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### Performing Saving in Dual Banking System

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#### ABSTRACT

This paper will look into the customers' confidence towards Islamic Personal Saving in comparison to conventional deposits in a bank. Respondents from three different states in the northern states in Peninsular Malaysia were the samples of study. A systematic sampling method was employed with three hundred and fifty samples collected in a period of six month were obtain for further analysis. Multiple Regression analyses helps to confirm the framework conceptualized in the beginning of the study. Availability of electronic information shows a significant influence on the customers usage of Islamic finance system while for the conventional deposits, reputation of the Bank significantly influence customers to use the conventional finance system.

*Keyword:* Conventional banking system, Islamic banking system, Malaysia

#### Introduction

Malaysia being the second biggest hub of Islamic Banking and finance in the Islamic finance world is gaining momentum in the Islamic banking and Finance Industry in Malaysia (Khan, 2008). In addition, the Malaysian government has implemented strategies to stimulate savings, investments and economic growth in the country (Khan, 2008). The banking system in Malaysia currently includes; the commercial banks, investment banks, and Islamic Banks. These banks currently are the primary money resources and the key supply of financing in order to uphold the economic activities in Malaysia. Equally, Islamic banks and conventional banks operate correspondingly within the Malaysian banking system. They function respectively in the dual banking system, that is, the Islamic Banking system operates with the conventional Banking system side by side in that order (Central Banking, 2016; Muslim Amin, 2008). It has proven that the dual banking system is workable in Malaysia as stated by Bank Negara Malaysia Governor Dr Zeti Akhtar Aziz on February 21, 2001 (Central Banking, 2016). Certainly, this dual banking system might be unsuitable and non-applicable for others, but this system is currently attracting many customers to the bank in Malaysia as they now have many choices when choosing for a financial system that can fulfil their needs and what is important is that the system is workable and suitable for the Malaysian market.

As reported by the Moody's Investors Service, the standpoint for the Malaysian banking system is currently steady and this position will stand still over the next 12-18 months (Global Credit Research, 2015). The most important factors that contribute to the stability of the Malaysian banking system are because of the bank's strong capital and stable funding levels. Nevertheless, with continued high degree of support from the Malaysian government, it stimulates banks' operating environment and profitability profiles.

According to the proportions made by Moody's, there are an overall of 11 banks in Malaysia: eight are conventional commercial banks, one is an investment bank, one is an Islamic bank, and one is a government-owned development financial institution. Banks that are rated accounted for 75% of Malaysian banking-system assets at end-2014 (Global Credit Research, 2015)

### **Purpose of Study**

This study investigates the influence of bank personnel, reputation, and availability of electronic information on Islamic finance system and the influence of bank personnel, reputation, and availability of electronic information on the Conventional finance system. The study reveals that different variables influences two different banking system. Similarly, other variables also have an influence on this Dual banking system but at a different degree of influence.

### **Problem Statement**

Islam being the official religion in Malaysia, reflecting that majority of its population is Muslim and logically in favour of doing business in accordance with the Islamic principles (Muslim Amin, 2008). Currently, there are more than 70 Islamic unit trust funds that offer many and varied investment and risk management options to Malaysians and international investors (Khan & Bhatti, 2008). Nevertheless, Muslim community acceptance in Malaysia towards such banking and financial system is still in the progressing process. Nevertheless, many bank users still prefer to deal with the conventional banking and financial system. There are several reasons that contribute to this occurrence, such as confidence, knowledge and ignorance. Both Islamic and conventional financial system offer services for insurance, money market and capital market. The distinct differences between the conventional financial system in comparison with the Islamic financial system is that the Islamic financial systems comes with Shariah compliance characteristics where the bank provider that offers this product will have to ensure that the products and services are free from any prohibited elements such as "Riba, Gharar and Maysir (M.Kabir et al., 2013).

## **Literature Review**

### **Islamic financial system**

The Islamic financial system practice works in tandem with the shari'ah scholars. There will be a continuous consultation with the shari'ah scholars whenever a new contract is developed. Shari'ah scholars will run through diverse arrangements of contracts conveyed before them by Islamic financial institution to evade from going against the provisions of Islamic Law. Before a contact is developed, the scholars will vet the documents and the sha'riah scholars will advise the financial institution consequently to advocate the binding requests for every contract in Islamic Law (M. Kabir, Rasem, & Umar, 2013).

