the opportunity cost of money. Islamic law considers a loan to be given or taken, free of charge, to meet any contingency. Thus in Islamic banking, the creditor should not take advantage of the borrower. When money is lent out based on interest, more often that it leads to some kind of injustice.

In the era of globalization, housing is one of the basic requirements (Daruriyyah) an individual. In addition to housing or shelter, basic needs of human life also include food, drink, health, clothing and education. To allow outwardly perfect life, basic needs must be met as best as possible. Because housing is a basic human survival needs, issues associated with such a huge impact on the level of socio-economic and politics of a country. The residence is a basic requirement for any person. However, not all individuals can have the house easily and quickly. This is because in order to have a house requires huge funds. Therefore, most people will get housing financing from banking institutions and other financial institutions. As a Muslim who understands the Din Islam itself, choosing the Islamic home financing products is an obligation.

According Fadzila Azni Ahmad (2003:1), the government's focus on the housing sector includes two stages, namely housing supply and housing demand. At the level of housing supply, the government has formulated and implemented various policies and programs. Among the measures taken is the provision of adequate housing and affordable to the people, especially the lower income group. In meet the housing demand of the people, the government has taken steps to provide financing or mortgages for home purchases. The facility is aimed at those who cannot afford to buy houses for cash.

The history of modern Islamic banking began in Egypt with the establishment of Local Gahmr Mit Saving in 25th July 1963. The Bank is well received among the farmers in the valley of the Nile, but had ceased operations in 1967 due to political turmoil. Although relatively short period of operation, the bank's success caught the attention of the Islamic world in particular and the world in general banking with one bank after another appeared.
to offer Islamic banking products either fully or Islamic bank commercial bank offering Islamic banking products in addition to conventional banking products. Islamic banks that emerged after that is Nasser Social Bank Cairo (1972), Islamic Development Bank (1975), Dubai Islamic Bank (1975), Faisal Islamic Bank of Sudan (1977), Islamic Bank of Jordan (1978), Islamic Bank of Bahrain (1979) and a number of Islamic banks in other Islamic countries.

Islamic banking in Malaysia's history starts with the establishment of Lembaga Urusan Tabung Haji (LUTH) in 1963, in the same year with the establishment of Mit Ghamr Local Saving Bank in Egypt. Although the main activity at the time LUTH only involves storing money by pilgrims and investment activities, the establishment has a huge impact on creating an Islamic bank that previously deadlocked. The first Islamic bank in Malaysia is Bank Islam Malaysia Berhad (BIMB), incorporated under the Companies Act 1965 on 1 March 1983 and began to open its doors to customers on July 1, 1983. According to Ahmad M (2010), as banks and other conventional, BIMB also offers products and services similar but all services based on Syaria principles.

Today, there are seventeen Islamic banking institutions in Malaysia, of which six are wholly foreign-owned and two International Islamic bank which are the Bank Syariah Muamalat Indonesia, Unicorn International Islamic Bank Malaysia Berhad (Bank Negara Malaysia, 2008). Now, there are more than 100 Islamic financial products and services offered by the banks using various Islamic concepts. The main products and services are divided in 5 categories that comprise of deposit, investment, financing, trade finance and card services. The list of Islamic Banks is given in Table 1.1.
Table 1.1: List of Islamic Bank in Malaysia.

<table>
<thead>
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<th>No.</th>
<th>List of Bank</th>
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<tr>
<td>1.</td>
<td>Affin Islamic Bank Berhad</td>
<td>L</td>
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<tr>
<td>2.</td>
<td>Al Rajhi Banking &amp; Investment Corporation (Malaysia) Berhad</td>
<td>F</td>
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<td>7.</td>
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<td>8.</td>
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<td>9.</td>
<td>Hong Leong Islamic Bank Berhad</td>
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</tr>
<tr>
<td>10.</td>
<td>HSBC Amanah Malaysia Berhad</td>
<td>L</td>
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<tr>
<td>11.</td>
<td>Kuwait Finance House (Malaysia) Berhad</td>
<td>F</td>
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<tr>
<td>12.</td>
<td>Maybank Islamic Berhad</td>
<td>L</td>
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<tr>
<td>13.</td>
<td>OCBC Al-Amin Bank Berhad</td>
<td>F</td>
</tr>
<tr>
<td>14.</td>
<td>Public Islamic Bank Berhad</td>
<td>L</td>
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<td>15.</td>
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Source: Bank Negara Malaysia (2015)

Islamic Banking Institutions are responsible for providing services such as banking where conventional but offered activities and financing based on Islamic principles and law. Resources and activities undertaken do not involve elements expressly forbidden in the Quran as *usury*, *masyir*, *gharar* and illegal activities. This distinguishes Islamic banks with conventional banks. Nowadays, world turn to Islamic finance and discusses various Islamic banking products that can be applied in providing the best services and products to consumers. This proves that there are special privileges and differences of Islamic banking than conventional banking concept. In fact, Islamic banking products are well accepted by the non-Muslims too.

Private funding for liquidity facilities implemented in accordance with Islamic principles is something that is allowed. Support and compliance are allowed by Islamic clerics in time to the creation of new products and various to increase the awareness of the Muslim community in choosing a loan whether or not sharia compliant. While some of the views of the Islamic economists have different views on some contracts used in cash facilitate Islamic financing, but it remains a necessity to avoid people continue to adopt the conventional private financing system that is based on interest or usury. Personal finance in
general is a financial facility where it includes funding for the convenience of cash or simplifies the way people get something personal use goods or services for consideration is easy.

There are a variety of banking products used and offered by the Islamic financial institutions to customers today such as Mudaraba partnership contract, Musharaka and financing products such as Ijarah contracts, Bai Bithaman Ajil (BBA), Murabaha, Bay Al-Inah, and other contracts. In terms of home financing, the current products Islamic house financing in Malaysia offered through a variety of contract such as Tawarruq.

Tawarruq is one syariah contracts are increasingly popular and is a modern form of financing applied by the Institute financially same Islam in Malaysia or outside the country. In Malaysia, Tawarruq concept increasingly to generalize its use in products such as deposit and financing products of housing finance, credit cards, commercial commodities and publishing bon. Tawarruq is widely used by Islamic financial institutions worldwide, further analysed the admission of respondents in receipt of Tawarruq in housing finance.

1.2 BACKGROUND OF STUDY

Tawarruq growing fast today and many Islamic banking in Malaysia used it as one of the products in housing loan for its customers. Tawarruq refers to the buying and selling of commodities or assets deferred payment based on Murabahah (the cost price plus a profit margin assets) or Musawamah (purchase price that did not reveal the cost of the asset and profit margin) from the seller to the buyer, and subsequently commodities or these assets will be sold for cash to third parties (other than the original seller) to get cash. It is also known as the commodity Murabahah.

Normally, this concept is applied in the structure of deposit products, financing, asset management and risk bearing. However, no study has been carried out to investigate the factor that influences customers to choose Tawarruq in Kota Kinabalu. This paper analysed the factor considered by customer in choosing Tawarruq. For this time, the researcher's focuses on Tawarruq and the sample on customers, which had experienced to use Tawarruq
or other Islamic Housing Financing. In this research, researcher only limited to study Tawarruq.

1.3 PROBLEM STATEMENT

Typically, most of the customers are not familiar with the products offered by the bank especially housing finance. This is because most banks will offer two types of conventional and Islamic products simultaneously. Therefore, the customer must decide whether to continue funding using conventional or Islamic products by looking into a lot of factors.

If banking Tawarruq starts as a new transaction, then it is a negative development for murabahah. The goal of Tawarruq is to get cash. This is clearly stated in the notices of Islamic Banks and their brochures. The major reason that prompts the said banks and financial institutions to practise tawarruq is that in most cases, is to free from the constraints of the balance sheet, as the financial accounting rules take into account the principle of capital adequacy, and provision for managing bad debts (doubtful debts), which would hinder the activities of finance in general, slow down the circulation of capital and reduce the profitability of the Bank. In this case, Tawarruq is considered an appropriate substitute, due to the fact that it can rotate part of the liquid assets for Tawarruq of non-liquid assets that guarantee the bank's debts to the other person, without an increase of risks to the bank, that is without any need for a special supervision in the general budget.

Nowadays, Tawarruq in Malaysia has grown rapidly. It showed that the Islamic products had a big potential than conventional products. This study attempted to investigate the factor that contributes to the fast growing of Tawarruq from customers in Kota Kinabalu, Sabah. There was increased number of customers who had buy housing by using Tawarruq transaction, but we do not know what factor influenced them to choose Tawarruq. From this research, we want to know determined factor of religious obligation, level of awareness and the third one is fast and efficiency services towards choosing of Tawarruq.
1.4 OBJECTIVES OF THE STUDY

These research objectives are to determine the relationship between the acceptances of Tawarruq among customers with the religious obligation, the level of awareness and the fast and efficiency services. The research focuses are:

i. To determine the relationship between the acceptances of Tawarruq among customers with the religious obligation.

ii. To determine the relationship between the acceptances of Tawarruq among customers with the level of awareness.

iii. To determine the relationship between the acceptances of Tawarruq among customers with the fast and efficiency services.