### **Conventional Financial system**

Unlike Islamic banking system, the conventional banking system takes deposits from the people's savings and current accounts as loans to other people by charging interest (*riba*) (M.Kabir et al.,2013). Money is use as commodity in the conventional financial system while in the Islamic banking systems; it creates linkages with the real sectors of the economic system by using trade related activities. Money is not a commodity in this case but is has value and are a good medium of exchange which contributes directly to the economic development. In the concept of Islamic financing, profits are gained through charges made on services provided through banking activities and the process of trading goods also becomes a source of income in the Islamic financial system. As for the conventional banking

system, interests are charge on money loan out in terms of time value. Unlike the Islamic financing system, the conventional financing systems treats money as a commodity and it has a stored value. When a product sold or rented, product and services sold are charged and rented for a higher price and thus profit gained in such manner.

### Availability of Electronic Information

Review on past studies has shown the benefit of using and assessing information through electronic medium. With an increase use of electronic information, users can effectively enhance their quality of knowledge. Nevertheless, user's knowledge information has effectively enhanced user's knowledge, thus increases their quality of information. Because of this reason, illiterate computer users should make full use of this medium of knowledge gaining, in order to gain the necessary information and assisting them in decision-making, because users now are benefiting from digitised information in helping them to make new decisions. (Majid & Abazova, 1999).

### Reputation of a Bank

The creation of a bank's identity starts with how the bank perceives itself. On the other hand, the image of a bank is a result of how consumers perceive the bank. The outlooks of a customer's towards a bank create the identity of a bank itself. This bank identity is also part of the bank's image. Nevertheless, the creation of a banks identity starts with what a bank have for itself (Ford, 1976; Kaynak, 2016). In addition, the attitudes of consumers are in tandem with the characteristics of the bank. Attitudes and image of a bank is a depiction of how consumers perceive the banks attributes. This attributes arises out of the accumulation of several characteristics which mostly comprises of values that exist in a bank. They include factors such as the friendliness of the bank personnel and the bank's reputation itself. (Kaynak, 2016)

### Methodology

During the data collection process, the study identified two banks in Sungai Petani as a place of data collection. A systematic sampling method was employed with three hundred and fifty samples collected in a period of six month were obtain for further analysis. Samples distributed among customers who exit the bank that offers both Islamic and conventional system in Sungai Petani, Kedah. A Multiple Regression analyses performed to help researcher to confirm the framework conceptualized in the beginning of the study.

### Findings & Discussions

Table 1.0  
*Coefficients<sup>a</sup> Table*

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	2.88	.24		12.02	.00		
Bank personnel	.12	.05	.22	2.34	.09	.78	1.12
Reputation	.21	.06	.30	3.25	.08	.89	1.10
Availability of electronic information	.19	.05	.34	3.73	.01	.91	1.10

a. Dependent Variable: Islamic Finance System

Table 1.0 indicates that the variable availability of electronic information significantly influence customer to choose the Islamic finance system. In comparison to the variable bank personnel and reputation of the bank, the Beta value of (0.34) indicates that the variable “availability of electronic information” has the greatest influence on the customers to use the Islamic finance system.

Table 1.1  
*Coefficients<sup>a</sup> Table*

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	2.06	.32		4.45	.00		
Availability of electronic information	.22	.11	.22	2.41	.06	.77	1.21
Reputation Bank personnel	.24	.06	.29	3.13	.02	.84	1.13
	-.01	.07	.02	-.24	.23	.78	1.30

a. Dependent Variable: Conventional Finance System

Table 1.1 above indicates that the variable Reputation, significantly influence customer to choose the Conventional finance system. In comparison to the variable bank personnel and availability of electronic information of the bank, the Beta value of (0.29) indicates that the variable “Reputation” has the greatest influence on the customers to use the Conventional finance system.

### Limitation of the study

As the study were conducted only in Kedah which is one of the states in Peninsular Malaysia, and data were collected from only two banks that offer the dual banking system, therefore the findings cannot be generalized to all banks that offers dual banking systems in Malaysia. Future research should cover a greater and more areas of banking in Malaysia in order to generalize the model to the whole bank in Malaysia. Nevertheless, there are only three variables tested in this study and in order to further enhance the model, future researcher should work on more variables to strengthen the conceptualize model of this study.

### Conclusion

The study shows that same customers have different view on the dual banking system in Malaysia and different variables significantly influence a customer in terms of choosing to use either Islamic banking system or conventional banking system from the same bank that they choose to do their banking services.

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