1.5 SIGNIFICANCE OF STUDY

Tawarruq is one of important Islamic products especially for Islamic banking sector that can contribute into Malaysian economic growth. Therefore, the researchers hope from the finding of this research will:

i. Increase knowledge and understanding the community about Islamic banking products offered by the bank.

ii. Create awareness and increase the level of confidence among the public, especially on the Islamic banking products that can be an alternative to the existing banking products offered by commercial banks and conventional.

iii. Scrape the misperception the public and change their perception of weakness and lack of Islamic banking products in Malaysia.

iv. Allows the bank to set up a strategy to increase participation people in Islamic banking products.
v. Improve the development in Islamic banking system not only in fully-fledged Islamic banking institution but also in conventional financial institution with Islamic windows.

vi. Allows the government to draw up a plan of action to increase community participation in Islamic banking products.

The researchers also hope that this study is very important to run to sensitize the general public, especially the Muslim community on the implementation of Islamic house financing to coincide with the guidelines set out in the Quran and the Sunni of the Prophet, It is important as housing is a major issue for the necessities of life in developing countries while financing is an instrument to help people meet the need for housing.

The study also will open the eyes of the Muslim community in particular and society in general non-Muslims about Islam's ability to control the economic system of Islam. It is clear that Islam too concerned with the welfare and well-being of his people is not based on a strong faction repression against the weak.

With the instrument with principles of sharia, Islamic society in particular can take it as an alternative to the products manufactured by the conventional banking system. It helps them to prevent them from being engaged in the business transactions, which contain elements of usury and gharar.
1.6 HYPOTHESIS

A hypothesis can be defined as a tentative, yet testable, statement, which predicts what you expect to find in your empirical data. Along this line, hypothesis can be defined as a logically relationship between two or more variables expressed in the form of testable statement. (Sekaran&Bougie, 2003).

A null hypothesis (H0) is a hypothesis set up to be rejected in order to support an alternate hypothesis. Alternate hypothesis (Ha) is the opposite of null hypothesis (Sekaran&Bougie, 2003). In this research, it is important whether Islamic leasing/Tawarruq have significant relationship with religion obligation, level awareness and the fast and efficiency services. Therefore, this study attempts to test the following hypotheses:

I. H0: There is no significant relationship between the acceptances Tawarruq among customers with the religious obligation.
   Ha: there is significant relationship between the acceptances Tawarruq among customers with the religious obligation.

II. H0: There is no significant relationship between the acceptances Tawarruq among customers with the level of awareness.
   Ha: there is significant relationship between the acceptances Tawarruq among customers with the level of awareness.

III. H0: There is no significant relationship between the acceptances Tawarruq among customers with the fast and efficiency services.
   Ha: there is significant relationship between the acceptances Tawarruq among customers with the fast and efficiency services.
1.7 LIMITATIONS

The researchers faced difficulty to search information to do the analysis in order to obtain data collection and information because questionnaire distributed only to customers who had experience to used Tawarruq facility or Islamic housing facilities offering in Kota Kinabalu, Sabah. This is because we want to know how customers in Kota Kinabalu perception compares with the previous studied. The information gathered will be slightly different if the researcher does the same research in the other places. People have different background of knowledge and educational level, so their pattern of gathering the information about Tawarruq would be different from one and the other.

The researchers also faced difficulty when some of the respondent refuse to give collaboration on answer the questionnaire that are given, it will contribute to limitation of cooperation and of course the progress of the research will become slowly, delay and difficulty. The researcher will required more time in order to get respond from the respondents chosen. There are an incomplete answer questionnaire was received and it will effect to the research result.
CHAPTER 2

LITERATURE REVIEW

2.1 AN OVERVIEW OF TAWARRUQ

Tawarruq is one of the most prevailing and accepted technique in Shari'ah transactions that is predominant in Islamic finance nowadays. Based on the fatwa that were issued by the Shari'ah boards, many of the financial product that are introduce by the Islamic banks and foundations are related to Tawarruq.

Furthermore, based on the sale of Tawarruq (papering or paper money) any financial product are aiming to provide liquidity to banking customers, where they will immediately receive an amount of money in regards to their commitment to pay an amount that is more than the cash that they have received. This deferred payment will be established via an agreement to buy a commodity on deferred basis. Then selling it to a third party who is not the first seller, at a price less than the initial selling price. This is different than the normal liquidity.

From the point language, Tawarruq said to be derived from the Arabic word that Warq or Wariq or Waraqa which means silver, silver coins or silver metal\(^1\). Tawarruq adopted by previous generations for silver or silver coins. The word al-wariq been used in the Quran surah al-Kahf, 18:19 which means "so send one of you went to the city with money silver (wariq)\(^2\). While the word Tawarruq also means asking for money, and it means more public money being requested either of silver or gold or paper money. In addition, it called for when buying goods Tawarruq the deferred payment, the buyer not be intending to use, but just want to make the path toward obtaining cash.


\(^2\) Verse Al-Kahfi; 18:19


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